Mr. Chairman, Honourable Prime Minister, Distinguished Governors, Directors, Observers and Guests.

The inaugural Meeting of the Bank was held in Nassau, Bahamas in January-February 1970, and it is appropriate that we should come back to our starting place to celebrate our Tenth Anniversary. The fact that we have a record turn-out amply confirms what is well known - the charm of this capital city and the warmth and hospitality of the people of this most northerly of our borrowing Member Countries.

The most significant event that has taken place in this our host country since our Inaugural Meeting is its attainment of political independence in 1973. At the time many thought it a bold step. But the transition to independence has been so well managed from both an economic and political point of view that today few remember that as a sovereign State the Commonwealth of the Bahamas is only about seven years of age.

In this picture of social and political progress and the resolute pursuit of both economic growth and economic diversification, we all know how much is due to
the leadership and wisdom of the distinguished Prime Minister of our host country. In spite of his position in the far north of our part of the world, he has consistently sought to develop closer links of functional cooperation with the Caribbean, as exemplified by his country's membership of our Bank. On the narrow calculus of costs and benefits, the Commonwealth of the Bahamas has already had amounts in loan approvals which exceed its paid-in subscriptions to the Bank's capital and I am confident that this excess will steadily increase in the years ahead.

This Tenth Anniversary of the Bank also provides us with another occasion for special celebration. I refer to the conferring, a few months ago, of the Nobel Prize in Economics on the very distinguished West Indian economist, Sir Arthur Lewis, who as first President of the Bank did so much to lay the foundations for its achievements over the ten years of its existence. Not only is he the first West Indian to have won a Nobel Prize; he is also the first Third World economist to have received this Prize in Economics.

But while we rightly celebrate these two events, on a sadder note we must pause awhile to recall the passing of another West Indian of stature. I refer to the Late Honourable C.A. Paul Southwell, former Premier of St. Kitts-Nevis-Anguilla, Governor of the Bank for his country and Chairman of our Board of Governors. His contributions of humour and wit, penetrating common sense and not least his vast fund of amazingly apt Shakespearian quotations to this our Tenth Meeting will be sorely missed.

I also have to refer to the large-scale destruction of life and property wrought upon Dominica by Hurricane "David", the most terrible of hurricanes this century, in August 1979. This terrible disaster was immediately followed by very generous relief provided by countries and international agencies both within and outside the Region. Our Bank assisted by coordinating an expert Team drawn from various national and international aid agencies appointed to draw up a Reconstruction Programme for Dominica and by financing several agricultural reconstruction projects.

In 1979, too, Jamaica suffered very severe flood damage and we made a large loan for reconstruction of the damage done to roads and bridges. In presenting to you the Annual Report on the Bank for 1979, which is accompanied this year by a document entitled CDB - The First Ten Years, I shall first draw attention briefly to some salient features of these two documents concerning the major achievements of our Bank in its first decade of operations. Next, I will review in concise and perhaps over-simplified terms the performance and problems of the national economies of the borrowing member countries in the decade of the 1970s. The rest of my Statement will be devoted to an attempt to pinpoint ten major challenges facing the borrowing member countries and the Bank itself over the next ten years.
II. MAJOR ACHIEVEMENTS OF THE BANK - 1970-79

Resource Mobilisation

Over the period 1970-79, the Bank, starting from an initial subscribed capital of US$50 million with a paid-up amount of US$25 million in 1970, has mobilised US$374.4 million in both hard and soft resources (excluding callable capital) of which US$133.3 million or 35.6% were hard funds and US$241.1 million or 64.4% soft funds. Non-borrowing member countries, non-member countries and multilateral institutions contributed US$331.0 million or 88.4% of the total resources mobilised and US$237.0 million or 98.3% of the total soft funds.

One function of the Bank is to foster the development of capital markets in the Region and the Bank's success in this area is manifested by its two-year bonds having a first issue of US$10 million and a second issue of US$9.75 million to regional Central Banks and its two public long-term bond issues amounting to US$15 million raised in the capital market of Trinidad and Tobago.

The ten-year period has also seen significant internal generation of resources with cumulative surplus on Ordinary Capital Resources of US$10.6 million, equivalent to 40% of our Ordinary Capital Resources loans outstanding. This is, for any international development bank, a very good ratio of reserves to loan portfolio.

Financing Approvals and Disbursements

CDB’s most outstanding achievements in these areas have been:

a. Between 1970 and 1979 total cumulative financing approvals of US$269 million and total cumulative disbursements of US$129 million. Excluding grants, the cumulative equity and loan approvals are US$256 million of which 50% or US$128 million have been disbursed. Taking 1979 alone, financing (loans, equity and grants) approvals and disbursements reached record levels of US$88 million and US$33 million, respectively.

b. Approvals totalling US$144.5 million or 54.0% of total financing to the Productive Sectors (as distinct from Infrastructure) of which US$59.2 million or 22% of total financing went to private enterprise activities with emphasis on small-scale indigenous enterprises in the areas of agriculture, industry and tourism.

c. A steady increase in the ratio of cumulative disbursements to cumulative approvals of loans and other forms of financing, which over the last three years has been around 50%, a ratio which compares favourably with that of similar institutions with fast-growing approvals.

d. A consistent policy of marked preference to the LDCs in terms of approvals, disbursements and concessionality of funds to satisfy the main provisions under the Bank’s Charter to have special and urgent regard to the needs of these countries.
This is evidenced by the following:

- **e.** of total financing approvals of US$269 million the LDCs were the beneficiaries of 56.7% or US$152.5 million;
- **f.** of total soft funds approvals the LDCs received US$129.6 million or 79% which, significantly, represented 85% of total approvals to these countries;
- **g.** total loan approvals per capita for LDCs of US$223 compared with US$26.32 for MDCs;
- **h.** soft resources approvals per capita for LDCs of US$189 compared to US$10 for the MDCs;
- **i.** the MDCs have been the main beneficiaries of concessionary funding under the Caribbean Development Facility (CDF). Even when this is included in the total, the "grant element" of financing to the LDCs is 42% compared with 25% for the MDCs.

