Is the Institutional Capacity of Small Island Developing States Being Overwhelmed by Globalization?

By Wesley G. Hughes, Christine Clarke & Sophia Whyte-Givans

The state’s ability to fulfil its roles and functions is a reflection of its institutional capacity. Small island developing states (SIDS) in the Caribbean are challenged to navigate both natural and manmade risks in order to protect its capital investments and build resilience in a global world. To even attempt such a feat assumes that the state is capable of achieving these broad goals. SIDS are, therefore, expected to function as modern states which are clear on their roles and functions and, more importantly, have the capacity to effectively and efficiently deliver the goods and services that are concomitant with these understood and accepted roles and functions.

A paradox is implicit in this situation: the current roles and functions are incompatible with the present structures which have not evolved sufficiently to deal with current problems (issues). It is a matter of survival that SIDS assess their present institutional capacity in the context of globalization. This imperative is made even more urgent given the present conundrum in which the state finds itself. The failure of the state to deliver what the population needs has reduced its credibility. An assessment of state capacity is, therefore, an imperative. Linked to this assessment must be dialogue and sensitization of the citizenry so that all parties are cognizant of what the state is really capable of doing.

The hurricane season 2008 has demonstrated varying levels of state capacity to respond to natural disasters: Cuba, Jamaica and Haiti reflect varying levels along the capacity continuum, from capable to partially capable to incapable states. These three states also demonstrate the role of an understanding between the state and the citizenry as to each party’s responsibility in facilitating institutional capacity.

Key words: state, institutional capacity, small island developing states (SIDS), role, functions, globalization.

(282 words)
INTRODUCTION

The World Bank’s World Development Report (1997), *The State In A Changing World* articulated the need for the state’s institutions to work better based on a strategic review of countries all over the world. The Report reiterated that the ultimate goal of the state is to enhance human welfare.\(^1\) Even with this assertion, the Report acknowledged that the state cannot achieve this without the necessary work to increase state capability. State capability is defined as the *ability to undertake and promote collective actions efficiently*\(^2\) or to execute its functions efficiently. While this paper focuses on capacity, capability and capacity are intricately linked. The former speaks to what can be done by the state – the ability to do – and the latter speaks to how effectively the state does what it sets out to do – competence.

The World Development Report (WDR) advanced a two-part strategy for increasing state capability:\(^3\):

1. match the state’s role to its capability – what can the state do very well?

2. raise state capability by reinvigorating public institutions – what is required to make these institutions more competitive, productive and efficient and what are the checks and balances that need to be put in place to ensure that these institutions operate how they should?

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2 World Bank 1997: 3.
These two approaches ensure that the state does what it can (capability) and does it competently (capacity). States should focus on leveraging their existing capability whilst simultaneously addressing capacity constraints. “The pathway to greater effectiveness leads, first, to focusing on fundamental tasks and leveraging the state’s limited capability through partnerships with the business community and civil society.”

Secondly, the state must know when to go beyond the basics and determine how best to effect provision given its limitations which it must know and clearly outline to citizens.

This paper looks at: why the state isn’t getting it right; what the state should or ought to provide; and whether or not globalization is undermining the state’s institutional capacity to deliver. Case studies of three SIDS are used to demonstrate varying levels of institutional capacity. Lessons are extracted from these case studies.

STATE DECISION THEORY: WHAT SHOULD THE STATE PROVIDE?

The fundamental responsibility of the state is to establish and enforce the rule of law with a view to protecting rights, the vulnerable and the environment by investing in basic social services and infrastructure and minimizing the distortions introduced in the policy environment, through emphasis on maintaining macroeconomic stability. Although the state is responsible, it may choose to delegate the actual provision of these goods and services. Private provision can increase the benefits since the private sector is often able to introduce and leverage technological advancements for both efficiency and cost

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4 World Bank 1997: 3.
effectiveness. The private sector can therefore add value to the publicly provided goods and leverage them for greater productivity and competitiveness. The success of this outsourcing, however, is limited to the capacity of the state to monitor and regulate private provision.

In fact, the WDR 1997 found that states that under-perform in their core functions are perceived by local entrepreneurs/investors as lacking credibility which reduces the capacity for growth since low credibility dampens investment. States typically under-perform when they overextend themselves by not prioritizing given their circumstances. This is because state over-extension – when a state does not recognize its limit and attempts to provide beyond its capacity – results in the dissipation or weakening of capability.

