ADJUSTMENT AND RECOVERY IN THE CARICOM ECONOMIES
STATEMENT BY WILLIAM G. DEMAS
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CARIBBEAN DEVELOPMENT BANK
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I. INTRODUCTORY REMARKS

Mr. Chairman, Distinguished Governors, Members of the Board of Directors, Your Excellencies, Observers, Guests:

It is with a sense of homecoming that our Distinguished Governors have gathered here today in the impressive capital of the beautiful Island of Jamaica. I say this because, as you will recall, the Agreement Establishing the Caribbean Development Bank was signed here in Kingston in October 1969 and because you, Mr. Chairman, participated as Chairman in that historic ceremony, as did the Distinguished Prime Minister and Governor for St. Lucia, the Honourable John Compton.

I venture to say that at that Meeting of Plenipotentiaries a decade and a half ago, few of the representatives of the signatory Governments would have considered it possible that the fledgling Bank would have grown so rapidly; at the end of December 1983 the amount of matured paid-up capital plus the net income and reserves in the Bank's Ordinary Capital Resources stood at US$79 million or over three times the initial authorised paid-up capital of US$25 million. Our loan approvals now stand at US$431 million and our loans outstanding at US$255 million. Our hard loans approved now amount to US$170 million and our soft loans to US$261 million. All in all we have funded 416 projects.
Since I am speaking here in Jamaica, I take the liberty of saying that a large share of the Bank's lending operations has gone to this country. Jamaica has received US$112 million in loans from the Bank - of which US$44 million has been soft

and US$68 million hard. Our loans have gone to the sectors of agriculture, industry, tourism, roads and transportation, lower and lower-middle income housing, telephones and water; and they include two programme loans made by the Bank for reconstruction after severe damage caused by floods and hurricane. Needless to say, as a result of a Project Identification Mission from the Bank which visited Jamaica last year, we are now having a look at a long pipeline of possible additional projects for financing in Jamaica over the next five years.

Jamaica has for a long time been the largest single shareholder of the Bank, but since last year its CARICOM partner, Trinidad and Tobago, shares this position with Jamaica. The Government of Trinidad and Tobago was good enough to contribute a large amount of additional paid-up and callable capital in order to help maintain Commonwealth Caribbean control over the Bank as our membership from outside the Caribbean expanded.

Mr. Chairman, permit me to lapse into the thinking of the typical banker, although I am not one; while Jamaica has received financing approvals of US$112 million from the CDB and disbursements of US$62 million, its total paid-up capital so far amounts to US$11 million of which US$10 million is matured subscriptions. Therefore, on the rather direct and materialistic calculus of a hard-headed banker, it would be no exaggeration to say that in cash terms the benefits of membership in the Bank of Jamaica amount to about six times the cost to date and the final position when that calculus has worked itself out would be about ten times.

But membership of a regional and international institution such as the CDB is not merely about putting in and borrowing money. It also involves being a good and reliable member of the club. This country has all along and on every occasion given unstinted moral and intellectual support to the Bank and has always played a significant role at the level of both the Board of Governors and the Board of Directors. In this connection I must draw attention to the fact that the Director for Jamaica, Mr. Horace Barber, is our longest serving Director. He has been with our institution from the very beginning in early 1970 and his role in the deliberations of the Board of Directors has always been a highly constructive one.

II. FINANCIAL RESULTS OF OPERATIONS IN 1983

As I have done in past years, I will make only a few brief remarks on the factors that affected the financial outturn of the Bank during 1983, since the Annual Report presents what the Board of Directors considers to be a very full report on the activities of the Bank during 1983.
Anyone who looks closely at the progress of the Bank over the years will see upward trends in the number of both hard and soft loans; in amounts of money approved and disbursed in such loans; in our net income; and in our Ordinary Capital Reserves.