**Technical Assistance**

The Bank has consistently provided a significant amount of Technical Assistance to member countries, the most outstanding examples of which have been:

- **j.** about one-third of staff time allocated to free Technical Assistance by way of Project Preparation and additional staff time devoted to ensuring timely and effective utilisation of Bank resources in light of the shortage of skilled personnel in borrowing member countries, particularly in the LDCs;
- **k.** the establishment of a Technical Assistance Fund of US$4.0 million in 1978 with other active donors in the Region. Significantly, at least 70% of these resources are to go to the LDCs; and
- **l.** the establishment of a Technology and Energy Unit funded by USAID which would assist in ensuring the adoption of appropriate technology having due regard to the labour surplus situation in the Region and the identification and utilisation of renewable sources of energy, respectively.

**Dual Role as Bank and Development Agency**

The Bank has so far been able to perform successfully its two roles of a Bank and a Development Agency. With regard to its banking role, indicators such as creditworthiness and resource mobilisation, debt-equity ratio, net income, reserves, liquidity, management of liquid investments and a low delinquency ratio on loans, all point to a considerable degree of success. With regard to its role as a Development Agency, the Bank has given considerable Technical Assistance in the project cycle, provided technical advice in development planning and statistics and in the field of integration. In addition, the Bank's activities included the management of several special funds and special programmes for the benefit of its borrowing Member Countries, especially the LDCs.
**Regional Integration**

By its policy of having special regard to the needs of the LDCs, CDB has been ensuring that the LDCs get a larger share of the benefits from regional economic integration than would otherwise be the case. So far, the LDCs have received 56.7% of all financing approvals (including both hard and soft) compared with their contribution of 1.1% of the Bank's total resources.

The Bank has also made tremendous efforts to promote multi-country projects, with its main success being in the area of regional transportation where loans have been provided to LIAT and WISCO and with a start being made in the agricultural sector through the Regional Corn and Soya Bean Project located in Guyana. The Bank has also lately been actively involved in promoting national projects forming part of a regional programme and has so far financed one project of this nature. Finally, the Bank has closely collaborated with the Caribbean Community Secretariat in its technical work on various aspects of the integration movement.

**Constant Review of Policies and Procedures**

From the very beginning of its operations the Board of Directors and its Management have, always acting within the framework of the Bank's Charter, made several modifications and innovations in its policies, procedures and operations to meet the changing requirements of its borrowing member countries, particularly the less developed ones. Wherever considered justifiable, the thrust of the Bank has been to improve and accelerate its procedures so as to facilitate the Bank's borrowing member countries in their efficient use of the Bank's resources. And from time to time new and imaginative policies and programmes have been introduced.

**III. ECONOMIC PERFORMANCE AND PROBLEMS OF THE NATIONAL ECONOMIES DURING THE DECADE OF THE SEVENTIES**

Let me begin by stating what is very well known. In the decade of the sixties the borrowing member countries made reasonable progress in terms of economic growth, the MDCs more so than the LDCs. But many important structural problems of development still faced all the countries, among them being lack of diversification of the economic base, lack of intra-sectoral and inter-sectoral linkages, the lack of vitality of the domestic agricultural sector and the worsening of the unemployment situation in the face of reasonably high rates of economic growth.

The gains in terms of economic growth attained by CDB borrowing member countries during the decade of the sixties generally tended to be reversed during the seventies largely because of widespread international economic difficulties
precipitated by the international economic crisis of the last decade. Moreover, many of the underlying structural problems inherited from the sixties tended to defy solution.

Annual economic growth in the sixties for the MDCs (excluding Trinidad and Tobago, a small exporter of oil) was 5% per annum. But during the seventies it ranged between well below negative for one of the MDCs and in the case of the best performer, Barbados, it was about 2% per annum. For the LDCs the situation declined from 2-3% per annum in the sixties to 1.8% in the seventies and it attained this rate largely because of a high growth rate of 5.2% per annum in Belize.

Falling export prices (in real terms) for agricultural products, increasing wage competition from newer sectors such as tourism and manufacturing, improved communication and transportation and polarised urban-rural development contributed to a declining performance in the agricultural sector, the dominant sector in most borrowing member countries. Indeed in 1978 gross imports of food reached US$610 million in total or US$118 per head of population. Moreover, in the absence of sufficient growth in exports of traditional export crops, net imports of food reached US$195 million in total, US$38 per capita, in the same year. We therefore now enjoy the unenviable distinction of being a net importer of foodstuffs!

This, combined with reduced emigration opportunities, has contributed to growing open unemployment. At the beginning of the seventies unemployment in borrowing Member States was estimated at 14% in the MDCs and 9% in the LDCs as compared with an estimated 20% for both MDCs and LDCs at the end of the seventies.

The performance of the mining sector tended to vary from country to country. The increasing price of petroleum buoyed up revenue and foreign exchange earnings in Trinidad and Tobago and these are being used to assist in the diversification of this economy. In Jamaica and Guyana fluctuating international demand for aluminium products led to fluctuating performances in the mining sector. However, the decade saw continuing attempts being made by the governments to increase the level of national ownership in these enterprises, to diversify and increase market outlets and to increase the level of local value-added.

Tourism was one sector which exhibited real growth despite interruptions during the international recession of 1974-76. Major new entrants into the sector included St. Lucia while significant traditional tourism destinations such as Bahamas, Barbados, Antigua and the Cayman Islands continued to consolidate their positions. Jamaica's tourism which had a serious set-back in the middle to late 1970s has shown fair recovery at the end of the decade. Tourism arrivals to Bank borrowing member countries which numbered 1.7 million in 1970 are estimated to have increased to 2.6 million in 1978.
Under the protective umbrella of the CARICOM arrangement and facilitated by other industrial advantages of available, cheap and efficient labour and international market prospects, Caribbean governments have made fairly successful efforts at fostering industrial development to help alleviate the unemployment situation, increase output and diversify their economies. The industrial emphasis has been mainly on nationally and regionally owned import substitution enterprises catering for domestic and regional markets and enclave enterprises, largely foreign owned, producing light manufactures and components mainly for extra-regional markets. Trinidad and Tobago on the other hand has embarked on a large-scale heavy industrialisation programme, based on its resources of oil and natural gas. Two major limitations in the drive towards industrial development are the difficulties faced by non-enclave industries in penetrating extra-regional markets and the failure to make greater use of regional raw materials and other inputs. Nonetheless, even with these efforts the share of the manufacturing sector in Gross Domestic Product has grown from 12.3% in 1970 to an estimated 18.1% in 1978.

