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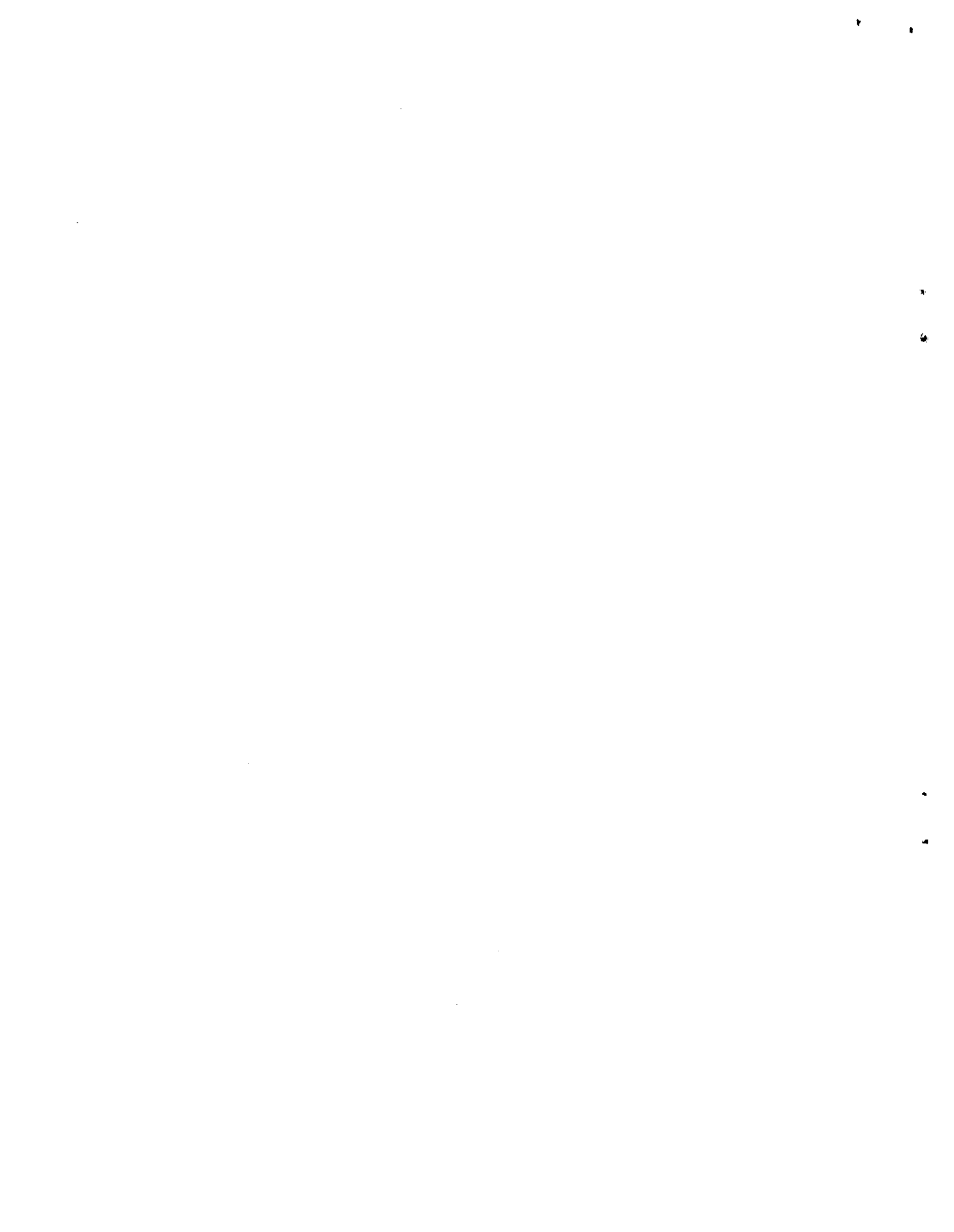
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ECONOMIC COMMISSION FOR LATIN AMERICA
Office for the Caribbean

NOTE ON
CARIBBEAN DEVELOPMENT BANK
EIGHTH ANNUAL MEETING OF THE BOARD OF GOVERNORS
GEORGETOWN, GUYANA, 26-27 APRIL 1978

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CARIBBEAN DEVELOPMENT BANK

Eighth Annual Meeting of the Board of Governors

Georgetown, Guyana, 26-27 April 1978

The hiatus in the CARICOM Common Market combined with the long lapse since the last meeting of the CARICOM Council and together with the serious difficulties faced by most of the economies of countries of the CARICOM, served to put this meeting in a different situation from other annual meetings of the Board of Governors. The President and most of the Governors used the occasion to review the integration process and to propose measures for its reactivation. Most significant is the fact that they considered it a suitable forum to call for reconvening of the Heads of Government Conference, the supreme body of the Caribbean Community. Accordingly it was considered desirable to present a full note on the proceedings in a form that reflects the views of the Caribbean countries and to a lesser extent the views of the donor countries.