Because we have a Bank that is growing in its main activity of lending to its borrowing member countries and because of timely adjustments in the Bank's lending rates for its Ordinary Capital Operations, the income from loans continued to rise moderately in 1983. This performance could have improved if post-approval follow-up in some borrowing member countries had proceeded more expeditiously. Much time and cost (or, in other words, administrative expenses) went into projects on which the Bank ultimately could not lend because the potential borrowers did not meet conditions which were critical to the success of projects. Other project-related problems included difficulties experienced by some borrowers in meeting necessary counterpart contributions because of fiscal difficulties; reduced viability of productive sector projects because of domestic and international market limitations; and delays in project implementation because of a critical local shortage of essential skills.

The financial outturn was further affected as the Bank, like other institutions engaged in investments in the international money and capital markets, faced steeply declining interest rates and a very confused fall of other currencies against the US dollar.

III. ADJUSTMENT AND RECOVERY IN THE CARICOM ECONOMIES

I return today to a theme which my illustrious predecessor dealt with very ably and very succinctly twelve years ago at the Second Annual Meeting of the Board of Governors of the Bank held in St. Lucia in 1972. The then President sought to analyse and prescribe for the growth of output, foreign exchange and employment in the economies of our borrowing member countries.

I will not attempt to summarise his remarks, except to say that he saw the outcome as being determined by four factors and the inter-relationships among them:

a. foreign trade policy;
b. exchange rate policy;
c. productivity, resulting from investment in both physical and human capital; and
d. incomes policy.

It is now worth looking at this analysis again because times have changed and the economic situation in the Region in 1984 is even more critical than it was in 1972.

I shall therefore devote most of my Statement to the severe and critical economic problems facing our borrowing member countries.

Discussion of this theme largely involves the notion of "structural adjustment", which is a term frequently used in international economic and banking circles these days.

(a) Stabilisation, Adjustment and Transformation

Structural adjustment focuses on the use of macroeconomic policies and sectoral policies and programmes so as to set the stage for the resumption of economic growth and the reduction of the deficit on current account in the balance of payments to a level which is sustainable.

Structural adjustment constitutes, as it were, "a forced march" toward a process of continuing growth, diversification and strengthening of the economy and hence long-run, self-sustaining economic development or - if you will - structural transformation of the economy. This latter situation is reflected in an internal capacity to respond creatively to internal and external changes and shocks with speed and resilience. Indeed a developed or structurally transformed economy can be regarded as one which is capable of making, with relative ease, continuing structural adjustments to new internal and international developments.

A clearer idea of what constitutes structural adjustment can also be gained by considering the notion of "economic stabilisation". Before the oil shocks of the last decade, economic stabilisation programmes aimed at achieving internal and external balance by ridding the economy of inflation and/or balance of payments deficits. Under such stabilisation programmes, heavy reliance was placed on compression of aggregate domestic demand through the application of deflationary monetary, fiscal and, sometimes, exchange rate policies.

However, particularly over the last ten years, the lack of internal and external balance in the economies of developing countries may have gone deeper than can be put right by policies of mere economic stabilisation; and a structural adjustment programme is what is also called for; not only must aggregate demand be managed but an increase in aggregate supply (that is, economic growth and structural change) is also required. This is because certain features of the world economy may have changed adversely in a permanent way - for example, the rise in the price of energy, or massive increases in external debt service payments, or the loss or dimunition of an important source of foreign exchange earnings.

Economic stabilisation is a short-term problem which all countries (both developed and developing) must face from time to time as a result of adverse economic developments <u>which are usually reversible in a fairly short period</u> - say one to two years. Structural adjustment in our countries requires a medium-term programme over a period of five to seven years. In many cases, especially where the situation has been allowed to deteriorate for too long, some measures of economic stabilisation or demand deflation must often go hand in hand with the start of a structural adjustment programme. And a successful adjustment programme sets the stage for a continuing process of structural transformation of the economy - towards a greater degree of economic strength and higher levels of economic development. Thus in these troubled and unsettled days many developing countries find it necessary to introduce, simultaneously, programmes of economic stabilisation, structural adjustment and structural transformation. The meshing together and sequencing of these three programmes call for highly skilled national economic and political management.

