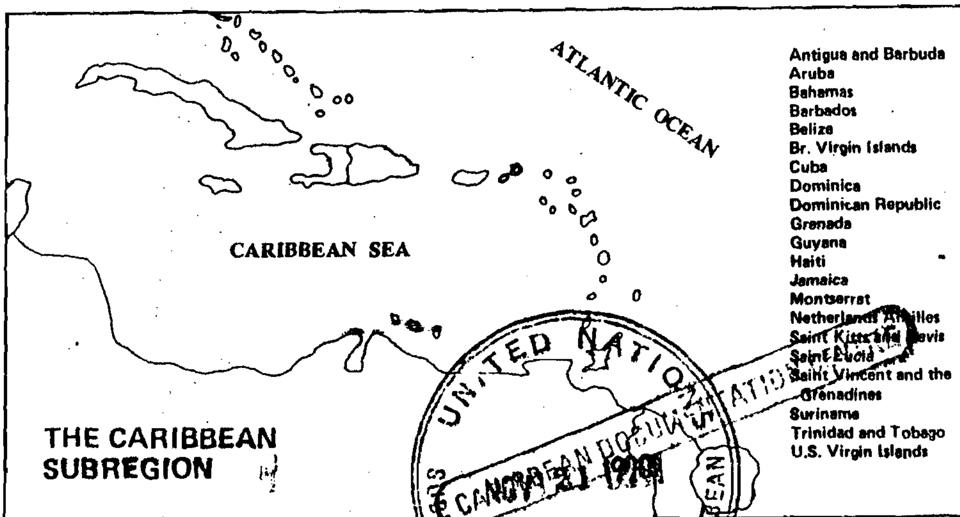
CARIBBEAN
DEVELOPMENT
AND
CO-OPERATION
COMMITTEE



GENERAL
LC/CAR/G.308
3 September 1990
ORIGINAL: ENGLISH

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Subregional Headquarters for the Caribbean

CARIBBEAN DEVELOPMENT AND CO-OPERATION COMMITTEE

RESOURCE FLOWS TO THE CARIBBEAN IN THE 1980s

UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Subregional Headquarters for the Caribbean

TABLE OF CONTENTS

RESOURCE FLOWS TO THE CARIBBEAN IN THE 1980s

Introduction

1. The economies of both developing and developed countries grew at an impressive rate throughout the period of the 1950s and 1970s. Per capita incomes increased in developing countries by almost 3 per cent a year throughout the period, with annual growth rates accelerating from about 2 per cent in the 1950s to 3.4 per cent in the 1960s[1]. The developed economies grew even more rapidly, maintaining an annual growth rate of 5 per cent in the 1960s and early 1970s[2]. At that time, the bulk of world savings were concentrated in the high-income developed countries and resource flows with various degrees of concessionality were channelled to developing countries through bilateral and multilateral agencies. International commercial bank lending to developing countries was beginning to assume an increasing importance in the overall volume of resource flows.

2. Then came the first oil-price increase of 1973 which resulted in a huge transfer of financial resources from oil-importing developed countries to oil-exporting countries. Since these resources largely exceeded those countries' investment and consumption needs, they found their way into the banks of developed countries of Western Europe and North America. It was during this period that international commercial bank lending to developing countries on market terms grew very quickly and, as both borrowers and lenders would learn later through the debt crisis, was not always done with the caution customarily associated with international lending operations.

3. The banks and official creditors did not seem to have assessed properly the risks involved in lending to developing countries and a large number of the latter did not always put the borrowed funds to the best possible use. Some capital-importing developing countries seemed to have used most of their inflows of foreign savings to offset substantially lower savings rates rather than to increase their investment rates (see Table I). Maintenance and increase of consumption levels seemed to have assumed greater priority than increasing productive investments in those countries.

4. The international economic and financial environment prevailing at that time was characterized by relatively easy access to financial resources and allowed some oil-importing developing countries, especially middle-income ones, to incur increasingly

---

[1]The World Bank, <u>World Development Report 1978</u>, Chapter II, Page 3.

[2]The World Bank, <u>World Development Report 1978</u>, Chapter II, Page 13.

Table I

Differences in savings and investment behaviour before the debt crisis among capital-importing developing countries in % of GDP

		1971-75	1978-82	Change
A. All countries	Savings rate	18	15	-3
	Investment rate	22.5	25.5	3
	Current balance	-4.5	-10.5	-6
B. Countries with debt-servicing problems	Savings rate	19	13.5	-5.5
	Investment rate	22	23	1
	Current balance	-3	-9.5	-6.5
C. Countries without debt-servicing problems	Savings rate	16	16.5	0.5
	Investment rate	22.5	26.5	4
	Current balance	-6.5	-10	-3.5

Source: Jacques Polak, Financial Policies and Development, OECD, Paris, 1989

large balance-of-payments deficits. The financing of these deficits was almost always easily achieved on reasonable terms, including negative real interest rates from abroad, and it was widely believed then that such a favourable financing environment would continue for some time in the future. This situation brought about a certain neglect of the mobilization of local resources for investment as well as postponement of economic adjustments. Indeed, in the 1970s, most oil-importing developing countries increased their investment ratio to GDP through borrowing while lowering or keeping at the same level their savings ratios.

5. In the late 1970s, the industrialized countries were faced with an upsurge of inflationary pressures brought about by the big increase in the price of oil, among other factors. The economic policies adopted by these countries to combat inflation took their economies into recession and reduced their demand for developing countries' exports. The immediate effect of the recession in the developed countries was a sharp decrease in official resource flows to developing countries.

6. While the world was slowly recovering from the recession of the second half of the 1970s, the second increase in the price of oil took place in 1979/80 and helped push the world into an economic crisis characterized by severe debt-servicing problems of developing countries and a further reduction in the flow of

resources to these countries. The loans contracted in the mid-1970s at reasonable interest rates and in a favourable world economic environment fell due at a time when the economic environment was becoming unfavourable.

7. In order to counter ever-rising inflation rates in their economies and the effects of the second oil-price rise, the industrialized countries implemented tight monetary and fiscal policies. This resulted in an increase in interest rates and a greater volatility of the exchange rates of the major currencies of the world which had been allowed to float after the collapse of the Bretton Woods system of fixed exchange rates in the early 1970s.

8. Implementation of these policies resulted in a substantial increase in the servicing of developing countries' debt contracted on commercial terms and introduced a greater measure of uncertainty into external debt management due to exchange rate fluctuations. The value of the United States dollar, still by far the major reserve currency in the world, rose sharply compared to the other major world currencies because of the vigorous anti-inflationary policies pursued by the United States Government.

9. This rise has helped to decrease the competitiveness of United States goods and services in the world markets and resulted in a rising balance-of-payments deficit. However, the high United States dollar interest rates resulting from tight United States monetary policy have attracted an ever-increasing volume of investments in dollar-dominated assets in the United States, allowing the already widening balance-of-payments deficit to widen even further, compounded by an increasingly large fiscal deficit.

10. Other major trading nations such as the Federal Republic of Germany, Japan and the newly industrialized countries have managed to accumulate increasingly large balance-of-payments surpluses. These fiscal and trade imbalances persist at the end of the 1980s, despite efforts by the countries concerned to remedy the situation. The financing requirements of the deficit industrialized countries continue to exert a strong pressure on world financial resources, to absorb a large part of the supply of such resources and to contribute greatly to exchange-rate and interest-rate movements.

11. In the 1980s the World Bank and the International Monetary Fund (IMF) assumed an increasingly important role in the supply of credit to a large number of developing countries because of the debt crisis and the consequent loss of credit-worthiness by many developing countries. As a result of their roles as providers of and catalysts for external resources, both international organizations became increasingly involved in the formulation and supervision of the implementation of the economic policies of their developing member countries. The volume and terms of financial

resources to developing countries especially those with debt-servicing problems, became more and more dependent on the support given by the Bank and the IMF to the economic policies implemented in the countries.

