INSTITUTIONAL DEVELOPMENT AND REFORM IN PUBLIC SERVICES: THE EXPERIENCE OF SMALL CARIBBEAN STATES

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ABSTRACT

This paper focuses on governance among a group of small, developing states in the English-speaking (Commonwealth) Caribbean. Governance here refers to the institutions that support socioeconomic development, typically government ministries and departments. The paper discusses the importance of high-performing institutions and good governance to development and, in particular, the institutional development and capacity-building efforts of donors. It then presents six “binding constraints” on the ability of small Caribbean states to provide good governance and sound public institutions. These constraints are:

1) The all-pervasiveness of government in both social and economic spheres;

2) The per capita cost of governance and infrastructure is higher for small countries than for larger ones;

3) The weakness of the tax base causes an over-reliance on border revenues and chronic fiscal vulnerability;

4) General capital constraints lead to high levels of indebtedness;

5) The limited pool of human resources available to small states contributes to low absorptive capacity; and

6) Small states are disproportionately affected by external shocks.

The paper then examines several highly selective lessons of Caribbean experience that should inform both donors and the small states themselves in designing institutional development and governance reform measures.
Institutional Development and Reform in Public Services: The Experience of Small Caribbean States

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Introduction

Much of the literature on small states concentrates on what are deemed critical development challenges, defined primarily in terms of vulnerability to economic shocks and natural hazards. A major preoccupation has been to establish a correlation between small size and vulnerability, with the objective of justifying the need for special measures of assistance to compensate for structural weaknesses and to overcome the vulnerability. The conclusion of the Uruguay Round, the establishment of the World Trade Organization (WTO) and the commencement of the Doha Development Round, as well as the "graduation" of small, developing countries with relatively high rates of per capita income from access to concessionary financing at the multilateral level prompted attempts to set out an economic justification for "special and differential treatment" in both international trade and financial affairs. This highly technical economic analysis is characterized by the development of a vulnerability index and, more recently, has led to investigations into resilience-building and competitiveness in small and island states.

Far less scholarly attention has been given by comparison to the issue of governance in small states and, in particular, issues pertaining to the effective functioning of the state such as governance, institutional development, public sector management and reform. The shortcomings and vulnerabilities of small jurisdictions, however, are no less severe in the area of governance than they are in relation to terms of trade, economic over-specialization, openness and dependence, or natural disasters. Indeed, it is possible to argue convincingly that the governance issues affecting small jurisdictions underlie and significantly exacerbate the effects of all the other vulnerabilities.

This paper focuses on governance among a group of small, developing states in the English-speaking (or Commonwealth) Caribbean. Governance here is not used in its broadest sense but, rather, refers to the very particular area of governance institutions that support socioeconomic development. These are typically government ministries and departments that use public resources to deliver projects and programmes, and which are quite often the beneficiaries of technical assistance interventions by external donor agencies. Despite relatively high per capita income levels in some cases, small developing states such as those in the Caribbean are to be distinguished from equally small - but economically well-off - states such as Iceland, Luxemburg and Liechtenstein, or the United Kingdom (UK) dependencies that are noted tax havens like the

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The paper describes the basic features and characteristics of small jurisdictions that account for the generally poor outcomes of institutional development and public sector reform. It relies on existing literature and draws on diagnostic and evaluation reports of technical assistance projects undertaken in the Caribbean by various development partners, notably the UK Department for International Development (DFID), the Caribbean Development Bank (CDB), the World Bank and the Commonwealth Secretariat.

In terms of structure, the first section recapitulates recent ideas on the importance of institutions in development and examines some elements of capacity-building, the main modality through which institutional development takes place. In the second section, six “binding constraints” (or structural rigidities) affecting governance of small Caribbean states are identified. These constraints are described as “binding” because no significant development can occur unless they are overcome; they serve as a drag on development and are mostly intractable. A number of paradoxes become evident when reviewing these constraints that must be taken into account in institutional development and state reform efforts. The third section focuses more closely on the Caribbean region and discusses why small Caribbean states have shown a less-than-enthusiastic interest in public sector reform. They provide insights into the problems and challenges faced by donors in implementing institutional development and state reform projects. Finally, the fifth section draws conclusions and implications for academia, for governments and for donors.

The Role of Institutions in Development

The importance of high-performing public institutions and good governance to socio-economic development are now well accepted in development discourse. North (1990) suggests that institutions are “the underlying determinant of the long-run performance of economies”, while Rodrik (1999, 2004) sees sound institutions as both a result and a cause of development. Though by no means robust or entirely conclusive, there is a substantial body of empirical evidence that supports the view that the quality of institutions and institutional mechanisms provides the "missing link" in explaining the differences in investment and growth rates across developing and developed countries. In other words, the greater capacity of developed countries to provide strong public institutions is what makes them rich/developed in the first place while, by the same token, weak institutions are the main constraint to sustained growth and socio-economic development in many developing country settings.

Several recent publications underscore the importance of institutions for development. The major lesson of the *World Development Report 2000-01 (Attacking Poverty)*, for example, was that weak institutions also hurt the poor. The Paris Declaration (2005) gave added impetus to the need to build strong and effective institutions especially through its emphasis on the application of direct budget support, which gives prominence to institutional development objectives, specifically the requirements for open, accountable and capable governments. And, more recently, the Commission on Growth and Development reported that cases of successful development share a common characteristic: an increasingly capable, credible and committed
government apparatus that relies on "deep institutional underpinnings." 6

"Institution" is always an elusive term. The World Bank, in its World Development Report 2002 (Building Institutions for Markets - WDR 2002), distinguishes between institutions and policies. Policies are goals and desired outcomes, while institutions are "the rules, including behavioural norms, by which agents interact – and the organizations that implement rules and codes of conduct to achieve desired outcomes." While policies affect which institutions evolve in a particular socio-political environment, institutions also influence the policy choices. WDR 2002 also draws a distinction between informal and formal institutions; the latter include rules written into law by government, rules codified and adopted by private institutions, and public and private organizations operating under public law.

An Organization for Economic Co-operation and Development (OECD) study reviewing evidence of the impact of institutions on growth and other development outcomes combining 10 cross-sectional country studies and 17 country case studies, found that:

a. a clear concept of what 'institution' means is missing;

b. applied definitions range from the narrow perspective of rules and norms to a far broader definition including aspects such as political systems and organizations. Some definitions follow North's notion of "constraints that human beings place on themselves", while others follow Williamson's observation that institutions include organizational entities, procedural devices and regulatory frameworks; 7

c. studies addressing the impact of institutions in a country case study setting often lack an analytical framework; and

d. there is a dearth of studies offering precise policy recommendations (Jütting, 2003). 8

The literature highlights the absence of any unanimously-agreed understanding of what, precisely, is meant when we speak of an 'institution'. This presents methodological challenges for those doing research on the subject and is also a major practical challenge for those engaged in the design and implementation of institutional development projects. Too often, the institutional dimensions of projects are not properly understood. 9 While legal, sociological, political and economic notions of 'institution' exist, there is a danger of a purely economistic notion predominating that is associated with the World Bank and is marked by its overemphasis on the creation, protection and enforcement of property rights, the provision of a regulatory regime that promotes competition, and of sound macroeconomic policies that create a stable environment for market activity, to the exclusion of objectives explicitly connected to legitimate goals of poverty reduction, social justice and the attainment of the Millennium Development Goals (MDGs) .

