

## Institutional Development in Small States: Evidence from the Commonwealth Caribbean

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### ABSTRACT

This paper focuses on institutional development in government among a group of small, developing states in the English-speaking (Commonwealth) Caribbean. The institutions under consideration in this context are those that support socioeconomic development, typically government ministries and departments. The paper recognizes the importance of high-performing institutions to good governance and development. However, there is both anecdotal and empirical evidence to suggest that weak institutional capacity is a common problem among Caribbean countries. Based on an extensive review of literature and field experience, the paper describes six "binding constraints" on the ability of small Caribbean states to provide sound public institutions which, in turn, cripples their efforts to promote development. Several highly selective lessons of Caribbean experience drawn from evaluations carried out by various donors are examined. These lessons should inform both donors and the small states themselves in designing future institutional development and reform measures.

**Key Words:** small states, institutional development, capacity, Commonwealth Caribbean.

### 1. Introduction

Much of the development literature on small states<sup>1</sup> concentrates on what are deemed critical development challenges, defined primarily in terms of vulnerability to economic shocks and natural hazards. Establishing a correlation between small

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<sup>1</sup> 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, an inter-governmental organization most closely associated with small-states issues, defines small states as those with populations under 1.5 million, but includes Jamaica and Papua New Guinea since these bear the classical vulnerabilities affecting small states.

size and vulnerability has been a major preoccupation, with the objective of justifying the need for special measures of assistance to compensate for structural weaknesses and to overcome 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, middle-income, developing countries from least developed country status and access to concessionary financing at the multilateral level without taking into account their inherent vulnerability, 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 was characterized by the development of a vulnerability index and, more recently, investigations into resilience-building and competitiveness in small and island states.

In comparison, far less scholarly attention has been given to issues surrounding the effective functioning of the state such as institutional development, public administration/sector management and reform. The shortcomings and vulnerabilities of small jurisdictions, however, are no less severe in this area than they are in relation to terms of trade, lack of diversification, openness and dependence or natural disasters. Indeed, it is possible to argue that institutional weaknesses affecting small jurisdictions underlie and significantly exacerbate the effects of many other vulnerabilities.

This article focuses on a group of small, developing states in the Commonwealth or English-speaking Caribbean.<sup>2</sup> Despite their relatively high per-capita income levels and middle-income ranking, there is no shortage of both anecdotal and empirical evidence to suggest that small developing Caribbean states have weak institutional capacity (see World Bank 2001) and are at a disadvantage even when compared with other small states such as Iceland, Luxemburg and Liechtenstein, the Baltics – which are larger and have greater capacity than even the largest of the Caribbean countries – or the United Kingdom (UK) dependencies such as the Isle of Man, Guernsey and Jersey. An interesting point that arises is whether some of these small states have better quality institutions than the Caribbean countries and, if so, what underlies it but, unfortunately, this type of comparison falls outside the immediate scope of the article.

The emphasis is specifically on *institutions* that support socio-economic development. While the literature highlights the absence of any unanimously-agreed understanding of what, precisely, is meant when we speak of an “institution” (see Jütting 2003), the word as used here does not refer to property rights and legal/administrative systems as is commonly the case but, instead, more narrowly to the 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. There is an emerging consensus around the idea that high-performing public institutions are central to socio-economic develop-

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<sup>2</sup> For the purpose of this paper, the Commonwealth Caribbean includes the 12 independent former British colonies: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago.

ment as several publications over the past decade have underscored the “deep institutional underpinnings” of successful growth and development (North 1990; Rodrik 2002, 2004; Aron 2000; Commission on Growth and Development 2008). Most recently, the World Economic Forum’s *Global Competitiveness Report 2009-10* identifies institutions as the first pillar of competitiveness.

The article describes the basic features and characteristics of small jurisdictions that account for the generally poor outcomes of institutional development and public-sector reform initiatives. Its chief target audience is donors and Caribbean governments, and 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. The central argument is that small, resource-constrained countries have special requirements that both the development partners and the countries themselves need to take into consideration before proceeding with institutional development and capacity-building measures.

In terms of structure, the six “binding constraints” affecting institutions in small Caribbean states are identified in the following section. 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 second section focuses more closely on the Caribbean region and discusses why small Caribbean states have shown a less-than-enthusiastic interest in institutional development and reform. They provide insights into the problems and challenges faced by donors in implementing institutional development and state-reform projects. Finally, the fourth section draws conclusions and implications for both governments and donors/development partners.

## **2. 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 Khan’s (1982) groundbreaking work on the Eastern Caribbean and the collection edited by Baker (1992a). Recent contributions by Sutton (2008) and Samy et al. (2008) are noteworthy but are caught up in the somewhat nebulous concept of resilience-building. While the discussion in the previous section points to a broad consensus 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 assistance for institutional development.