12. This paper will first look at the volume and terms of overall resource flows and then analyse the structure and pattern of flows going specifically to CDCC member countries. It will then review some of the literature on the contribution of external finance to economic growth, draw conclusions and make some recommendations.

The overall picture

13. The need for external resources arises from the existence of current account deficits of the balance of payments or an excess of investment over savings in the economy. Countries seek to correct these imbalances through the mobilization of external resources. The greater the gap between savings and investment in the economy or the wider the balance-of-payments deficit, the more external resources will be required.

14. It was once the norm to consider resource flows from high-income developed countries to lower-income developing countries as a matter of course. The high income countries were thought to be capable of producing regular current account surpluses and a surplus of savings over investments that allowed a steady flow of resources to developing countries in the form of aid, loans and private investments. This situation, which used to be taken for granted, changed fundamentally with the two oil-price hikes and the advent of the debt crisis which, among other factors, helped to slow down or decrease the volume of resource flows to developing countries. Table II gives some indication of the changes taking place in the structure and pattern of resource flows over the period 1980-1988.

15. Net resource flows[3] to developing countries as a whole declined in real terms from US$133.7 billion in 1981 to US$39.1 billion in 1987, a decrease of 71 per cent. This was especially disruptive because during the same period, large debt-service payments by some developing countries fell due; this and a deterioration in the terms of trade brought about a substantial reduction of resources available for economic growth and development purposes. The dramatic nature of the situation for these developing countries becomes even clearer when interest payments on medium and long-term loans and dividends on foreign direct investments are deducted from the aggregate net flows to obtain the aggregate net transfers.

---

[3] Resource flows include loans and grants from official and private sources as well as private and official investments.

Table II

Aggregate net resource flows to all developing countries 1980-88 (in US$ millions)

Type of flow	1980	1981	1982	1983	1984	1985	1986	1987	1988
Official development finance	42.5	49.3	50.7	54.0	49.8	42.6	34.8	26.9	25.3
Official development assistance	26.2	27.5	26.5	24.4	28.2	31.3	27.2	26.3	25.4
Official grants a/	14.9	14.1	13.5	13.5	16.4	19.8	17.3	14.9	14.7
Official concessional loans	11.3	13.4	13.0	10.9	11.8	11.5	9.9	11.4	10.7
Official nonconcessional loans	16.3	21.8	24.2	29.6	21.6	11.3	7.6	0.6	-0.1
Private flows	60.6	84.4	68.0	46.8	38.6	26.8	18.8	12.2	15.8
Private loans	48.6	64.5	53.2	35.2	25.5	18.7	8.9	0.1	3.9
Direct private investment b/	9.4	17.5	12.0	8.8	9.9	4.5	6.6	9.0	9.0
Private grants c/	2.6	2.4	2.8	2.8	3.2	3.6	3.3	3.1	2.9
Aggregate net flows	103.1	133.7	118.7	100.8	88.4	69.4	53.6	39.1	41.1
Aggregate net transfers	65.7	84.5	58.9	41.6	19.4	-0.7	-1.9	-9.9	-9.8

a/ Excludes technical co-operation grants
b/ Excludes offshore banking
c/ Staff estimates based on OECD aggregate data
Source: DRS (for official and private loans) and the OECD 1988 data bank for all other items. Data on flows and transfers on loans are on a payment basis and exclude short-term private lending.

This deduction results in a decrease, in real terms, from US$84.5 billion in 1981 to US$-9.9 billion in 1987, or a net outflow of resources from developing countries to developed countries of almost US$10 billion in 1987. In 1988, there was a slight increase in net aggregate flows and a slight decrease in aggregate net transfers, but the level of these flows was still much lower than those of the early 1980s. If the reverse flows of capital flight were added, the magnitude of net aggregate transfers would be much greater.

16. The aggregate net transfers could be the result of either high debt-servicing and dividend payments combined with low inflow of capital, economic instability and loss of credit-worthiness associated with the heavily indebted developing countries of Latin America and Africa, or that of the increase of claims on foreign assets arising from balance-of-payments surpluses associated with the newly industrialized developing countries of Eastern Asia. It is clear, however, that the majority of developing countries fall into the first category rather than the second and are seriously affected by the decline in resource flows to their economies.

17. Official development finance, which comprises official grants and official concessional and non-concessional loans, outstripped, in real terms, private flows from 1983 onwards although they have both decreased over the period 1980-1988. In 1981 private flows to developing countries amounted to US$84.4 billion, as against total net official development finance of US$49.3; but in 1983 the figures were, respectively, US$46.8 billion and US$54 billion and in 1987 they stood, respectively, at US$12.2 billion and US$26.9 billion, official development finance being more than double that of private flows, reflecting a complete reversal of the earlier pattern of resource flows to developing countries.

18. This new pattern was due to the loss of credit-worthiness by most developing countries which resulted from the debt crisis and the rising cost of finance. Private loans constituted the part of private flows that registered the biggest decline, despite a marked increase in involuntary lending. It went down from a level of US$64.5 billion in 1981 to US$0.1 billion in 1987, reflecting clearly the reluctance of private creditors to increase their exposure in developing countries. This trend accounted for the much heavier reliance of developing countries on official development finance rather than private finance from 1983 onwards. Official development finance accounted for 69 per cent of aggregate net flows to developing countries in 1987, increasing from a mere 37 per cent in 1981, a pattern normally associated with low-income developing countries. Only one component of private flows, private grants, remained at more or less stable levels throughout the period 1981-1987, showing a slight increase in 1987 from its level of 1981.

19. The steady flow of private grants to developing countries reflects the increasing role played by institutions such as non-governmental organizations in the provision of development finance to developing countries. Direct private investments decreased from US$17.5 billion in 1981 to US$9.0 billion in 1988, but seemed to have stabilized around US$9 billion for both 1987 and 1988. Most recent increases in this component were due to debt/equity swaps and secondary market transactions[4].

20. Official development finance flows decreased from a high level during the period 1980-1988 of US$54.0 billion in 1983 to an all-time low of US$25.3 billion, or by 50 per cent over a six-year period. The non-concessional portion of official development finance flows, after registering a slight increase between 1980 and 1983, declined to a negative US$0.1 billion in 1988 most probably reflecting the outflow of funds from developing countries to

[4] World Bank debt tables 1989-1990, Vol. 1: Analysis and Summary Tables, Page 10.

multilateral financial institutions, including the World Bank and the IMF which became major providers of funds in the early 1980s, when a vast majority of developing countries faced with debt-servicing problems entered into structural adjustment programmes with them.

21. The official grants and the official concessional loans components of official development finance increased over the period 1980-1985 and then decreased steadily to reach US$25.4 billion in 1988, compared to US$31.3 in 1985; this decrease was not as pronounced as that observed in the other components of resource flows but it was nonetheless important, given that in the latter part of the 1980s the bulk of resource flows to developing countries was accounted for by official sources.

22. The overall contraction of resource flows to developing countries did not affect equally all the economies and regional groupings of developing countries. Those categorized as middle-income developing countries (MIC) with debt- servicing problems, whose debt had been contracted at market-related variable rates, were the hardest hit because of rising interest rates and reduced private flows. They registered net outward transfers which would have been even greater in the absence of the rescheduling and involuntary lending from which they benefited.

23. The low-income developing countries, the majority of whose borrowing and other external flows had been on concessional terms, were somewhat insulated from the net negative transfer phenomenon. Even then, aggregate net transfers to these countries declined substantially, whereas their weaker economies could hardly withstand such a reduction.

Terms and conditions of external resource flows

A. Finance from official sources

24. The terms of finance from official sources remained rather stable over the period 1980-1988 (see Table III). However, the grant element of these flows dropped from 21.1 per cent in 1980 to 9.3 per cent in 1983, before steadily increasing to 24.6 per cent at the end of 1988, still lower than the 25 per cent grant element

normally attached to official development assistance from the Development Assistance Committee (DAC)[5] of the Organization for Economic Co-operation and Development (OECD)[6].