For the purposes of this paper, the term "public institution" refers to organizations comprising people who are brought together for a common purpose and who operate in accordance with shared norms, policies and rules of governance. These public institutions (organizations) are
entities such as ministries, departments and state-owned corporations which make and implement economic and social policy, deliver services to the public, and ensure accountability for the use of public resources and public regulatory authority. It is these public entities that together comprise the institutional arrangements that shape governance by setting limits on the state's ability to exercise its power arbitrarily. It is also these public entities – broadly speaking, the public sector - that are most commonly the objects of interventions by the development community aimed at streamlining their operations, enhancing their capacity, improving their efficiency, effectiveness and accountability, and promoting their sustainability.

Institutional strengthening and/or development has always been a key feature of donor-financed projects. Since the mid-1990s, however, when governance emerged as a salient issue, the attention of the development community has been drawn to the primacy of institutions. As the World Bank's strategy on *Reforming Public Institutions and Strengthening Governance* (2000) argued:

> Just as it became evident in the 1980s that potentially good projects often fail in poor policy environments, so it became evident in the 1990s that policy reforms are less likely to succeed when public institutions and governance are weak.¹⁰

Institutional strengthening and institutional development, however, are not synonymous. Institutional development refers to the creation or reinforcement of the capacity of an institution to generate, allocate and deploy financial, human and material resources to meet its changing development objectives. This includes the capacity to reflect systematically and rigorously upon its own role and function, thereby enabling it to discharge its responsibilities. It is this capacity for continuous reinvention that lies at the heart of institutional sustainability.¹¹ Institutional strengthening, by contrast, is a more modest goal aimed at improving the effectiveness of existing structures, processes and systems, usually through training and coaching. It does not admit organizational innovation. While most donors set out with the goal of institutional development, institutional strengthening is actually much easier to achieve and, as a consequence, is still by far the more common type of project funded by donor agencies.

**Institutional Capacity-Building**

When we speak of public institutions being strong or weak, we are essentially referring to their capacity as evidenced by performance. Central to the notion of institutional development, therefore, is the building of capacity. According to Brinkerhoff *et al* (1990):

> Institutional capacity is the potential ability to transform inputs into outputs. It is a characteristic of the system as a whole, is invisible, and cannot be measured directly. It is not simply determined by the stock of physical and human capital but by the institution’s proficiency at combining these assets for maximum output. The only way to prove how much capacity exists is through performance, which is the translation of capacity into concrete results, i.e. into action. Performance is visible and therefore can be measured directly.¹²

Based on this, poor performance is the result of weak capacity, but could also result from other factors since circumstances where capacity appears high still produce disappointing results. Also,
it is worth noting that although Brinkerhoff contends that capacity cannot be measured directly, this has not prevented scholars from attempting to develop objective measures of institutional capacity for the public sector.  

Following Polidano (1998), we define public sector capacity as “the ability of the permanent administrative machinery of the state to serve the ends of the elected government and deliver services to the public efficiently and effectively.” There are three major elements to public sector capacity:

a) **Policy capacity** – the ability of the machinery of government to propose coherent, consistent, and coordinated policies in response to complex policy problems;

b) **Implementation capacity** – the ability to ensure that policy decisions, laws, rules and regulations are carried out properly and observed (by both public employees themselves and by members of the public); and

c) **Operational efficiency** – the cost-effectiveness of the internal operations of the bureaucracy and the quality of services it provides to the public.

Efforts to build or strengthen capacity, then, naturally aim to improve performance on these three elements. A fourth area of capacity often overlooked but certainly of great importance is regulatory capacity. There are also important capacities related to coordination, oversight and accountability which are vital sub-sets of capacity, but institutional development initiatives broadly seek to improve policy, implementation or operational efficiency.

From a donor's perspective, an important aspect of the debate on institutional capacity-building is whether individual capacity (i.e. the capacities of individuals in an organization) contribute to and enhance institutional capacity. This has exercised the minds of many in donor agencies who have been concerned about the use of limited resources to finance training programmes that enable individuals to acquire knowledge and skills that improve their own prospects for upward mobility, but are not reflected in commensurate observable improvements in institutional or organizational performance. Linking individual learning to institutional learning and development is a constant challenge and some, like Johnson and Thomas (2007), conclude that it is possible for the learning of single individuals to help build capacity at the institutional level, but only where the individual is in an influential position and where the institution provides both the opportunity and the support for trying out new ideas.

**Institutional Development in Small States**

Small states have certain inherent attributes that negatively affect their development prospects. However, as mentioned above, the economic impacts of these attributes have dominated the conversation; there has been relatively little meaningful analysis of the governance and institutional aspects since Baker's 1992 collection. Recent contributions by Sutton and Samy *et al* are noteworthy but these, too, are caught up in the rather nebulous concept of resilience-building, based mainly on highly technical econometric modelling. While the discussion in the
previous section points to broad agreement on the centrality of strong institutions to development outcomes, few if any studies have examined institutional development challenges confronting small states, and certainly none from the perspective of a donor agency that provides development assistance for institutional development.

There is a school of thought that suggests that small size lends itself to a kind of intimacy that facilitates good governance and provides an environment that is conducive to successful institutional development. According to this perspective, small countries with small populations have small problems. Since there are less people and tends to be greater social homogeneity, cohesion and stronger feelings of collective identity, then there are also likely to be less complex problems which are less difficult and costly to address. Smallness also allows for a closer relationship between the state and its citizens; easy access to key decision-makers allows for a more consultative policy process and thereby yields policies that are founded on broad-based consensus. In terms of the public service, smallness is thought to render hierarchical structures irrelevant and to make service delivery decentralized almost by definition. In a nutshell, according to this school of thought, smallness just makes the job of the public servant a great deal easier.

