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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL,
THE EUROPEAN PARLIAMENT AND THE EUROPEAN ECONOMIC AND
SOCIAL COMMITTEE**

**AN EU-CARIBBEAN PARTNERSHIP FOR GROWTH, STABILITY
AND DEVELOPMENT**

IMPACT ASSESSMENT

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IMPACT ASSESSMENT¹ ON EU STRATEGY FOR THE CARIBBEAN

1. INTRODUCTION

The EU and the Caribbean have a long-lasting relationship based on the legacy of history, common values, economic and trade cooperation and an important volume of trade exchange. The EU is very present in the region through the French DOMs² and the UK and Netherlands OCTs, and through privileged bilateral relations between individual Caribbean states and EU Member states.

The Caribbean is currently faced with a number of significant challenges and choices that will affect the region's future for many generations.

The specific natural characteristics of the Caribbean, a region made up of several small, mostly island, states, geographically dispersed over a large area, with small populations and few natural resources and notoriously prone to natural disasters make the region inherently vulnerable. With the advent of globalisation an entire way of life, constructed within small vulnerable economies based on a very limited number of commodities thriving largely because of protectionist arrangements, has come clearly under threat.

The Caribbean is a region at a junction. Bold initiatives are required if the region is to face the political, socio-economic and security challenges. There are concerns, including within the region, that the Caribbean may slip from Middle Income countries to Low Income countries if steps are not taken to reverse economic trends and to define national and regional strategies that will take fully into account the emerging global realities and addressing the opportunities ahead.

Regionalism has always been the Caribbean's response to the problems of smallness. In recent year regional thinking has shifted from an inward looking defensive integration process to a more expansive open approach to enhanced relations of the region with the wider Caribbean and Central and Latin America.

Most Caribbean countries have come to grips with the changing international situation and with the need to embark on structural reforms and economic transition from traditional sectors towards higher added value products and services. Several countries have embarked or are considering programmes in public sector reform, fiscal reform and macroeconomic stabilisation programmes. Economic diversification, enhanced competitiveness, the move to services and knowledge based economies are all required to generate and sustain growth and secure and build upon human development achievements in the region.

EU – Caribbean relations have suffered through a combination of factors, conflicting and shifting international priorities and demands on both sides, the changing conditions surrounding commodities of interest to the region including sugar, bananas, rice and rum and difficulties in the implementation of aid. This EU strategy for the Caribbean should form the basis for a renewed and enhanced partnership reinforced by the basic principles that have

¹ On the basis of SEC (2005) 791 of 15. June 2005 (Impact Assessment Guidelines)

² "Départements d' Outre-Mer". In the Caribbean, France has 3 DOMs, namely Guadeloupe, French Guyana and Martinique. As Outermost Regions, the DOMs form an integral part of the EU.

traditionally governed our relationship, most prominently *equality, partnership and ownership*.

In the context of the adoption of the new EU Development policy “*The European Consensus*” and the discussions on the post 9th EDF process, the Commission is in the course of reviewing and redefining its development policies in the ACP, which has led to the new Communication on the future relations of EU and the Caribbean. This impact assessment evaluates the impact on the Caribbean of an EU policy, which focuses on the importance of supporting the region in dealing with its vulnerabilities, on the completion of the regional integration process and the repositioning of the region as a high potential added value region.

In preparing its proposal for an EU Strategy for the Caribbean, the Commission has sought a broad consensus among all stakeholders. Part of this process involved consultations within an internal DG Dev working group, meetings with selected DG’s, as well as broader informal consultations with all relevant departments. These consultations have ensured that there is broad Commission support for the policies and strategies outlined in the Communication.

To ensure that the policies and strategies outlined in the EU Strategy for the Caribbean are in line with the needs and priorities of the Caribbean organisations, and to strengthen the sense of ownership in the development process, the Commission also conducted broad consultations with Caribbean stakeholders. Their comments have been very useful in the development of the Strategy and have been integrated in the final version of the text. Furthermore, consultations with the EU member states were conducted in December 2005.