Table III

AVERAGE TERMS OF NEW COMMITMENTS TO
MIDDLE-INCOME DEVELOPING COUNTRIES

	1980	1982	1983	1984	1985	1986	1987	1988
OFFICIAL CREDITORS								
Interest (%)	7.0	8.6	8.6	8.3	7.7	7.3	6.6	6.2
Maturity (years)	19.0	17.6	17.6	17.8	17.0	16.5	16.9	18.8
Grace period (years)	5.2	5.0	4.9	4.9	4.6	4.5	4.8	5.4
Grant element (%)	21.1	10.5	9.3	11.6	13.7	15.7	20.5	24.6
PRIVATE CREDITORS								
Interest (%)	12.4	12.7	10.7	10.9	9.2	7.7	7.6	7.9
Maturity (years)	9.5	9.2	8.9	9.9	10.9	9.8	9.2	8.8
Grace period (years)	3.9	3.7	3.5	4.7	5.7	4.1	4.1	3.9
Grant element (%)	-11.2	-11.3	-3.0	-4.5	4.0	10.4	9.8	8.3

Source: World Bank Debt Tables 1989-1990, Volume 1, Pg. 114.

25. After an increase in 1982 of 1.6 per cent, the average interest rate on these flows decreased steadily to 6.2 per cent at the end of 1988. The latter part of the 1980s having been a

---

[5] DAC member countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Italy, Japan, The Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States of America and the European Economic Community.

[6] OECD member countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxemburg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States of America.

generally non-inflationary period, the real interest rates charged on this type of finance would have been very close to the nominal ones and rather high for what is mostly considered to be concessional finance.

26. The grace period on these types of loans oscillated over the period 1980-1988 - between 4.6 years and 5.4 on average - which is lower than the period, normally considered as adequate of 8 to 10 years.

27. In addition to the usual terms of their finance, some official creditors sometimes tied their assistance to certain conditions, including the procurement of machinery and equipment of a particular origin and the recruitment of consultants and firms from specific donor countries. Table IV gives an indication of the extent of tied official development assistance from individual donor countries during the year 1987.

B. Finance from private sources

28. The average interest rate charged on borrowing from private sources decreased from 12.4 per cent in 1980 to 7.9 per cent in 1988 (see Table III), but there was an increase in the average rate for 1988. Growing fears of inflation in the industrial world and the use of interest-rate policies to deal with inflationary pressures were largely responsible for this upward trend in average interest rates. The average grace period attached to this type of finance decreased from an all-time high for the period of 5.7 years in 1985 to an average of 3.9 years in 1988, the same grace period that prevailed in 1980. The maturity period also registered a steady decline from 1985 decreasing to an average of 8.8 years in 1988.

29. The grant element was the only component in this type of finance to register marked improvement in the late 1980s. Compared to earlier years, however, it declined from 10.4 per cent in 1986 to 8.3 per cent in 1988. The exchange rate also had an important bearing on resource flows, fluctuating widely since the breakdown of the Bretton Woods system in the early 1970s. Such fluctuation hardened or softened average terms of finance, depending on the various currencies involved in a transaction and the timing of such a transaction.

Table IV

TYING STATUS OF ODA AND ODA USE FOR ASSOCIATED FINANCING BY INDIVIDUAL DAC MEMBERS, 1987

Countries	Bilateral ODA								Multilateral			Proportion of ODA used for associated Financing	Total Untied	Total Tied
		Of which:							Excluding EEC					
	Untied* a/	"Cash" b/	Untied* technical Co-op	Untied import financing	Partially untied*c/	Of which: Technical Co-op*	Tied d/	Of which: Technical Co-op	Untied	Tied	EEC			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Australia	32.4	27.5	0.7	3.0	-	-	34.7	20.7	23.5	9.3	-	1.3	55.9	44.0
Austria	1.8	0.5	0.2	0.9	-	-	72.6	27.1	23.9	1.7	-	-	25.7	74.3
Belgium	25.0	3.3	3.4	41.1	-	-	32.6	19.1	25.6	-	16.8	0.2	50.6	32.6
Canada	27.6	-	8.8	..	3.9	-	29.5	0.7	33.4	5.6	-	0.5	61.0	35.1
Denmark	32.6	0.4	2.2	29.9	-	-	21.6	-	37.4	2.1	6.3	-	70.0	23.7
Finland	9.9	3.7	-	6.2	-	-	49.1	14.2	34.3	6.7	-	-	44.2	55.8
France	42.2	20.1	8.8	11.0	3.5	3.5	33.6	23.0	13.4	-	7.3	3.9	55.6	33.6
Germany	42.2	3.8	18.7	17.1	-	-	33.0	13.5	15.2	-	9.6	-	57.4	33.0
Ireland	21.5	12.8	-	..	-	-	25.7	24.4	44.7	3.1	5.0	-	66.2	28.8
Italy	9.5	7.0	1.2	1.2	-		61.8	13.7	18.7	0.6	9.3	7.5	28.2	62.4
Japan	46.9	17.5	-	31.5	16.6	-	11.3	-	25.2	-	-	0.1	72.1	11.3
Netherlands	30.5	10.8	12.1	6.5	33.7	11.3	6.4	-	21.8	7.3	0.3	4.1	52.3	13.7
New Zealand	34.5	14.4	2.3	17.9	-	-	32.6	14.1	31.3	1.6	-	-	65.8	34.2
Norway	29.8	(1.7)	-	-	1.4	-	21.1	..	44.6	3.1	-	0.5	74.4	24.2
Sweden	41.6	2.6	-	..	-	-	22.3	13.9	33.8	2.3	-	2.9	75.4	24.6
Switzerland	46.5	37.1	7.6	1.8	-	-	34.3	17.8	17.6	1.6	-	4.8	64.1	35.9
United Kingdom	13.1	6.3	0.1	..	0.1	-	42.3	23.7	24.9	0.8	18.7	2.1	38.0	43.1
United States	26.3	26.3	-	-	36.6	14.4	16.3	13.5	19.1	1.7	..	-	45.4	18.0
Total DAC	33.4	14.6	4.7	..	13.0	3.9	26.7	13.6	21.4	1.4	4.2	1.8		

a Fully end freely available for essentially world-wide procurement.
b Amounts not directly financing imports: budget and balance-of-payments support, local cost financing and debt relief
c Contributions available for procurement from donor and substantially all developing countries
d Mainly aid tied to procurement in the donor country, but also includes amounts available for procurement in several countries, but not widely enough to qualify as "partially untied".
* Compliance with revised reporting instructions remains to be verified.

Source: OECD 1989 Report, "Development Co-operation in the 1990s", Paris, 1989

Resource flows to Caribbean countries[7]

30. Caribbean economies rely heavily on external resources for the financing of their economic growth. This heavy reliance on foreign savings is due to the low and sometimes negative savings ratios achieved by the countries of the region. This situation deteriorated substantially during the 1980s. In addition, most countries experienced balance-of-payments deficits which reflected further their increased dependency on external resource flows[8]. The following section of this paper deals with the flow of external capital to Caribbean countries from both official and private sources, as well as the resulting net transfers.

A. External capital flows from official sources 1980-1988

31. Flows from official sources of finance to Caribbean countries decreased from US$1,016.3 million in 1980 to an estimated US$426.4 million for 1988, indicating an unmistakable trend towards an overall decrease in finance from these sources, despite a slight increase in 1981 and 1982. The multilateral loans component of these flows registered the biggest decrease in this category of finance, showing a net estimated outflow of US$19.9 million in 1988. The bilateral loans component of official flows also decreased over the period, from US$544.9 million in 1980 to an estimated US$16.1 million in 1988. On the other hand, the grants component of these flows increased steadily over the period.

32. The overall decline in flows from official sources could be attributed partially to high service payments in the case of multilateral loans and the resurgence of financial constraints experienced by some of the bilateral donors in the case of bilateral loans. Table V gives the details of net external capital flows to Caribbean countries from multilateral, bilateral and private creditors.