It is potentially more damaging to the state when it accepts responsibilities and indicates commitments, however tentative, that are not fulfilled. Unrealized expectations: reduce the credibility of the state, reduce faith in the integrity of the state and severely limits the extent to which the state can maintain and build the social capital on which national development and social cohesion is predicated. Jamaica, for example, has had several five and ten year plans since the 1950s and an industrial policy in 1996 with many of the intended outcomes yet to be achieved. Plans such as the World Bank’s 1952 Report #11137, The Economic Development of Jamaica set out the measures needed to be taken to improve standard of living and achieve growth.

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7 World Bank 1997: 5.
Although all the plans identify the problems and the solutions, they have not been achieved. This reiterates that there is a substantial distinction between what the state ought to do and what the state can do given its human resource, technological and financial constraints. Largely, the reason for the low level of accomplishments can be attributed to weak institutional capacity which overemphasizes politics and operational issues at the expense of strategy. What is required, then, in most SIDS, is a strategic policy review with the aim of “reinvigorating institutional capability.”

In 2007, the Cabinet Office of the Government of the United Kingdom initiated a policy review on the role of the state. This policy review is instrumental for small island developing states (SIDS) such as Jamaica because it dismisses the argument of state capacity being entirely a function of the physical size of the state and, instead, requires the state to continuously revise its strategic purpose of aligning its roles to current and emerging conditions and constraints. In this approach, the state operates as a means to the end of citizen security whilst not being the end in itself.

The state should, therefore, focus on the outcomes (or the ends) and remain disentangled, as far as is possible from the process (or the means). Each state has to find the right balance between the state as observer, the state as participant and the state as participant-observer. This intricate balance is independent of the size of the state but dependent on capacity and resources of the state and the private sector, thereby posing a larger

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challenge for SIDS where private sector capacity is largely only indirectly affected by the state.

This approach also requires and widens the opportunities to engage and empower citizens to hold public institutions accountable and ensures that citizens fulfil their responsibility to the state\textsuperscript{10}. In this wave of globalization where citizen demands are increasingly influenced by external events and the achievement of other states, it is particularly important for the state to clearly articulate the roles it has assumed and accepted but it must also make sufficient progress towards their accomplishment. Given the hesitancy of citizens to bear this responsibility, the state often has to make special efforts to entreat their involvement when roles are being defined. This is crucial and when overlooked results in a mismatch between state capacity and citizen expectations. As a result, expectations are unmet and the state loses credibility where expectations and demands by the citizenry are unmet by the state. By involving citizens at the outset, the state obviates these contentions.

The state should uphold rule of law to ensure citizen security and safety. It does this by ensuring the provision of basic public goods such as education, health care, road infrastructure, water and electricity which are proven keys to sustainable development as they facilitate economic growth and human development. Ensuring provision enables the state to outsource provision to private providers whilst it monitors, regulates and imputes sanctions when breaches occur. The price of the publicly offered goods is often a

political issue and depends heavily on the financial resources and borrowing capacity of the state.¹¹

Effectively, the debate on the final price to consumers depends on the state’s capacity to offer a subsidy which ultimately is a question of the quality of the good being provided. Since provision of a service requires inputs, the cost of these inputs has to be recovered somehow either through fees at the point of delivery or through taxes. If taxes are inadequate, eventually, so will the service being provided. On the other hand, if fees are prohibitive access is denied and possibly social and human development is compromised. These tradeoffs and the effect of one decision on other areas must be shared with citizens in order to facilitate better decision-making processes and realignment of expectations with capacity. In doing this, the state is able to play a larger, and possibly more important, role in defending citizen security as a “…partner, catalyst and facilitator…” rather than “…central to economic and social development…”¹²

Some states have decided to engage citizens in a social contract because it outlines what each party will do, consistent with what each party can do, and facilitates better governance and accountability. *The state agrees to provide these few things, and provide them excellently, and the citizenry or private sector, will provide the rest.* This allows the state to strategize as to where it needs to re-build its capacity to address emerging concerns and maintain its credibility to facilitate any changes required to transition to

