



POLICY BRIEF

A Partnership Approach to Caribbean Convergence

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Abstract: *A main issue at the Caribbean Growth Forum (CGF) Launch Event (June 18-19, 2012) was to explore how growth and job creation in the Caribbean can be promoted through analytical work and inclusive dialogue that would generate practical and implementable solutions. This paper explores this question by casting the issues generated at this event into an analytical framework of a partnership approach as a regional pathway to Caribbean convergence, which is qualitatively different from the past four decades of the CARICOM integration process. As the paper argues, Caribbean convergence is not about abandoning CARICOM, but trying to be innovative. The task at hand is in designing convergence action plan to harmonize local needs with the regional needs, and to align the logic of politics with the logic of economics. Accordingly, this paper provides some starting points for an action plan (or a road map) in this direction to the case of entrepreneurship in the Caribbean.*

Keywords: Caribbean convergence, partnership approach, entrepreneurship, CARICOM

One of the main issues at the Caribbean Growth Forum (CGF) Launch Event (June 18-19, 2012) was to explore how growth and job creation in the Caribbean can be promoted through analytical work and inclusive dialogue that would generate practical and implementable solutions.¹ Did the Caribbean Growth Forum

Launch Event generate any practical and implementable strategy for the Caribbean region? This paper explores this question by casting the issues raised at the forum into an analytical framework of a partnership approach as a regional pathway to Caribbean convergence, which is qualitatively different from the past five decades of CARICOM integration process. This does not mean abandoning CARICOM, but trying to be innovative. The task at hand is in designing a convergence action plan to harmonize local needs with the regional needs, and to align the logic of politics with the logic of economics. Accordingly, this paper provides some starting points for an action plan. It also casts the action plan to the case of Caribbean entrepreneurship.

Low growth rates and high unemployment are the characteristics of the Caribbean region. The recent global financial crisis has increased poverty. Public debt-to-GDP ratios have reached 100 per cent or more in many Caribbean countries, and in some debt servicing constitutes 20-40 per cent of expenditure. Many countries in the region are imposing tighter economic policies adding to the low growth rates. These small countries lack scale and incur very high overhead costs, in addition to being exposed to natural disasters and external shocks. It is against this background that the CGF was launched.²

This two day deliberation involved private sector representatives, government ministries and ministers, academics, students, civil society and representatives from host institutions. The focus was on three main themes: competitiveness, entrepreneurship and innovation. These discussions exposed the challenges on the ground in Caribbean states and generated a number of solutions specific to the themes.

Recapturing the remarks made by the partners and hosts in the opening session of the CGF Launch Event, two key issues emerged: (i) inclusive development and (ii) cooperation and collaboration. The Vice Chancellor of UWI, Nigel Harris, called for a 'partnership approach'; Francoise Clottes of the World Bank emphasized the need for a 'coalition for action and action for results and change'. In addition to that, Joel Branski from IADB underlined improving competitiveness in the region and Desiree Field-Ridley from CARICOM focused on improving entrepreneurship and innovation. Jamaica's Finance Minister, Peter Phillips, highlighted a 'broad stakeholder approach and greater social engagement through inclusive development'. The four key points that resonate here are:

1. Forging a social contract among the stakeholders (private sector, government and communities/civil society)
2. Implementing an inclusive policy to involve the stakeholders
3. Coalition politics and consensus-building
4. Sustainability of actions.

The discussions on 'Regional Economic Integration: Caribbean Convergence and Competitiveness' set the tone for action and change. The most important issue that emerged from this session was the 'political imperative of integration'. Robert Read from the University of Lancaster noted that small economies do not necessarily benefit from integration, as the poor record of Caribbean intra-regional trade demonstrates. There is limited political cooperation and consensus among Caribbean countries and therefore there is need for 'appropriate correcting mechanisms' that align the needs of the local with the regional. In other words, it means cooperation at an appropriate level and policy at another level. Auguste Koume from the World Bank added that the Caribbean space is heterogeneous with large economic differences which are politically sensitive. The problem with the region Koume noted is in 'failure of implementation'. Therefore, the rationale for integration should be political, meaning political collaboration.

FROM CARICOM INTEGRATION TO CARIBBEAN CONVERGENCE?

What emerges from the preceding section is the need to review existing integration framework and devise suitable regional mechanisms or action plan to align the political imperative with that of the economic logic in a world that is not the same when CARICOM was initially conceived – i.e. moving from CARICOM integration to Caribbean convergence, which is a qualitatively different and begs the question: what was wrong with the CARICOM integration?