These are seductive arguments - usually put forward by analysts whose life experiences are almost exclusively in large metropolitan countries - that distort and romanticize the observed reality of small states. There are some noteworthy features of public administration in small states which suggest, paradoxically, that despite the social intimacy typical of small societies, there are commonly:

a) organizational structures that are hierarchical, bureaucratic, rigid and inflexible;

b) leadership – at both political and bureaucratic levels – that is paternalistic at best, autocratic at worst;

c) managers who are unresponsive to client needs and who serve themselves or their organizations rather than their clients;

d) management styles that are non-participatory, with rank and status overriding work-team relationships;

e) generally adversarial relationships between managers and rank-and-file employees, with weak industrial relations mechanisms or procedures for conflict management and resolution;

f) a fear or distrust of technology – to the extent that the application of technology to either administrative or productive processes is avoided as a matter of conscious, reasoned choice; and

g) personal considerations, including nepotism, are the prevalent if not primary basis for personnel transactions rather than merit or performance, potentially leading to corruption
as “everyone knows everyone”.\textsuperscript{19}

It should also be noted that where political differences exist in small states, they tend to be more personal, more intense and more emotionally charged, often leading to deep divisions and cleavages that undermine any suggestion of social cohesion. Where these cleavages reflect ethnic or cultural differences (as in Trinidad and Tobago, Guyana, Suriname or Fiji, to give a few examples) the resulting social and political tensions in a relatively small physical space can be extremely unproductive.

Collins and Warrington (1997), reporting on the outcomes of a Commonwealth conference on public administration in small states, point to the following “interesting paradoxes” or contradictions that characterize small jurisdictions:

a) leadership that is at once authoritarian and accessible;

b) democratic societies that are also sharply partisan and intolerant of dissent;

c) the high degree of intimacy too often produces scandal in public affairs;

d) politicians, public officials and ordinary citizens find difficulty in distinguishing between duty to the public interest and the claims of kinship and affinity; and

e) citizens depend on public services for many of life's necessities but are distrustful of officialdom.\textsuperscript{20}

It is worth reminding ourselves of the shortcomings of governance in small states. The following six characteristics are, in effect, binding structural constraints on the ability of the small states of the English-speaking Caribbean to provide good governance and sound public institutions.

\textbf{1. Government is all-pervasive in both social and economic spheres.}

The public sector’s pervasiveness in the Caribbean is evidenced by its dominance in the economy in terms of expenditure and employment. Because of relatively weak civil society institutions, citizens look towards the state for solutions to all of society’s ills and the provision of all of life's necessities – from cradle to grave. Consequently, small Caribbean states tend to have higher government spending per capita on goods and services, wages and salaries, and capital investment. It is often the single largest employer in the economy as the relatively weak private sector cannot be relied upon to generate the levels of employment required to absorb surplus labour. This makes the public sector the \textit{de facto} employer of last resort, imposing a heavy fiscal burden on the state.

Public sector size is a matter of considerable concern from the standpoint of economic performance. Government consumption, defined as the sum of general government expenditures on wages, goods and services, is the most widely used measure of public sector size and provides an insight into the cost of providing government services. Because the public sector is by far the
largest consumer of goods and services, public expenditure fuels economic and commercial activity. Many firms depend disproportionately on public spending and procurement as a percentage of their overall business. Thus economic downturn, recession and fiscal crisis that bring about reductions in public spending have a knock-on effect for all sectors of the national economy.

The size of the public sector is partly determined by the role envisaged for the state. As in other small countries, Caribbean states have had to take on numerous responsibilities that result in a wide mandate vis-à-vis the resource envelope. Caribbean countries have a strong commitment to social policy goals in areas such as universal access to education and health services, as well as protection for vulnerable groups, such as the provision of social housing, and this is reflected in their relatively high rank on the United Nations Development Programme’s (UNDP’s) Human Development Index relative to their income levels.

Table 1 below presents data on the size of the public sector in the Commonwealth Caribbean as a percentage of GDP and as a percentage of the total labour force. The data show, firstly, that general government consumption, when expressed as a percentage of GDP, ranges from 11 per cent in Jamaica to 23.3 per cent in the case of St. Kitts-Nevis. General government consumption exceeds 20 per cent of GDP in 5 of the 12 countries under review. Secondly, the per capita cost of public service attention varies across the region from a low of US$484 in Jamaica to a high of over US$3,700 in Barbados, making Barbados the country that spends the most per capita on the provision of public services.

Third, the economy’s dependence on government spending is seen when public investment is added to general government consumption. Public investment or capital spending, as mentioned earlier, is considered a central tool of macro-economic management in most countries, but particularly in small states where the government’s role in the economy is so all-pervasive. In the context of the current financial crisis, fiscal stimulus plans are mainly about using public investment to ignite economic activity. The data show that in all cases except Jamaica, Belize and The Bahamas, consumption plus investment (i.e. recurrent plus capital expenditure) is above the 20 per cent mark. Guyana’s heavy public investment programme contrasts sharply with Jamaica’s almost negligible capital expenditure, again owing to the latter’s chronic debt situation.
When wages and salaries are isolated from other recurrent expenditure, the picture becomes clearer. As Table 2 shows, public sector spending on wages and salaries alone accounts for a large share of current revenue and a disturbingly large share of total expenditure in most countries, reaching as high as 36 per cent in Belize. In 7 out of the 10 countries for which data are available, wages account for over 30 per cent of total public expenditure. This suggests that wages and salaries are excessive, a situation in which other recurrent budget items are under-funded as a result of personal emoluments absorbing a high proportion of total expenditure. This can have serious ramifications if other priorities such as asset maintenance are “crowded out.” Again, in the context of the current financial crisis, it also means that capital spending is likely to be the first casualty of fiscal austerity.

Antigua & Barbuda at the beginning of the decade was easily the worst case scenario. A review of the Antiguan and Barbudan public service carried out between 2000 and 2002 by PriceWaterhouse Coopers found that the government employed approximately 16 per cent of the population (as distinct from the labour force) and that wages and salaries represented around 70 per cent of recurrent expenditure. A “parallel” service of established and non-established staff existed, producing anomalies in the pay structure, duplication of roles and organizational chaos, and contributing substantially to the unsustainable wage bill. Non-established public officers consisted of temporary employees and casual workers. Inconsistencies in the recruitment and placement of personnel created by the lack of harmonized legislation governing all employees in