The increasing price of oil - a major input in today's technology - not only led to considerable deterioration of the terms of trade but also triggered off direct and indirect price increases in most other goods and services. Energy imports into member countries (excluding Trinidad and Tobago and Bahamas) which in 1973 amounted to 11% of total merchandise imports, rose to 21% in 1978 despite conservation practices in many territories. This situation, coupled with widely fluctuating and rising exchange rates for currencies of some major trading partners, led to staggering price increases. During the seventies the typical annual inflation rate increased from 5% to 25% for the MDCs and from 8% to 25% for the LDCs. The 1980 direct energy import bill is expected to double the 1978 bill and to exceed US$1 billion and to produce another round of balance-of-payments problems and inflation.

In order to maintain some growth momentum and sometimes simply to maintain a certain basic standard of living during the period of soaring inflation at a time when long-term official inflows of capital were not adequate to the situation, the governments of many of the countries had to resort increasingly to excessive short-term external borrowings which, during inflationary times, meant higher interest rates. Prior to the seventies, many countries, notably the LDCs, had low levels of external debt as they did not need to depend heavily on foreign borrowing to finance their development, investment and imports. Today, the situation has changed dramatically and in some countries external debt is more than 40% of GDP, is significantly larger than gross international reserves, and debt service is more than 15% of exports of goods and services, and more than 35% of government recurrent revenue. In the most seriously affected country annual external debt service grew from US$34.3 million in 1973 to US$146.6 million in 1977. The problem is that there appears to be little prospect of an easing in the attendant difficulties.
Despite the limitation of small size, narrow resource base, and restricted sectoral possibilities, a few of the smaller members of the Bank have been able to weather the storm and even improve their situation. This has been due to a growing tourism sector. Indeed, the countries which have done better than others have had either the "black gold" of oil or the "white gold" of tourism. Moreover, in some of the smaller countries with the "white gold" of tourism, good economic management has also helped.

IV. THE TEN CHALLENGES OF THE NINETEEN-EIGHTIES

Of the ten challenges of the 1980s, five face the borrowing Member Countries of the Bank and five face the Bank itself.

The five challenges facing the borrowing member countries are:

m. Improving the Balance-of-Payments Situation and Determining Urgent Sectoral Priorities in Production;

n. Improvement and Better Utilisation of our Human Resources;

o. Defining the Role and Functioning of the State, Small-Scale Enterprise and the Private Sectors;

p. The Deepening of the Regional Integration Movement; and

q. Improving the Quality of National Economic Management.

I shall thereafter present five challenges facing the Bank in its policies and operations as follows:

r. Determining the Role of the Bank as a Development Agency;

s. Re-defining the Financing Priorities of the Bank;

t. Improving the Structure and Functioning of the national DFCs;

u. Determining Levels of Bank's Lending Programmes and Terms and Conditions of Raising Funds; and

v. Consolidating and Rationalising the Relationship with other Aid Donors.

I shall start with the five challenges facing the borrowing Member Countries.

V. THE FIVE CHALLENGES FACING THE BORROWING MEMBER COUNTRIES

(a) IMPROVING THE BALANCE-OF-PAYMENTS SITUATION AND DETERMINING URGENT SECTORAL PRIORITIES IN PRODUCTION

Balance-of-Payments Problems
I have already alluded to the balance-of-payments difficulties being faced by most borrowing member countries. This situation is expected to continue.

In the light of this, the strategy of the oil-importing countries - both in the Region and the rest of the world - must be twofold.

First, to enable the economies to have enough foreign exchange to assist steps towards adjustment and to maintain economic activity in the medium-term, significant levels of balance-of-payments support on soft or very soft terms will have to be provided by both the industrial and the oil-exporting countries.

The responsibility cannot be that of the latter alone since any relief gained by the oil-importing developing countries will redound to the advantage of the developed industrial countries whose export orders will increase as a result. It is to be hoped that the industrialised countries will play their part in easing the balance-of-payments problems of the borrowing member countries of the Bank through aid mechanisms such as the Caribbean Group for Cooperation in Economic Development.

It is also to be hoped that the OPEC countries and other oil exporters can play their part in providing balance-of-payments support on appropriately soft terms both multilaterally through a greatly expanded OPEC Special Fund and bilaterally through the terms on which individual oil-exporting countries sell oil to developing countries that are net importers of oil. The exporters can assist the importers partly by granting cash rebates on the price of exports of oil and partly by providing credits on the softest possible terms to finance the purchase of oil.

In the context of our borrowing member countries that are net oil importers, it appears that some relief may soon be at hand from two sources, both member countries of the Bank: Trinidad and Tobago and Venezuela. These two countries, which have already given substantial balance-of-payments support to the countries of the Region, are now considering additional support.

Trinidad and Tobago is now streamlining its aid mechanism to help its CARICOM partners meet the increased costs of petroleum, fertilizer and asphalt imported from Trinidad and Tobago, with the objective that purchases in a particular year would be converted into loans on concessionary terms. Similar arrangements are now being worked out under the proposed Venezuelan Oil Facility for the Central American and Caribbean countries.

Second, and even more important, the countries of the Region must adjust to the new situation created by the massive deterioration in their terms of trade. And the only fundamental method of adjustment is to increase production for exports and import-substitution, make greater use of local and regional raw materials and other inputs and carefully husband whatever scarce foreign exchange is earned.
It is therefore to the sectoral priorities in production that we now turn.

**Urgent Sectoral Priorities in Production**

In the 1980s we will continue to face problems inherited from the 1960s such as unemployment and the inability to feed ourselves, together with the problems which arose in the 1970s. There is one new problem which is absolutely fundamental - Energy. Apart from continuing pursuit of full productive employment and a greater degree of self-sufficiency in food, all of us - producers and non-producers of oil alike - have to tackle the enormous problems of Energy.

**The Energy Problem**

This involves four lines of action.

First, vigorous efforts must be made to explore sources of fossil fuel - that is, oil and natural gas. There are good reasons for believing that many borrowing member countries have potential for development, both on-shore and off-shore, of resources of oil and natural gas.

Second, efforts must be made to develop alternative sources of renewable energy, among them large- and small-scale hydro, geothermal, biomass, solar, wind and tidal energy. The Bank and the Caribbean Community Secretariat are now carrying out some modest programmes in Alternative Renewable Energy Systems financed by USAID.

Third, as an essential part of National Energy Planning, we have to develop national energy accounting systems.

Fourth, we all have to undertake the development and implementation of national policies on the use, conservation and rational pricing of various sources of energy.

