Notes on Sub-Regional Meetings

Barbados

26-30 May 1975

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1. The Fifth Annual Meeting of the Board of Governors had to consider the annual Report for 1974, the financial statements and the Auditors' Report; decide on the allocation of net income and the administrative budget for the year 1975; review amendments to Staff Regulations; and examine application from the Commonwealth of Puerto Rico for membership in the CDB. Following the normal pattern, these items were first considered by a Procedures Committee on Sunday 25 May, which comprised ten Governors of the Board.

2. The report of the Procedures Committee contained the recommendations that -

   (a) the Financial Statements and Auditors' Report be adopted;

   (b) the allocation of net income from the Bank's Ordinary Operations (US$976,000) to the Ordinary Reserve of the Bank, and US$84,000 from Special Operations of the Agricultural Fund to the Reserve Fund for agricultural operations;

   (c) the administrative budget be noted;

   (d) the amendments to the Staff Regulations be confirmed;

   (e) a Committee of Governors be appointed to consider not just the application from Puerto Rico for membership in the Bank, but the wider question of implications of expanding membership of the Bank, taking into account the Bank's character, and purpose of the Bank.

3. These recommendations from the Procedures Committee were adopted by the Board of Governors. The discussion in the debates focused on the Annual Report and the address of the President of the Bank. Most
Ministers referred to procurement procedures, disbursements and reimbursements, counterpart funds, promotion of agricultural production, and the role of the Bank in integration. The specific proposals put forward included adjustments in the Bank's policies to allow for acquisition of land for agricultural purposes, the use of 'direct labour' in construction under approved projects, the establishment of a Project Management Agency that would for a fee expedite themanagerial aspects of project implementation, and finally, a closer phasing of disbursements between the flows through commercial banks and the Caribbean Development Bank with a view to economising on the cost of financial operations. These various proposals are to be examined in detail at the next meeting of the Board of Directors.

4. In many respects the item that attracted the greatest interest was Puerto Rico's application for membership, but this was not discussed in the Plenary Sessions, the general consensus being that discussion should await the findings of the Committee of Ministers of the Board of Governors.

5. The most notable aspects of the Bank's operations during 1974 were the increases in loan approvals and in loan disbursements. Approved loans in 1974 totalled EC$41 million compared with EC$20 million in 1973; and disbursements in 1974 totalled EC$4.7 million as against EC$2.3 million up to the end of 1973. The two main factors accounting for low disbursement rate were (a) lack of suitable institutional facilities in the LDC's to handle and service loans and re-loan operations, and (b) the inability of LDC's to provide the necessary counterpart financing to CDB loans. CDB is presently assisting with establishment of institutional structures at local level and the Trinidad & Tobago Government has provided a $5 million loan to the CDB to finance counterpart contributions.
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6. The Governors considered the Annual Report for 1974 along with the financial statements and Auditors' Report, and the net income situation of the Corporation. In addition, they ratified decisions of the Board of Directors regarding preparation of investment policy statements, regulations and rules of procedure; relationship between the CIC and the CDB; appointment of auditors; legal services; procedures for allotment of shares to private sector and the reimbursement of expenses to members of the Board of Governors and Directors. The net income situation attracted most discussion as operations so far have resulted in a loss of EC$87,000, due primarily to the fact that no special provisions had been made to cover initial establishment of the Corporation's Secretariat and its operating expenses. The decision was that the loss should be carried forward to the following year.

7. The other main point of discussion was the limited extent to which the private sector had contributed to the financing of CIC. It would be recalled that the Corporation was established with an Authorized Capital of EC$15 million of which EC$5 million would be issued and paid up over the first five years. Of this EC$5 million, EC$3 million would be subscribed by the Governments and EC$2 million by the private sector of the countries participating in the agreement. These subscriptions are allocated over five equal calls, two of which have so far been made, and to which the governments have fully subscribed. So far the private sector has taken up less than half its quota. Some Governors felt that there should be revision of the CIC structure to reduce private sector membership of the Board of Governors and the Board of Directors and bring it in line with private sector participation in the financing.

8. As regards its activities to date, most of the effort has gone into preparation of financial evaluation of industrial and agro-based industrial enterprises and investments totalling EC$536,000
in six enterprises had been approved. In these exercises, use is made of the project evaluation facilities in the CDB; however, taking into account the basic difference in orientation of the two institutions the CIC will need increasingly to do more of its own project evaluation. It needs to be borne in mind that the CIC is intended to enter into risk-bearing enterprises, while the CDB can operate only in the area of safe investments.

MEETINGS OF FINANCE OFFICIALS AND STANDING COMMITTEE OF FINANCE MINISTERS
(29 and 30 May 1975)

9. Eight substantive items were presented on the agenda of which one consisting of reports on outstanding matters containing some nine sub-heads. Few specific decisions were taken either because detailed studies were not completed, or because further progress was hindered by lack of decisions that need to be taken in other forums. The situation of the various subjects is summarised below.