2. PROBLEM DEFINITION

Most of the Caribbean States are struggling against a series of natural, economic and social vulnerabilities. Underlying this trend are important productivity and competitiveness problems. Since the 1970s, the average growth in the region has been slowing down in each decade, the productivity between the 1980s and 1990s has declined and there has been a build-up of debt in most Caribbean countries.

In line with the other international donors, the trade and aid mix of the European Commission’s policy perhaps has not sufficiently taken into consideration the need to improve competition and diversification

The EPA negotiations with the Caribbean regional authorities were launched in April 2004. Much of the region still depends on a limited number of commodities. The implementation of our cooperation in the Caribbean tends to be project based, partly as a result of many different instruments and funding sources. Moreover, traditional development cooperation projects have progressed at a less than optimal pace for a variety of reasons.

Therefore, there is a need for a streamlined and coordinated European Union development support strategy for the region. Taking into account that most of the problems in the Caribbean stem from a large spectrum of vulnerabilities and the yet incomplete regional integration there is a clear added value for an increased EU intervention as compared to the sole action of the individual EU Member States.

Objectives

The main policy objectives of this EU development support Strategy for the Caribbean are (i) To ensure that the EU supports the efforts of the Caribbean countries to tackle their vulnerabilities, complete their regional integration process and reposition themselves as a high potential added value region and (ii) To contribute to the creation of a single coherent and comprehensive EU development support policy towards the Caribbean.

These objectives are primarily aimed at achieving the overall objective of meeting the MDGs in the region, in line with existing agreements and policies, more specifically, the Cotonou Agreement as well as the recently introduced “European Consensus” on the European Union Development Policy. The latter is a reaffirmation of EU commitment to poverty eradication, ownership, partnership and aid efficiency, which also apply for EU co-operation with the Caribbean.

In more specific terms, this means that the EU in its relation with the Caribbean will focus on contributing positively to the region’s efforts to improve its socio-economic situation and competitiveness by focussing on a set of specific sectors.

2.1. Regional integration

In this context EU supports the Caribbean in strengthening its existing regional institutions as well as furthering the Caribbean Single Market and Economy (CSME). Growing regionalism will enable the region to better harness the globalisation process and generate growth, especially when combined with a successfully negotiated EPA, which allows the region to maintain and even improve its access to the EU market.

2.2. Tackling vulnerabilities and enhancing competitiveness

Disaster Management It is vital to support the region’s own initiatives in the area of disaster preparedness, early warning and mitigation which together with reconstruction and rehabilitation will have an invaluable socio-economic and environmental impact just as it protects one of the region’s most promising sources of income, tourism.

Improvement of connectivity infrastructure. Transport problems related to the insular characteristics of the region correspond to a major vulnerability in the region and result into a loss of productivity and competitiveness.

Drugs and crime is another issue in which the region is in urgent need of assistance in particular in order to create appropriate prison and penalty reforms, to establish rehabilitation programmes and facilities as well as for cross-border co-operation and actions aimed at reducing drug consumption and drug related activities.

In the sector of Public health & HIV/AIDS the Caribbean would benefit from guidance and support from the EU in dealing with the increasing number of lifestyle related epidemics such as diabetes, cardio-vascular diseases, cancer and not at least, HIV/AIDS which has reached an alarmingly high level of occurrence.

Environment Bearing in mind recent years high occurrence in natural disasters the issue of environment is an area in which the region should receive increased support in order to structurally deal with environmental challenges such as hurricanes, deforestation, floods, fragile coast lines and climate changes.

Macroeconomic stability being influential for generating economic growth and advancing the region's development is an area in which contributions to the region's efforts as reforming fiscal policies and optimising revenues should be given.

Diversification of economies By moving away from the commodity-based economy, which for years has been characteristic for the Caribbean economy and inherently made it particular vulnerable to weather, policy and economic shocks, the region will be better suited at harnessing the globalisation process and move forward.