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>GOVERNMENT CONSUMPTION (AS % OF GDP)</th>
<th>GOVERNMENT CONSUMPTION (PPP US$ PER CAPITA)</th>
<th>GOVERNMENT CONSUMPTION PLUS INVESTMENT (AS % OF GDP)</th>
<th>TOTAL PUBLIC EXPENDITURE (AS % OF GDP)</th>
<th>PER CENT OF LABOUR FORCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua &amp; Barbuda</td>
<td>22.0</td>
<td>2,714</td>
<td>27.8</td>
<td>44.3</td>
<td>32.0</td>
</tr>
<tr>
<td>The Bahamas</td>
<td>15.0</td>
<td>2,645</td>
<td>18.5</td>
<td>23.1</td>
<td>18.8</td>
</tr>
<tr>
<td>Barbados</td>
<td>21.0</td>
<td>3,771</td>
<td>25.1</td>
<td>42.0</td>
<td>18.1</td>
</tr>
<tr>
<td>Belize</td>
<td>13.9</td>
<td>1,057</td>
<td>18.0</td>
<td>28.0</td>
<td>11.8</td>
</tr>
<tr>
<td>Dominica</td>
<td>19.0</td>
<td>1,142</td>
<td>27.8</td>
<td>40.0</td>
<td>21.2</td>
</tr>
<tr>
<td>Grenada</td>
<td>17.0</td>
<td>1,398</td>
<td>32.8</td>
<td>38.9</td>
<td>9.4</td>
</tr>
<tr>
<td>Guyana</td>
<td>21.6</td>
<td>975</td>
<td>35.5</td>
<td>57.7</td>
<td>9.1</td>
</tr>
<tr>
<td>Jamaica</td>
<td>11.0</td>
<td>484</td>
<td>16.0</td>
<td>35.5</td>
<td>10.5</td>
</tr>
<tr>
<td>St. Kitts-Nevis</td>
<td>23.3</td>
<td>3,368</td>
<td>29.9</td>
<td>43.3</td>
<td>41.6</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>23.0</td>
<td>1,466</td>
<td>31.4</td>
<td>38.0</td>
<td>12.1</td>
</tr>
<tr>
<td>St. Vincent &amp; the Grenadines</td>
<td>20.0</td>
<td>1,370</td>
<td>33.2</td>
<td>39.7</td>
<td>11.6</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>15.0</td>
<td>2,064</td>
<td>22.2</td>
<td>34.2</td>
<td>23.6</td>
</tr>
</tbody>
</table>

the public service had a demoralizing effect on senior managers and supervisors. Basic employee data such as numbers of established and non-established workers in each ministry, their job titles, age and salary information did not exist, and payroll lists were manually maintained and updated. It was therefore not uncommon for “ghost workers” and deceased persons to be receiving pay, and for retired persons to be re-hired on salary while continuing to receive their full pensions.\(^23\)

While recurrent expenditure on wages and salaries tends to be high as a proportion of overall government spending, the sheer weight of government’s responsibility as an employer of last resort - not to mention the unfunded pension schemes that enable retired public servants to receive state pensions - poses fiscal constraints that drive down public sector compensation, making wages relatively low and uncompetitive vis-à-vis compensation in the private sector or opportunities abroad. Indeed, even though public sector employment has traditionally been attractive to job-seekers because it offers stability, prospects for training and some benefits, public sector wages in themselves are not attractive to the best and brightest. Research has shown that public sector compensation tends to be higher than in the private sector at lower levels but lower at higher-skilled technical, professional and managerial levels.\(^24\) The decline in the calibre of persons entering the public service today when compared with the immediate post-independence period in the 1960s is palpable.

**Table 2: Government Wages (2005)**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>PERCENT OF GDP</th>
<th>PERCENT OF CURRENT REVENUE</th>
<th>PERCENT OF TOTAL EXPENDITURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua &amp; Barbuda</td>
<td>11</td>
<td>51</td>
<td>37</td>
</tr>
<tr>
<td>The Bahamas</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Barbados</td>
<td>10</td>
<td>31</td>
<td>29</td>
</tr>
<tr>
<td>Belize</td>
<td>10</td>
<td>44</td>
<td>36</td>
</tr>
<tr>
<td>Dominica</td>
<td>13</td>
<td>40</td>
<td>33</td>
</tr>
<tr>
<td>Grenada</td>
<td>11</td>
<td>40</td>
<td>25</td>
</tr>
<tr>
<td>Guyana</td>
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</tr>
<tr>
<td>Jamaica</td>
<td>11</td>
<td>38</td>
<td>31</td>
</tr>
<tr>
<td>St. Kitts-Nevis</td>
<td>14</td>
<td>38</td>
<td>32</td>
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<tr>
<td>St. Lucia</td>
<td>10</td>
<td>39</td>
<td>31</td>
</tr>
<tr>
<td>St. Vincent &amp; the Grenadines</td>
<td>14</td>
<td>47</td>
<td>38</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>5</td>
<td>14</td>
<td>17</td>
</tr>
</tbody>
</table>

**Source:** IMF Article IV Mission Reports.

The central problem with government staffing is not so much its size as its composition, which leans excessively towards the lower levels. Herein lies a major paradox: Caribbean public
services might appear to be “bloated” at the same time that there is undeniably a critical shortage of skills in the technical, professional and managerial cadres. This impacts not only on recurrent expenditure (i.e. the public wages and salaries bill) but also, perhaps more importantly, on the governments’ ability to develop sound policies and strong institutions, to deliver quality services to the public and to implement even the smallest of projects in time and on budget. Weak institutional and absorptive capacity further limits public expenditure, which is significant given the importance of public spending as a stimulus for growth in other sectors of the economy. It also drives the institutional and human resource development initiatives funded by external partners.

Downsizing of the public service through separation - voluntary or otherwise - is not a viable option as the potentially long-term social distress and dislocation caused by enforced redundancies is politically unacceptable in a small society lacking in formal social safety nets. Additionally, given the importance of public sector wages to the overall consumer spending in smaller economies, fiscal retrenchment threatens negative consequences for the retail and other sectors of the economy.

2. **The per capita cost of public administration and social and economic infrastructure is higher than in larger economies.**

Most public infrastructure, goods and services are characterized by their inherent indivisibility, i.e. the relative cost of producing them is the same regardless of size. Diseconomies of scale and the lack of a critical mass mean that it costs more per capita in small countries to provide basic public services. In other words, small states have to devote a disproportionately larger share of their public revenues to meet infrastructure development/maintenance costs (such as roads and utilities), as well as to provide basic services. It is not that they have more infrastructure per capita but that the pool of users is small, and the overhead costs do not diminish with scale.

The limitation of scale economies combined with the weakness of the private sector, referred to above, also forces governments in small states to assume sole responsibility for the provision of a range of goods and services that are now typically offered by the private sector in larger countries, whether acting on their own initiative in creating private markets or through the increasingly common practice of public-private partnerships. Without the involvement of foreign companies – often a sensitive sovereignty issue in small countries - the scope for public-private partnerships is limited. Thus governments in small states are expected to meet the costs of structural unemployment (hence, employer of last resort), human resource development (in particular, primary, secondary and technical/vocational education and training, and even tertiary-level education in some cases), basic health care, security and justice, foreign affairs, environmental protection and physical/economic infrastructure. Some of these costs are lumpy and scale-sensitive, and have a direct impact on the transaction costs associated with doing business.