With regard to pricing, it would be idle to assume that internal prices for petroleum products and natural gas (and therefore electricity rates and transport charges as well) should not reflect world scarcity prices which are certain to further increase relatively to those of most other commodities during the 1980s and indeed during the 1990s as well. Finally, there is the question of actual conservation which is an essential part of implementing national energy planning and policies. Obviously, one of the main instruments of conservation is proper pricing policies which reflect the world scarcity and high cost of various forms of energy.

**The Food Problem**

For several decades now we in the Caribbean have been talking about our deficient food production and the need to become more self-sufficient in food. It
is also well known that we can increase local food production without reducing the volume of traditional agricultural export crops, since both land and labour are available to do both things. One does not have to look far to see that not much has been achieved in this much discussed goal - although Guyana and Jamaica seem to be making some progress.

In fact, in the 1980s we will be facing not just a World Energy Crisis but also a World Food Crisis. Indeed, increased food production must definitely be made an urgent priority during the decade of the eighties for at least the following reason:

w. there is currently a world food shortage and all the knowledgeable forecasts point to deterioration in the world food situation;

x. food exporting countries, in a situation of world food shortage, will be able to push up their prices beyond the ability of the masses of the people of the food importing countries to pay;

y. even if their consumers are willing and able to pay the extremely high prices for imported foods in the years ahead, the Caribbean countries will largely be unable to provide the required foreign exchange to meet the food import bill at the same time as they must meet the oil import bill, external debt service and the foreign exchange cost of imported equipment, spare parts and raw materials needed to maintain, let alone, increase levels of overall production.

It is expected that the combined efforts of national governments and the Caribbean Food Corporation will enable us to meet successfully this challenge of greater regional self-sufficiency in food.

Other Sectors

Energy and food then should be the main sectoral thrusts of the 1980s. But continuing efforts will also have to be made to develop more local and regional raw materials and inputs, to increase our exports of manufactures and tourism services to extra-regional markets and to create more linkages both intra-sectorally in our national economies and the regional economy.

It should be clear to everyone now that, apart from small enterprises, production in the manufacturing sector must be aimed more at regional rather than national import substitution and must also be increasingly geared to penetrating extra-regional markets.

This last requires a change in the balance of incentives (both fiscal and protective) to tilt the balance more in favour of extra-regional exports as against production
for the national and regional markets.

At the same time we must not overlook the importance of regional integration for the development of basic industries using regional raw materials and other inputs - such as cement, iron and steel, alumina, natural gas, petrochemical feedstocks, wood, pulp and paper, hydro-electric power, caustic soda and chemical lime, etc. And Technology Research and Development is one of the obvious elements not only in developing local and regional raw materials and other inputs but also in generating more employment through the application of appropriate technologies.

The slogans for production in the eighties must therefore be:

- More Energy Production and Conservation
- More Production of Food, Basic Materials, Raw Materials and other Inputs
- More Exports of Manufactures to Extra-Regional Markets
- More Linkages within and between Sectors of the National Economies (including Tourism) and between the separate National Economies of the Region
- More Research and Development to exploit regional raw materials and to build up Basic Industries and to develop more appropriate technologies, particularly labour intensive ones.

(b) IMPROVEMENT AND BETTER UTILISATION OF HUMAN RESOURCES

It is now universally accepted that the quality and intensity of utilisation of human resources is the crucial determinant of development.

There are four dimensions to the problem of improving and better utilising our human resources:

- The Creation of More Productive Employment
- The Upgrading of the Quality of Human Resources at all levels
- The More Effective Utilisation of whatever Human Resources we may have
- Increasing the Absorptive Capacity of our Borrowing Member Countries

Creation of More Productive Employment
The means to the creation of more productive employment are now well appreciated. I shall therefore be very brief. They include a proper combination of policies on exchange rates, interest rates, fiscal incentives, incomes, and exports and imports to encourage and promote more labour-intensive patterns of economic growth. They also include the encouragement of more labour-intensive sectors and activities - such as small-scale enterprises, local food production and construction. And, finally, they include the development of more appropriate and labour-intensive technologies and by now well-understood changes in the entire educational and training systems. Without special government policies and programmes, the "normal” process of economic growth cannot by itself bring about reasonably full productive employment.

Upgrading of the Quality of Human Resources at all Levels

Upgrading the quality of human resources involves, first of all, the provision of managerial, organisational and technical skills at all levels - in particular, the "middle level" or para-professionals, supervisors, technicians and skilled workers. It also entails well-conceived, well-designed, well-delivered and cost-effective programmes for meeting the basic needs, particularly of children, in Nutrition; Health (especially in the preventive and community-oriented fields and in the area of greater access to potable drinking water supplies); low-cost Housing; and formal and informal educational and training systems - all of this being subject to the constraints of governments' budgetary resources.

The More Effective Utilisation of Whatever Human Resources we may have

It does not require much perception to see that the human resources of the countries of the Region are operating far below their full potential - in both the public and private sectors of the economy.

The more effective utilisation of such human resources as are available calls for better manpower planning, better organisation of work and better personnel policies in both the public and private sectors of the economy. In all developing countries, including our own, there are too many square pegs in round holes and it is reasonably clear to all concerned that there is scope for tremendous increases in the productivity of persons in both the public and private sector. What is involved here is the elusive but nevertheless very real factor of motivation. This is the essential reason for having at the local level greater community participation in programmes that affect the welfare of individuals in such communities. And, more generally, this is the justification for the whole approach of "development from below".

Increasing the Absorptive Capacity of the Bank's Borrowing Member Countries
The special issue of increased capacity for absorbing CDB's funds in our borrowing member countries cuts across all the three points just discussed. Suffice it to say that this issue is partly one of Bank Technical Assistance and partly one of the provision of training at all levels in the various aspects of the Project Cycle.

The Bank has established a Project Administration Training Unit which will, over an initial three-year period, provide training for high level and intermediate level officials in borrowing member countries in all phases of the project cycle, i.e. identification, preparation, appraisal, implementation and evaluation. However, the full benefits of the training programme will be realised only if governments of the borrowing member countries make a conscious effort to place the officers trained by the Unit in positions where their skills can be put to the best possible use. Indeed, the same can be said for all trained staff.