It is tempting to believe – as some in donor agencies do – 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

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are less people and there tends to be greater social homogeneity, cohesion and stronger feelings of collective identity, 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 countries – that distort and romanticize the observed reality of small states. It is a “big country” view 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, as the prevalent if not primary basis for personnel transactions rather than merit or performance, potentially leading to corruption as “everyone knows everyone” (Jacome 1992, 242-243).

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 or Guyana), 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 producing scandal in public affairs;
- d) politicians, public officials and ordinary citizens finding difficulty in distinguishing between duty to the public interest and the claims of kinship and affinity; and
- e) citizens depending on public services for many of life's necessities but being distrustful of officialdom.

Below, we examine the shortcomings of small states in relation to institutional development. As indicated earlier, the following six characteristics are, in effect, binding constraints on the ability of the small states of the English-speaking Caribbean to provide good governance and sound public institutions. They are gleaned from a review of existing literature and from practical field experience gained as a development practitioner in the region.

### *2.1 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. Relatively weak civil-society institutions and the absence of a tradition of philanthropy cause citizens to 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 private sector cannot be relied upon to generate the levels of employment required to absorb surplus labour. This makes the public sector the *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 bring about reductions in public spending and have a knock-on effect for all sectors of the national economy.<sup>3</sup>

The size of the public sector is partly determined by the role envisaged for the state. Caribbean states have had to take on numerous responsibilities that result in a

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<sup>3</sup> The reverse should be equally true, i.e. that in a smaller economy, counter-cyclical fiscal stimulus packages can have a rapid ameliorating effect on the whole economy.

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wide mandate vis-à-vis the available resource envelope. Caribbean countries are strongly committed to social policy goals in areas such as universal access to education and health services, as well as social protection for vulnerable groups, and this is reflected in their relatively high ranking 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 providing public services 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.<sup>4</sup>

Third, the economy's dependence on government spending is seen when public investment is added to general government consumption. As in other economies, public investment is considered a central tool of macro-economic management, 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 re-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.

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<sup>4</sup> This does not imply that the public sector in Barbados is less efficient than that in 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 debt.

Table 1: Public Sector Size in the Commonwealth Caribbean, 2005

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

Source: Extracted from Carrizosa (2007)

When wages and salaries are isolated from other 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 disproportionate 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. Other items such as the delivery of public services to the community are under-funded, and it can have serious ramifications if other priorities such as asset maintenance are “crowded out.” In the context of the current financial crisis, it also means that capital spending is likely to be the first casualty of fiscal austerity. If, however, as suggested by Romero (2008, 6), the acceptable norm for small states is a wages/salaries to GDP ratio of 11 per cent, then it would appear that personal emoluments are not overly excessive as only 3 of the countries under consideration exceed that norm, and only modestly so.

At the beginning of the decade, Antigua and Barbuda was easily the worst case scenario. A review of the Antigua and Barbuda 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 legisla-

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tion governing all employees in 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. Interestingly, the Antiguan Finance Ministry announced in October 2009 that it was seeking a technical-assistance grant from the World Bank to carry out “a comprehensive human resource audit to uncover the current numbers, qualifications and remuneration levels of established, non-established and statutory bodies’ personnel.”<sup>5</sup>

Table 2: **Government Wages, 2005**

COUNTRY	PER CENT OF GDP	PER CENT OF CURRENT REVENUE	PER CENT OF TOTAL EXPENDITURE
Antigua and Barbuda	11	51	37
The Bahamas	--	--	--
Barbados	10	31	29
Belize	10	44	36
Dominica	13	40	33
Grenada	11	40	25
Guyana	--	--	--
Jamaica	11	38	31
St. Kitts-Nevis	14	38	32
St. Lucia	10	39	31
St. Vincent and the Grenadines	14	47	38
Trinidad and Tobago	5	14	17

Source: IMF Article IV Mission Reports

While 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 was historically attractive to qualified job-seekers because it offered stability, prospects for training, pensions and some benefits,

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<sup>5</sup> “World Bank visit bears fruit for Antigua.” Caribbean360.com, 26 October 2009. At <http://www.caribbean360.com/News/Caribbean/Stories/2009/10/26/NEWS0000009255.html>.

the 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 (Kitchen 1994). 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.

The 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 an undeniable critical shortage of skills in the technical, professional and managerial cadres. This impacts not only recurrent expenditure but also, perhaps more importantly, 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 economic growth. 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 (Collins and Warrington 1997). Additionally, given the importance of public-sector wages to the overall consumer spending in smaller economies, fiscal retrenchment threatens negative consequences for retail and other sectors of the economy.

