STATEMENT BY THE PRESIDENT OF CDB
AT THE THIRTY-FIFTH ANNUAL BOARD OF GOVERNORS MEETING
GUYANA – MAY 18, 2005

THE SOFT UNDERBELLY OF CARIBBEAN ECONOMIC PROGRESS

I. *OPENING REMARKS*

Your Excellency, Mr. Bharrat Jagdeo, President of the Republic of Guyana and Chairman of the Board of Governors, Mr. Sam Hinds, Prime Minister of the Republic of Guyana, Members of the Government and Parliament of Guyana, Distinguished Governors, Members of the Diplomatic Corps, Members of the Board of Directors of the Caribbean Development Bank, His Excellency Mr. Edwin Carrington, Secretary-General of CARICOM, other Observers and Guests, Vice-Presidents and other members of staff of the Caribbean Development Bank, Representatives of the Media, Ladies and Gentlemen:

I am pleased to address you today on matters pertaining to the work of the Caribbean Development Bank (CDB) during 2004 and especially on aspects of the challenge of socio-economic development still before us.

CDB last convened in Guyana in 1978, a long 27 years ago. Since that time much has happened in the Bank, in the country and in the region. The economic structures and circumstances of the Bank's Borrowing Member Countries (BMCs) are not the same as they were in 1978. The social fabric is under strain. The Bank has had to revise its strategic priorities and engage in deep institutional analysis to discover ways of improving its efficiency and effectiveness while remaining faithful to its fundamental purpose of contributing **"*to the harmonious economic growth and development of the member countries and to promote economic cooperation and integration among them, having special and urgent regard to the needs of the less developed members of the region*"**.

We are extremely grateful for the opportunity to be here not only because of the legendary warmth and hospitality of the peoples of this land, or because its geographical size, its abundant natural resources and the astounding beauty of its eco-environment conjure up the potential and promise of development. There is value in being here also because the recent history and current situation of the country teach us so many valuable lessons about the severity of economic, social and political obstacles to development, about the immense and sustained struggle required to recover from economic regress and therefore of the premium to be placed on avoiding it, and about the importance of social trust for the achievement of economic progress.

Guyana is a highly valued member of the Bank contributing substantially to the quality of its decision-making and providing assistance with new initiatives to broaden the Bank's community of international support. Guyana is also a strong customer. Between 1970 and 2004, CDB provided to Guyana net financial resources of approximately USD210 million (mn) in the form of loans and grants. This comprised 8.4% of funds provided to all recipients. Given its Highly Indebted Poor Income Country (HIPIC) status, Guyana has to rely much more extensively than other countries on the Special Development Fund (SDF) resources, i.e. the highly concessionary financial window of the Bank. Between 1970 and 2004, Guyana received USD107 mn of the USD709 mn of SDF resources. With a share of 15%, Guyana is by far the largest recipient. The Bank's financial flows to Guyana have been channelled towards the directly productive sectors (agriculture and manufacturing mainly), economic infrastructure (including transportation and communication, sea defences, water, and power and energy) and to multi-sector activities.

II. ***CDB PERFORMANCE IN 2004***

I wish to spend a few moments highlighting aspects of the Bank's performance which are presented in considerable detail in the Annual Report 2004 already in your possession. The work of the Bank in 2004 has been greatly affected by the serious macro-economic difficulties of some of its BMCs due in some instances to one of the most terrible hurricane seasons in recent times and due in a few cases to delayed adverse impact of injudicious public debt creation and public expenditure policy. We have also been challenged by the sense of urgency now imbuing efforts to fully establish the Caricom Single Market and Economy (CSME) and by the resolute march towards harmonisation of policies and procedures of Multilateral Development Banks (MDBs).