(c) DEFINING THE ROLE AND FUNCTIONING OF THE STATE, SMALL-SCALE ENTERPRISE AND THE PRIVATE SECTORS

Both because of the provisions of the Bank's Charter and because each borrowing member country of the Bank has a right to choose its own path to development, it is certainly not for me to suggest to member governments what role they wish to give to the State, the small-scale enterprise sector and the private sector - this last whether foreign, regional or national. I can only comment on some of the technical aspects of this issue.

First, ideological orientation must provide no excuse for not pursuing the highest possible level of managerial and operational efficiency in all sectors and the highest degree of autonomy and decentralisation of decision-making in State enterprises, where these exist.

Second, it is obvious that in all the countries of the Region the governments allow scope for the private sector - even though the extent of such scope may vary somewhat from country to country. But, whatever the scope, it is in the interests of each country that this sector should operate at the highest level of efficiency.

Third, in every country, whatever its particular ideological orientation may be, there should be clear-cut and unequivocal policies on the role and functioning of the private sector - foreign, regional and local.

Fourth, the small-scale enterprise sector, whether operated individualistically, cooperatively or by Community and other "People's" Enterprises, has a crucial role to play in development because such enterprises tend to promote employment by having lower capital costs per unit of output and employment, can train entrepreneurs and managers for the medium-sized and large-scale private sector, and can provide a source of inputs to local industries. Success in this area requires the provision of considerable amounts of technical assistance.
First, given the role assigned to the private sector in any particular country's development policy, it is important that the government should stimulate the private sector to attain the assigned tasks not only in the interests of promoting overall economic growth and structural transformation of the economy, but also in the interests of increasing the taxable capacity of the country and preventing a drain on the government's budget which results from inefficiently operated State enterprises.

Finally, there should be scope for foreign private capital and imported technology to play a vigorous role in the development process of every country in the Region, provided such capital can be intelligently promoted and regulated under well-known and clear-cut "rules of the game".

(d) DEEPENING THE INTEGRATION PROCESS

One must never forget that the Bank is mandated under its Charter to promote economic cooperation and integration among its borrowing member countries. It should also be stressed as both our Annual Report for 1979 and the document entitled CDB: The First Ten Years make clear, that our Bank has been playing a not unimportant role in the Caribbean integration process by way of discharge of its mandate.

It should therefore be generally accepted by our members that the Bank should seek to play an even greater role in promoting Caribbean economic integration in the decade of the 1980s.

To a large extent, even with the best of intentions on the part of the Bank, it cannot play a major role in economic integration unless the member governments of the Caribbean Community themselves decide to deepen the integration movement in a serious way. In this connection, I must draw attention to the extreme difficulty faced by the Bank in financing regional projects partly because of lack of political will, partly because of the difficulty of obtaining agreement among the countries involved in a multi-national project on the main location of the project and partly because of certain legal impediments at the national level to the establishment and operation of regional projects.

Recently, there has been much discussion as to whether ideological differences among the member states of the Caribbean Community are a serious barrier to meaningful integration.

Let me merely observe that such slight substantive (as distant from rhetorical) differences as may now exist in the ideological orientation of the various countries of the Region are not, and should not be allowed to constitute a barrier to the meaningful economic integration of the Region. Economies of scale in production of marketable goods and services, in enhancing through joint actions
the external bargaining-power of the countries of the Region and in Intra-regional Common Services in certain areas of Development Planning and Administration are obviously not a function of ideology.

It is my earnest hope that these real and imaginary obstacles will be overcome early in this decade. One welcome step is the recent Decision of the Sixteenth Council of Ministers of the Caribbean Community to set up a Group of experienced West Indians (which includes both the first President of the Bank and myself) to draw up a Strategy for Caribbean integration in the Eighties.

(e) IMPROVING THE QUALITY OF NATIONAL ECONOMIC MANAGEMENT

And so we come to the most important challenge facing the borrowing member countries of the Bank in the eighties - the need to improve the quality of national economic management. It is a challenge that is more important than ever in view of the near certainty of a continuation into the eighties of the unfavourable external economic environment of the seventies.

There is no doubt that in the majority of borrowing member countries there is considerable scope for raising the quality of national economic management - whether in the planning, formulation and implementation of national economic and social development strategies, policies and programmes; the setting of sectoral priorities and project selection and implementation; fiscal, monetary, financial and debt management policies and practices; of the prudent husbanding of foreign exchange resources; the control and monitoring of public expenditures; or in the management of State enterprises and Public Utilities.

For in the decade of the 1970s the quality of national economic management in both MDCs and LDCs - with a few outstanding exceptions - fell well below what was required for lasting economic and social progress in the context of a very difficult external economic environment. Thus, we have examples of too much spending on unproductive programmes and projects which, in spite of the best of intentions, were perhaps over-ambitious and not as well conceived and implemented as possible. To make matters worse, not only could few of these programmes and projects be regarded as directly productive but many appeared to have been financed from inappropriate sources such as borrowing from Central Banks and Monetary Authorities or very short-term borrowing from commercial banks, both locally and abroad. We have also had less than firm setting of priorities at the global, sectoral and project levels. And, not least, there has often been less than maximum mobilisation of domestic financial resources for development in both the public and private sectors. Furthermore, in many cases, the efficient management and operation of many State Enterprises and Public Utilities has been impeded and this has resulted in large recurrent deficits, further burdening the already strained Central Government recurrent revenues. Prominent among the contributing factors have been the failure to increase prices, rates and
charges and in many cases allowing Public Utilities to build up substantial "receivables". Thus, the State Enterprise sector and the Public Utilities may have in far too many cases been "dissaving" instead of making profits or surpluses and in many countries have come to constitute a heavy burden on the Central Government's recurrent budget.

We must, however, not overlook the fact that there has been all along an extenuating circumstance operating in all the borrowing member countries - both MDCs and LDCs. This is the constant pressure of demands for increases in salaries and wages in both the Civil Service and the rest of the Public Sector which often result in the frustration of the achievement of any potential recurrent budget surpluses in some cases and the further increase of recurrent deficits in other cases. Very often, and quite understandably, governments have not been able to resist this constant pressure during the highly inflationary decade of the nineteen-seventies.

The quality of national economic management also ought to be improved in respect of negotiations with foreign private investors. In desperation, some LDC governments, rather than strengthen their negotiating capacity to deal with official aid donors and bona fide foreign private investors, tend to rely on "fly by night" promoters who promise "instant development". Not unnaturally these approaches come to grief sometimes after costly internal strife.