In addition, because of the CDB involvement with the World Bank's proposed Consultative Group for Cooperation in Economic Development in the Caribbean, most of the Governors considered it necessary to make some comment about it. These comments are presented separately as part II of this note, because of the interest to the CEPAL Office for the Caribbean.

I

Scope of the review

The agenda provided for examination of the finances of the bank, review of its policies, and consideration of the implications of expanding the membership of the CDB. Detailed financial statements were provided by the Bank's Board of Directors, along with draft texts of resolutions. Various aspects affecting policy were pin-pointed in the Annual Report and some of them were elaborated in statements by the President and Governors of the Bank.

The Chairman of the Board of Governors defined the purpose of the meeting as, firstly, reviewing the operations of the Bank; secondly, examining the state of the national economies; and thirdly examining the state of the integration movement.

Regarding the Bank's operations, he noted that its net income has increased by US\$0.75m (53%) over the 1976/1977 period; a similar proportionate increase in reserves (to US\$2.25m); and a fall in net administrative expenses by 6.3%. Its loan approvals has increased by 17% over the previous year's level to US\$30m with the majority going in the LDC's (79% of the total and 95% of the soft loans). However, the ratio of disbursements to approvals had decreased, primarily it would seem because of unavailability of adequate local counterpart funds, so there was no need to increase the level of counterpart funds and to find ways by which loan funds could cover the local cost elements of project funding.

The Chairman's further comments focused on the economic situation of CDB member countries. His points in summary were that production of most of the major export commodities fell mainly as a result of growth in economic activities in developed countries; increased import prices for petroleum products and industrial goods contributed to deterioration in balance of payments of almost all the countries in the region; continued low prices for major exports coupled with heavy external debt payments put extreme pressures on the management of foreign exchange reserves; and in addition, there was the constant grappling with the effects of fluctuations in exchange rates of the major trading currencies. The consequential effects were slower social and economic development, rising unemployment, deterioration of already low living standards, and diversion of attention from regional integration to preoccupation with management of national economies.

There were three elements in the report read by the President - (a) review of the Bank's activities, (b) detailing of operational problems, (c) recounting of some possible steps for advancing the CARICOM integration process.

Broadly the CDB activities fall into two groups, those of a strictly banking nature, and those in its role as a development agency. Prominent among the banking functions were mobilising funds and adjusting the spread between borrowing and lending rates to maintain financial viability. Recently USAID and UNDP had concluded agreements for US\$6.5m and US\$2m respectively to support agri-business development and regional food plan projects. In addition funds were raised from other governmental and multilateral sources (including regional governments) to enhance the ordinary operations. Accordingly primary focus was put on loan supervision which in its turn required expanded technical assistance to the LDC's to improve the structure, organization and functioning of their National Development Banks or Development Finance Corporations so as to make them more viable and less of a burden on Government budget. More recently this had taken the form of seminars for their General Managers and also for their accountants.

As regards projects identification, preparation and appraisal, main attention had been given to regional food and transportation, for EDF financing.

The main operational problems derived from the many variations in terms and conditions on which funds were provided by donors. At inception of the CDB, it was envisaged there would be a single Special Development Fund and a single Technical Assistance Fund. The present situation is that the CDB has to administer nine "special funds", under Article 8 paragraph 2 of the Charter and four separate funds under Article 8 paragraph 1. Similarly the ordinary (hard) funds have variations in terms and conditions laid down by financial institutions and governmental lending agencies, so that in effect it results in four separate funds. Altogether some seventeen funds are administered.

These result in complex administrative accounting, planning and programming work for the CDB staff, who have to match every loan with very highly specific sources of hard or soft funds. These problems

already serious, increase as the CDB negotiates for additional resources, so that in future there will have to be more selectivity in accepting both hard and soft funds from financial institutions and governmental agencies.

The bulk of the remainder of the President's report was devoted to an outlining of measures for resuscitating the CARICOM common market through the institution of inter-industry and inter-sectoral linkages in production, at national and at regional levels. The President identified linkages that would support the processes of import substitution and import replacement. Such linkages could achieve integration in industry, reduction of product differentiation, joint promotion of extra-regional exports, and establishment of joint venture enterprises. He noted that within the CARICOM Treaty there was provision for co-ordination of economic policies and development planning and that a CARICOM Enterprise Regime was already in draft form. In addition to listing a range of specific possible linkages, he outlined the role the CDB could play in promoting those linkages, the operational aspects that would need attention, and the requirements for regional linkages.