An effort to *strengthen human resources* is another strategic area in which EU's support and expertise could be valuable. The region's ability to reposition itself and modernise its economy does to a great extent depend on its capability to adjust to globalisation and to move away from its dependence on commodities exploring new and diverse growth areas for instance in information and communication technologies (ICTs).

2.3. Political dialogue

As the Caribbean region is increasingly engaged into the process of reform in order to better adjust to the needs of diversification and competitiveness the EU needs to intensify the policy dimension of the cooperation.

3. POLICY OPTIONS

In terms of considering the best option for meeting the outlined objectives and handling the problems of vulnerability of the Caribbean, the Commission assessed two basic policy lines.

In the first option, the baseline (or 'no policy change') scenario is a non-option in the light of previous ACP-EU co-operation based on project aid and trade preferences.

A second option would be to refocus the EU development cooperation on assisting the Caribbean in tackling their vulnerabilities, improve their governance and accelerate and deepen their regional integration process. In order for the Caribbean to achieve the MDGs by the target year of 2015 and to reach the ambition of some of the countries to join the ranks of the developed states by 2020, optimum use must be made of all available resources utilised on a policy based and political dialogue driven development cooperation.

4. COMPARING THE OPTIONS

In the process of globalisation, the opening up of the world economy and increasing competition the first policy option which was tried in the past did not yield any significant impact in these countries in terms of competitiveness. Continuation of the same policy would probably result in further delaying the diversification of the economies in the Caribbean and a further loss in competitiveness.

In defiance of each of their advantages and disadvantages, the second policy option offers the most proportional and effective approach to the issue as it in contrast to the other policy options put the region back in the limelight of EU development cooperation and apt for supporting the Caribbean's efforts in achieving its stated ambition to join the category of developed states by 2020, coinciding with the end of the Cotonou Agreement.

5. POTENTIAL IMPACTS OF THE PROPOSED EUROPEAN UNION STRATEGY FOR THE CARIBBEAN

5.1. Summary description of the proposal

As stated previously, the overall development objective of the strategy is to ensure that the EU supports the efforts of the Caribbean countries to tackle their vulnerabilities, improve their governance, complete their regional integration process and tap into their potential to increase their added value spectrum of services and goods available in the region. Another objective of the strategy is to contribute to the creation of a single coherent and comprehensive EU development support policy towards the Caribbean, underpinned by the 2015 Millennium Development Goals.

5.2. Political impact

By addressing major concerns and operating at various levels, interregional and Caribbean-EU, the political dialogue will strengthen the regional development policy and positively influence the economic and social agenda.

The appearance of EU as a strong actor in international development co-operation will have a positive impact on EU's overall role in international affairs setting European priorities and values on the international agenda. Conducting and nurturing a consequent political dialogue can also be seen as a strategic move by the Caribbean in order to create a strong political partnership with Europe, which not only provide the region with a competent co-operation partner, but also positions the region far better on the international scene. In this respect, it is among others, expected that the political dialogue will also reinforce the relations of the Caribbean with the Latin American countries.

Cooperation priorities with **Cuba** may entail the encouragement of economic modernization, by giving full attention to the need for a socially balanced and sustainable long term development process of which the promotion of democracy and rule of law as well as the respect for fundamental freedoms are intrinsic and key elements.

At institutional intra-region level, the political dialogue with all the major regional organisations as well as with the bigger countries in the region such as Barbados, Dominican Republic, Jamaica and Trinidad & Tobago will help better fine tune the main economic and trade aspects of the policy strategy of the EU towards the Caribbean. Political Dialogue with the Organisation of the Eastern Caribbean could help address some of the major vulnerabilities that stand in their way to sustainable development. It could also help in shaping up a regional development policy that does away with a compensation based mentality and is based upon improving the competitiveness and social justice of the region. In countries like Guyana, Dominican Republic and Suriname, the political dialogue can help further enhance their institutions, stabilise the countries and support them in achieving their development target.