### *2.2 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 (Baker 1992b, 17). A cruise ship terminal or an airport, for example, must meet some minimum standards in order to accommodate international carriers, and there is a limit to which such investments could be scaled down because of the small size of the country.

The limitation of scale economies combined with the weakness of the private sector, referred to above, also forces governments in small states to assume the 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 (Ocampo 2002). 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 (see Slusher and Blackman 2000).

### *2.3 The weak tax base and an over-reliance on border revenues cause chronic fiscal vulnerability*

Caribbean countries have open economies and 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/corporate income or property taxes. Indeed, some 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. Trade agreements – both intra- and extra-regional – have meant tariff reduction and the erosion of Customs revenue, ushering in a variety of consumption or sales taxes.<sup>6</sup>

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 (Ocampo 2002). These concessions are often the only way to attract much-needed foreign investment to create industries and stimulate non-public sector employment.<sup>7</sup> 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.

### *2.4 General capital constraints lead to high debt levels*

Following from the above, Baker (1992a) suggests that issues of smallness co-exist with general capital constraints and the array of problems confronting governments with low-income populations. In other words, it is often the case that small states – though classified as middle-income – also happen to be poor or highly indebted states. Many small states are among the most highly-indebted in the world. If a gov-

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<sup>6</sup> This explains the reservations towards trade liberalization and tariff reduction among Caribbean countries and the hasty attempts to reform tax systems by introducing sales or value-added taxes (VAT) and upgrading property taxes in recent years. Starting in the 1990s, several Caribbean countries introduced VAT systems to shift the tax burden to consumption given the size of the informal sector falling outside the income tax net.

<sup>7</sup> A recent news report from Jamaica suggests that the government loses over US\$ 150 million in revenues each year because of fiscal incentives of one form or another. *Jamaica Gleaner*, 20 October 2009.

ernment is unable to collect sufficient revenues to meet its operating costs and to finance investment in economic infrastructure and the delivery of basic services, it will have little choice but to borrow. But precisely because they are officially classified as middle-income, small countries have low sovereign-debt ratings and are forced to borrow from commercial lenders on less-than-favourable terms. Debt servicing and interest payments then become a major charge on the already fragile public revenues.

Medina 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 (Rajaram and Saha 2008). 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 has grown 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 and Tobago, the Bahamas, St. Vincent and the Grenadines and St. Lucia – have debt in the range of 28-72 per cent; the remaining 7 – Antigua and 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 – before the onset of the global financial and economic crisis in 2008/09. Debt levels have increased not only because of falling revenues but also because of rising expenditures: total current expenditures increased in all cases except Grenada while, as Table 1 above illustrates, capital expenditures also rose sharply in all countries except Jamaica (Sahay 2005).

Debt servicing absorbs a substantial portion of revenues in most countries, limiting fiscal space for infrastructure investment or social spending. It restricts the governments' ability to pursue pressing development needs by diverting 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 the private sector. Consider, for example, the stark case of Jamaica, which spends 56 cents of every dollar of public expenditure on debt repayment. Of the balance, nearly half goes to pay wages and salaries, leaving little for capital spending, such as upgrading infrastructure, or to adequately provide the rather limited range of services the government undertakes to deliver. Perversely,

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too, high debt in a poorly performing economy perpetuates the debt trap with consistent rollovers: borrowing to pay the debt that falls due.<sup>8</sup>

Table 3: **Public Debt as a Per cent of GDP, 2007**

COUNTRY	PUBLIC DEBT (% OF GDP)
Antigua and Barbuda	109.03
The Bahamas	38.80
Barbados	94.60
Belize	90.20
Dominica	111.17
Grenada	122.87
Guyana	99.08
Jamaica	128.10
St. Kitts-Nevis	182.92
St. Lucia	71.27
St. Vincent and the Grenadines	67.11
Trinidad and Tobago	28.31

Source: Caribbean Development Bank (2008)

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 to a narrow range of high-priority activities. Alternatively put, the public sector's mandate must match the available resource envelope (Greenidge 1997). 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 (...) 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 (International Monetary Fund 2007).

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

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<sup>8</sup> Editorial, *Jamaica Gleaner*, 9 April 2009.

undoubtedly all vitally necessary – are scarcely priorities for Caribbean governments just managing to keep their heads – and their countries – above water. It is 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 (see, for example, Sutton 2006).

*2.5 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, 51) 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 basic training. 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.<sup>9</sup> Releasing key officials to attend training abroad can produce a short-term crisis (Baker 1992b, 15); 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.<sup>10</sup> 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 were vacant during the early 1990s. The shortage of qualified applicants causes some high-level positions to be filled by inadequately qualified or inexperienced individuals (World Bank 1992). 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.