On its lending and grant operations side, the Bank performed satisfactorily in 2004. Loan approvals totalled USD113.3 mn which when one abstracts from the exceptional Caribbean Court of Justice (CCJ) loan transactions in 2003, is a 23% increase on approvals in that year. Grant approvals over the same period increased from USD5 mn to USD10 mn approximately. Disbursement performance also improved. Disbursements of loan funds totalled USD227.2 mn in 2004 compared to USD116.5 mn in 2003, while disbursements of grant funds totalled USD93 mn in 2004 compared to USD5.9 mn in 2003. Sea defences, natural disaster recovery and prevention, industrial and tourism projects, and education were the principal economic areas into which funds were channelled in 2004.

Direct poverty reduction is a central feature of the Bank's activities, with the Basic Needs Trust Fund being the essential instrument. In 2004, 153 sub-projects valued at USD8.4 mn were approved. Most of these are for health facilities, education facilities, water supply, and access roads at the community level.

Ten of the Bank's BMCs were beneficiaries of loan approvals in 2004. Of the USD113.3 mn approved, the Bank's More Developed Countries (MDCs) received

34% and the Less Developed Countries (LDCs) 66%, with the Organisation of Eastern Caribbean States (OECS) receiving 57% of the LDCs portion. Dominica and Grenada received 63% and 10% respectively of the USD10 mn grant funds approved in 2004. Both of these countries – Grenada, because of the ravages of hurricane Ivan; Dominica because of a severe fiscal crisis – were the beneficiaries of financial restructuring packages designed by the Bank for their special circumstances. It is with satisfaction that we note unmistakable signs of economic recovery in each country.

Over the past two years, as I noted in previous Addresses to the Annual Governors Meeting, the Management of the Bank has been reviewing its loan procedures, organisational structures and operating systems with a view to cost-efficiency for both the Bank and its BMCs. The Projects Department was reorganised to give more focussed attention to project identification and appraisal in one division and to project supervision in another; a compendium of processes, tools and checklists for project identification, preparation, appraisal and pre-investment has been prepared for the guidance of Bank staff and BMC staff; budgetary provision has been made for the reintroduction of a training programme in project preparation and project management for the benefit of BMC staff; and a review of lending policies has started with expected completion in 2005. ***"The proof of the pudding is in the eating"*** and the Bank, through its newly established Office of Evaluation and Oversight, will have to measure performance against goals to see whether the changes make a difference. What I can venture to say now is that, even though the turnaround time on applications for loans received in 2004 thus far seems faster than for those received in 2003 which themselves may have shorter turnaround times than applications received in 2002, there is still room for improvement.

The Bank has been active in the international committees on harmonisation of procurement policies and procedures. A document embodying revisions of CDB's own policies and procedures has been circulated to the Board of Directors for comment and will be the basis of formal Board consideration in 2005.

Development effectiveness is of course much more encompassing than cost-efficiency. It asks the question of how much the Bank's activities have actually influenced achievement of the core development goals, summarised these days by the Millennium Development Goals (MDGs). The Bank has fully committed itself for the past two years to judging itself and being judged in these terms. It has adopted a Results Based Management approach, introduced a Continuous Performance Improvement system for all staff, and engages in extensive consultations with MDBs to ensure best practice.

During 2004, the Board of Directors approved a new Poverty Reduction Strategy and a Revised Human Resource Development Strategy which will guide the financial operations of the Bank. It is Management's intention to invite Board consideration of Revised Lending Policies and Revised Financial Policies during the course of 2005. In these respects as well, CDB shares with development partners the evolution in thought about the nature of under-development and poverty, the importance of building national capacity to achieve development and alleviate poverty and to measure progress. CDB also, like its partners in the MDB community, is giving urgent attention to what changes in operating policies might be appropriate to enhance the quality of its own interventions.

Mr. Chairman, I think I have said enough to convey a feel of the wind of change which is blowing through the CDB. Change is not easy and has to take root. One of our principal challenges in the next few years will be to ensure that the reform and restructuring agenda is completed, to learn from our mistakes, make the desirable adjustments and consolidate our gains.