3. **The weak tax base and an over-reliance on border revenues cause chronic fiscal vulnerability.**
Being small means having open economies. Small states are considerably more trade-dependent since it is virtually impossible for them to be self-sufficient. Hence border revenues (i.e. trade taxes collected by Customs) account for a disproportionately large share of total revenues vis-à-vis personal and corporate income taxes or property taxes. This is partly because small states have open economies that rely substantially more on international trade; partly because the small private sector cannot generate sufficient profits to sustain high corporate tax rates and remain in business; and partly because the overhead costs of collecting Customs revenues is less than the costs associated with collecting income taxes. Indeed, some small Caribbean states have (or had) no personal income taxes at all and international trade taxes account for up to 60 per cent of government revenues in some countries. Free trade agreements have brought about an erosion of Customs revenue and ushered in a variety of consumption or sales taxes. Fiscal subsidies to stimulate growth in the form of tax concessions to key economic sectors such as tourism further erode an already fragile tax base and increase economic vulnerability. These concessions are often the only way to attract much-needed foreign investment to create industries and stimulate non-public sector employment. Some might argue that most small states in the Caribbean are not viable purely from the standpoint of the states' (in)ability to raise sufficient revenues to finance their operations.

4. **General capital constraints lead to high debt levels.**

Following on from the above, Baker (1992) suggests that issues of smallness co-exist with general capital constraints as well as the array of problems confronting governments with a low-income population. In other words, it is often the case that small states also happen to be poor or highly indebted states. It is not surprising that many small states are among the most highly indebted in the world. If a government is unable to collect sufficient revenues to meet its operating costs and to finance investment in economic infrastructure, it will have little choice but to borrow. But small countries often have low credit ratings and must borrow at less-than-favourable interest rates. Debt servicing and interest payments then become a major charge on the already fragile public revenues.

Cas and Ota (2008) find that because small states face higher per capita costs, it leads to an inverse relationship between country size and size of government, i.e. government and country size are negatively related. As alluded to above, the core functions of the government are the same regardless of population and country size, and call for a minimum staff size which does not necessarily increase as population size increases. While some contend that smaller states may actually require bigger government to play an insulating role against the external shocks mentioned above, these authors find that openness and vulnerability to external shocks do not necessarily require a larger government to stabilize the economy. They argue convincingly that weak governance or low government effectiveness - common among smaller states - is associated with higher total public and external debt, whereas governance in large countries is significantly associated with lower total expenditure, capital spending and debt. Caribbean countries, faced with severe capital constraints, have indeed become highly indebted. Since 1998, the average public debt to GDP ratio in the region grew rapidly, from 56 per cent in
1997 to over 90 per cent by 2003. On the basis of their per capita GDP, Caribbean countries are mostly ranked as middle-income countries but are also among the most indebted in the world: 14 Caribbean countries are in the top 30 most indebted countries, while 7 are among the top 10. One – Guyana - is a HIPC country. As Table 3 illustrates, four countries –Trinidad & Tobago, The Bahamas, St. Vincent & the Grenadines and St. Lucia – have debt in the range of 28-72 per cent; the remaining 7 – Antigua & Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica and St. Kitts-Nevis – have debt beyond 90 per cent. St. Kitts-Nevis has the highest public debt to GDP ratio at 182.92 per cent at the end of 2007. Debt levels have increased not because of falling revenues but because of rising expenditures; total current expenditures increased in all cases except Grenada while, as Table 1 above shows clearly, capital expenditures also rose sharply in all countries except Jamaica.33

Debt servicing absorbs a substantial portion of revenues in most countries, limiting fiscal space for social spending.34 It restricts the governments’ ability to pursue pressing development needs by diverting significant resources into debt service, increases the probability of default or restructuring and therefore increases the cost of borrowing by increasing risk premiums. High domestic debt levels also crowd out private sector expenditure.

**Table 3: Public Debt as a Percent of GDP (2007)**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>PUBLIC DEBT (PER CENT OF GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua &amp; Barbuda</td>
<td>109.03</td>
</tr>
<tr>
<td>The Bahamas</td>
<td>38.80</td>
</tr>
<tr>
<td>Barbados</td>
<td>94.60</td>
</tr>
<tr>
<td>Belize</td>
<td>90.20</td>
</tr>
<tr>
<td>Dominica</td>
<td>111.17</td>
</tr>
<tr>
<td>Grenada</td>
<td>122.87</td>
</tr>
<tr>
<td>Guyana</td>
<td>99.08</td>
</tr>
<tr>
<td>Jamaica</td>
<td>128.10</td>
</tr>
<tr>
<td>St. Kitts-Nevis</td>
<td>182.92</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>71.27</td>
</tr>
<tr>
<td>St. Vincent &amp; the Grenadines</td>
<td>67.11</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>28.31</td>
</tr>
</tbody>
</table>

*Source: Caribbean Development Bank*

The limit to the size of the public sector is the state’s capacity to finance it. In countries where the revenue base is volatile – as in small states – there is good reason to suggest that the state’s role should be limited a narrow range of high priority activities. Alternatively put, the public sector’s mandate must be matched to the available resource envelope.35 However, the circumstances of many Caribbean states do not permit the fundamental overhaul of government
expenditures needed to achieve fiscal sustainability. In the OECS sub-region, for example, the IMF recently reported that:

Several of the national authorities perceived the magnitude of the fiscal adjustment required to achieve the [sic] benchmarks as daunting, and perhaps not socially feasible. They explained that while many fiscal measures had been undertaken, vulnerabilities to natural disasters, trade preference erosion, and infrastructure requirements had created social and capital spending needs that could not be deferred.36

In circumstances such as these, reforming the public sector, reducing its size, making it more efficient and capable of delivering more/better public services – while undoubtedly all vitally necessary - are scarcely priorities for Caribbean governments just managing to keep their heads – and their countries – above water. Much easier and less politically sensitive to allow the public services to carry on as always, without any thought being given to ways in which the traditional bureaucratic model might be overhauled and something more appropriate to the peculiar conditions and circumstances of small states put in its place. This explains, to a large extent, the recurrent finding that reform efforts flounder due to the lack of political will.

5. There is a limited pool of skilled human resources to perform the vital roles of the public service and a lack of depth in specialization which affects implementation and, by extension, absorptive capacity.

Although the inability to attract and retain skilled personnel is by no means unique either to the public sector or to small developing countries, they do have a particular challenge given the narrow range of trained personnel available. Wettenhall (1992) quite rightly points to the fact that small states suffer from an inadequate supply of appropriate educational and training institutions and programmes with the result that, in some technical areas, it may simply not be possible to locate anyone with adequate training.37 Hence it comes as no surprise that many Caribbean states have recourse to international training programmes and external sources of technical assistance to "fill gaps" in certain key areas.38 Releasing key officials to attend training abroad can produce a short-term crisis; in the longer term, training can be a ticket to the "big league" as highly specialized workers have very few alternatives and seek opportunities abroad.