Restructuring of ECCA and Belize Currency Authority

10. The reports indicated that draft legislation for restructuring the East Caribbean Currency Authority (ECCA) had been submitted to Finance Ministers of the LDC's and further action would depend on their decision. (The draft under reference is the same discussed by the General Manager of the ECCA with the Trinidad & Tobago Central Bank and with ECLA.) The main problem seem to be a reluctance to designate the ECCA as Exchange Control Authority ultimately responsible in exchange control matters, and investing the Authority with certain central banking features including the disposition of reserves (which are now completely held in sterling). The present position is that the Trinidad & Tobago Central Bank has sent an interim report on the draft legislation to the General Manager (ECCA); and in addition IMF has now provided a technical assistance expert. The reform of ECCA is still under study. Speakers from the MDC's and the various Secretariats stressed the necessity for exchange control measures in the LDC's if there is to be freer currency movement within the CARICOM region.
11. As regards the Belize Monetary Authority, the draft legislation has already been cleared with the Jamaica Central Bank and is presently being examined by the Bank of England with a view to recommending operational measures. This new legislation incorporates all the features necessary for a Central Bank and the Authority would work gradually towards a central banking structure as technical competence and resources permit. The first step will be to move from the present Currency Board arrangement to a Monetary Authority similar to what operated in the Bahamas. This new Currency Authority will come into being early 1976.

Harmonization of Exchange Control Measures

12. The Central Banks in the region have been examining the various systems of exchange control operated by the MEC’s with a view to their harmonization and have concluded that they are sufficiently similar in scope and character for harmonization to proceed. Notably, they all treat sterling as a foreign currency. There are however some differences in practice in applying the laws, these relate mainly to questions of investments (e.g. enterprises in the CARICOM area) and reciprocal arrangements. Proposals are being worked out to harmonize these practices. The main problem however is with the EC dollar not having controls. There is to be a meeting of the Central Banks and Monetary Authorities soon to finalise the harmonization proposals.

Review of relationship between East Caribbean dollar and sterling

13. Discussion concentrated mainly on the fixed parity of the EC dollar to the pound sterling and the automatic convertibility to sterling but sometimes came back to exchange control. As with considerations relating to establishment of exchange control for the East Caribbean dollar, further actions are awaiting decisions from the Finance Ministers of the LDC’s. It emerged that the 26 April meeting of Financial Secretaries considered the draft of the ECMA legislation. In the meantime some territories have gone on unilaterally to introduce Exchange Control against sterling. Regarding movement from fixed parity of EC dollar to sterling, draft
legislation is now under consideration by Bank of England and the UK Government. Some constitutional problems arise from one territory (Grenada) being independent, so that there is an urgent need to amend the legislation. As regards termination of automatic convertibility of sterling to EC dollar, the UK wants assurance that all States would have adequate machinery for implementing any new arrangement. The UK is also using the argument that EC dollar is not a metropolitan currency before the IMF. The element of the draft law (based on Trinidad & Tobago law) are that the ECCA have the same role as Central Banks, and would formulate a common policy which each Ministry of Finance would implement. There was also the need for training courses for LDC personnel in Exchange Control administration.

Creation of Caribbean Travellers’ Cheques

14. The Central Bank of Trinidad & Tobago had been given the task of examining the feasibility for introducing Caribbean travellers’ cheques. They had looked into the problem that it would need to serve a basket of currencies. They also accepted the principle that every commercial bank in the region would be an agent. They have had consultations with all the commercial banks and are awaiting their views on its operation. The Trinidad & Tobago Central Bank expects to complete the evaluation about July 1975.

Harmonization of Income Tax Systems

15. The CARICOM Secretariat was to have initiated some work on harmonization of income tax systems, but so far progress has been limited for lack of suitable resources. They are presently negotiating technical assistance with the Commonwealth Secretariat. Note: This is one of the assignments Professor Gulati was to have undertaken.

Follow-up on Recommendations of Tax Administrators

16. There had been a recommendation for an Agency to be established with the function of centralising certain aspects of tax administration. As the first step in follow-up, it was decided to carry
out a survey of the problems confronting the LDC's and the particular assistance they required. The survey is being financed by Trinidad & Tobago and would be done during June. The survey report will go to COITA and then to the Ministers of Finance. In the ensuing discussion the points were made that the survey should carefully examine immediate staffing needs, tax legislation and revenue needs in the LDC's.