1. Multilateral loans

33. The multilateral loans component of official flows registered the biggest decline over the period considered. It decreased steadily from 1983 onwards, to reach the estimated negative figure of US$19.9 million in 1988. In 1980 the World Bank provided a net US$104.5 million worth of loans to Caribbean countries, or 48.6

---

[7] The countries covered are: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Haiti, Jamaica, St Kitts-Nevis, St Lucia, St Vincent and the Grenadines, Suriname, Trinidad and Tobago.

[8] Commonwealth Secretariat/Caribbean Community Secretariat, Caribbean Development to the Year 2000: Challenges, Prospects and Policies, June 1988.

Table V

CARIBBEAN COUNTRIES - Net external capital flows, 1980-88 (US$ million)

	1980	1981	1982	1983	1984	1985	1986	1987 p/	1988 p/
OFFICIAL CREDITORS	1016.3	1347.3	1438.0	1050.7	948.8	864.0	495.1	445.8	426.4
MULTILATERAL LOANS	215.4	488.7	554.2	551.9	259.4	287.6	-1.6	3.2	-19.9
CDB	35.6	51.8	30.3	23.9	11.0	16.3	18.5	18.1	20.5
EDF	1.8	3.3	3.0	2.1	0.5	1.6	0.6	1.4	-0.1
EIB	6.9	6.3	2.1	6.8	10.9	6.1	5.4	21.9	3.6
EEC	7.0	6.3	1.3	0.6	0.2	0.3	0.0	0.0	0.5
IBRD/IDA	104.5	99.4	169.1	106.8	79.8	91.0	14.5	65.0	9.7
IDB	90.0	90.2	87.8	106.3	98.4	161.8	112.5	100.3	86.9
IFAD	0.6	0.3	2.1	2.1	3.2	5.7	4.0	8.3	-0.8
IMF Trust Fund	8.7	13.4	-0.1	-0.6	-2.1	-3.1	-5.8	-5.2	-4.8
IMF Credits	-60.5	191.4	238.9	301.1	61.9	23.1	-149.3	-211.3	-131.1
IMF SAF	0.0	0.0	0.0	0.0	0.0	0.0	1.0	11.1	0.0
OPEC	20.8	26.3	19.1	2.8	-4.4	-4.2	-3.0	-6.4	-4.3
BILATERAL LOANS	544.9	566.3	603.7	319.8	404.2	200.9	138.7	35.8	16.1
Brazil	4.4	9.8	-0.5	10.8	-1.2	-1.7	-0.9	-2.0	-1.9
Canada of which:	25.3	9.1	10.0	1.0	29.4	22.2	32.0	-10.1	1.5
CIDA	11.8	11.2	10.5	10.5	17.8	1.3	0.0	-0.7	-1.0
EDC	4.8	-0.8	-2.6	-4.2	-1.2	-2.0	-2.2	3.8	6.1
China	0.0	9.7	0.0	0.0	2.0	3.3	2.4	-0.6	-0.4
France	3.6	4.1	3.2	1.1	2.0	7.6	11.3	11.4	11.0
Germany	15.9	8.1	4.8	10.6	4.1	2.4	19.8	40.4	5.7
Japan	5.1	9.5	6.7	4.9	19.6	28.9	35.8	7.5	18.2
Mexico	-0.5	58.5	32.1	30.8	42.3	-13.5	9.5	13.2	-4.3
Netherlands	39.9	2.2	3.3	8.2	0.0	2.2	-1.7	0.0	0.0
Spain	22.0	18.2	57.5	22.9	16.0	3.3	1.7	2.7	0.0
Taiwan	0.0	0.0	0.0	0.0	1.6	0.9	0.6	0.0	0.0
Trinidad & Tobago	12.2	82.0	3.4	2.9	1.2	8.7	-19.6	-27.5	-24.2
UK	11.0	16.2	19.2	25.5	3.6	6.7	4.9	10.0	3.3
USA of which:	164.8	174.6	316.0	172.9	268.9	101.9	37.8	-9.7	20.5
AID	17.5	51.3	170.3	91.7	115.0	38.9	38.3	14.5	13.1
CCC	40.2	34.6	44.9	31.6	93.1	-17.4	-12.9	-20.3	-23.3
EXIMBANK	85.0	74.5	27.5	-18.5	16.8	-38.4	-51.5	-46.1	-14.6
Venezuela	141.4	166.4	123.8	28.5	18.2	23.5	7.2	-16.9	-19.3
Others	99.8	-2.1	24.2	-0.3	-3.5	4.5	-2.1	17.4	6.0
GRANTS	255.0	292.3	280.1	179.0	285.2	375.5	358.0	406.8	430.2
UNDP	23.5	32.8	28.5	30.3	27.2	24.2	25.5	23.5	n.a.
Other Mult.	31.5	34.5	26.3	15.5	23.3	29.3	32.7	33.2	n.a.
Canada	5.6	21.9	22.7	26.0	43.7	37.0	50.7	58.3	n.a.
France	0.5	6.8	3.2	5.7	4.4	4.8	7.0	10.4	n.a.
Germany	2.1	9.2	17.5	13.3	12.4	11.6	14.3	16.5	n.a.
Italy	0.0	0.1	1.1	0.8	2.7	4.4	17.1	8.1	n.a.
Japan	1.5	5.1	4.3	4.4	8.4	9.4	14.7	17.6	n.a.
Netherlands	128.1	99.9	104.4	9.2	7.6	6.6	5.9	11.3	n.a.
UK	28.1	21.6	14.8	13.7	11.3	7.2	10.5	14.1	n.a.

per cent of the total net multilateral loans received by those countries in that year. Its contribution to net capital flows to Caribbean countries was, however, estimated to be only US$9.7 million in 1988, a decrease of US$94.8 million compared to the 1980 figure.

34. From 1981 to 1983 the IMF replaced the World Bank as the Caribbean countries' biggest provider of net multilateral loans with a contribution of US$204.8 million in 1981, US$238.8 million in 1982 and US$300.5 million in 1983, or 41.9 per cent, 43 per cent

and 54.4 per cent, respectively, of total net multilateral loans. In 1987 and 1988 Caribbean countries made net payments to the IMF of US$205.4 million and US$135.9 million, respectively. These outflows were counterparts to earlier inflows from the Fund and reflect the short-term nature of IMF credit; they were, however, concentrated in the few Caribbean countries[9] which had entered into agreements with the Fund.

35. After the World Bank and the IMF, the Inter-American Development Bank (IDB) was the multilateral institution making the highest net multilateral loans to Caribbean countries. From 1984 onwards, when both the Bank's and the Fund's net disbursements were dwindling, IDB disbursements were on the rise, reaching an estimated US$86.9 million in 1988, compared with a negative US$135.6 million from the IMF and a positive but much reduced amount from the Bank of US$9.7 million. Net disbursements by the Caribbean Development Bank (CDB) to Caribbean countries increased substantially from US$35.6 million in 1980 to US$51.8 million in 1981 but decreased afterwards to reach an all-time low, for the period 1980-1988 of US$11 million in 1984. They then grew slowly to reach an estimated S$20.5 million in 1988, or less than half the amount disbursed in 1981.

36. European Economic Community (EEC) institutions, such as the European Development Fund (EDF) and the European Investment Bank (EIB), as well as the International Fund for Agricultural Development (IFAD), seem to have always been marginal contributors to finance in the Caribbean. Except for the net loans of US$21.9 million in 1987 provided by EIB, the contribution of EEC institutions for the other years has been of little significance. The contribution of the Organisation of Petroleum-Exporting Countries (OPEC), after having been the fourth largest to Caribbean countries in 1980 and fifth in 1981 and 1982, subsequently declined substantially; OPEC became a net recipient of funds from Caribbean countries in the last five years of the period under consideration, largely due to the decline in oil prices.

37. Apart from IDB funds which were provided in a more or less stable flow of loans to Caribbean countries, financing from other multilateral banks fluctuated substantially. This was probably the reflection of a shift from their concessional to their non-concessional portfolio which, in turn, might be due to the hardening terms of their capital market borrowings.