Migration or "brain drain", then, further exacerbates the problem; Caribbean small island states are among the worst affected by the migration of highly-qualified personnel.39 According to the World Bank, in fact, the seven countries with the highest emigration rates for college graduates in the world are in the Caribbean. Guyana is the world leader with 89 per cent of its college graduates having left the country between 1965 and 2000. The combination of low salaries/wages and poor quality of life has led to a high propensity to emigrate and an outflow of professionals from the Guyana public service, to the extent that as many as 35 per cent of approved positions in the ministries during early 1990s were vacant. The shortage of qualified applicants causes some high-level positions to be filled by inadequately qualified or inexperienced individuals.40 Emigration rates are also high in Jamaica (85 per cent of university graduates) and Trinidad and Tobago (79 per cent). The main destinations are OECD countries. Table 4 below shows migration patterns for the countries of the Caribbean.
Table 4: Caribbean migration to the OECD, 1965-2000
(percentage of labour force, by level of schooling)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>PRIMARY</th>
<th>SECONDARY</th>
<th>TERTIARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua-Barbuda</td>
<td>9</td>
<td>64</td>
<td>67</td>
</tr>
<tr>
<td>The Bahamas</td>
<td>3</td>
<td>10</td>
<td>61</td>
</tr>
<tr>
<td>Barbados</td>
<td>18</td>
<td>28</td>
<td>63</td>
</tr>
<tr>
<td>Belize</td>
<td>7</td>
<td>58</td>
<td>65</td>
</tr>
<tr>
<td>Dominica</td>
<td>19</td>
<td>67</td>
<td>64</td>
</tr>
<tr>
<td>Grenada</td>
<td>25</td>
<td>71</td>
<td>85</td>
</tr>
<tr>
<td>Guyana</td>
<td>18</td>
<td>43</td>
<td>89</td>
</tr>
<tr>
<td>Jamaica</td>
<td>16</td>
<td>35</td>
<td>85</td>
</tr>
<tr>
<td>St. Kitts-Nevis</td>
<td>32</td>
<td>42</td>
<td>78</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>12</td>
<td>21</td>
<td>71</td>
</tr>
<tr>
<td>St. Vincent &amp; the Grenadines</td>
<td>18</td>
<td>33</td>
<td>85</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>8</td>
<td>22</td>
<td>79</td>
</tr>
<tr>
<td><strong>Regional average</strong></td>
<td>15.4</td>
<td>41.1</td>
<td>74.3</td>
</tr>
</tbody>
</table>

**Source**: Economist Intelligence Unit - Country Forecast for Latin America and the Caribbean (March 2008)

The dearth of adequately trained, skilled personnel in the technical, professional and managerial cadres poses numerous institutional challenges. First, there is a chronic lack of depth and breadth in skills and expertise. Unlike in larger countries, small states do not have the luxury of differentiating between specialists and generalists; it will never be possible for a small country of 1.5 million people or fewer to have all the specialists it requires in every technical or managerial area essential for its development in a modern, globalized world. Officials are expected, for the most part, to be reasonably flexible, adaptable, knowledgeable generalists who could be called upon to cover many issues and perform a broad range of functions. Very often there are a few key people whose advice is sought on almost every significant policy decision or who are entrusted with overseeing the implementation of almost every important policy, programme or project.

Secondly, not only are there generalist officials, but also generalist institutions. Small size does not allow for administrative differentiation either. Just as large countries, small states have to deal with a wide array of development activities and challenges posed by issues such as migration and climate change but, unlike in large countries, they have neither the volume of work nor pockets of expertise to justify differentiated structures. This explains the existence of many multi-purpose ministries and departments in small states, as well as ministers who cover many –
sometimes unrelated and even competing and contradictory – portfolios. The third challenge is that weak institutional or absorptive capacity in the public sector can act as a brake on public expenditure which, as earlier argued, is the main driver of economic activity.

6. **External shocks - including natural disasters - affect a large proportion of the population and national economy.**

External shocks can be frequent and recurrent, and are not necessarily restricted to natural disasters but could include commodity price fluctuations and other economic pressures. Environmental vulnerability can have a profound impact on the growth of small economies. In some cases, the damage caused by natural disasters such as hurricanes, earthquakes, floods and other hazards exceeds annual GDP.\(^{62}\) In the face of such catastrophes, national authorities have limited capacity to fund recovery and reconstruction. Damage to economic infrastructure and housing stock is often extensive and external resources are inevitably required to restore the economy, which could take several years.

As an example, consider the differential impacts of Hurricanes Katrina and Ivan on New Orleans and Grenada, respectively. Katrina may have caused considerable devastation in New Orleans but it did not destroy the United States' economy. The federal government declared a state of emergency and allocated special budgetary resources to assist in the recovery and reconstruction of the city. Ivan, by contrast, wrought such damage to the tiny island of Grenada that it affected all productive sectors of the national economy quite significantly and the Grenadian government was obliged to call on external donors and neighbouring countries to finance its reconstruction effort.\(^{43}\) It was estimated that the hurricane caused damage equivalent to 200 per cent of GDP. Recovery time is also longer in smaller countries than in larger ones. Four years after Hurricane Ivan, for example, Grenada's foreign exchange earnings from its principal export product – nutmeg – still have not recovered as it takes approximately five years for new nutmeg plants to begin bearing fruit.

Quite apart from natural disasters, commodity price fluctuations, preference erosion and, most recently, the global financial crisis and the twin crises of food and fuel prices that preceded it, epidemics such as the HIV/AIDS virus and non-communicable “lifestyle” diseases can also have far-reaching effects on the quality of governance and institutional performance in small jurisdictions. Since most health care is largely publicly-provided and there is a commitment to moving towards universal health care (consistent with the MDGs), the costs associated with these health challenges bring additional burdens to already stretched treasuries.

Another major external threat is the use of the Caribbean region as a trans-shipment point for Colombian cocaine en route to the lucrative markets of the United States and Europe, along with the associated trade in weapons. This has forced Caribbean governments to divert scarce resources away from investments in social and economic infrastructure towards drug interdiction efforts - an extremely unfair situation given that small Caribbean countries are neither the producers nor ultimate consumers of the products. Small countries also face greater constraints in overcoming internal shocks such as the effects of poor governance and crime. Some small states have come perilously close to falling captive to
drug lords, which has had a wholly negative impact on governance. The social and economic costs of the dramatic increase in crime and drug-related criminal activity can also be devastating in smaller economies, particularly as a disincentive to investment. The costs of poor governance – weak policy/decision-making, bad policy choices, corruption and administrative incompetence - are likely to be disastrous for small states when compared with larger countries.

These six binding constraints fundamentally affect the way in which policy and public sector institutions interact in small states. This has led some observers and commentators to question whether the "rational" model of public administration inherited from the former colonial rulers and patterned after the UK's “Whitehall” system is, in fact, appropriate to the social milieu of small states. As Baker (1992) noted, the issues of scale seriously challenge the general assumptions held about the Weberian model of the public service, which is considered scale-neutral. He concludes that the separation/segregation of roles in public administration may simply be unrealistic, and that this informal way of "doing government" may itself call for creative research. They have far-reaching implications for the creation of strong institutions and the practice of institutional development as described/defined above. Initiatives aimed at institutional development will have to take these factors into account.