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<sup>9</sup> The Commonwealth Secretariat based in London has long been a key provider of critical expertise to its small member states, including the Caribbean.

<sup>10</sup> Baker (1992b, 16) makes the point that “in the case of small states, only a few brains need be drained before a serious systemic crisis occurs.” A recent report from the OECD on the characteristics of the populations 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.

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Table 4: Caribbean migration to the OECD, 1965-2000 (percentage of labour force, by level of schooling)

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

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 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 scientific, technical or managerial area essential for its development in a modern, globalized world.<sup>11</sup> 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 all at once. 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 large

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<sup>11</sup> This profoundly affects absorptive capacity and explains why many Commonwealth Caribbean countries are unable to make timely use of funds committed from international sources. For example, the region has the lowest disbursement rate for European Union funds among African, Caribbean and Pacific (ACP) countries.

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 previously argued, is the main driver of economic activity.<sup>12</sup>

*2.6 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 the annual GDP. 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 the Caribbean island of Grenada, respectively. Katrina caused considerable devastation in New Orleans, but it did not destroy the economy of the United States. 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. 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 had 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 economic and financial crisis and the twin crises of food and fuel prices that preceded it, can also have far-reaching effects on the quality of governance and institutional performance in small jurisdictions. Another major external threat is the use of the Caribbean region as a trans-shipment point for Colombian cocaine en route to the United States and Europe, along with the associated traffic in small arms. This has forced Caribbean governments to divert scarce

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<sup>12</sup> This also explains the lengthy delays in project completion and significant cost overruns in most jurisdictions. See, for example, the Report of the Commission of Inquiry into Certain Development Projects in St. Lucia, Government of St. Lucia, 6 May 2009.

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 will probably 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 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 more disastrous for small states when compared with larger countries, as small states will take longer to recover.

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 (1992b, 9) 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.

### **3. Caribbean Experience with Institutional Development and Reform**

Since institutional development and reform efforts focus primarily on building policy, implementation and regulatory capacity, as well as improving operational efficiency, institutional development interventions are potentially complex activities for which small states require substantial external assistance, both in terms of technical advice 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 (Caribbean Development Bank 2007; Commonwealth Secretariat 2007, 2008; World Bank 2001; UK-DFID 2007), 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 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 (e.g. under the Cabinet Secretary, as in the case of Jamaica) 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 institutional development. In other words, there is no priority attached to having strong public institutions 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, these have not been based on thorough needs assessments/analyses. 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 address the question of sequencing and scale of reform. It should also take account of lessons learnt from previous reform initiatives. A range of reforms have been undertaken in the past two decades in the absence of any evaluation or review of earlier initiatives (Khan 2008).
- 5) It is 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 (UK-DFID 2007). 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 capacity-building by way of 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 doubts about the viability of establishing national public-service training institutes and academies. Recent experience with Foreign Ministries in small Commonwealth states in the Caribbean has highlighted the dilemma facing these countries:

the small size of some departments means 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 (Commonwealth Secretariat, 2009).

- 7) A related issue is the need for a fundamental rethinking 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. Over-specialization 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 understudy the expert, 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 in a timely manner, if at all, 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, poor conditions of service 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 run, 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 (Commonwealth Secretariat 2007).

#### **4. Conclusion**

The available evidence and literature point 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 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 under 1.5 million. The development challenge facing small states is how to overcome these constraints, which speak directly to issues of institutional capacity. Weak institutions underlie and amplify the impact that other factors, such as economic shocks or natural hazards, can have on small states.

Why have so many evaluations 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 strong institutions; in light of the constraints affecting small states, political leaders perhaps have far more important and immediate 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 can be daunting enough without having to ponder the mysteries of institutional development.

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 in general and the public service in particular, 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. It should also reflect on lessons learnt from previous reforms.

Second, 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 start and end dates, and tend to be overly ambitious in terms of what they believe achievable within a politically-acceptable timeframe. But institutional development takes time and cannot be made to fit neatly into artificial timeframes.

This is perhaps why many donors do institutional strengthening instead. Institutional development and institutional strengthening are related but separate. The former 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. It includes the capacity to reflect systematically and rigorously upon its own role and functions, thereby enabling it to discharge its responsibilities. The capacity for continuous reinvention lies at the heart of institutional sustainability (Brown 1998). The latter, 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.

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While most donors set out to do institutional development, they often find that institutional strengthening is easier to achieve, making it the more common type of intervention.<sup>13</sup>

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.

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<sup>13</sup> It should be noted that a good institutional strengthening project can lay the foundation for proper institutional development.

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