5.3. Economic impact

A key element of the strategy is to strengthen existing regional institutions and induce trade integration in order to achieve the internal market and smooth out its operations, making it size-wise more competitive than the domestic markets of the small individual member states.

The integration process will help correct the structural imbalances between the more developed states and the least developed states in the region.

Moreover, the integration, standardization and tax harmonization of the Caribbean market is likely to attract more foreign investments than it has been the case earlier. An accelerated implementation of the CSME, backed by improvements in the investment climate for instance by enhancing the quality of education and training, will make the Caribbean a more attractive investment destination. In order to fully benefit from the CSME trade agenda, tariff liberalization has impact on both revenue as well as production in some countries and industries, but should also be supported by an improved system of domestic tax. The combination of an increased market size and an improved investment climate would not only induce foreign direct investment (FDI), but with the introduction of free movement of labor within the region also offer a valuable contribution to employment creation.

FDI policies needs to become an integral part of the region's overall industrial policy ensuring equal terms for investors, foreign as well as local in addition to creating links between local and foreign companies. These policies have to be supplemented by investments in human capital and an infrastructural modernisation.

By identifying alternative sources of growth and spreading out the production base to various and more complex sources of growth the Caribbean economies will be more competitive and less vulnerable to weather, market and policy shock. Diversification of commodity-based economies and the exploration of new and more advanced growth sectors covering a broad spectrum of services being ICT-enabled products and services, higher-end tourism, off-shore education, health care and medical rehabilitation, will all have a positive impact on the future development of the region. This in turn will have a positive incidence on skill levels and the quality of human resources. Upgrading its education and training as well as the use of ICTs, are important means upon which the Caribbean will be able to improve productivity and competitiveness and create its own niche sectors.

Overall, the Caribbean trade integration will not only have a significant impact within the region, but as an added value to EU's development policy as European investors will profit from a strengthened and fairly unexplored market with immense potential and hidden opportunities.

The conclusion of the EPA process will contribute to consolidating and deepening the regional integration process and the establishment of CSME. The trade reforms brought about by the EPAs will help the much needed opening of the market creating a stable, transparent and predictable investment climate with common rules favorable to investors. An increase in trade flows will promote sustainable development and enable the Caribbean to deal with its vulnerabilities in an efficient and consistent manner, and it is therefore imperative that the EU vis-à-vis its strategy, support and encourage the Caribbean in the EPA integration and that the region; Caribbean ACP states, OCTs and DOMs alike work together in order to establish a genuine and strong co-operation partnership.

5.4. Social impact

The increase of productivity and the improvement of competitiveness will contribute in solving the problems related to unemployment and migration and brain/skills drain. Increased emphasis on handling the issue of migration can prove to have a considerable impact on Europe.

The region's high unemployment rates bring along severe problems with drugs and crime, which despite of several attempts not yet have been tackled sufficiently. Drawing on its experience the EU can prove to be a valuable counterpart to the countries' struggle to combat drugs-related crime and diminish side-effects such as money laundering. Such actions will have cross-border implications in the sense they will improve their intra-regional coordination to prevent the drugs-related crime throughout the region.

By encouraging and supporting the Caribbean in dealing with lifestyle related epidemics and the relatively high occurrence of HIV/AIDS, the strategy will not only have an impact on people's daily lives, but also prevent that these conditions negatively influence the growth sector. Experience has shown that by setting up measures to improve and invest in the public health sector focusing on health care as well as measures of prevention there will be a diminish of the number of lifestyle related epidemics and HIV/AIDS creating better conditions for the labor market, investments and GDP growth.

5.5. Environmental impact

The Caribbean countries benefit from a beautiful environment, which contribute to pleasant living conditions for the local population and attracts a significant numbers of tourists. Nevertheless, the region being very prone to disasters calls for major actions in terms of dealing with disasters and other environmental fragilities.