---

[9] Dominica and Jamaica had an extended Fund Facility arrangement in 1981 and the Dominican Republic in 1983; Barbados and Haiti had standby arrangements with the Fund in 1982. Source: IMF Annual Reports 1981, 1982 and 1983.

2. Bilateral loans

38. Total bilateral loans provided to Caribbean countries declined substantially over the period 1980-1988, but remained positive throughout. The biggest single source over the period 1980-1985 was the United States of America with a heavy concentration for the first two years on export credit financing which represented 51.5 per cent of total United States bilateral loans in 1980 and 42.6 per cent in 1981. From 1982 soft-term loans granted by the United States Agency for International Development (USAID) represented the bulk of United States bilateral loan disbursements to Caribbean countries. The overall United States net disbursements to the Caribbean declined steadily from 1985 onwards, mainly due to negative flows from the United States Export/Import Bank (EXIMBANK) loans which started the same year.

39. In the first three years of the 1980s the Republic of Venezuela, a developing country, was the second biggest net provider of bilateral loans to the Caribbean after the United States. This situation changed sharply afterwards, with a large decrease of flows for subsequent years and reverse flows for both 1988 and 1989. A second developing country, the Republic of Trinidad and Tobago, was a net provider of resources to Caribbean countries up to 1985 and it was the third biggest provider of bilateral loans to the region in 1981, after the United States of America and Venezuela.

40. A third developing country, the Republic of Mexico, was a net provider of resources to Caribbean countries throughout the period 1980-1988 except for 1985 and 1988, when it was a net recipient of resources from the Caribbean region. The Republic of Brazil was another developing country whose flows became negative over the last years of the period under consideration. Venezuela, Trinidad and Tobago and Mexico are oil-producing countries whose net bilateral loan disbursements to Caribbean countries declined because of the fall in oil prices and their own restructuring and debt-servicing problems.

41. Two other developing countries, the People's Republic of China and the Republic of China (Taiwan), also contributed, albeit marginally, to bilateral loans to Caribbean countries during the period 1980-1988.

42. Canada, Germany, the United Kingdom, the Netherlands, France, Japan and Spain were the other major industrialized countries which provided bilateral loans to the Caribbean. Although decreasing substantially during both 1987 and 1988, the Canadian contribution to net external capital flows to the Caribbean during the period

1980-1988 was the largest after those of Spain and Japan. Japan and the Federal Republic of Germany seemed to have joined the traditional Caribbean partners in the provision of bilateral loans on a regular basis.

3. Grants

43. The amount of grants provided to Caribbean countries during the period 1980-1988 was the only component of resources from official creditors which has registered a marked increase. From US$255 million in 1980, it dropped to US$179 million in 1983 and then increased steadily to reach an estimated amount of US$430.2 million in 1988. The United States of America was the single largest provider of grants to the Caribbean region during the period under consideration, providing 28.3 percent, 48.2 per cent, 60.5 per cent, 45.5 per cent and 46.9 per cent of all grants to Caribbean countries for the years 1983, 1984, 1985, 1986 and 1987, respectively.

44. The Kingdom of the Netherlands, which was the largest provider of grants to the Caribbean region for the years 1980, 1981 and 1982, became one of the industrialized countries with the lowest contributions to grants in the region from 1983. From that same year onwards, Canada was the third largest provider of grants to the Caribbean region after the United States and multilateral organisations, while Japan and the Federal Republic of Germany were still minor providers of grants to the region. However, their contributions seemed to be on the increase.

45. The United Kingdom's provision of grants seemed also to be on the increase, despite a sharp fall culminating in net grants of US$7.2 million in 1985; the increase was, however, modest and the 1987 level is still far below that of 1980. Two industrialized countries, France and Italy, were still very much marginal contributors.

46. The multilateral organisations provided a steady flow of grants to the Caribbean throughout the period; their contribution was over or close to 20 per cent of total grants to the Caribbean region for the years 1980 to 1983 and above 10 per cent from then onwards. This fall in the share represented by their participation was heavily compensated by the large amounts of grants disbursed by the United States of America over recent years, reflecting policies giving priority to bilateral financing over multilateral financing. These organisations were the second largest contributors of grants to the region throughout the period 1980-1986, after the Netherlands for the first three years and after the

United States of America for the rest of the period. This pattern demonstrates clearly the stability and dependability of such finance in the region. The United Nations Development Programme (UNDP) was the largest contributor among the multilateral organisations.

47. Grants provided by private organisations which were non-existent in 1980 grew increasingly thereafter. From US$3 million in 1981, they reached US$8 million in 1984 and then decreased to stand at an estimated US$5.0 million in 1988.

B. External capital flows from private sources

48. Flows from private sources to the Caribbean have fluctuated sharply over the years, reaching an estimated all-time low for the period of a net outflow of US$37.5 million in 1987. Suppliers' credits, which started the 1980s with a net outflow of funds from the Caribbean region, increased somewhat over the years, but turned negative in 1988. Loans from private banks and other private money lenders increased substantially from their 1980 level of US$107.1 million for the three subsequent years, dropped sharply in 1984 and increased again to US$165.0 million, US$226.8 million and US$231 million, respectively in 1985 1986 and 1988, the 1987 figure reflected a reverse flow from Caribbean countries of US$102.0 million. The huge flows of resources from the banks and other private lenders in 1985, 1986 and 1988 were almost entirely devoted to paying interest on debt contracted earlier. This would be clearer in the section on net transfers to Caribbean countries which will take into account interest paid on accumulated debt.

Financial transfers to Caribbean countries[10]

49. Net financial transfers to Caribbean countries decreased substantially over the period under consideration, after a slight increase in 1981 and 1982 and there was a net outflow of US$207.7 million in 1987. All the various components of resource flows in Table 6 have decreased over the years, except, of course, the grants.

50. On bilateral and multilateral loans net outflows were registered for the last three years. Multilateral loan creditors were net recipients of US$218.1 million in 1986, US$238.0 million in 1987 and US$266.2 million in 1988 from Caribbean countries. Out of the multilateral institutions receiving net transfers from Caribbean countries, the IMF was the largest, followed by the International Bank for Reconstruction and Development (IBRD), accounting between them for an outflow of US$307.7 million in 1986,

---

[10] Net financial transfers are defined as net disbursements minus interest payments on medium and long-term loans.

Table VI

CARIBBEAN COUNTRIES - Net transfers, 1980-88 (US$ mn)