In his statement on behalf of the host Government, the Deputy Prime Minister of Guyana, after recounting the fundamental principles of the integration process enshrined in the CARICOM Treaty and the Bank's Charter, expressed the view that some of the prime objectives had been met, especially those regarding mobilization of resources and their allocation to developmental projects particularly in the LDC's. However, hardly any progress had been made in the implementation of programmes for the rationalization of agricultural and industrial production which are the bases for creation of employment opportunities and the supply of essential basic commodities. It was his view that in so far as the region failed to pool its human and financial resources it would continue to be dependent, technologically backward, and under-developed.

He remarked that the upheavals in the world economy came immediately after the signing of the Chaguaramas Treaty in 1973, and for the five years of its existence CARICOM has operated against the background of national economies most of which have been paralysed by the steep fluctuations in export earnings, continuous increases in prices of industrial goods, stagflation, and a new regime of fuel prices. The region he felt has adequate resources, training institutions and finances which if pooled could provide food and other basic needs, reduce the import bill and at the same time earn foreign exchange through exports; but instead there has been the tendency to adopt individualistic approaches, to the detriment of the region and the national economies. The prime responsibility, he said, rests within the Heads of Government Conference, since the other organs cannot function meaningfully and effectively without its policy directions and directives, and therefore the priority is for the Conference to be reconvened.

Views of the Governors

In their statements the Governors indicated the directions Bank policy should take. Canada was concerned about the fragmentation of the Special Development Fund, which had evolved as a series of bilateral arrangements each with differing terms and conditions imposed by donors, and strongly urged a unified multilateral fund with all contributions having the same terms and conditions. Similarly, Canada would wish to see a single consolidated technical assistance fund which could include all activities, e.g. provision of experts, prefeasibility studies through to final engineering designs, with the CDB including appropriate technology activities amongst them. Canada also supported the replenishment of the Special Development Fund due to commence in 1979, and the refinancing of the Ordinary Capital resources. Concerning CDB borrowing in capital markets, Canada felt the callable capital of Trinidad/Tobago and Venezuela whose contributions are fully convertible should also be used as collateral guarantee against CDB borrowing on the same basis that similar UK and Canadian contributions are used.

The British endorsed the CDB's concern with regional cooperation and commented favourably on the continued emphasis on high standards of project preparation and appraisal and loan supervision. They felt there should be expansion of lending to small-scale industrial and agricultural enterprises, with CDB adopting flexible and innovative approaches like the recently launched Agricultural Production Credit Scheme.

Colombia stressed that CDB's main problem was no longer to convince recipients about its willingness to properly disburse funds, but rather to move stockholders and donors to adequately replenish. Regarding CDB efforts to train experts in export promotion, it was felt that the experience of Colombia could be drawn on, especially the mechanisms for solving the chronic balance of payments difficulties through week-by-week programmed devaluation of the exchange certificate to ensure price rationality and competitiveness of exports, and machinery like that of the Export Promotion Fund (PROEXPO) to finance export production at home and its promotion abroad through a five percent tax levied on all imports. It was commented that Colombia's greatest contribution to the Caribbean now could be in technical assistance at public level, and through partnership in public and private sectors taking advantage of mainland raw materials and island geographic and market locations. This latter aspect is presently being discussed with several governments, it was stated.

Barbados held the view that the existing institutional mechanisms for formulating and implementing regional projects were in need of substantial improvement. A case in point was the failure to obtain approval for even one project under the EDF although EEC had allocated thirty-two million units of account for CARICOM regional projects. Part of the problem may be the need for the EDF to work out its own procedures for handling regional projects; but there must be urgent concern considering the terminal date for commitment of these funds is 1980. However, the Caribbean countries must themselves move to set up appropriate

machinery for implementing regional projects. Barbados also felt there was need for relaxation by some donors of the restrictive terms under which funds have been made available to CDB (e.g. recent World Bank loan, and loan from the Export Import Bank of Japan), as this inhibits disbursement.

Bahamas, while commending the CDB for placing emphasis in lending to the LDC's, pointed out that their five-year priority period for soft loans expired two years ago, and that against the background of the serious economic problems facing the MDC's, more attention must be given them in the future; i.e. the channelling of softer loans to the MDC's must develop at a faster rate. Also, CDB should redouble its efforts to seek loan funds on the softest terms possible and without conditions that make it impossible to utilize the funds within the region.