**Caribbean Experience with Institutional Development and Reform**

If, as suggested earlier, institutional development and reform efforts focus primarily on building policy, implementation and regulatory capacity, as well as improving operational efficiency, then institutional development interventions are potentially complex activities for which small states require substantial external assistance, both in terms of technical advise and financial resources. The experience of small Caribbean states illustrates many of the challenges and frustrations confronting institutional development practitioners. Relying mainly on evaluation reports and other documentary sources, lessons have been drawn from projects and programmes funded by bilateral or multilateral donor agencies, as well as inter-governmental organizations. These are summarized below:

1. **Lack of political will** is a recurrent and underlying theme of all studies and evaluations of reform and institutional development in the Caribbean. Reform efforts have floundered because of lack of commitment and ownership at both political and senior management levels and the absence of an effective champion at the highest levels of government. Where reform efforts have enjoyed the backing of the political and administrative leadership they have generally been more successful. Anchoring the reform at the highest possible level (eg. under the Cabinet Secretary) whilst at the same time engineering a good connection with major line ministries is essential.

2. **Linked to this is the absence**, in most Caribbean jurisdictions, of consensus on the role of the state and, by extension, a clear vision of the kind of public sector that is “fit for purpose”. Indeed, there is seldom any meaningful discussion on the role of the state at all in political and bureaucratic circles; Caribbean governments pride themselves on being “pragmatic”. The upshot of this is that there are no “true believers” when it comes to issues of good governance. In other words, there is no demand for good governance from within Caribbean societies themselves.
3. Needs assessment, institutional assessment and the collection of baseline data are important first steps. Even where institutional development and reform initiatives have been pursued, this is often not on the basis of a needs assessment/analysis. There is a lack of objective information at the outset to inform project/programme design and a failure to recognize the value of testing, evaluating and adapting so-called “best practice” models to suit local circumstances.

4. Coherent strategic frameworks are also important. Having defined needs, the next step is to develop a vision and strategy that can be implemented. Too often, however, the development of a strategic framework becomes an end in itself, leading to little more than the production of a report or draft policy document such as a White Paper that is never adopted as policy. Barbados, Trinidad and Tobago and St. Lucia provide examples of White Papers that have gone nowhere. The strategy should set realistic targets, objectives and timeframes, and should also address the question of sequencing and scale of reform.

5. In small states, it is perhaps better to pursue incremental change employing pilot projects rather than large-scale, system-wide approaches. A major conclusion of a recent DFID evaluation of its programming in the Caribbean was that innovative zeal should not outstrip local conditions and expectations. Reform initiatives should focus more on basic procedures and less on sophisticated approaches. Projects aimed at building capacity are themselves limited by the very lack of capacity characteristic of small states.

6. Although small states often call for training interventions, they have limited capacity to absorb the training. The limited number of trainable personnel available means that the same small group continuously benefits from training opportunities, especially where these involve foreign travel. Similarly, small size makes it very difficult to release staff to attend training programmes for any length of time. But it also makes it difficult to achieve a critical mass of trainees, which raises questions about the viability of establishing national public service training institutes and academies. Recent experience with Foreign Ministries in small Commonwealth states in the Caribbean and elsewhere has highlighted the dilemma facing these countries: the small size of some departments means the releasing someone to attend a training programme can compromise the department’s ability to deliver services. More attention should be given to online and other forms of in situ training such as coaching and mentoring.

7. A related issue is the need for a fundamental rethink in the approach to training. Much of the training offered by donor agencies tends to focus on specialized skills and core competencies required to perform a certain job. Because of the limited human resource pool and the need for public servants who are flexible and adaptable, it may be more effective to provide broad-based training that enables officials to function as competent generalists instead of specialists. Overspecialization in the context of a small state can lead to migration as there are likely to be few opportunities for career progression/advancement.

8. Gap-filling and the counterpart model are not necessarily the most effective ways to build capacity in small states. The Commonwealth Secretariat, for instance, has developed a niche in what is called “strategic gap-filling”. This is essentially the filling of line positions in government ministries/departments with expatriate experts on the assumption that a national will
be appointed as a “counterpart“ to the expert to understudy them, thereby enabling the counterpart to assume full responsibility at the expiration of the expert’s tour of duty. However, the evidence suggests that counterparts are seldom identified and appointed, raising the issue of sustainability which is always salient in the case of small states. There is an obvious risk that countries will use the gap-filling to avoid dealing with some of the more difficult issues discussed above, such as low salaries and other constraints. Gap-filling of this type could actually push out nationals who become de-motivated by salary inequities so that, in the long term, the provision of outsiders under the banner of institutional development could actually undermine capacity rather than build it. On the other hand, most small states will never be able to compete on the international market for scarce skills such as, for example, legislative drafters and telecommunications policy experts.44

Conclusion

All the available evidence points to the fact that strong institutions are a prerequisite for development. Rich countries – large or small – tend to be the ones with strong public institutions that make and implement sound policies, deliver services to citizens and generally ensure a sufficiently high standard of accountability to satisfy the requirements of good governance. On the other hand, there are many large countries – particularly in Africa - that have failed the litmus test precisely because they have weak public institutions. There can be no doubt of the correlation between the quality of a country’s institutions and its level of development.

This paper has shown that small states have certain inherent qualities that act as binding constraints on their ability to develop strong public institutions and, by extension, their absorptive capacity. These six constraints generally apply to smaller countries and particularly island states with populations of under 1.5 million. The development challenge facing small states is how to overcome these constraints, which directly relate to good governance. Good governance - or the absence thereof - underlies and amplifies the impact that other factors, such as economic shocks or natural hazards, can have on small states.

Why have so many evaluation and other studies of public sector reform and institutional development in the Caribbean come to the conclusion that political will is missing? Mainly it is because there are no “true believers” in the value of good governance and strong institutions; in light of the constraints affecting small states, political leaders perhaps have far more important considerations in the constant battle to create more policy space that gives them the headroom to make better choices. It is not difficult to see how the combination of falling revenues, high debt service ratios, relatively high per capita costs of providing public goods and services, including infrastructure, small establishments, shortage of specialized, skilled technical and professional staff, high rates of emigration – all these combined are daunting enough without having to ponder the mysteries of public sector reform.

What lessons can be learnt that might help improve the way donors deliver technical assistance in small states geared towards institutional development and reform?

First, working with the country to develop a coherent strategic framework for reform that is
owned by the country and is underpinned by a clear understanding of the role of the state and of the public service, and that takes into account the real conditions of the country, is vital. The strategic framework should be a means to an end – that end being a detailed implementation plan - and not be seen as an end in itself.

Secondly, it is necessary to anchor the reform at the highest possible level while at the same time understanding that public sector reform and institutional development are not “sexy” subjects for politicians and certainly are not headline grabbers or vote winners.

