

MAKING CDB MORE EFFECTIVE
STATEMENT
by the
PRESIDENT, MR. WILLIAM G. DEMAS
to the
BOARD OF GOVERNORS
at the
THIRTEENTH ANNUAL MEETING
HELD AT THE CARTAGENA DE INDIAS CONVENTION CENTRE
CARTAGENA, COLOMBIA
MAY 11 & 12, 1983

CONTENTS

- I. [OPENING REMARKS](#)
- II. [CDB'S PERFORMANCE IN 1982](#)
- III. [MAIN THEME OF REST OF STATEMENT](#)
- IV. [CDB'S PERFORMANCE TO DATE](#)
- V. [CONCLUDING OBSERVATIONS](#)

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

I. OPENING REMARKS

This Meeting of the Board of Governors of the Caribbean Development Bank constitutes a path-breaking occasion. For the first time we are meeting in one of the Bank's regional Spanish-speaking member countries whose shores are washed by the Caribbean Sea.

It is certainly a source of great pleasure to all of us that our Meeting is being held in a country whose distinguished President, His Excellency Dr. Belisario Betancur C., since his recent election to office, is already being seen in Latin America and the Caribbean, and indeed throughout the Third World, as a man of peace and a statesman of progressive views and internationalist outlook.

What is more, we are meeting here on the Caribbean coast of Colombia in a "heroic city" of Cartagena de Indias, one of the most historically renowned cities of the New World. Its very name conjures up the deeds of the Conquistadores and adventurers of old and brings to mind the celebrated "Cartagena Manifesto" of Simon Bolivar.

This city has in recent times also become famous as the place of signature of the Cartagena Agreement establishing the Andean Group - one of the most far-reaching and innovative attempts at economic cooperation among developing countries or, in the now fashionable jargon, South/South cooperation.

This first Meeting of our Board of Governors here in Colombia serves to remind us of the pioneering spirit and vision of Dr. Rodrigo Botero, the former Minister of Finance of this country, who as early as 1970 saw the need for Colombia to associate itself more closely with the island states of the Caribbean by, among other things, becoming a member of the Caribbean Development Bank.

Let me take this opportunity, Mr. Chairman, of conveying through you to the Government of Colombia our Bank's deep appreciation of Colombia's contribution to CDB's hard and soft resources.

On behalf of the Board of Directors of the Bank, I must also draw attention to the very constructive role in the deliberations of our Board of Directors played by Colombia's representative, since that country's admission to the Bank - Dr. Jose Vicente Mogollon, an illustrious son of this beautiful and historic city.

The hosting of the Meeting by the Government of Colombia leads me to observe that in many respects the composition of the membership of the Caribbean Development Bank reflects the twin goals of the New International Economic Order - mutually beneficial economic cooperation between the North and the South and between the South and the South.

We have had two developed countries of the North - Canada and the United Kingdom - as founding members, along with all the English-speaking Caribbean countries - who are the major beneficiaries of the Bank. And later on we have had the accession to membership of Colombia, Mexico and Venezuela, all developing countries of the South. In addition, soft (or concessionary) funds have been received not only from these five member countries as well as from Trinidad and Tobago (a Commonwealth Caribbean member country), but also from non-member donor countries both from the North - the United States of America, the Federal Republic of Germany, New Zealand and Sweden -and from the South - the Federal Republic of Nigeria.

There is genuine partnership for development in the membership structure, representation on the Board of Governors and the Board of Directors and in the fact that all member countries, including the major beneficiaries, subscribe to the capital of the Bank. At the same time, the Board of Governors' 1971 Resolution that at all times Commonwealth Caribbean

countries should have a majority of the shares and voting power in the Bank and the majority of seats in its Board of Directors, creates a sense of identity and dignity for the major beneficiary countries.

In this way, the countries of the Commonwealth Caribbean receive inflows of external financial resources in the context of economic self-reliance and full participation in decision-making and are therefore not placed in a position of total dependency.

With particular regard to South/South cooperation, recent events occurring within the Caribbean Community not only demonstrate the growing interdependence in trade of its member states, but also suggest the need for early action to "deepen" and then also to "widen" the Community.

Thus we have to deepen immediately by putting into effect many vital provisions of the Treaty of Chaguaramas establishing the Caribbean Community. The following ten-point Emergency Action Programme seems to be called for:

1. Reinvigorating and expanding the CARICOM Multilateral Clearing Facility.
2. Becoming more serious about the implementation of the Regional Food Plan (or Regional Food and Nutrition Strategy, as it is now called).
3. Implementing the first round of the Regional Industrial Programming exercise.
4. Rationalising the production and marketing of energy within the Region.
5. Adopting a Common Protective Policy by revising and rationalising the Common External Tariff and by having, where necessary, on a harmonised basis, quantitative restrictions vis-a-vis imports from third countries, in order to protect weak sectors such as textiles and garments and food production, while at the same time encouraging exports to extra-regional countries through common policies on incentives for such exports.
6. Implementing the CARICOM Enterprise Regime and creating joint enterprises combining capital, management and material inputs as between member countries of the Community.
7. Adopting common policies towards the attraction and regulation of foreign private investment, in particular through Investment Cooperation Agreements and Double Taxation Treaties with third countries.
8. Rationalising both passenger and freight air transportation serving both intra and extra-regional routes.
9. More forcefully projecting the external personality of the Community.