It only remains to repeat once again the well-known fact that in many countries of the Region the Civil Service is in great need of better organisation and more expeditious functioning in a context of clear-cut allocation of responsibilities and delegation of authority. Innovative problem-solving rather than mechanical reference to precedents and the writing of long and for the most part irrelevant "minutes" so as to avoid making decisions also need to be encouraged.

It is true that one of the main bottlenecks has been the shortage of trained manpower at all levels - especially middle and upper. But again, this cannot fully explain the taking of certain strategic decisions relating to the economies and finances of some countries, with results which could hardly have been intended.

Nor does either ideology or size explain the apparently better performance of the three or four countries with good records of fiscal, financial and general economic management. For none of these countries proclaims the same ideological position and they are certainly of differing economic size.

This then is the foremost major challenge of the decade of the 1980s - the need to learn from the mistakes, imperfections and inadequacies of the seventies and to introduce urgently improved systems and standards with regard to national economic management. Unless this challenge is successfully met, there can be little ground for optimism concerning the prospects of the nineteen-eighties.
VI.  FIVE CHALLENGES FACING THE BANK

(a)  DETERMINING THE ROLE OF THE BANK AS A DEVELOPMENT AGENCY

It has been frequently said that our Bank has a dual function: it is both a Bank and a Development Agency. The Charter spells out at great length the purpose, functions and fundamental policies and procedures of our institution as a bank.

But it is not entirely silent on our role as a development agency. Indeed, both Articles 1 and 2 of the Charter state explicitly that our institution has to assume certain development agency functions and this is also implied in other parts of the Charter. The real question for resolution for the decade ahead is whether we should increase, maintain or reduce our role as a development agency.

It should also not be overlooked that the idea of our Bank emerged from a November 1966 recommendation of a Team of Experts jointly established by the UK, Canada and the USA to formulate plans for the achievement of economic viability by the Leeward and Windward Islands and Barbados, that a Regional Development Agency, including a Regional Development Bank Division, be established.

Certain development agency functions, as distinct from normal banking functions relating to the intermediation of funds, are inescapable for institutions such as the CDB. These are:

ii. The provision of soft loans for projects or programmes of high developmental priority but which may not necessarily be self-liquidating in financial terms; and
jj. The provision of technical assistance relating:

i. to the identification, preparation and implementation of national and regional projects and programmes; and
ii. to general development needs such as macro-economic and sector planning, financial planning, institutional development, project training, statistics, export promotion, etc.

It would be difficult indeed to find an international, regional or national
development bank which does not play even a minimal role as a development agency in terms of these functions.

A third development agency function is likely to become increasingly relevant to institutions such as the CDB. This function relates to the fostering of research and development (commonly called R & D) and dissemination of information which may lead to appropriate solutions of critical problems facing borrowing members, e.g., in the Appropriate Technology and Alternative Energy Systems programmes financed by USAID.

The Bank has already assumed this third function partly because it is convinced of the needs of its borrowing members in this area and partly because other financing agencies considered CDB as the most appropriate institution to take on this role. Other functions of this nature could arise as the development environment changes and the institution evolves.

A fourth development agency function is usually one that gets thrust upon institutions such as the CDB because of their operational focus and experience. Such a function is that of operating as an agency or vehicle for the transmission to borrowing members of resources which would not normally form part of the Bank's financial intermediation functions.

One example of this for CDB is the Basic Human Needs Programme which most likely would not have been available to the Bank's LDC members without CDB's involvement. The Caribbean Development Facility would, at least in part, also fall into this category. And the IDB has used our Bank as the channel for passing on grant-funded Technical Assistance to other regional bodies such as the Caribbean Community Secretariat and the Caribbean Tourism Research and Development Centre, since these other regional institutions are not, as is our Bank, legally eligible to receive directly IDB funds.

The troublesome question is whether we should maintain, reduce or increase our role as a Development Agency. We should bear in mind that there are still many development gaps remaining to be filled and if they cannot be filled by local effort, by bilateral assistance, or by other regional institutions, we as a responsible Regional Development Bank may find it difficult to refuse to assume the burden of such functions. The most pressing issue arises in respect of the administration of certain special programmes (often, although not always, embodied in special funds) on behalf of donor countries - both members and non-members - and multilateral institutions.

My own personal view on this is that we should maintain rather than reduce or increase the present scope of our role as a development agency provided that four essential conditions are satisfied:
xxxvii. we are actively engaged in the formulation of the special programme with the bilateral and multilateral donors, as indeed we have been so far;

xxxviii. we are compensated adequately for both our direct and indirect staff and other expenses incurred in administering special programmes and special funds;

xxxix. we are left free to administer the special programmes (and special funds) without the direct intervention of the particular donor country or countries, as against their receiving regular progress reports from the Bank; and

xl. the functions of our Bank as a financial intermediary are not overwhelmed by the development agency functions. For it is only by striking a proper balance between these two functions that we can most effectively contribute towards satisfying the diverse development needs of our borrowing member countries.

(b) RE-DEFINING THE BANK'S FINANCING PRIORITIES IN THE 1980s

Present Financing Priorities

With regard to our financing priorities in the 80s, the original priorities set out at the 1971 Board of Governors’ Meeting by the first President of the Bank would seem to retain their validity: first, Agriculture; second Industry; third, Tourism; and fourth, Infrastructure immediately and directly related to productive activities. Since then we have in addition been engaging in a modest amount of housing financing, particularly for low-income and lower-middle income groups, emphasising aided self-help and sites and services projects. We have also been engaging in a Students' Loan Scheme restricted to the LDCs.

Need for More Emphasis on Production and Less on Infrastructure

In this connection I would urge that, notwithstanding the importance of economic infrastructure, member governments should in their loan applications give as much stress as far as possible to the directly productive sectors as against infrastructure. This is so because the real crisis which we in the Region face in the decade ahead is a crisis of production.

Energy

Above all, we should seek to increase our financing of alternative small-scale renewable energy programmes and projects. We will be unable to finance the exploitation of hydrocarbons simply because we do not have the necessary quantum of financial resources, although in some cases we could, in conjunction with other sources of funding, finance some of the less costly pre-investment work as we have recently done in conjunction with UNDP for a Barbados oil
exploration programme.