The EU strategy underlines the importance of addressing and supporting initiatives of disaster management and to create measures of disaster risk reduction i.e. preparedness, early warning and mitigation. These measures play an important role both in relation to safeguarding the local population, but also in order to protect and ensure sustainability for the Caribbean's potential sources of income such as tourism and FDI. Without any concrete and focused policy on disaster management the Caribbean is in the danger of remaining vulnerable both economically and socially.

Assisting the Caribbean in setting up measures for dealing with its environmental fragilities such as deforestation and erosion, protection of fragile coastlines, treatment of wastes, freshwater resources and climate changes can have a decisive impact on the sustainability of the local as well as global environment.

5.6. Concluding remarks on the impact of the strategy

Supported by the EU and by stepping up to the challenge, the Caribbean can, with its relatively high level of education, a majority of democratic rule, its natural beauty and its geographical location, take advantage of the existing opportunities, embrace higher levels of growth and reposition itself as a modern and higher added value region.

Overall, regional integration and growth could help reduce unemployment, poverty, diminish crime and migration rates and provide governments with the fiscal space to set up frameworks for better dealing with natural disasters.

In the larger perspective, the EU strategy for Caribbean will, if successfully implemented, have a positive impact on Europe in a number of areas. The EU has, just as much to its own benefit, contributed to the creation of sound and stable states, characterised by growth and security, higher social standards, respect of human rights and a commitment to take good care

of their environment. Moreover it will have made of the Caribbean states, 15 countries which share the same values as the EU, vital allies in the different international fora.

6. MONITORING AND EVALUATION

In order to ensure that EU action proposed (a) is in line with the priorities and policies outlined in the Strategy and summarised in this document and (b) achieves the overarching policy objectives by successfully addressing the problems outlined in the beginning of this document, the Commission proposes a dual process of regular **monitoring and evaluation** of progress on (a) individual measures taken in the context of the EU strategy for Caribbean (e.g. tackling the region's main vulnerabilities and furthering the integration process) and (b) the EU's ongoing work to support the achievement of the MDGs and its financial commitments given on the financial targets agreed at Monterrey and Barcelona:

(1) Regarding the overall progress towards achieving the MDGs, the council (GAERC, May 2005) invited the Commission to monitor and regularly report on the implementation of these EU commitments on the MDGs, including annual reports on the follow-up of the EU commitments on financing and on the effectiveness of aid and a biennial report on policy coherence for development.

(2) For the **Financing for Development process** (Monterrey and Barcelona commitments) the monitoring framework established in 2002 should be pursued. The Council mandated the Commission to report annually on the rate of implementation of the EU commitments³ and to propose corrective measure wherever no sufficient progress is demonstrated. Based on *annual surveys in the form of questionnaire to the Member States* the Commission is monitoring progress on implementation of the "Barcelona commitments". This monitoring exercise is a good opportunity for collective benchmarking and ensures transparency in the action taken by the Union. The first monitoring report in 2003⁴ fed into the preparations for the first UN High-level FtD in October 2003⁵, while the 2004 report⁶ focused on the coordination of policies and harmonisation of procedures.

Timely and accurate statistics/indicators are key for the impact assessment of the EU strategy for the Caribbean. Actions to strengthen the capacity of these systems should be drawn up in case of data gaps or deficiencies impeding performance measuring of the policies subject of EC external assistance.

³ Conclusions adopted by the General Affairs and External Relations Councils in November 2002 and May 2003 respectively.

⁴ SEC (2003) 569 of 15.05.2003

⁵ Commission Staff Working Document "Follow-up to the International Conference on Financing for Development (Monterrey – 2002) – Monitoring the Barcelona Commitments" SEC(2003) 56.

15.05.2003; Conclusions of the GAER Council of 20.05.2003, document 9379/03 (Presse 138) p. 20

⁶ Communication from the Commission to the Council and the European Parliament, "Translating the Monterrey consensus into practice: the contribution by the European Union" COM (2004) 150 final of 05.03.2004; Conclusions of the GAER Council of 29.04.2004; Council Doc. 8973/04 of 29.04.2004.