The international economic environment over the last ten years has been unfavourable to many developing countries, including nearly all the CARICOM countries. Indeed, the structure and functioning of the international monetary, financial and trading system have not taken fully into account the plight of developing countries in five fundamental respects:

e. The lower rate of economic growth in the developed countries (and hence in the world economy) for the last ten to twelve years, aggravated over the last four years by the deepest world recession since the early 1930s and the consequent introduction by the developed countries of new forms of protectionism against imports from developing countries.
f. The gross insufficiency of the availability, and inappropriate terms of provision, of liquidity to the developing countries to meet their foreign exchange needs. The rationale for this given by the developed countries is that the creation of more liquidity would fuel inflation. But this clearly cannot be true of the developing countries whose productive capacity is now greatly underutilised and whose burden of external debt service is in some cases extremely onerous.
g. The unavailability so far of any mechanism to compensate developing countries for permanent declines in their terms of trade resulting in large part from the two oil shocks but also to some extent from increases in the prices of food and manufactures imported from the developed countries.
h. The burden of adjustment is too often being placed squarely on the backs of developing deficit countries with no reciprocal burden being placed on the developed and/or surplus countries.
i. Very high interest rates caused by the pursuit of anti-inflationary policies in the developed countries over the last few years.

(b) Major Characteristics of Structural Adjustment Programmes

At this state I must make a few observations about the nature of structural adjustment programmes in all developing countries.

First, structural adjustment must entail a reduction in the standard of living of the population of a country. It does not make economic sense for the Government to incur large fiscal deficits in order to maintain or increase expenditure. A reduction in living standards is inevitable unless the country can borrow quick-disbursing free foreign exchange in large enough quantities to maintain domestic expenditure. But even so this does not solve the adjustment problem; it merely postpones it. Inflows of capital on appropriate terms combined with adjustment policies at home constitute the key to the problem. Structural adjustment entails lowering of the standards of living in the interests of increasing domestic investment, restoring economic growth and expanding exports so that in the medium-term, standards of living can be restored and continue to grow thereafter. There is no other way.

Second, while the structural adjustment problem is fundamentally one of increasing efficient and competitive production, inadequate fiscal and monetary policy responses can serve to lower production levels to a greater extent than would otherwise be the case. This can happen in the case where a Government seeks to maintain and increase its spending by heavy borrowing from the domestic banking system (particularly from the Central Bank). This leads to inflation and even more so to a further drain on foreign exchange reserves, since our small open economies have a high marginal propensity to import. It then becomes extremely difficult for the country to obtain foreign exchange to finance imports of inputs and capital equipment in all the productive sectors. Production therefore falls way below capacity, factories close down, agriculture yields decline and after some time industrial plant and machinery run down for lack of imported spare parts and replacement investment. Incorrect macro-economic policies can therefore serve to make the crisis of production deeper.

Third, structural adjustment must not be delayed. If it is delayed too long, the situation gets out of hand. Arrears on funded debt and even on three months' trade credit increase. What is even worse is the emergence and growth of a flourishing underground economy; this removes control of the national economy from the hands of the political authorities.

Fourth, the structural adjustment process could be eased and shortened if there is continuing world economic recovery. But at this stage I certainly cannot say whether the incipient world economic recovery will be sufficiently deep, broad and lasting and so of significant benefit to the developing countries, including our borrowing member states.

Fifth, structural adjustment is an extremely painful and traumatic process for the people of any country, particularly the poorer groups. It requires fairly high levels of national cohesion and continuing communication between the Governments and the people as a whole as well as interest groups such as trade unions and the private sector. For these reasons it is a task of supreme political difficulty. One only has to think of the social tensions generated in many Third World countries undertaking adjustment programmes.