In his foreword to Shridath Ramphal's *Caribbean Challenges*, Dennis Benn notes two main challenges faced by the region: the need to 'quicken the pace of integration' and 'to construct a suitable governance system aimed at facilitating regional decision-making and the timely implementation of decisions taken at the regional level'. However, the nature of the exercise of sovereignty has posed a constant challenge and therefore the urgency to be creative and

flexible.³ Shridath Ramphal states that there are two sides of Caribbean reality, one that unites the region on the basis of its heritage and Caribbean identity or 'West Indian oneness'. On the other side, the social and political elites' narrow interests have prevailed in the region against this broader regional unity. Leadership under these elites has 'put the gears of CARICOM Single Market in neutral and the gears of CARICOM Single Economy into reverse'. The countries in the region have been steadily drawn away from each other.⁴ The region suffers from a twin deficit – a leadership deficit and a governance deficit. Leadership in these countries has used sovereignty against each other, and an empowered civil society does not exist.⁵

Although the CARICOM was a political concept from its inception, it has become an economic project. When preferential agreements ceased in a changing external world, it exposed the region's vulnerabilities. Winston Dookeran notes that the Caribbean institutions are 'enslaved by the methods of the past'. It is no longer economically workable. The logic of economics that drove this project was trade and markets instead of production, distribution and competitiveness.⁶

How is Caribbean convergence different from CARICOM integration? In his keynote speech at the book launch of Sir Shridath Ramphal's *Caribbean Challenges* on June 18, 2012, the former Prime Minister of Jamaica, P.J. Patterson, noted that the Caribbean integration has had pitfalls and if it does not change, it will disappear. In his speech at the plenary session, Finance Minister, Winston Dookeran, provided a perspective for convergence. He noted that integration processes across the world are under constraints and the cohesion forces of integration are beginning to disintegrate because integration is multi-track in nature – they are local, regional and international all at the same time.

The concept of convergence in the CARICOM integration was narrowly defined in terms of trade and markets, which is not a very accurate measure. The new perception of convergence needs to be understood as 'a new economic space' where there is partnership between the public and the private sectors. It is the forging of 'a right partnership toward productive integration'. It is also about 'partnership that includes other stakeholders'. Convergence constitutes a broad platform for Caribbean endogenous growth rooted in social contract among the stakeholders emphasizing equality and equity as integral components.

The general framework and agenda for convergence is already spelled out in the ideas of a 'new political economy of development' for the Caribbean states which will now have to concentrate on leadership and good governance with an 'inclusive agenda' covering a social agenda, a political agenda, a CSME agenda, a private sector agenda and a scholarship agenda.⁷

THE ANALYTICAL FRAMEWORK: THE PARTNERSHIP APPROACH

In the preceding section, we see a central outcome of the CGF Launch Event informing us that the starting point on this new trajectory (i.e. convergence) is a new social contract among stakeholders in the Caribbean consisting of public and private sectors and civil society. This is key to any action plan. While the challenges and appropriate solutions in specific cases of countries were identified, the regional framework into which the challenges and solutions can be cast are found in Winston Dookeran's, *Power, Politics and Performance: A Partnership Approach for Development*.⁸ The partnership approach in this book provides a pathway to convergence and action for change. The partnership approach aligns the political logic of convergence (inclusiveness, cooperation and partnership) with the logic of economics (production, distribution and competitiveness).

This partnership approach for Caribbean convergence is qualitatively different from CARICOM integration because it involves stakeholders other than the traditional social and political elites. It is qualitatively different for the following reasons:

- (1) It acknowledges the limits of the CARICOM integration process;
- (2) It puts national social contract and regional social compact as central;
- (3) It puts production, distribution and competitiveness as central to convergence;
- (4) It recognizes the urgency for change and action;
- (5) It is sensitive to the needs of different levels – local, national, regional and international;
- (6) The recognition that leadership and good governance in this partnership approach is the key to induce change in politics, economic policy and mindset; and

- (7) It is a multi-layered and multi-pronged strategy of inclusiveness to promote regional growth and competitiveness.

The UN Institute of Training and Research defines social contact as ‘fostering a development model and creating governance structures that ensure the protection of the common good, both for present and future generations, while safeguarding the rights of individuals’.⁹ Social contracts are not static but dynamic as they need to be periodically reviewed as situations change. It is a consultative process initiated by the leadership where speed and flexibility matter for long-term competitiveness. Expanding on his ‘capabilities approach’, Amartya Sen makes a pertinent observation that agency is unleashed when individuals are included and equal opportunities created. Creating the right environment, institutions and open opportunities need to be accompanied by a policy of inclusiveness that will unleash the capabilities of individuals.¹⁰ Inclusiveness and opportunity are about providing ‘equal access’ to education, credit, information, knowledge and safety nets. The partnership approach is only a platform facilitating inclusiveness, agency will follow.