	1980	1981	1982	1983	1984	1985	1986	1987 p/	1988 p/
OFFICIAL CREDITORS	902.5	1150.3	1200.5	780.2	647.9	536.2	126.8	47.5	37.7
MULTILATERAL LOANS	175.5	404.5	430.3	407.7	78.2	106.4	-218.1	-238.0	-266.2
CDB	32.7	46.6	24.0	16.9	3.2	6.0	8.2	6.5	7.3
EDF	1.1	3.3	3.6	2.1	0.5	1.5	0.5	1.2	-0.3
EIB	6.6	5.6	1.2	6.0	10.0	4.3	3.2	19.6	-4.7
EEC	7.0	6.3	1.3	0.6	0.2	0.3	0.0	-0.1	0.4
IBRD/IDA	79.2	70.2	132.3	58.9	26.7	32.0	-65.0	-23.4	-81.1
IDB	85.1	83.2	78.1	94.9	83.5	130.7	78.6	51.9	28.8
IFAD	0.6	0.3	2.1	2.1	3.1	5.4	3.3	7.3	-1.8
IMF Trust Fund	8.6	13.2	-0.3	-0.9	-1.9	-3.4	-6.1	-5.3	-4.6
IMF Credits	-65.8	150.6	170.9	227.0	-39.0	-64.8	-237.6	-299.6	-204.5
IMF SAF	0.0	0.0	0.0	0.0	0.0	0.0	1.0	11.3	-0.1
OPEC	20.4	25.2	17.1	0.1	-8.1	-5.6	-4.2	-7.4	-5.6
BILATERAL LOANS	472.0	453.5	490.1	193.5	284.5	54.3	-13.1	-121.3	-126.3
Brazil	3.4	7.4	-2.1	8.2	-2.7	-2.5	-1.3	-2.2	-2.0
Canada of which:	15.7	-1.1	0.3	-5.5	18.9	9.5	15.0	-24.9	-15.6
CIDA	10.3	10.1	9.5	9.5	16.9	0.3	-0.7	-1.4	-1.7
EDC	3.0	-3.2	-4.8	-5.5	-2.5	1.4	-3.5	2.9	3.6
China	0.0	9.7	0.0	0.0	2.0	3.2	2.4	-0.6	-0.4
France	3.6	4.1	3.1	1.0	2.0	7.1	9.9	10.4	8.2
Germany	15.7	7.1	4.0	9.8	3.3	1.6	18.1	39.1	3.1
Japan	5.1	8.9	6.1	3.6	18.7	26.6	31.2	1.3	9.9
Mexico	-0.6	54.9	30.7	23.6	34.1	-16.4	-1.2	2.6	-8.0
Netherlands	38.2	0.9	1.8	7.4	-0.3	1.6	-3.7	-0.5	-0.6
Spain	21.8	14.0	54.0	16.7	11.8	3.0	1.7	2.7	0.0
Taiwan	0.0	0.0	0.0	0.0	1.6	0.8	0.5	-0.1	-0.1
Trinidad & Tobago	7.9	77.1	-2.5	-2.5	-14.3	-0.3	-26.7	-30.7	-28.1
UK	2.3	8.5	12.2	19.2	0.2	1.8	2.0	5.3	-2.1
USA of which:	133.9	126.6	266.0	116.4	215.9	35.1	-14.1	-80.4	-44.5
AID	11.3	44.4	164.9	82.9	107.4	26.6	26.9	5.0	-0.1
CCC	35.1	20.7	29.1	19.7	85.3	-30.3	-23.3	-50.8	-40.9
EXIMBANK	70.7	51.4	3.1	-50.4	-13.2	-73.1	-77.3	-67.9	-30.2
Venezuela	127.2	146.6	100.5	3.6	3.7	-5.4	-19.2	-32.6	-39.5
Others	97.8	-11.2	16.0	-8.0	-10.4	-11.4	-27.7	-10.7	-6.6
GRANTS	255.0	292.3	280.1	179.0	285.2	375.5	358.0	406.8	430.2
UNDP	23.5	32.8	28.5	30.3	27.2	24.2	25.5	23.5	n.a.
Other Mult.	31.5	34.5	26.3	15.5	23.3	29.3	32.7	33.2	n.a.
Canada	5.6	21.9	22.7	26.0	43.7	37.0	50.7	58.3	n.a.
France	0.5	6.8	3.2	5.7	4.4	4.8	7.0	10.4	n.a.
Germany	9.1	9.2	17.5	13.3	12.4	11.6	14.3	16.5	n.a.
Italy	0.0	0.1	1.1	0.8	2.7	4.4	17.1	8.1	n.a.
Japan	1.5	5.1	4.3	4.4	8.4	9.4	14.7	17.6	n.a.
Netherlands	128.1	99.9	104.4	9.2	7.6	6.6	5.9	11.3	n.a.
UK	28.1	21.6	14.8	13.7	11.3	7.2	10.5	14.1	n.a.
USA	16.0	50.9	47.2	50.7	137.6	227.2	162.9	190.9	n.a.
Other Bilat.	11.1	9.5	10.1	9.4	6.6	13.8	16.7	19.3	n.a.
PRIVATE CREDITORS	-102.8	-36.5	-58.2	-110.2	-183.5	-28.1	-20.9	-255.2	-22.4
Private grants	0.0	3.0	3.0	5.1	8.0	7.8	5.7	7.5	5.0
Suppliers	-21.1	42.5	2.6	15.3	21.6	48.4	48.1	36.5	-45.5
Banks and others	-81.7	-82.0	-63.8	-130.6	-213.1	-84.3	-74.7	-299.2	18.1
ALL CREDITORS	799.7	1113.8	1142.3	670.0	464.4	508.1	105.9	-207.7	15.3

US$377 million in 1987 and US$290.3 million in 1988. Displaying the same pattern as multilateral loans, bilateral loans also became negative, with a net outflow of US$13 million in 1986, US$121.3 million in 1987 and US$126.3 million in 1988. The largest net recipient of outflows of bilateral loans from the Caribbean was the United States of America accounting for net receipts of US$80.4 million in 1987 and US$44.5 million in 1988.

51. Banks and other private institutions were net recipients of funds from Caribbean countries throughout the 1980s, receiving net transfers of US$130.6 million in 1983, US$213 million in 1984 and US$299.2 million in 1987. A slight change to this massive outflow of resources was recorded in 1988, with a net inflow of US$18.1 million.

Table VII

Interest payments 1980-1988
(US$ million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Net transfers on mlateral loans	175.5	404.5	430.3	407.7	78.2	106.4	-218.1	-238.0	-266.2
Net disburs of mlateral loans	215.4	486.7	554.2	551.9	259.4	287.6	-1.6	3.2	-19.9
Interest payments	39.9	82.2	123.9	144.2	181.2	181.2	216.5	234.8	246.3
Net transfers on bilat. loans	472.0	453.5	490.7	193.5	284.5	54.3	-13.1	-121.3	-126.3
Net disburs of bilat. loans	544.9	566.3	603.7	319.8	404.2	200.9	138.7	35.8	16.1
Interest payments	72.9	112.8	113.6	126.3	119.7	146.6	151.8	157.1	142.4
Net transfers on suppliers' credits	-21.1	12.5	2.6	15.3	21.6	48.4	48.1	36.5	-45.5
Net disburs on surpliers' cred	-10.1	49.5	13.2	26.6	33.8	66.9	67.1	57.0	-27.9
Interest payments	11.0	7.0	10.6	11.3	12.2	18.5	19.0	20.5	17.6
Net transfers banks/others	-81.7	-82.0	-63.8	-130.6	-213.1	-84.3	-74.7	-299.2	18.1
Net disburs by banks and other private creditors	107.1	129.7	155.4	126.6	13.4	165.0	226.8	-102.0	231.0
Interest payments	188.8	211.7	219.2	257.2	226.5	249.3	301.5	197.2	212.9
Total interest paid	312.6	413.7	467.3	539.0	539.6	595.6	688.8	609.6	619.2

Source: Derived from Tables V and VI.

52. Table VII shows the magnitude of interest payments made by Caribbean countries during the 1980s. From US$312.6 million paid out in 1980, these payments increased steadily to an all-time high for the period of US$688.8 million in 1986, then dropped to US$619.2 million in 1988, an amount almost double that paid in 1980.

53. Interest payments to banks and other private institutions constituted the largest part of total interest payments by Caribbean countries for most of the period under consideration, representing 60 per cent of such payments in 1980, 51 per cent in 1981, 47 per cent in 1982, 48 per cent in 1983 and 44 per cent in 1986. In 1987 and 1988, interest payments to these institutions were overtaken by those paid to multilateral organisations which represented 38 per cent and 40 per cent for the two respective years, as against 32 and 34 per cent for private institutions. The increasingly important share of interest payments made to multilateral institutions was a testimony of the erosion of the credit-worthiness of some of these countries and the resulting reliance on loans from multilateral institutions, such as the IMF and the World Bank.

54. The magnitude of interest payments in relation to total external flows was such, that its impact on these flows became increasingly important and since their payments seem to have assumed priority over other uses of external financing, they were largely responsible for the net outflow of loan-related resources from Caribbean countries over recent years. The flows from banks and other private institutions which were largely positive in the context of net external capital flows in fact reflected net negative transfers for each year of the period 1980-1987, indicating that most of the lending taking place during that period was of the involuntary type.