In relation to regional integration, the Bank continued in 2004 to work on the establishment of the CCJ. It is with some satisfaction that we participated in the inauguration of this pillar of the CSME on 16 April 2005. The Bank has been actively involved in attempts to construct other pillars. The Bank has been leading efforts at designing the CARICOM Fund for Disadvantaged Countries, Regions and Sectors (the Regional Development Fund) on which a decision may be taken by CARICOM Heads of Government this year. The Bank has been actively involved in the work of the Prime Ministerial Sub-Committee on Regional Governance, especially in relation to automaticity of financing of Community institutions, and is involved from the outset in the work at elaborating and developing strategies for sectoral development mandated by the Revised Treaty of Chaguaramus. These do not exhaust the ways in which CDB has supported the CSME and regional integration. The continued financial assistance to the Regional Negotiating Machinery, financial contributions for conferences, workshops and publications are all part of the matrix of support.

In Tobago last May, I signalled that four key issues will be before the Bank in 2004: (i) Expansion of the Bank’s capital base; (ii) Replenishment of the SDF; (iii) Preparation of a New Strategic Plan; and (iv) Expansion of Membership. Much work has gone into all four matters during the year.

Haiti has almost completed its membership process and sits with us here today. We, Caribbean people, whatever the political differences of the moment, must remain true to our conviction that the development of Haiti is a shared challenge and a shared responsibility. Discussions have been restarted with Suriname. Approaches have been made to potential member countries and institutions, sometimes with the active assistance of Governors. Expansion of the Bank’s membership on which I have expended much effort must remain a central objective of the new plan period. The guidance of shareholder governments is of obvious importance to how we seek to convert the interest displayed by potential new members into reality.

On the General Capital Increase (GCI), SDF, and the Strategic Plan 2005-2009, the interaction between the Board of Directors and Bank Management and Staff has been productive. We are closer to the point where proposals can be placed on the table and hopefully agreements reached before the end of this year. Both Ordinary Capital Resources lending and SDF lending would be severely compromised by failure to agree to a GCI and a replenishment of the SDF.

Turning to the budgetary side, I have a sense of uneasiness about the danger of elevating current fiscal resource constraints and normal rigorous budget expenditure scrutiny to a principle of zero real growth of the Bank's administrative budget. No number – zero, negative or positive – has intrinsic merit in budgetary processes. Functionality and practicality must be the prime considerations. As a matter of record, the expense to loan ratio (a measure of unit costs) is on a declining trend and the downward trend in unit costs would be even more pronounced if a monetary value were to be placed on the non-financial services provided by the Bank. But to return to my main point, to treat zero real growth as a budgetary principle would be tantamount to adopting a principle of non-institutional growth and gives too much weight to static cost-efficiency which reduces aggregate costs of conducting an unchanged level of activity and too little weight to dynamic cost-efficiency where unit costs fall but aggregate costs may rise because of increased levels of activity. Furthermore, there may be an unintended inconsistency between requiring CDB to be responsive to growing demands within BMCs and the global community of donors and MDBs which is in effect a requirement that the Bank expand and deepen its activities and a policy stance of zero real growth in operating budgets. We need to consider carefully the implications of this inconsistency for the development effectiveness of CDB.

III. ***THE SOFT UNDERBELLY OF CARIBBEAN ECONOMIC PROGRESS***

The Annual Economic Review distributed at this Meeting describes the economic performance of BMCs in 2004. I do not propose to go over that ground but will instead try to focus our attention on a somewhat broader class of development issues.

Since the decade of the 1960s, the Caribbean as a whole has sustained moderate annual growth of real per capita gross domestic product. Decadal average growth rates did not fall below 1.9% and reached as high as 3.9%. Economic growth was volatile, particularly until the 1990s which saw a 30% reduction in volatility. However, although by no means spectacular, this sustained record of economic growth provides a basis for a higher level of development for Caribbean citizens than possible, say, four decades ago.