**Training in Commercial Banking**

17. A report prepared by a special technical group was considered. In essence it proposed three training programmes - formal, in-service, and special. The formal training programme would provide professional qualification in two parts - Part I for operational level personnel and Part II for supervisory and middle management personnel. Part I would be a two-year course leading to the Ordinary National Certificate, and Part II leading to a Certificate of the Institute of Bankers. These professional courses would be offered by the University of the West Indies, University of Guyana, and College of Arts, Science and Technology. A Caribbean Institute of Bankers (CIB) would be established and also an Academic Committee on Bank Training responsible to the CIB.

18. The in-service training programme would concentrate on areas such as collections, teller-training, public relations, foreign exchange and credit. An essential prerequisite was standardization of operations and procedures in commercial banking throughout the area. For this purpose a Manual of Banking Operations and Procedures should be prepared.

19. The special training programme would cover: principles and practices of lending; personnel administration; principles and practices of Budgeting; management information reporting systems; capacity utilization and ordering of bank equipment; auditing; methods and systems analysis. These courses also would come under the CIB.

20. The Committee proposed that the banks should meet the full economic costs of the programme, these costs to be shared by all
the Commercial Banks, Central Banks and Monetary Authorities in the region. It also recommended that local committees on training in Banking be established in the various territories. The discussion was inconclusive and the subject was referred to Meeting of Central Banks and Monetary Authorities that is to meet shortly. There were strong reservations on the formula for apportioning costs, and the time-table of action proposed by the Committee.

Stabilization of Exchange Rate Parities

21. This subject was studied by the Central Bank of Barbados. The problem is not the rates, but the fluctuations which derive from the use of more than one intervention currency by area countries. The burden of the analysis was that the majority of trade was conducted in US dollars, and the main sources of loans was in the US dollar currency area. Countries using the pound sterling as intervention currency were adversely affected both as regards their export earnings and their loan repayments as the pound depreciated against the US dollar. The present situation is that Jamaica's currency is pegged against the US dollar, while the currencies of Guyana, Barbados, Trinidad & Tobago, Associated States and Belize are pegged against sterling.

22. The general consensus was that all the CARICOM currencies should adopt the US dollar as intervention currency. Barbados announced they had already made this decision and would shortly be implementing it. Guyana and Trinidad & Tobago are to recommend this step. Note: This leaves the Associated States unable to take action until questions of parity of EC dollar against pound, automatic convertibility, introduction of Exchange Control, etc. are settled.

CARICOM Clearing House Arrangements

23. The Common Market Council has requested a study of the possibilities for establishing a "clearing house" for payments in respect to intra-regional agricultural trade. CARICOM Secretariat proposed that the examination should be broadened to cover clearing
arrangements for all intra-CARICOM trade payments. The decision was that the Central Banks be asked to appraise the feasibility of establishing clearing arrangements and to propose a plan and timetable for action.

CARICOM Enterprises

24. The legal drafting group preparing the legislation for establishment of a régime for CARICOM Enterprises, referred various matters back to the Ministers to get guidance and instructions. The main issue was whether enterprises in the services sectors should be included in the régime (e.g. banking, insurance and re-insurance, consultancy firms of engineers, etc.). There was no problem with goods as area treatment was assured under the terms of the CARICOM Treaty.

25. The Officials recommended that the régime be extended to cover services. They also recommended the régime should promote freer flow of managerial personnel in the area by offering a solution to the pattern of work permits that obtains and that there be freer flow of capital, including linking up of stock market operations. In addition, they recommended the régime should regulate portfolio investment while promoting flows of direct investment. The emphasis in the discussion focused on the "CARICOM Enterprise" as a device for setting up large high priority activities that can induce structural economic change - e.g. the aluminium smelting project.

26. There was broad acceptance for the proposal the "CARICOM Enterprises" could be established in the fields of Consultancies, Construction, Insurance and Reinsurance, Banking and Unit Trusts, and "such others as the Governments and the Authorities may define from time to time". Guyana had strong reservations about Banking and Insurance while St. Vincent was worried about Construction.

The Ministers agreed too that at least 60% of total equity capital in such enterprises should be locally owned and that all such enterprises should be locally controlled. Also, that "CARICOM Enterprises" should be accorded preferential treatment over non-
regional enterprises in the application of the harmonization of fiscal incentive scheme.

Various aspects like the benefits that "CARICOM Enterprises" might enjoy under intra-regional double taxation schemes, the treatment of taxation where the equity was fully owned by Governments, etc., were referred to the Group of Tax Experts for examination on an urgent basis.

Miscellaneous Items

27. Still under study were the subjects of Double Taxation Agreement between the MDC's various recommendations in the World Bank Report, and "Regional Co-operation in the Insurance Industry". Regarding the last a Working Party is to examine (i) rationalization of the insurance industry, and (ii) feasibility of establishing a regional reinsurance corporation. The other items also went to study groups.