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¹¹ There are well established arguments for example for free basic tuition and primary health care with user and other fees being charged for secondary and tertiary education and health care. Historical, cultural and other reasons, however, are likely to influence these policies more heavily than the economic justifications. Additionally, there are moral hazard issues to contend with when the

meeting the demands of the future. In order for the state to successfully secure citizens and their rights, it must empower them to accept their responsibilities in their roles as individual actors and in their private sector pursuits. In providing an enabling environment for the private sector it will need to install mechanisms to regulate and ensure compliance with established rules and standards and provide information to citizens. It must set clear rules for the behaviour of both state and private sector agents.\(^\text{13}\)

**Why can’t the state get it right?**

*An effective state is vital for the provision of the goods and services – and the rules and the institutions – that allow markets to flourish and people to lead healthier, happier lives. Without it, sustainable development, both economic and social, is impossible.*\(^\text{14}\)

States lose credibility when they fail to deliver on their commitments. If these failures persist, the situation often deteriorates into a vicious cycle where citizens’ support for the state declines. Tabellini (2004), in his discussion of the role of the state in economic development, argues that a state’s success or failure in achieving a certain standard of economic development is not necessarily a function of its reported accomplishments but rather of the existence of the “basic institutional and legal infrastructures that protect property rights, enforce the rule of law and prevent abuse by government.”\(^\text{15}\) It is, then, more a question of whether SIDS can create that environment to stave off the vicious cycle given their institutional capacity. Those with a better institutional environment have

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\(^{14}\) World Bank 1997: 1.

a much higher level of labour and total factor productivity than those without this environment.\textsuperscript{16}

Acemoglu \textit{et al.} (2001, 2004) found that “… colonies that were exploited for extractive purposes never developed adequate institutional infrastructures, while those that were settled by European colonizers developed much better institutions that persisted after independence.”\textsuperscript{17} The authors also blame low and volatile growth performance on colonial history because of the lack of interest in developing strong political institutions that would pursue stable macroeconomic policies.\textsuperscript{18} Restoring or building institutional capacity is, therefore, a priority in Caribbean SIDS \textit{ex post}, if these economies are to emerge from the quagmire of low growth given their colonial past.

In contrast, arguments can be made that globalization would have facilitated more substantial development in SIDS if their institutional infrastructure was adequate. The problem therefore lies with the political architecture and institutions which have not identified the appropriate strategy necessary to guide decision making. Given that this political architecture and the institutional framework is, for the most part, part of their colonial legacy helps to explain the variations in strategies that are pursued and their consequent impacts.

\textbf{CARIBBEAN SIDS AND NATURAL DISASTERS}

\textsuperscript{16} Hall and Jones (1999) In Tabellini 2004: 2.  
\textsuperscript{17} Tabellini 2004: 3.  
Hazards and natural disasters present an interesting area in which state capacity can be reviewed given the implications for citizen security. The examples of Cuba, Jamaica and Haiti are used to show varying levels of institutional capacity and varying levels of citizen responsibility. As SIDS, the Caribbean islands are relatively vulnerable to hazards. Hydrometerological disasters pose a particular threat to the developments around the coast that tend to be areas where major economic activity and development are located. The region is also subject to earthquakes and volcanic activity.

According to the World Bank Hazard Management Unit (2005), when assessed by land area, Jamaica and Cuba rank in the top 60 for the risk of two or more hazards. Forty percent of Jamaica’s landmass is at risk of three or more hazards with an accompanying mortality risk for 58.8 per cent of the population in the affected area. In contrast, 8.5 per cent of the population on 3.5% of Cuba’s landmass is at risk of death in the event of three or more hazards. In Haiti, 93.4 per cent of its total area is at risk for two or more hazards with an associated 96.5 per cent of the population in the affected area at high mortality risk. In comparison, 87 per cent of Cuba’s landmass is at risk for two or more hazards with 78 percent of the relevant population at risk. For Jamaica, the numbers fall to 40.5 percent of the land mass and 58.8 percent of the relevant population.

Cuba, Jamaica and Haiti are particularly impacted by hydro-meteorological hazards which present threats of varying intensity at a local and national level. The environmental resource-wealth typically resident in SIDS is vulnerable to hydroevents, in particular, which can have substantial socioeconomic impacts, such as on tourism and agriculture,
which depend heavily on the land, and potential for loss of life. Paradoxically, some parts of the ecosystem are renewed only in the wake of extreme weather events (Meehl et al 2000) and some economic sectors such as retail receive a windfall when there are record temperatures or there is moderate destruction.