Foreign direct investment in Caribbean countries

55. In general, foreign direct investments are considered superior to other types of external financing in so far as they do not constitute debt-creating flows and provide developing countries with a unique package of financial transfers, technology and management. One major danger of such investments which has been expressed time and again by some developing countries is the possible abuse related to ownership by foreign investors. On the other hand, foreign investors run the risk of expropriation, or loss of investment without proper compensation. With proper protection from both domination and expropriation this type of resource flows could be beneficial to both the foreign investors and the recipient countries.

56. Such investments are determined mainly by the economic prospects of the receiving countries, the profitability of the investments and the regulations governing them. The economic policies of the receiving countries, as well as their infrastructural and institutional arrangements, also represent factors which determine the flow of foreign direct investments to them. Traditionally, however, foreign direct investment has always been heavily concentrated in countries with large domestic markets and in those which were rich in natural resources or which provided a sound base for export-oriented production.

Table VIII

Direct investment - Caribbean countries
(Million US$)

Country	1980	1981	1982	1983	1984	1985	1986
Bahamas	4	34	3	-6	-5	-30	-13
Barbados	1	7	4	2	-2	-5	5
Belize	..	..	..	..	-4	4	1
Jamaica	28	-12	-16	-19	12	-9	..
Trinidad & Tobago	185	258	204	114	110	-7	-22
Antigua	20	22	23	5	9	10	13
Dominica	-	-	-	2	3	6	-
Grenada	-	-	2	3	3	5	7
St. Lucia	31	38	27	10	12	17	..
St. Vincent	1	1	2	2	1	3	3
Guyana	1	-2	4	5	5	2	-
Dom. Rep 1/ 2/	-	-	-1	48	66	36	50
Haiti 1/ 2/	-	-	127	106	5	11	104
Neth. Ant. 1/ 2/	34	2	-155	-97	2	-272	-1
Suriname 1/ 2/	10	35	2	3	4	3	-8
TOTAL	315	383	226	178	221	-226	139

Source: Mobilizing capital for development: The role of private flows. A report by the Commonwealth Secretariat, August 1988

1/ Data for 1980-81 supplied IMF International Financial Statistics 1987 Yearbook

2/ Data for 1982-86 supplied IMF International Financial Statistics, December 1989

57. In the countries covered in Table VIII on direct investment there was a deceleration of such inflows similar to that experienced by developing countries around the world due to changing perceptions of their economic growth prospects from US$315 million in 1980 to US$178 million in 1983. Most of that decrease resulted from a heavy outflow of investments from the Netherlands Antilles and an outflow of lesser importance from Jamaica. Trinidad and Tobago was the largest recipient in the Caribbean of foreign direct investment for the period 1980-1984; its receipt of such investments became negative, however, for both 1985 and 1986. An outflow of US$272 million in direct investment from the Netherlands Antilles in 1985 resulted in a net outflow of US$226 million from the Caribbean countries covered in the table.

Official Development Assistance[11] to CDCC member countries

58. Table IX on Official Development Assistance (ODA) indicates a more or less stable level of ODA flows to Caribbean countries over the period 1985-1988. It went down from US$1,610 million in 1985 to US$1,457 million in 1986 and then went up to US$1,669 million in 1987, declining again to US$1,590 million in 1988. More than half of the total ODA received by Caribbean countries for each year went to Cuba and 98 per cent of Cuba's share was provided by the USSR and the countries of Eastern Europe. Other major ODA recipients in the Caribbean were Jamaica, Haiti and the Dominican Republic, followed by the Netherlands Antilles, Guyana, Belize and Suriname.

59. The remarkable stability of this form of finance reflects the fact that it is largely determined by the donor country's budgeting process and its relations with the recipient country. Therefore, ODA maintenance or increase depends almost entirely on the donor country's own economic growth prospects and its policies. For six of the OECD[12] countries, namely: United States of America, Japan, Germany, France, United Kingdom and Italy, real GNP is expected to grow by an average of 2.9 per cent for both 1990 and 1991, an indication of good growth prospects for ODA flows to developing countries. It is widely believed, however, that the flow of such resources to developing countries, including the Caribbean, will decrease in light of the assistance already pledged to Eastern European countries.

---

[11] Official Development Assistance is defined by the OECD as a transaction that conveys a grant element of at least 25 per cent.

[12] OECD forecast quoted in "The Economist", 23 December 1989.

Table IX

Total net ODA from DAC countries, multilateral organizations, the USSR, Eastern Europe* and Arab countries to Caribbean countries (US$ million)

Country	1985	1986	1987	1988	TOTAL
Antigua and Barbuda	3	5	6	8	22
Aruba	12	40	21	19	92
Bahamas	1	6	1	4	12
Barbados	7	4	6	3	20
Belize	22	24	24	23	93
Cuba	853	740	876	873	3342
Dominica	17	11	14	19	61
Dominican Republic	207	93	130	118	548
Grenada	35	24	20	23	102
Guyana	27	31	29	27	114
Haiti	153	175	218	147	693
Jamaica	169	178	168	193	708
Montserrat	2	4	3	6	15
Netherlands Antilles	65	58	64	53	240
St Kitts-Nevis	4	6	7	14	31
St Lucia	7	12	11	14	44
St Vincent and Gr.	6	12	13	15	46
Suriname	11	14	22	21	68
Trinidad and Tobago	7	19	34	8	68
Virgin Islands	2	1	2	2	7
TOTAL	1610	1457	1669	1590	6326

* ODA from the USSR and Eastern Europe relate only to Cuba

Source: 1989 Report OECD Paris 1989
<u>Development Co-operation in the 1990s</u>

<u>The contribution of external resource flows to national development</u>

60. Since resource constraints have prevented the undertaking of a study on the actual contribution of external resources to Caribbean development, the following review of some of the literature on the subject aims at giving an idea of some of the possible effects of external finance on economic growth.

61. It is generally believed that the rate of growth of an economy increases with the rise of the ratio of investment to national income and that an increase in the flow of external resources increases the investment ratio in the country concerned and therefore its growth rate. In order to achieve a given rate of

growth,[13] it is possible, under certain circumstances, to determine the rate of capital accumulation required to achieve such a growth target.

62. The difference between the rate of capital accumulation necessary for the targeted rate of growth and the proportion of national income saved and invested constitutes the saving gap or the volume of foreign resources required to achieve the target set. It is assumed here that the flow of foreign resources acts as a supplement to local savings and would lead to a higher rate of accumulation of capital, an increase in the levels of income and an increase in the proportion of those incomes which would be saved, the overall result being an increase in the economy's capacity for growth.

63. This theory also assumes that all the local savings remain in their home countries in search of investment opportunities in the local economies[14] and that they are used, together with the inflow of foreign resources to finance productive investments. The general conclusions of studies based on the above relationships indicate that external resource flows had a positive effect on the economic growth of developing countries[15].

64. These conclusions were later challenged when other studies[16] found out that external resources, especially foreign aid, not only did not contribute to the rate of economic growth of developing countries, but might actually have reduced such rate of growth. According to these studies, external resources actually reduced domestic savings and acted as a substitute for them. This relationship arose as a result of governments reducing their revenue-seeking activities and increasing their expenditure on

---

[13] The rate of growth is determined in this case using the Harod-Domar growth equation which states that the rate of growth of output is equal to the savings rate divided by the incremental-capital output ratio. The model assumes a constant capital/output ratio and a marginal propensity to save higher than the average propensity to save and a stable propensity to import.

[14] The fact that capital flight has received increasing attention over recent years, especially since the debt crisis demonstrates clearly that there are substantial resources leaving developing countries for developed countries.

[15] H.B. Chenerey and A.M. Stout "Foreign Assistance and Economic Development", American Economic Journal, Vol. 56 (1966), pp. 679-733.

[16] K. Griffin. "Foreign capital domestic savings and economic development". Oxford Bulletin of Economics and Statistics, Vol 32, (1970), pp. 99-112.

public consumption and private entrepreneurs and households reducing their savings because of the availability of inflows of external finance.