Finally, there is the issue of external financial support. Because of the obvious socio-economic and political difficulties of implementing a rigorous adjustment programme, the international community (both donor countries and regional and international financial institutions) should support such efforts on as concessional terms of financing as possible so that the external debt service problem does not increase unduly. Without adequate levels of external financial support on appropriate terms, structural adjustment could lead to severe internal upheavals. To emphasise once more, developing countries such as ours need both adjustment and financing.

(c) Structural Production and Consumption Problems of CARICOM Economies

The major economic problems affecting the CARICOM countries are only in part the result of the world recession. They are also of a long-term structural nature. Take the year of the first oil crisis in 1973. In that year, West Indian standards of living had certainly registered some improvement over the long, bitter and harsh period lasting well up to the early 1950s, thus putting the CARICOM economies among the upper-lower and lower-middle income countries of the world. This improvement was due to two factors: the move to universal adult suffrage and to internal self-government leading to higher levels of Governmental programmes for economic and social development (supported in part by external aid, mainly from Canada and the United Kingdom) and the existence and exploitation of oil in one country, bauxite in two others and a tourism-inducing environment in several (both LDCs and MDCs). Yet underlying this situation there were still deep structural weaknesses and consequent fragility and vulnerability in our economies in the year 1973.

The principal weaknesses were:

j. an insufficiently diversified structure of production, exhibiting extreme external economic dependence;
k. a weak food-producing sector producing for the local and regional markets;
l. a traditional agricultural export sector (sugar, bananas, citrus, cocoa, coffee, etc.) which was high-cost, often inefficient and able to sell its produce abroad only with assistance or preferences available in the United Kingdom (and subsequently the EEC) and in Canada; and
m. a manufacturing sector which, where it did not consist of simple enclave export industries, paying relatively low wages and with little or no linkages to the rest of the national economy, consisted largely of high-cost, inefficient and highly protected industries producing for the domestic and regional markets. (The instrument or protection used was quantitative restrictions rather than tariffs).

A particularly worrying feature of the underlying structure of the economies proved to be a serious drag on the internal generation of savings and on the consequent expansion not only of Government development programmes but also and more seriously on the growth of production, particularly in agriculture and industry. This was a desire for high levels and patterns of consumption in the North American and West European style. This resulted in very high expectations for the attainment of very high standards of living in a short period among large numbers of the populations of the countries.

Mr. Chairman, as you yourself put it in Jamaica's first Five-Year Independence Plan some twenty years ago: "we have a race between development and discontent". We in this Region are long on consumption and short on production.

These underlying structural weaknesses inherited from more than three centuries of a colonial plantation monocultural economy were further brought out as a result of all that has been happening in the world economy over the last ten years. Apart from the inherited weaknesses and the very deep world recession of the last three and a half years, both bauxite/alumina and the oil industry in the Region faced great difficulties owing to long-term and most likely permanent shifts in patterns of world trade and production in these products. The tourism industry, too, exhibited certain structural weaknesses in some of the countries.

The result of these adverse changes was massive balance-of-payments and fiscal problems in most of the more developed countries and severe fiscal problems in the LDCs whose existing monetary system made their balance-of-payments problems manifest themselves in severe fiscal and budgetary problems.

Fundamentally, the underlying cause of the weak balance-of-payments and fiscal situations had much to do with grossly inadequate levels of effi-cient production at competitive costs of production in all the sectors producing tradeable goods and services: agriculture, industry, tourism and minerals. In order to solve our balance-of-payments and fiscal problems there is no other way but to achieve much greater production of efficient and competitively priced goods and services which can either be sold abroad or substituted for imports. The key to Caribbean structural adjustment and economic recovery is to increase production of new sources of foreign exchange earnings and to generate higher levels of internal savings to exploit these production opportunities. This entails economic diversification and changes in the structure of production and of foreign trade. This is why we need structural adjustment in our economies.