The impact of these events, however, is dependent on both state policy and human activity; therefore, a society’s vulnerability can be controlled through informed choice. Additionally, the impact of weather events is not equal across sectors or subsectors. Local labour markets can also be dislocated due to hydroevents which may cut off residential from commercial areas causing a reduction in economic activity. Displaced workers often relocate to areas where they do not have a social network and are therefore less likely to access employment. Non-returners have been found to do substantially worse that those who return (McIntosh (2008) and Groen and Polivka (2008)).

Underinvestment in infrastructure can increase or intensify the impact of hydroevents. Building designs should be done to withstand hydro and wind damage in order to minimize post-recovery displacement and loss. Regional civil engineering experts have estimated that spending 1% of a structure’s value on hazard proofing measures can reduce the probable maximum loss from hurricanes by, on average, one-third.

Haiti was the first country in the Caribbean to gain emancipation and was the second independent state in the Americas. Unfortunately, Haiti never recovered from its own revolution. The cost of emancipation was economic devastation through lack of
maintenance and persistent conflict. Dictator rule has, largely, characterized the political leadership of the country, each overturned by coup-d’états and insurrections. This method of governance jeopardized the development of strong institutions and capacity to advance the development of the country. Despite some American intervention in the building of key infrastructure, the formation and sustenance of institutions in Haiti that would promote the development of the society has been lacking.

Cuba was developed as a Spanish colony but after a revolution in 1895, the United States played a variety of roles in the development and governance of the island until 1934, despite emancipation in 1886 and independence in 1898\textsuperscript{19}. During this period, the US developed Cuba to mirror their country to such an extent that sections of Cuba resemble parts of Florida. This prompted a coup by Fidel Castro in 1959; a dictatorship was installed that remains until 2009. Following this revolution, President Castro adopted a socialist approach in the operations of the country which required adequate information and control systems to facilitate the rule of the state. Institutions and their capacity to provide basic social services were essential to the credibility of the Castro government.

Jamaica’s development falls between that of Haiti and Cuba. Currently, the country is very integrated in the world economy by virtue of the fact that the local economy that developed to supply the British economy with sugar, bananas, citrus and root crops. Jamaica has largely preserved its infrastructure and natural capital in contrast to Haiti which has been eroded and deforested, partly as a response to abject poverty. However,

\textsuperscript{19} The Platt Amendment 1901 made the island a US protectorate until 1934 (Ashdown and Humphreys 1993).
in comparison with Cuba, the citizen’s response to impending natural disasters is disorganized and citizens are reluctant to leave their possessions behind.

The Cuban Civil Defence System – Strong Institutional Capacity for Response
In response to thousands of casualties from Hurricane Flora in 1963, the Cuban state instituted the Civil Defense System which provides for disaster preparedness teaching in the island’s education system and sustenance throughout the natural disaster. It has been accredited with creating a culture of prevention, protection and collective recuperation in
Cuba. There is an annual 2-day hurricane drill called the Meteoro. The state has taken on the responsibility of protecting citizens.

Regardless of the political differences and preferences, the system has protected the lives of its people. It has clearly taken the defence of its citizens from whatever threat very seriously. The control system that characterizes the state, and which many claim represents the repression of the citizens, works to the benefit of the populace in the context of hurricanes. These systems facilitate evacuation operations.

During Hurricane Ivan of 2004, reports are that the CDS evacuated 2 million people and there were no deaths or serious injuries. However, these hurricanes often leave considerable damage to the island’s housing infrastructure in their wake. The CDS precedes each hurricane season with a meeting to review the impact of the past season and to plan for the upcoming one.

Jamaica’s Office of Disaster Preparedness and Emergency Management (ODPEM)

– Medium Institutional Capacity for Response

The Office of Disaster Preparedness and Emergency Management (ODPEM)\(^\text{20}\) was established in July 1980 operated based on the National Disaster Plan. ODPEM is responsible for the coordination and activation of the emergency plan in the event of a

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\(^{20}\) The name was originally Office of Disaster Preparedness and Emergency Relief Coordination (ODIPERC) until 1993 when it became ODPEM as stipulated by Section 15 of the Disaster Preparedness and Emergency Management Act.
threatening, imminent or actual disaster. At the local level, there are National Disaster Committees, parish committees and emergency services that support the national body. In the event of a threat, the director of the agency advises the Prime Minister and Minister of local government on the status of the threat and the preparations being made; advisories are issued to citizens on a regular basis.