The partnership approach is also a stakeholder approach that provides us with a practical way forward in aligning a national social contract with a ‘regional social compact’ – i.e. harmonization of a regional agenda. A partnership approach is based on principled politics under a flexible and action-oriented leadership. It should embrace coalition politics (political agenda) if need be.¹¹ Forging an effective social partnership and policy continuity has been key to Mauritius’ success as pointed out by Ali Mansoor, Financial Secretary to the Govt. of Mauritius. National and regional social compact in the case of Caribbean convergence will need to be in the following specific areas:

1. Public and private partnership for economic growth
2. Employment and job creation targeting the region’s youth
3. Entrepreneurship and innovation
4. Education for skills development and life-long learning
5. Sustainable public finances for policy continuity

CARIBBEAN CONVERGENCE: THE ACTION PLAN

While a number of solutions did emerge during the Launch Event on three themes of competitiveness, entrepreneurship and innovation, there was no coherent action plan. However, a careful

analysis of the various ideas and solutions can be put into an action plan consisting of three broad policy areas: endogenous growth, clustering and organization.

Endogenous growth policy

An endogenous growth policy must be based on social consensus and inclusiveness of the stakeholders at national and regional levels. It is a private sector-driven growth strategy. What is needed is a fast-track policy-making and implementation mechanisms to facilitate growth and convergence. Another issue that is central to convergence is to build a 'buffer' in the form of a sovereign wealth funds to cushion against external shocks. Endogenous growth policy implies that production, distribution and competition should be addressed at the same time. Improved and low cost regional transport (e.g. liberalize and encourage regionally-based/owned low cost carriers to compete) is crucial to facilitate greater movement of goods and people within the region. The policy needs to improve labor productivity, especially targeting youth. An endogenous growth policy will have to address equality and equity that benefit all stakeholders.

Clustering policy

This policy relates to production integration that will enhance regional competitiveness and value-added manufacturing. It means the clustering of regional resources to consolidate growth, innovation and competitiveness. For instance, regional 'branding' of products (in Caribbean tourism) in one way of clustering. Clustering would also mean a regional strategy for foreign direct investment (FDI), facilitate regional transfer of knowledge, skills and technology, regionally based and owned investments for promoting innovation, and a regional strategy for ICTs and information exchange.

Organizational & Institutional Policy

This policy will have to address organizational structures to include all stakeholders (at national and regional levels). It implies improving and aligning national and regional organizational structures for capacity building to improve business climate. Streamlining and fast-tracking of processing in key areas (entrepreneurship, innovation and competitiveness) are urgently

needed. Furthermore, such a policy should also facilitate regional public and private sector investments in key areas with transparency and accountability in public spending. An imperative is restructuring of regional educational system geared toward enhancing regional skills, especially focusing on science, management, entrepreneurship and cutting-edge technology. In addition, the organizational structure will have to facilitate partnership between educational institutions, private sector and government (science and technology as 'public goods').

CARIBBEAN CONVERGENCE: THE CASE OF ENTREPRENEURSHIP

Entrepreneurship is quite central to Caribbean economic growth because there is a deficit in this area. The specific target identified by the Launch Event for strategic intervention was medium, small and micro enterprises (MSMEs). Apparently, this target group of MSMEs is very diverse each with own unique challenges. What became clear from the discussions was that there was no agreement in the Caribbean region on reasons to finance MSMEs. Furthermore, it seemed that MSME sector is not clearly defined. However, for the sake of analysis I distinguish between medium businesses from small and microenterprises. The region faces a unique set of challenges relating to medium businesses that can be identified as:

- Lack of policy intervention to promote medium businesses
- Weak regulatory environment
- Knowledge gap in technology and educational system in the region
- ICT challenges relating to the knowledge gap and mindset
- Widespread of 'hustler' entrepreneurs
- Lack of involvement by the private sector
- A gender bias

With regard to the small and micro businesses, the following are the challenges:

- Lack of information on clients
- Need for proper risk assessment methods
- Need for innovative strategies
- Problems related to credit eligibility
- Start-up capital – lack of it and how to provide it
- Competition in single product
- Poor record keeping by clients

- Inadequate legal and regulatory framework to promote small and micro businesses
- Microenterprise sector is larger than small and medium enterprise sector.