Programme and Sector Lending

We could also consider the continuation of a small amount of programme (as distinct from project) lending, which will assume some importance in view of the serious balance-of-payments situation likely to exist in several of our borrowing member countries. We also need to pay more attention to sector loans, since they are a mixture of project and programme loans and are particularly suited to our smaller borrowing member countries.

More Funding of Regional Projects

Finally, we would of course very much like to increase our financial commitments in respect of regional projects, provided that the difficulties with such projects can be overcome.

Increased Financing of the Private Sector

There is also the important issue of our support to the private sector. Contrary to the statements of some spokesmen for the private sector in the Region and of certain extra-regional multilateral agencies, we have done a lot to finance the private sector in the Region. We have done so both directly in the areas of industry, agriculture and tourism and we have done so indirectly through providing finance for small-and medium-sized enterprises in the same three sectors through our global lines of credit to the national development banks or development finance corporations. In respect of financing of the private sector, our funds in the form of loans and equity made available to private enterprise directly, or through loans to national development finance corporations to be on-lent directly to private enterprises, or to construct industrial estates for private enterprise, absorbed US$59.2 million or 22% of the Bank's total financing approvals during the first ten years of our operations. Moreover, it does not seem to be widely known that under its Charter the Bank can, unlike most international development banks, not only lend to private sector enterprises without government guarantee but can also make equity investments in productive enterprises. Indeed, our Board of Directors has recently decided, as a means of further stimulating the Bank's lending to the private sector, to lengthen the maximum term of our Ordinary Resources loans to productive enterprises in Industry and Tourism and to ease the formal procurement procedures of the Bank so that only "competitive shopping around" for industrial equipment would be required. We hope that, with the cooperation of the local and regional private sector, we can in the eighties increase our lending to the private sector.

With regard to the CIC (to which we have made an extremely soft loan and have provided much Technical Assistance), I will make two brief observations. This institution has been making a valiant effort under extremely difficult
circumstances but unfortunately has so far been unable to attain financial viability - partly because of its small scale of operations and partly because of its heavy emphasis in the past on equity investments as against loans. Second, in any decision on its future we in the Region should bear very much in mind the need to maximise the use of scarce financial resources and even scarcer skilled manpower resources.

Too often, in the past, has the search for a solution of a particular problem facing the Region led the searchers, both regional and non-regional, to recommend the establishment of a new institution without paying sufficient attention to the serious strains which the proliferation of institutions will inevitably place on the scarce human and financial resources of the Region.

(c) IMPROVING THE STRUCTURE AND FUNCTIONING OF THE NATIONAL DFCs

For years now my Annual Statements to the Board of Governors have been discussing ad nauseam the need for improvements in the structure and functioning of the national DFCs in both the LDCs and the MDCs. Last year we made some tangible progress in this regard. We are mobilising additional resources, including banking experts, to assist the LDC Governments in their task of restructuring their DFCs. And we have secured soft resources from IDA and USAID and have been offered similar resources from the EIB in order to help the LDC governments to properly capitalise their DFCs. Needless to say, we will be permitted to use such funds only in properly restructured, well-managed and properly functioning DFCs which have good prospects of achieving in the medium-term some kind of financial and operational viability. In many of the smaller LDCs the achievement of this goal would most likely entail the amalgamation of two or more sectoral specialised DFCs into one single multi-sectoral institution. Indeed, it may be necessary in perhaps most of the LDCs to go further and establish a single National Bank with both commercial and development banking windows.

Also relevant to restructuring is the need for the DFCs to increase their on-lending rates to well over 10% on average in order that they can achieve a good "spread" between the cost of money to them and the rate of interest at which they on-lend such money. For, particularly in the small less developed countries, even if single multi-purpose DFCs or single National Banks with both commercial and development windows are created, the volume of business is likely to remain restricted and therefore requires a fairly big spread between borrowing and lending rates in order for them to be able to achieve or come close to achieving financial viability.

Because of our concern to have properly restructured and well functioning DFCs we have reduced our lending to them while the governments concerned take steps to improve the structure and functioning of these institutions. We have also reduced our lending to those DFCs in the MDCs which have been accumulating
arrears on sub-loans until they reduce substantially such accumulation. We are however anxious to resume a high level of lending to all DFCs in both the MDCs and LDCs as soon as they are restructured, properly functioning and are on the road to viability.

(d) DETERMINING LEVELS OF BANK’S LENDING PROGRAMMES AND TERMS AND CONDITIONS OF RAISING FUNDS

The Three Principal Sets of Issues

There are several sets of issues falling under this heading. The first is whether our lending programmes for both soft and hard money should increase during the decade - and by how much. The second is whether we should continue raising soft loan contributions via a large number of separate special funds as against grant contributions to the Special Development Fund. The third concerns our on-lending rates for both hard and soft resources.

Size of Bank’s Lending Programmes

All successful commercially-oriented institutions, whether in the public or private sectors, show a tendency to expand. Indeed, if a commercially-oriented institution is not expanding its activities at a reasonable and prudent rate, then its viability and efficiency need to be closely reviewed. It is therefore not surprising that the Bank has had a fairly rapid expansion of its lending programme for both hard and soft resources in its first decade of operations. The question then is whether in our second decade we should aim at maintaining, increasing or decreasing the growth of our operations. In a sense the answer to this question depends on the answer to two other questions:

- whether the resources can be properly and productively used by the borrowing member countries; and
- whether we can raise the necessary resources on reasonably good terms and conditions.

If I were asked to give an answer to the first question, my reply would be in the affirmative, provided of course that the projects and programmes financed are of high developmental priority, make a significant contribution to the economy of the borrowing member country and strengthen rather than weaken its public finances and balance of payments, and provided that there is appropriate national economic management in borrowing member countries whereby all projects and programmes meet the abovementioned criteria.
Moreover, our borrowing member countries have growing requirements for long-term official development financing on reasonably good terms because of growing populations with growing basic needs, growing rates of urbanisation and consequent heavy demand for infrastructure, growing unemployment (with some exceptions), rising external debt service and growing deficits in Food and Energy.

**Raising of Hard and Soft Loans on Reasonably Good Terms**

The answer to the second question, about our ability to raise the necessary resources on reasonably good terms, I would suggest, depends on:

- Whether the Bank’s member countries can put it in the best possible position for raising both Ordinary Capital Resources and contributions to the Special Development Fund; and
- The prevailing financial situation in the world's capital markets.