Higher levels of development as Amartya Sen (Development as Freedom, 1999) argued is to be measured by an expansion of the basic capabilities of human beings or in the words of Rex Nettleford by ***"a quality of life rooted in freedom from hunger, freedom from disease, freedom from ignorance, and freedom***

from fear." Has economic growth delivered acceptable social progress? Have our societal advances with respect to the removal of ***"unfreedoms"*** (to use Sen's word) matched achievements in aggregate economic growth? My answer is a qualified **"no".** There has been social progress but insufficient in its distribution across households and districts to cap the wells of discontent which threaten the sustainability of future economic growth. Major social and political problems to my mind constitute the soft underbelly of Caribbean economic progress.

There are many indicators which one can use to chart social progress. In terms of education as a means of enhancing human resource capabilities and political capabilities, there is evident progress in perfect primary enrolment ratios, but challenges remain with substantial adult illiteracy rates in a few countries (Belize 23%, Jamaica 12%, Haiti 48%), significant under-enrolment of the secondary school cohort i.e., between 13% and 54% in 11 of the 12 countries for which data are available, and low tertiary enrolment ratios in most countries.

In terms of health sector indicators, impressive gains have been made with respect to infant mortality, life expectancy and access to medical services, including essential medicines, but here too, some countries have done less well than others and in many there is room for improvement. One cannot be satisfied when the probability at birth of not surviving to age 40 is 9% in Trinidad and Tobago, 11% in Belize, 16% in the Bahamas, 18% in Guyana, and 37% in Haiti compared to less than 5% in developing countries such as Costa Rica, Chile, and Uruguay in this hemisphere. Nor should we be satisfied with probabilities of males not surviving to age 65 such as 65% in Haiti, 55% in Guyana and the Bahamas, and between 27% and 31% in several other countries. Even the infant mortality rates, despite their steeply declining trend, are still too high at between 12 and 20 per 1000 live births in 7 countries, between 21 and 34 in 4 countries, and as high as 54 in Guyana and 79 in Haiti.

It is difficult to accurately gauge the Caribbean's progress in relation to freedom from hunger. Certainly some countries have succeeded in reducing the proportion of their populations that are poor. The Jamaican achievement is dramatic: from 30.4% in 1989 to 16.8% in 2001. Equally certain is our knowledge that the incidence of poverty remains sufficiently high (between 10% and 20%) in most countries to indicate ***"mission incomplete".*** Furthermore, estimates of the percentage of the population undernourished in Guyana (14%), Jamaica (9%), Trinidad and Tobago (12%), Suriname (11%) and Haiti (49%) as well as estimates of under-weight 5-year old children – anywhere between 6% and 17% of the cohort across the Caribbean -would indicate that food and nutritional standards are not being met by many persons.

Even in terms of access to improved water sources (World Health Organisation definition), it is a sign of under-achievement in the provision of social services that in Antigua and Barbuda, Belize, Jamaica, St. Vincent and the Grenadines, and Trinidad and Tobago between 6% and 10% of the population do not have sustainable access to improved water sources, that in Suriname the proportion is 18% and that in Haiti it is as high as 54%.

To compound the problems, very many persons are unemployed. True enough the unemployment rate has decreased somewhat, but 7% or 10% of the labour force translates into thousands of persons. In Trinidad and Tobago, at least 43,000 persons were unemployed in 2002; in Jamaica 165,000 in 2001.

There is a strong presumption that the economic and social progress achieved has not been equitably distributed across individuals classified according to income levels, ethnicity, geographical area, age or gender. Work done by Kairi Consultants Ltd. for the Inter-American Development Bank documents the lesser access of the poor in Trinidad and Tobago to sanitary waste disposal facilities and to many households amenities and consumer durables which enhance communication and information and reduce the drudgery of household chores. As another example, a World Bank report on Jamaica profiles the poor as having lower levels of education. Inequalities in access to health services are also a feature of Caribbean countries, and as is well known youth and females have disproportionately higher levels of unemployment.