Hurricane Gilbert, which struck on September 12, 1988, was the first major test to the system. Gilbert left 810,000 citizens homeless, after pounding the island with winds of more than 140 miles per hour. Approximately 40% of the housing stock was badly damaged. Agricultural crops were completely lost; electricity supplies were severely disrupted and many buildings were in a state of disrepair.

Despite the capacity of the ODPEM, the UNDP was instrumental in the recovery efforts by coordinating relief efforts with donors and international responses to the disaster.

**Haiti – Weak Institutional Capacity to Respond**

Haiti’s capacity to respond to disaster is limited by the weakness of its institutions and underinvestment in infrastructure that would facilitate evacuation. The decline of the Haitian economy has limited the prosperity of its citizens. There has been significant deforestation of the countryside which leads to substantial erosion during hydroevents which result in catastrophic landslides that flood homes and schools. Flash floods wreak havoc and cause more deaths than hurricanes due to the intensity of the associated land
slippages. The same 1963 Hurricane Flora which killed more than 1000 people in Cuba and inspired the development of the Cuban Civil Defense System also killed more than 8000 people in Haiti without any positive impact on Haitian disaster preparedness and prevention capabilities. Zoning restrictions, if they exist, are not enforced, and settlements in which a large portion of the poor live develop on sharply sloping and shifting soil which wash down to the flat, coastal areas where the rest of the poor reside.

As a result, hazards are largely events from which the population recovers. The infrastructure that exists is not protected from the destruction and, therefore, cannot serve as shelters during the event. The generosity of international agencies and NGOs such as UNICEF and Oxfam is largely the source of the recovery efforts and very rarely is this recovery complete. Because of the failure of the state, services that are usually provided by the state such as sanitation; garbage collection and education are completely privately supplied and, therefore, underprovided.

The examples of Cuba, Jamaica and Haiti show varying levels of institutional capacity. Both Jamaica and Cuba have the capability to respond but Cuba’s capacity is much better as the state can respond effectively and pre-emptively without the support of the international community. Haiti cannot even respond as the physical infrastructure does not even exist to provide shelter. Consequently, not only is there significant loss of life but there is also further destruction of already weak and almost non-existent infrastructure.
The major difference between Cuba and Jamaica is the enforcement of zoning laws. People do not live where they are not supposed to live and when people are told to evacuate, they do so because of the credibility of the state. In Jamaica, this is not the case. Cuba, therefore, has a better understanding between citizenry and the state as to roles. The state will evacuate you and you will leave when told to be evacuated. Haiti’s circumstance is not even comparable as citizens really do not have much choice given the poor housing infrastructure that exists, especially among the most vulnerable, to natural disasters. This is why loss of life in Haiti is so great, in comparison to Cuba and Jamaica. It is not even a question of the citizenry not understanding its role: the state has failed the citizenry. There is neither the capability nor the capacity to provide security for the vulnerable in the event of natural disasters.

The colonial experience of each of these countries was different. Cuba was colonized by the Spanish and then, in a sense, the United States which tried to replicate life in the Untied States in Cuba. This supports Acemglou et al.’s (2001, 2004) arguments regarding colonization as exploitation versus colonization for settlement. Cuba would fit the latter. Similarly, Haiti would fit the former, especially after having initiated a revolution. Haiti was, basically, excluded from the global economic system. Jamaica has always been a part of the global economic system and while there was some degree of colonization for exploitation, there was colonization for settlement which fits with its position as being the middle ground between Cuba and Haiti.
Given their small size, SIDS will have to build their institutional capacity to respond to the challenges posed by natural disasters. States need to:

1. Implement mechanisms to protect key public infrastructure, including the location of these infrastructures in the design stage.
2. Facilitate the offering of insurance facilities for economic capital where actuarially feasible.
3. Erect sea defences to mitigate the impact of hydro and surge events where economic infrastructure are not easily relocated.
4. Intensify preparedness efforts in order to reduce the amount of post-disaster responses.