Third, it is important to set realistic targets, objectives and timeframes. Donors tend to fund projects which naturally have a start and an end date, but institutional development takes time and cannot be made to fit neatly into an artificial timeframe.

Fourth, donors need to be aware of the limitations of small states in terms of their capacity to absorb training, for example, and to make the best use of persons trained. Small countries have small establishments and there will always be the need for flexible generalists who are able to adapt to different situations or policy problems at different times.

Finally, the importance of culture and political adaptability of technical assistance must be borne in mind, and it must always be understood that institutional development in the best of conditions, let alone small, resource-scarce states with critical and binding constraints, calls for a long-term engagement.
ENDNOTES


4 For the purposes of this paper, the Commonwealth Caribbean includes the 12 independent former British colonies of Antigua & Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts-Nevis, St. Lucia, St. Vincent & the Grenadines, and Trinidad & Tobago. It does not include other non-English-speaking members of the Caribbean Community (CARICOM) or the UK dependencies such as Anguilla, Bermuda, the British Virgin Islands, Cayman Islands, Montserrat and Turks & Caicos Islands.


9 See Jean Bossuyt, 2001. 'Mainstreaming Institutional Development: why is it important and how can it be done?' Paper prepared by the European Centre for Development Policy and Management (ECDPM) for the Dutch Ministry of Development Cooperation.

D.C.: The World Bank. This strategy was intended to build on and operationalize the *World Development Report 1997 – The State in a Changing World* (WDR 1997), which laid out an agenda for action to improve governance and, in effect, brought the governance issue to the forefront of the development debate. The impact of the WDR 1997 cannot be overstated as it fundamentally altered the terms of the debate and revealed that the taboo among development agencies – and particularly multilateral development institutions - of encroaching upon the "internal affairs of sovereign states" was being overcome. Ever since then, governance – whether good or good enough – has become an essential principle of development cooperation. It should be noted, however, that the World Bank was not the first multilateral development bank to develop and launch a governance strategy; the Asian Development Bank had already published its own governance strategy paper in 1997.

11 See Deryck R. Brown, 1998. ‘Evaluating institutional sustainability in development programmes: beyond dollars and cents.’ *Journal of International Development*, 10(1), 55-69. Bossuyt (2001) puts forward the following definition: "Institutional development focuses on the ability or capacity of developing countries to design and implement development policies on their own in a sustainable way. This makes it clear that institutional development is a multi-dimensional concept that calls for a systemic view on institutional performance. It is not just concerned with education, training or organizational strengthening. It also includes the overall environment, the pattern of formal and informal organizations, networks, culture, social structures and other factors that can affect institutional performance. This concept of institutional development is consistent with the definitions currently used by most donor agencies.”


13 See, for example, Charles Polidano, 1998. ‘Measuring Public Sector Capacity.’ A discussion paper prepared for a CAPAM/Cambridge University High-Level Seminar, Cambridge University, U.K., 17-19 July, 1998. Interestingly, this work, commissioned by the World Bank’s Economic Development Institute with funding from the Commonwealth Secretariat, intended to develop a public sector capacity index but was abandoned. The governance indicators later developed by the World Bank Institute are based on perception and not on observed fact.

14 Ibid., p. 7.


16 The definition of what is a "small state" should not detain us here. The literature is full of references to smallness based on land mass, population size, per capita GDP or some combination of these. The Commonwealth Secretariat, the intergovernmental organization that has arguably done the most to highlight and promote small state issues, defines small states as those with populations of under 1.5 million, but includes Jamaica and Papua New Guinea since these bear signs of the classical vulnerabilities affecting small states. Schahczenski (1992) suggests an administratively useful definition of small size: government employees per 1000 inhabitants. This is a quantitative measure of bureaucratic scale. See Jeffrey J. Schahczenski, 1992. ‘Development Administration in the Small Developing State: A Review’. In Randall Baker (ed), 1992. *Public Administration in Small and Island States*. West Hartford, Connecticut:
Kumarian Press (pp. 34-48). See, also, the article by Julie Bivin Raadschelders in the same volume.

17 Baker, ibid.


21 It should be noted that this does not imply greater inefficiency in Barbados compared with Jamaica. On the contrary, the richer the country, the more it is likely to spend on providing public services. A more plausible conclusion is that the Jamaican government provides either very few or very poor quality public services as a result of its spiralling public debt.

22 See Carrizosa, ibid.


25 Collins and Warrington, ibid.


29 This explains, in large measure, the reservations towards trade liberalization and tariff reduction among
small countries and the hasty attempts to reform tax systems by introducing sales or value-added taxes and upgrading property taxes in recent years.

30 Ocampo, ibid.


34 Debt servicing in Jamaica consumes almost half of all revenue.


38 Based on the demands made by small Commonwealth member countries for assistance from the Commonwealth Fund for Technical Cooperation, there is a demonstrable lack of legal expertise to fill positions such as legislative drafters, public prosecutors and judges – all very essential to good governance. Many small countries also have difficulty locating suitably qualified personnel in trade-related specializations and some areas of engineering.

39 Baker (ibid.) makes the point that “in the case of small states, only a few brains need be drained before a serious systemic crisis occurs.” See also Collins and Warrington, ibid. A recent report from the OECD on the characteristics of the population of 28 OECD countries around the year 2000 found that the Caribbean region loses between 25 and 47 per cent of its nationals with higher education through emigration each year. See Michele Wucker, 2008. ‘Best Educated Leave Caribbean to Make Mark Elsewhere’. CaribWorldNews.com – Global Caribbean Daily Newswire, 22 February, 2008.


41 This is most vividly illustrated in the area of international trade negotiations, where the era of
globalization, trade liberalization and the WTO have ushered in a range of new disciplines, some of which were previously unheard of. Large country delegations consist of highly specialized experts in every discipline and sub-discipline being covered in the negotiations, while small countries are often unable to field an expert in any single discipline, let alone in sub-disciplines. In the area of services, for example, whereas a large country like the United States could field a delegation comprising many experts in all conceivable areas (e.g., financial services, transportation, professional services, educational services, gaming, tourism, etc.), a small country might have a single services expert who must perforce have a broad understanding of many issues, but a detailed understanding of only a few. See T. Stewart, A. Francis and G. Rigobert, 2005. *Audit of OECS Technical Resources: Report prepared for the OECS Trade Policy Project*. Castries, St. Lucia: OECS Secretariat.

Hurricane Dean, which passed between Dominica and St. Lucia in August 2007, caused damage equivalent to 20 per cent of GDP in Dominica, while damage to St. Lucia was less than 1 per cent of GDP.

This is the underlying justification for the Catastrophic Risk Insurance financed by the World Bank, Caribbean Development Bank and others donors for the Caribbean region. It is borne out of the recognition that small states will inevitably suffer greater economic damage and take longer to recover from natural disasters.