65. Moreover, the latter studies contended that most of the inflow of foreign resources tended to supplement consumption and only a small part went towards increasing the rate of investment in the recipient countries and that foreign resources decreased the efficiency of investment in those countries. Tied aid was singled out as one of the main factors contributing to the decreased efficiency of investment in the countries considered.

66. Further studies[17] [18] undertaken on the relationships between external resource flows and economic growth have concluded that although the inflows of external resources had an effect on domestic savings, they did not reduce them or acted as a substitute for them; the observed decline in savings with an increase in external resources was due to other factors[19] which might have led to the inflow of resources in the first place. These studies found no evidence of the lower efficiency of investments associated with foreign aid financing mentioned in earlier studies, the earlier relationships observed having been due to factors other than the inflow of external resources.

67. Considering the above brief review of some of the studies done on the contribution of external resource flows to economic growth of developing countries, it is clear that the effects of such flows on economic growth are not the same for all countries and that such effects could be either positive or negative, depending on the volume of the resources, the terms of such resources, the motives of the donors, the use made of the resources and the economic policies of the recipient countries. The contribution of other factors, such as the level of technology and the level of training of the labour force, impact on the rate of economic growth as much as the rate of investment and play an important role in the economic development of developing countries.

68. All the studies reviewed agree that developing countries undoubtedly face a number of constraints that restrict the rate of their economic growth. These constraints concern mainly the

---

[17] Gustav F. Papanek . The effects of aid and other resource transfers on savings and growth in less developed countries., <u>Economic Journal</u>, September 1972.

[18] Paul Bowles. "Foreign aid and domestic savings in less developed countries: Some tests for causality", <u>World Development</u>, Vol 15, No. 6, (1987), pp. 789-796.

[19] These factors include a deterioration in the terms of trade, especially in countries heavily dependent on exports.

insufficiency of capital compared to investment needs, the unavailability in sufficient numbers of a highly qualified and productive labour force and the insufficiency of foreign exchange to import essential machinery and equipment, usually not manufactured locally.

69. The existence of these constraints limits the potential growth of the majority of developing countries and an inflow of external resources could greatly alleviate these constraints and accelerate the economic growth of those countries. One study, however, cautions that removal of these constraints and increase in the rate of economic growth do not necessarily follow an increase in external resource flows and that the negotiation and management of such flows are of paramount importance if any benefits are to be derived from external resource flows.

Conclusions and recommendations

70. The flows of net external capital resources to Caribbean countries decreased substantially during the 1980s, with some countries experiencing greater declines than others. The major feature of these flows is that they were largely dominated by loans from both private and official sources. Together these loans accounted for 81, 83 and 85 per cent of net external capital flows to the Caribbean for the years 1981, 1982 and 1983 respectively. Such shares declined for the years 1984, 1985 and 1986 to 72, 66 and 55 per cent respectively, of net total flows.

71. This heavy dependency on external loans makes the countries of the Caribbean particularly vulnerable to crises such as the crisis of confidence which exists nowadays, characterized by a decline in private and official loans, a stagnation of grants and high amortization and interest payments. That crisis is largely responsible for the overall decline of resource flows to the Caribbean region.

72. Within the loans component of net external capital flows to Caribbean countries, there was a major shift away from official loans to private loans during the period 1980-1988, but most of those private loans were used to make debt-service payments, as shown by the steady decrease in net transfers to the region for the period 1983-1988, despite an increase in net private loans.

73. The grants element of external resource flows accounted for 99.7 per cent of net external capital flows to the Caribbean in 1987 and 68 per cent in 1988. However, this was not a reflection of any substantial increase in such financing, but rather the

decrease in the loans components of resource flows. The end result for Caribbean countries of this overall decline in external resource flows is further constraints on investment, output and economic growth.

74. The decline in resources for domestic investment brings into the forefront of economic policies the issue of mobilization of local resources through the promotion of savings, the creation of efficient capital markets and the formulation of policies conducive to the efficient allocation of local as well as foreign resources. This issue of greater reliance on domestic resources has attracted the attention of developing countries' policy-makers for some time, but it assumes a special importance today in the light of dwindling external resources and greater demand for development finance resulting from the recent economic reforms in Eastern Europe and deeper structural economic problems in some developing countries.

75. A new approach to development financing is therefore required. Such an approach should put more emphasis on the mobilization of local resources and use external financing as a genuinely supplementary source of finance. This approach would help, in the long run, to ensure the steady and stable financing of development even in times of dwindling external finance and increasing debt-servicing payments. In conjunction with efforts to increase reliance on domestic resources for development, Caribbean countries should intensify their efforts to mobilize external resources through sound economic policies, in particular on exchange rates, interest rates and taxation.

76. In order to ensure in later years that the funds borrowed will be repaid without undue constraints on economic growth, a clearly defined system of public investment project planning and implementation with the necessary institutional capability and political commitment should be put into place, or strengthened where it already exists, in order to ensure that resources, both domestic and foreign, are allocated in the most efficient manner and to the most productive uses in the economy. Such a system will require trained personnel in central as well as local institutions and a properly defined methodology for project appraisal, budgeting, implementation and evaluation, to ensure that the best use is made of the limited resources available.

77. In the case of borrowed resources, especially those borrowed on market terms, a clearly articulated debt strategy which would include proper evaluation of the extremely volatile exchange and interest rates inherent in such borrowing should be adopted. An objective and thorough assessment of a country's capacity to generate the foreign exchange necessary to service its loans and an efficient debt-monitoring system should form an integral part of such a strategy.

78. The important role that non-debt-creating flows, such as foreign direct investment, could play in the economic development of Caribbean countries should be fully realized and a structure and clear regulations should be established to ensure that the countries derive maximum benefits from such ventures.

79. Concessional finance which comprises concessional loans and grants ought also to receive the attention it deserves, especially in the less developed economies of the Caribbean and it is mainly this type of finance which should serve to finance the basic economic infrastructure in the countries. In this regard, the multilateral development institutions such as the regional banks, the World Bank and the United Nations agencies should intensify their efforts to promote the flow of such resources to the Caribbean.

80. Competition for the limited resources available worldwide is likely to intensify, at least in the near future, mainly because of the shortage of savings in relation to investment needs in the world and the lack of progress so far in correcting the major imbalances that have existed for some time now between the deficit countries and the surplus countries. The existence of those imbalances and recent economic and political developments are likely to reinforce the present trend of dwindling resource flows to Caribbean countries.

Bibliography

Bowles, Paul. Foreign aid and domestic savings in less developed countries: Some tests for causality. World Development, No. 6 (1987).

Chenerey, H.B. and A.M. Stout. Foreign assistance and economic development. American Economic Journal, Vol. 56 (1966), pp.679-733.

Commonwealth Secretariat. Mobilizing capital for development: The role of private flows. A report by the Secretariat. London, August 1988.

Commonwealth Secretariat/Caribbean Community Secretariat. Caribbean development to the Year 2000: Challenges, prospects and policies. June 1988.

Griffin, K. Foreign capital, domestic savings and economic development. Oxford Bulletin of Economics and Statistics. Vol. 32, 1970.

International Monetary Fund. Annual Reports. Washington, D.C. 1981, 1982 and 1983.

______ International Financial Statistics 1987 Yearbook.

______ International Financial Statistics December 1989.

Organisation for Economic Co-operation and Development. Development Co-operation in the 1990s. OECD, Paris, 1989.

Papanek, Gustav, F. The effects of aid and other resource transfers on savings and growth in less-developed countries. Economic Journal. September 1972.

Polak, Jacques. Financial policies and development. OECD, Paris, 1989.

The World Bank. World Development Report 1978. Washington, D.C. 1978. Chapter II, p.3.

______ World Development Report 1978. Washington, D.C. 1978. Chapter II, p.13.

______ Vol. 1: Analysis and summary tables. World Bank Debt Tables 1989-1990. Washington, D.C. 1990.