The one CARICOM country that was able, until recently, to ward off balance-of-payments and fiscal problems was, of course, the sole oil-exporter - a very small one by world standards. But crude oil production recently started to decline in that country and the situation was further worsened by the fall in oil prices in April 1983. The effect of the oil boom in that country was to greatly increase wage and salary levels and other costs of production in sectors outside the highly capital-intensive oil and heavy energy-based industries (which, because of their capital-intensity, could pay very high wages and salaries). These other less capital-intensive sectors - export agriculture, domestic agriculture and light manufactures - became uncompetitive largely because they could not easily afford the high wages and other costs which spread to them.

The result is that this country also now faces serious structural adjustment problems arising from the need to keep its costs of production competitive, to develop new sources of foreign exchange earnings, particularly by exporting much greater volumes of manufactured goods, and, to achieve a greater degree of self-sufficiency in food. In the meantime, both Government spending and private spending are dropping and in the interests of adjustment have to be further curtailed.
We in CARICOM are indeed all in the same boat. But the boat need not sink.

(d) Objectives of Structural Adjustment Programmes in CARICOM Economies

We need to undertake properly thought-out and vigorously implemented policies to promote economic recovery and indeed fundamental reconstruction of our economies.

From the foregoing it is fairly clear that the objectives of structural adjustment programmes in our borrowing member countries must be:

n. arresting of present patterns of economic decline or stagnation and promotion of efficient economic growth and larger levels of employment;
o. the development of new sources of foreign exchange earnings and efficient import substitution;
p. reduction of large balance-of-payments and fiscal deficits to sustainable levels in the medium term;
q. internal re-allocation of resources in the short, medium and long-term from consumption to savings and investment;
r. measures to soften, as far as possible, some of the burden of adjustment on the poorer groups who, however, cannot be totally shielded from the costs of adjustment;
s. setting the stage for long-run development and structural transformation of the economy; and
t. setting the stage for a greater degree of economic autonomy on a regional basis in the long run.

(e) Issues of Development Strategy for the 1980s

The major issues of development strategy for the achievement of these objectives are:

u. keeping the economies competitive - in the sense that their costs of production can facilitate the rapid growth of extra-regional exports as well as efficient import-substitution;

v. agricultural transformation and rural development so as, *inter alia,* to increase the degree of self-sufficiency in local and regional food production;

w. finding the right balance, sector by sector, between extra-regional export-oriented and national/regional import-substitution activities. (The sourcing of certain factors of production, particularly capital for the public and private sectors, entrepreneurship, management and technology must also strike the right balance);

x. finding the right balance between the development of indigenous entrepreneurial groups (particularly the non-traditional ones) and attracting inflows of direct foreign investment; and

y. finding the right balance between production of tradeable and non-tradeable goods and services.

(f) Macroeconomic and Sectoral Issues Facing the CARICOM Economies

At the heart of structural adjustment is the adoption of the correct macroeconomic policies (which provide an appropriate framework of incentives and deterrents) and sectoral policies and programmes. This deserves a brief discussion.

Macroeconomic policies should have the overall aim of promoting efficiency in the allocation of resources within the economy; increasing national savings to finance a greater share of domestic investment; and achieving efficiency in the domestic investment process.

There are several macroeconomic issues facing the CARICOM countries.

(i) Trade and Incentives Policy Issues

The first is Trade and Incentives Policy. This resolves itself into the question of how to encourage more exports and more efficient import-substitution. In this context we have to examine the issue of the phasing out over a period of time of quantitative restrictions imposed in the past to protect the local and regional markets by limiting or eliminating imports from outside. A subsidiary issue here is whether and to what extent higher tariffs should replace quantitative restrictions as the main instrument of protection. In addition, we have to decide on whether, and if so what, fiscal and other incentives should be made available to increase exports to extra-regional destinations. Another related subsidiary issue is whether the granting of income-tax holidays for manufacturing production for the local and regional markets can be justified if the major thrust in this sector is to be towards extra-regional markets.