There are also other challenges that states are confronted with: capacity constraints related to small size, for example intellectual capital or human resource constraints, financial constraints and technological constraints; and globalization. These challenges have to be addressed through the development of adequate institutional infrastructures linked to clear strategies and outcomes. States operate in a dynamic global environment and need to constantly re-evaluate the relevance and effectiveness of their institutions.

CONCLUSION

“Busy as a bee but not making any honey.”

Globalization has transformed how states are forced to operate. SIDS, by virtue of their size and limited ability to exploit economies of scale, have to focus on improving productivity and competitiveness in niche markets for their products and services.
Ignoring strategy and dissipating capacity by trying to address too many things at once cannot enhance productivity and competitiveness. Achieving this may mean that the state chooses a few areas of focus for improvement in the medium term. This does not mean that other things are ignored; it just means that the state focuses on these areas and their linkages to other sectors: integrated planning to enhance institutional capacity rather than a silos approach.

States must conserve and expend their capacity efficiently to ensure that the outcomes expected by citizens are realized in order to preserve their credibility. The strategy being pursued by the state should be broad enough to preclude frequent changes while ensuring the delivery of fundamental goods and services. Except in extenuating circumstances and unless there are synergies between new/emerging interests, the state ought not to change its direction and strategy. Even in responding to the concerns of the present, the state should not allow a wholesale abandonment of its strategy. Political leaders have to forsake parochialism in order to ensure that the development objectives are not derailed.

It is, therefore, important to engage the process of globalization strategically from the position of what the state has to deliver to its citizenry and what it can deliver effectively. Where there are synergies between what citizens’ call for and what the state is supposed to deliver, those are the areas where energies can be most effectively directed. If this is not done, globalization will overwhelm the already vulnerable institutional capacity of SIDS. It is, therefore, a matter of survival that SIDS assess their institutional capacity in the context of globalization but also within the context of what a state ought to provide as
globalization is not the only challenger to institutional capacity. The onus is on the state/political institutions to ensure that it is doing the right things – those things that it can best deliver in terms of capability (effectiveness) and capacity.

Globalization will not overwhelm SIDS, or any other state if the state operates strategically and ensures that amidst the numerous competing demands that it is confronted with the state has the ability to prioritize and articulate what it can and cannot do. The state has, essentially, been working hard at the wrong things; and deploying relatively too many resources on things it shouldn’t be doing while the key things – the basics – are not being done. To strengthen institutional capacity, SIDS must first rationalize its role and commit to focussing on basics then it will be able to develop appropriate strategies to get these basics right. This requires exceptional leadership and the ability to prioritize on an annual basis in tandem with the budgetary process. If the state is able to focus on a few critical areas and get these right, in terms of service delivery to its citizens, the perception of the state will change as well as the expectations. The state’s credibility would be, incrementally, rebuilt. Once this is done, the door would then be opened for the private sector to assume its rightful role as the engine of growth and development in SIDS and allow both the public and private sector to build complementary institutional capacity where there have been failures.

Ultimately, institutional capacity-building in SIDS equates to improving or optimizing government capability/effectiveness. This implies that: “getting societies to accept a redefinition of the state’s responsibilities will be one part of the solution. This will
include strategic selection of the collective actions that states will try to promote, coupled with greater efforts to take the burden off the state, by involving citizens and communities in the delivery of core collective goods.”\textsuperscript{21} The state cannot do all things; the state can do some things and do these things well if it is focused on these deliverables and not trying to tackle every challenge that arises. While the state will continue to be called upon to engage in short term crisis management, a clear signal must be sent to the private sector that there are areas that call for private sector initiative and assertiveness.

Similarly, a clear signal must be sent to the citizenry that there are certain areas where personal responsibility is paramount. The state ought to provide emergency relief after a natural disaster but in instances where citizens choose to reside in areas where they should not and perpetually demand relief from the state, there is obviously discord in terms of what the state ought to do and what citizens perceive as the role of the state.

Institutional capacity building in SIDS is the outcome of all stakeholders understanding and accepting their roles and executing these roles in a consistent and capable manner; accepting their limitations; and leaving those things they do not have the capability and capacity to do to other stakeholders that have the resources to do these tasks optimally. Simply put, is it is about \textit{getting the basics right}.

\textsuperscript{21} World Bank 1997: 3.
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