Jamaica, in addition to highlighting some features of CDB's operations, mentioned the need for additional ordinary resources both from capital markets and through increase of its authorised capital stock. Further, the view was expressed that CDB should examine its potential for making programme loans, which could provide the member countries some relief from fiscal and foreign exchange problems.

Dominica made the point that consideration and establishment of policies with global application to economies as disparate as found in the Caribbean was inappropriate. The need is for lending policies more conducive to the rapid development and growth of the poorer States, to take account of the present weaknesses of their public finances. This was urgent because the traditional donors (UK and Canada) increasingly define their aid policies more narrowly within exclusive sectoral programmes, thus leaving the CDB as the principal source of financing for the LDC's. The attendant problems are mandatory requirements for (a) counterpart funds, (b) consultancy services at high cost, (c) costly bridging finance to be provided by recipient

country before loan disbursement. Trinidad/Tobago had assisted with counterpart funds - the second can be met by use of available technical services from within the Caribbean, and the third by concessionary loans. This speaker also alluded to the cumbersome and intricate administrative and legal procedures that hamper loan disbursements and the need for simplifying them, thereby lessening the burden on the inadequate administrations in the LDC's.

St. Lucia stressed that the purpose and achievements of the CDB should be measured in human terms, not by the mass of statistics. He considered possibly the most useful role the CDB could play now would be by creating within its organization a cadre of managerial expertise to assist in those areas where management is scarce or inadequate; perhaps along the lines of the Technical Assistance Fund commented on by Canada. This would greater maximise the benefits of CDB loan investments, and also train indigenous managers thus augmenting the pool of managerial resources. He stressed the role of the CDB in the integration process and insisted that projects should aim at the objective of making the economies complementary and interdependent rather than duplicatory and competitive - i.e. they should be projects which can be woven into the whole fabric of economic integration. He also emphasised that further success for CDB depended on progress with integration which now needed a meeting of Heads of Government and which St. Lucia considered the first priority at this time.

II

World Bank Consultative Group for Cooperation in Economic Development in the Caribbean

From the standpoint of the CEPAL Office for the Caribbean the contributions relating to the World Bank Consultative Group are of immediate interest. The President in referring to this defined CDB's understanding that the "proposed group is to organize in a coordinated

fashion and on the basis of continuing close dialogue between donor and beneficiary Governments additional inflows of external financial resources". Also, that this extraordinary aid effort would be limited to a five-year period, after which more "normal" levels of external aid would be reverted to, as the result of expected substantial improvements in the fiscal and balance of payments positions of the Caribbean countries.

The President stated that CDB presentations had emphasized four fundamental points - (i) that all the countries needed programme assistance of various kinds over and above project financing, at higher levels and on improved terms; (ii) the CARICOM MDC's needed also both direct and indirect balance of payments support; (iii) the CARICOM LDC's needed in addition programme assistance on highly concessional terms to enable them to reorganize and strengthen their fiscal, administrative, management and development planning systems, and to meet for a limited time period additional recurrent costs resulting from projects that are not financially self-liquidating; (iv) that external assistance should be geared more to promoting intra-regional trade and strengthening the economic structures of the countries of the region. Most important was the need to soften the aid terms to the LDC's which faced the special disadvantages of small developing island economies.

The Canadian support for the proposed World Bank Group was primarily as a means of improving the coordination and effectiveness of real resources flow to the Caribbean; and that it would encourage activity by new donors. Further Canada felt the central role of the CDB should be enlarged, and that CDB should be the main channel for multilateral resource flows to the region.

The British view of the World Bank Group is that it would be an important meeting place for the Caribbean countries and other countries with an interest in the Caribbean; and that it could play a useful role

in analysing and identifying problems and in bringing collective experience to bear on the quest for solutions.

Dominica, speaking on behalf of the CARICOM group and the Bahamas, welcomed the initiative and expressed the hope that it would result in a significant increase in the flow of concessionary funds to the region. The LDC's also hope that all the OECD countries that were represented at the Washington December 1977 meeting would participate and ensure additional aid on a concessionary basis. The opportunity should be taken to aid public finances, and channel some of these additional resources into financing the cost of services jointly operated by the LDC's. However, if the operation of the group merely results in a re-routing of existing flows, and the addition of another layer to the existing bureaucratic structure for channelling multilateral aid to the region, then the whole exercise will be a waste of time.

The speaker concluded by saying that if additional finances are not forthcoming, and if the group fails to get off the ground, there should not be surprise if the LDC's adopted a more cynical attitude to similar initiatives in the future, which achieve nothing except putting additional strain on the slender human and financial resources in attending meetings and coping with visits of numerous officials from the various international financial institutions and bilateral aid agencies.

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