(ii) Exchange Rate Issues

The exchange rate issue also needs close examination. It is a somewhat complex issue and therefore cannot be elaborated upon on this occasion. Suffice it to say that exchange rate adjustments are comprehensive and unselective and affect every facet of national economic life.

There is some degree of controversy as to the effectiveness of exchange rate changes in improving the balance-of-payments of CARICOM countries. However, if a "positive" downward adjustment is made as part and parcel of a package of operational plans and policies for increasing production and hence exports and lowering imports of inessential goods and services, devaluation could probably work with some degree of efficacy in the Caribbean. In addition, when a country's foreign exchange reserves are exhausted there is no alternative to a "defensive" devaluation.

As is well known, the great drawback with downward adjustment of the exchange rate is that it raises the cost of living inside the country and therefore has widespread socio-economic and even political implications. We may also get into the wage/price spiral: downward adjustment of the exchange rate, and an almost instantaneous compensating increase in money wages, salaries and other incomes, further downward adjustment, higher wages and salaries again and yet further downward adjustment and so on. (Devaluation also increases the local currency cost of imported raw mate-rials and other inputs into the manufacturing sector).

(iii) Selective Credit Controls

Selective credit controls to limit imports of inessential consumer goods and other luxuries (such as foreign travel) is a policy practised by many if not most developing countries - even in normal times. But it is a policy that can be used in a more restrictive manner during periods of structural adjustment.

(iv) Import and Exchange Controls

Likewise, import and exchange controls can be used both during normal times and as part of the programme of structural adjustment. Such controls are not always favoured by those who are very strongly attached to the use of the price mechanism rather than administrative controls to manage the national economy. But such controls can have their place in programmes of structural adjustment, since the use of the price mechanism such as exchange rate changes and higher interest rates may not by themselves be sufficient to correct the balance-of-payments.

(v) Prices and Incomes Policies

Prices and incomes policies are often an essential component in the package of instruments used to promote economic recovery and improvement in the balance-of-payments. Incomes Policies are needed to safeguard the Government's Budget, to keep the economy cost competitive and to promote equity not only "horizontally" between rural and urban workers but also "vertically" between different income groups, including the employed and the unemployed. Their formulation and implementation are complex matters calling for a high degree of economic expertise among the technocrats and a great deal courage at the level of the political leadership. Their objective is obvious: to relate increases in incomes to overall or sectoral increases in productivity in the economy and not to the cost of living. The cost of living rationale for increased income does not rest on intellectually firm grounds in the Caribbean countries. In many cases price increases at home result from increases in the price of imports, increases in indirect taxes imposed by Governments or from currency devaluation. In the first case everyone in the country must suffer a fall in real income. The objective of the latter two is to transfer real resources from the consumer to producers and/or the Government.

When import prices rise, if importers and distributors try to pass on proportionate or more than proportionate increases to the consumer, the Government has every right to impose price controls.

The issue of subsidies is a politically difficult one. It is clear that in many cases subsidies should be removed or reduced in order to improve the Government's fiscal situation, as must the deficits incurred by Public Utilities and other State Enterprises. On the one hand, some retention of subsidies on essential food and other consumer goods (at a reduced level) may be necessary to relieve the poorer groups of excessive burdens. On the other hand, since such subsidies are indiscriminate and can benefit the better-off groups, it may be better for the Government to give cash grants from the Budget to the really needy and vulnerable.

(vi) Mobilisation of Local Financial Resources

Since under structural adjustment programmes a higher rate of national savings and consequently lower consumption levels for all groups are essential, all the important issues arising from greater mobilisation of national financial resources (including a policy of higher local interest rates) and the size and composition of the public sector investment programmes arise. These issues are, Mr. Chairman, so well known to all the Distinguished Governors that I will not say more, except to note that most CARICOM Governments need to spend more in their recurrent budgets on the maintenance of physical economic and social infrastructure.