How do we improve access to finance for MSMEs? The cases from Columbia and Panama speak out to the types of products and services introduced and how active public-private partnership overcame challenges these countries. It was clear from the discussions that there is no one way of dealing with the challenges because of the diversity and heterogeneity of the countries in the Caribbean region, in addition to the particular characteristics of clients of businesses. Nevertheless, some general solutions can be identified:

- Identifying specific needs of each type of business (micro, small and medium)
- Outreach – greater involvement of Credit Unions in MSME development
- Reserving contracts to small businesses
- Business management training
- ICT solutions to improve connectivity
- Incubation networks
- More active engagement of the private sector
- A regional SME coordinator (or Apex Body) – for centralized assessment and approval of finance
- Facilitate financial access to youth business
- Product development and provision of technical assistance

What kind of investment climate do we need to create a thriving atmosphere for innovation? There are two distinct but mutually reinforcing areas regarding investment climate: the role of innovation climate and how innovation is becoming one of the key factors for improving business environment in the global ICT-driven economy. Typically, the Caribbean countries are open economies and therefore a regional framework to attract investments in ICT would be an ideal start. It all points out to a partnership between private sector, universities, and the government. However, the process should be private sector-driven with the latter two on the supply side. The key areas to improve the investment climate in the Caribbean are: provision of legal stability to agreements, public and private partnership to promote competitiveness, trade diversification, university and industry collaboration for innovation and research, and policy continuity.

How can we improve tourism, competitiveness and inclusive growth? There are sub-regional differences in the tourism product and the rapid changes in the global market that are defining the region's tourism industry and value. Striving for scale economies in small islands cannot be achieved, but the focus instead should be on improving products even if they are highly priced to certain market segments. One solution is in 'branding Caribbean tourism' as a regional product in global markets and regionally sourcing out the market segments.

Another focus for improving tourism and inclusive growth is involving local communities in promoting sustainable tourism and generate jobs and income. Providing a safe environment for tourists to move and interact freely with local communities in the island is a product in itself. This needs to be developed which can only be done in partnership between the government, the private sector and the local communities.

ENTREPRENEURSHIP: ACTION PLAN

There are two ground realities in the Caribbean region – a serious deficit in small and medium firms and a surplus in microenterprises. This reflects two other related realities; lack of entrepreneurship and a high level of informal economic activities. In addition, overcoming the bureaucratic hurdles in the Caribbean is a major challenge for all types of businesses, especially in accessing finance. There is excess of financial liquidity in the region, but access to finance for MSMEs is the major problem. We can summarize the characteristics of Caribbean entrepreneurship to the following five specific realities:

1. High cost of energy
2. Lack of access to credit
3. Lack of credit bureau
4. Inadequate skills of the workforce
5. Lack of social partnership

The immediate areas to focus for the action plan are: (1) change in the education system to promote entrepreneurs; (2) Collect complete data on client needs, preferences and benefits for each industry (micro, small and medium); (3) Downscaling finance to reach small and micro businesses; (4) Streamlining and fast-tracking procedures to make access to credit easier; (5) Creation of national and a regional 'Apex' credit bureau; (6) MSMEs should be

a private sector-led development and not state-led; and (7) improve benchmarks, contracts and best practices.

For policy purposes, it may not be advisable to club MSMEs together and treat them as a single sector. The challenges and solutions for microenterprises are quite different for small and medium businesses and may require different types of industry-specific policy intervention. Therefore, caution must be exercised by adding microenterprises/microfinance and mixing. Instead, policy intervention will need to focus on 'graduation' from micro to small business and small to medium businesses.

The action plan needs to capitalize on potential synergies between large modern enterprises and medium and small enterprises spread across the region. This can be achieved if there is freer and cheaper movements of people, goods and ideas across the region by policies that facilitate competition in low cost regional carriers. This will also lead to increasing subcontracting of production and services within the region. A regional institution may help in facilitating establish linkages among medium and small businesses and the region's private sector as a whole

Inclusiveness and competition are not mutually opposed to each other, but rather mutually reinforce one another. The action plan by necessity has to be multi-level (national and region) and multi-pronged. Each of the policy areas (endogenous growth, clustering and organization) consist of a subset of policies. Interestingly, the three policy areas are mutually complimentary and reinforcing. While it may be a challenge to implement the action plan on all three areas at one time, a starting point would be to proceed in stages and build up. For optimal policy outcome, it would be ideal to identify the linkages between the policies subsets in each area (competitiveness, entrepreneurship and innovation) and start working on it. The kind of practical questions we ask will instruct us of what policy subset mix we will need to consider. For example, if we ask what policies should we start on to improve entrepreneurship? Then we can identify and align the subsets from the three policy areas to start working with initially and build upon it in stages – kind of piecemeal policy engineering.

A final conclusion is that societies that are competitive and innovative are those that produce key resources, namely, knowledge and information (ICTs), which makes education a critical component of wealth and value generation to improve everybody's quality of life.¹² What ultimately matters most is the quality of leadership and governance in the Caribbean region.

NOTES ON CONTRIBUTOR

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NOTES

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