As regards Ordinary Capital Resources, we shall certainly from time to time need more capital subscriptions - both paid-up and callable - from our member countries. And since the callable capital subscribed by financially strong member countries of the Bank determines the upper limit of the Ordinary Capital Resources borrowing, we may well have to examine the case for admitting new members who can qualify as financially strong.

This is only a pre-requisite for raising resources and will not guarantee reasonable borrowing terms. The latter would depend on the continuing soundness of the Bank and the prevailing financial situation in the world's capital markets. We have optimism for the former and hope for improvement in the latter.

**Co-Financing**

As a means of extending the leverage of its Ordinary Capital Resources, the Bank would also have to give consideration to widening its co-financing sources. To date, the Bank has co-financed to a very limited extent with international financial institutions and DFCs in the Region. However, there is potential for extending co-financing arrangements to include commercial banks and insurance companies both from the Region and outside. In addition, we would have to explore co-financing possibilities with official agencies, particularly those of OPEC countries, and export credit institutions.

**The Issues of New Donor Membership and Multiplicity of Special Funds**

With regard to soft resources, there is also a strong case for admitting financially
strong, new donor members to the Bank because of the need to increase the
amounts contributed to our Special Development Fund, which incontrovertibly
should be uniform as between donors in respect of financial terms and conditions;
in methods and rate of contribution; in procedures on procurement, etc.; and in
permitting the Bank's Board of Directors (and not the donors) to determine the
purposes and borrowing member countries for which it can be used.

It is now crystal clear that even though we in the Bank may accept our role as a
Development Agency fully, both the borrowing member countries and the staff of
the Bank cannot any longer cope adequately with any further proliferation of
specific special funds resources, pre-packaged for pre-specified purposes and
involving repayment with interest by the Bank. At the moment we now have in
the Bank, from an accounting point of view, thirty separate special funds (mainly
soft but in a few cases hard), contributed not only by member and non-member
donor countries but also by multilateral financing agencies. In respect of that
latter, each loan they make to us must, accounting-wise, be regarded as a separate
special fund, as is the case with soft loans from donor countries.

Moreover, the soft loans to the soft special funds (other than the Special
Development Fund) have to be repaid with interest by the Bank and therefore
have to be on-lent by the Bank at higher rates so as to cover the Bank's
administrative costs and to build up reserves. This prevents our LDC borrowing
members from getting the kind of soft money which is justified by the state of
their economies and public finances and, potentially, their balance of payments.
Thus, we now lend soft funds - whether SDF or separate special funds - at a
maximum term of 25 years, including a five-year grace period, and at an interest
rate of 4%. On the other hand, the condition of the economies and public finances
of the LDCs would justify even softer terms - say, 40 years repayment period,
including a ten-year grace period, and an interest rate of not more than, say, 2%
per annum.

It seems to me essential that for these reasons our largest single donor country
should as a matter of urgency consider becoming a full member of the Bank so
that is can contribute on a grant basis to a single unified Special Development
Fund and so that its callable capital can be used as backing for Ordinary
Resources borrowing. But if the largest donor country finds this impossible, the
Bank should intensify its efforts to attract to its membership other financially
strong countries both in this Hemisphere and among the OECD countries which
could provide the necessary resources to the Special Development Fund and as
callable capital for backing of Ordinary Capital Resources borrowing. This would
make the Bank less dependent on the present multiplicity of special funds
provided for prespecified purposes and on loan (as distinct from grant) terms by
the largest single donor country as a source of concessionary funds for financing
projects in the LDCs. In saying this I am not unmindful of the magnificent
support of the Bank's soft operations by the largest donor country (which has
contributed one-half of the total of our soft resources); all I am saying is that such
generous QUANTITATIVE support would be even more effective in future with certain QUALITATIVE changes.

Greater Mobilisation of Domestic Financial Resources in the LDCs

As part of the process of promoting greater mobilisation of domestic financial resources in our borrowing member countries we will, I suggest, have to give thought to EITHER issuing local currency bond issues in the LDCs for the purpose of making local currency loans to these countries OR encouraging the LDC governments themselves to issue such bonds to finance all or part of some of their development projects. The various Provident Funds and National Insurance Funds as well as the funds of Insurance Companies available and not being optimally utilised provide the justification for both courses of action.

Bank's Onlending Rates for Ordinary Capital Resources

With regard to Ordinary Capital Resources, I have already dealt with the raising of such Resources. Let me just add that, with regard to the on-lending rates of such resources, the Bank would have to be guided to a large extent by the cost at which it can raise such resources whether from the capital markets or from multilateral institutions such as the World Bank, the IDB and the EIB. It is likely that on the whole the capital markets in the 1980s will exhibit higher interest rates than in the 1970s.

(e) CONSOLIDATING AND RATIONALISING THE RELATIONSHIP WITH OTHER AID DONORS

VII. CONCLUDING OBSERVATIONS

Mr. Chairman, Honourable Prime Minister, Distinguished Governors:

The Bank has been able to serve its borrowing member countries with a reasonable degree of success in the very difficult national, regional and international environment of the seventies.

This has been due to three main factors.

First, the generous support of the fledgling Bank by both donor member countries such as Canada, Colombia, Trinidad and Tobago, the United Kingdom and Venezuela and by non-member donor countries such as the Federal Republic of Germany, New Zealand, Nigeria and the USA, as well as by multilateral institutions such as the UNDP, World Bank, IDB and the EIB and EDF of the EEC. I wish to take this opportunity to offer my personal thanks to all of these countries and institutions for their support of the Bank.
Second, the perspicacity and high sense of responsibility of our Board of Directors.

Third, the imaginative and dedicated efforts of the first President, the holders of the office of Vice-President and the Directors of Departments, the Deputy Directors, Assistant Directors, Project Officers and other professional and non-professional staff, including Administrative Officers, Secretaries, Clerical Officers and all other employees of the Bank. My personal thanks are due to all the past and present members of the staff of the Bank. They have laboured hard and long and with dedication to the cause of the development of our Region and its constituent countries. They therefore could do with an occasional expression of thanks even if this has to come only from the Chief Executive Officer of the institution in which they have laboured and will continue to labour.

I am confident that, with the continuing full support and positive backing of our member countries as well as our non-member donor countries and multilateral agencies, our Bank can face the tremendous challenges of the decade of the eighties with a considerable degree of optimism and courage.

1/ The use of funds lent to us by the World Bank, however, requires a Government guarantee.