(vii) Institutional Development

Structural adjustment also requires institutional development in many areas and the increase of the capability of the human resources of the country. It therefore involves such matters as technical, managerial and vocational crash training courses of different types and at different levels; attempting to promote better management and entrepreneurship in the local private sector; reform of the public sector and improvements in planning and implementation. Again these issues are well known and do not require elaboration in this forum.

(viii) Sectoral Priorities

I will not for the same reason develop the issues of appropriate sectoral policies and programmes, except to stress that priority must be given to the Food and Energy sectors and to promoting exports of manufactures outside of the Region.

(ix) The Regional Integration Dimension

In talking about structural adjustment in our economies we must always be mindful of the regional integration dimension. We must not permit our greater orientation of the manufacturing sector towards extra-regional markets to weaken the cohesiveness of our Caribbean Community. We need each other not only in intra-regional trade (for the problems of which we must find creative solutions) but also in joint efforts in production, other forms of economic cooperation to promote adjustment, cooperation through establishment of Common Services and Pools of Experts, joint efforts to secure external financial resources to help with adjustment, and strengthening our external bargaining power in economic and diplomatic matters through joint policies and coordinated actions.

It is hardly worth saying that each borrowing member state should choose the package of macroeconomic and sectoral policies best suited to deal with its own individual problems. However, in very critical cases nearly all of the measures discussed above may well have to be applied - no doubt in varying degrees of severity. But whatever the range of measures and their degree of severity, the regional dimension in national adjustment programmes must never be overlooked.

IV. POSSIBLE CONTRIBUTION OF CDB TO PROMOTING STRUCTURAL ADJUSTMENT IN THE REGION

I now turn finally to the kind of contribution that the Caribbean Development Bank can make to structural adjustment in the Region.

The Bank has always recognised that: (1) while financial assistance is a necessary condition to foster adjustment and development, it certainly is not a sufficient condition; (2) that in many cases the adoption of the right policy is sometimes worth, and can displace, millions of dollars in financial assistance, be it loan or grant; and (3) self-sustaining and lasting development can only be attained in today's world with some degree of sacrifice and self-reliance.

Taking these considerations into account, the Bank's Management, in an effort to provide some measure of support to the Region's adjustment and development, proposes to submit to the Board of Directors proposals for:

a. developing a variant of structural adjustment lending which will provide financial support for structural adjustment measures, particularly as these relate to the re-organisation of critical export sectors, without changing the Bank's procurement guidelines or reimbursement procedures. If the arrangement is acceptable, only a small proportion of the Bank's resources will be so channelled and every effort will be made to co-finance supply-side oriented programmes with the other international institutions;
b. paying even greater attention to the macroeconomic environment and its impact and implications for major projects. The intention here is <u>not</u> to impose macroeconomic conditionality on project lending but to identify and to bring to the attention of borrowers the macroeconomic constraints which may frustrate the optimal development of the project and so attempt to improve the project's environment;
c. assisting, independently or with other agencies, in developing the capability for generating a statistical base and engaging in economic planning, national economic management and policy formulation in the Bank's member countries desirous of such assistance. Such assistance could be in the form of continued participation in CGCED economic missions, training in national economic management, technical assistance in establishing statistical and planning units; and
d. making available to countries, on a request basis, our small team of dedicated and committed economists who have been collecting data and making analyses of economic performance and prospects of the various countries and who assist the borrowing member countries in relevant capacities on short assignments. Areas in which they can prove useful include: formulation of public sector investment programmes; identification of desirable economic policies to be pursued and making assessments of their macroeconomic impact and implications; and in economic planning exercises generally.

The Bank is always prepared to place its slender resources at the disposal of the borrowing member countries. It would give the Bank the greatest satisfaction; and the results of our efforts would be significantly greater if there could be greater dialogue and exchange of views on major economic issues, thereby leading to more intensive cooperation between our Bank and our borrowing member countries.