Economic inequality is substantial in the Caribbean. Gini coefficients which are one measure of inequality of income have been calculated for 13 Caribbean countries for various years between 1996 and 2002. The estimates range between 0.31 and 0.56. Given the structure and operations of the financial system and the distribution of physical property rights such as land ownership, it would be most surprising if there were not substantial inequality in wealth also. It is likely that economic inequality decreased over time in some countries, e.g., in Jamaica where the bottom quintile's share of total consumption rose from 2.0% in 1971 to 5.4% in 1988. However, the signs are that inequality has worsened in several countries.

Studies on Brazil indicate that inequality of opportunity is a substantial proportion of total economic inequality. If this finding is transferable to the Caribbean, the under-provision of social services and the skewed distribution of access to such services and financial capital can be seen as contributory factors to the economic inequality experienced in Caribbean countries.

Economic inequality fills the well of social discontent. W.G. Runciman made us aware of the importance of relative deprivation as a source of discontent and Albert Hirschman drew our attention to the decreasing tolerance for inequality in times of slow economic growth. Inequality corrodes or prevents the emergence of social trust. Rothstein and Uslaner (2005) posit that social or generalised trust **"*reflects a bond that people share across a society, across economic and ethnic groups, religions and races. It is the foundation of a cooperative spirit that brings people together for common and mutually advantageous***

purposes." Generalised trust is different from ***"particularised trust"*** which ***"reflects social strains, where each group in a society looks out for their own interests and places little faith in the good intentions of others."*** Rothstein and Uslaner note that countries which score highest on social trust also, rank highest on economic equality and have devoted much effort to creating equality of opportunities. Inequality promotes conflict between rich and poor, between workers and owners of capital, and rising inequality feeds the belief that the only way to prosper is corruption and crime.

Social discontent is evident in the rise of labour market disruptions, such as work stoppages in a country such as Barbados where, despite a tripartite concordat, man-days lost by work stoppages having declined from 4,291 in 1998 to 1,087 in 2000 rose again to 4,801 in 2001 and 2,146 in 2002. It is particularly evident in the surge of crime across the Caribbean. Criminal offensives against persons and property and the seemingly ineffectiveness of law enforcement agencies undermine confidence of investors and workers alike, destroy human capital and physical capital and divert public and private resources from productive uses into security and protection and into medical attention for victims of crime. The macro-economic costs of crime can be quite high, as an estimate of 3% of Jamaica GDP in 2001 indicates.

When one adds the obvious economic costs of work stoppages and crime to the economic costs resulting from loss of human resources due to illness or early death and low worker productivity due to inadequate education and training, it is easy to see why the insufficient social progress sketched a few moments ago has the potential for weakening even the modest economic 7growth achieved in the Caribbean. Under-achievement in the social dimensions of human progress is indeed the soft underbelly of Caribbean economic progress.

The policy conclusion I draw is that Caribbean governments must focus much more than they have done so far on social policy. They must direct more focussed attention to improving aggregate performance in education, health, and other social services. They must strive to bring about a more equitable distribution of opportunities and a more equitable distribution of income and wealth.

Policies for equalisation of opportunities should not necessarily be discriminatory in the sense of targeting specific groups of disadvantaged persons. Indeed, some social policy analysts caution that discriminatory policies may themselves undermine social trust by generating conflicts between the political demands of the poor and the tax minimisation objectives of the rich, and by breeding resentment among beneficiaries and contributors. Instead, they recommend universal social policies in which all citizens have access to the social services even though they are financed by a progressive tax system.

Development agencies, like CDB, while in no way undervaluing the importance of investments in the physical and economic infrastructure, should themselves appreciate that social progress must accompany economic progress (or cannot lag far behind) if social discontent and social disorder are not to invalidate investment assumptions and weaken or even reverse economic growth. CDB, which has joined with its BMCs in the fight against poverty must now make common cause with them in addressing the compelling social agenda as an essential component of the broad framework for economic growth and human development. This is one of the principal challenges of our time. One that we ignore at our peril.

Mr. Chairman, Distinguished members of the audience, Ladies and Gentleman, I fear that I have imposed upon your time but there is much that needed to be said. Nonetheless, I thank you for the graciousness of your attention.