10. Establishing some independent and impartial authority not only to monitor the implementation by Member States of the provisions of the Community Treaty and the decisions of its Organs and Institutions, but also to mediate and, where necessary, arbitrate in disputes between member states.

The present difficulties which are being experienced by CARICOM and most of the economic integration movements among Third World Countries do not constitute any valid reason for abandoning attempts at this form of South/South economic cooperation. It is only normal that there should from time to time be difficulties and even crises in these joint endeavours - especially in times of deep world economic crisis. The long-term vision of ultimate mutual benefit and greater self-reliance and self-respect must not be allowed to be clouded by considerations of short-term national expediency.

But "widening" actions also require urgent study with a view to early action. These include the conclusion and implementation of formal Trade and Economic Cooperation Agreements between CARICOM and other countries of the Caribbean Archipelago.

We also need as a matter of urgency to conclude and implement a programme of Trade and Economic Cooperation between the Andean Group (of which Colombia is an important member) and the Caribbean Community as a group.

I stress agreements between the Caribbean Community acting as a group and other countries and groupings in our part of the world. I do this because all the CARICOM countries, even the larger ones, are very small and with very little economic power as individual entities and therefore require the strength in external efforts which can only be achieved by cohesiveness and solidarity at the Community level. Moreover, the conclusion by individual member countries of CARICOM of agreements with third countries or groups of third countries could undermine the integrity of the Community.

II. CDB'S PERFORMANCE IN 1982

Our Annual Report and Financial Statements for 1982 are as comprehensive and as detailed as usual. You will see from these documents the progress made by the Bank both as a financial intermediary and as a development agency. Pages 20 and 21 of the Annual Report bring out briefly the highlights of the Bank's activities during 1982, and the numerous Financial Statements with accompanying Notes are there for your usual close scrutiny.

One of the noteworthy aspects of our activity during 1982 is that we made some progress towards establishing a Unified Special Development Fund and discussed with certain OECD countries the possibility of new membership in the Bank as mandated by you, the Board of Governors, a year ago.

III. MAIN THEME OF REST OF STATEMENT

This year I take as my main theme the subject **Making CDB More Effective**. I do this not because I think CDB is ineffective, but rather because it is necessary continuously to take stock of CDB's policies, procedures and organisational structures and systems, with a view to improving them since, as in all human institutions and activities, there is always need for improvement.

There are two aspects to the effectiveness of CDB. One is the extent to which the Charter's goals are being fulfilled and its functions carried out. The second is the speed of delivery of services required of the Bank, the quality of the services so delivered and the cost of delivery in terms of both money and manpower. We shall deal with both aspects in what follows.

Let us briefly recall the purpose and functions of the Bank as set out in its Charter.

The purpose of the Bank is threefold:

1. National Economic Development of Beneficiary Countries;
2. Economic Cooperation and Integration among them; and
3. Giving special and urgent attention to the development needs of the LDCs.

The functions of the Bank include:

- Mobilising additional financial resources from within and outside the Region for the development of the Region.
- Financing of projects and programmes contributing to the development of the Region or any of the regional members.
- Providing Technical Assistance, particularly in pre-investment.
- Assisting in coordinating national development programmes with a view to achieving better utilisation of the countries' resources and making the national economies more complementary with each other.
- Cooperating and assisting in regional efforts developed to promote regional and locally-controlled financial institutions.

- Assisting in developing national credit and savings markets and a regional capital market.
- Promoting public and private investment in development projects.

It should be noted that the statement of the Bank's functions in the Charter mandates the Bank to be both a bank and a financial intermediary and a development agency. The balance between these two activities has to be continually watched if only because the banking function brings in net income while the development agency function is provided in CDB's practice essentially free of charge. Thus if we go too much in the direction of being a development agency, we will be weakening our financial position and this in time will have a detrimental feedback on our developmental agency function.

IV. **CDB'S PERFORMANCE TO DATE**

How well has CDB so far fulfilled its purpose and discharged its functions? In view of the fact that there have been assessments of this kind frequently made over the last few years (particularly in CDB: The First Ten Years), the question can be answered in a few brief paragraphs.

(a) Cumulative CDB Financing Approvals and Disbursements since 1970

CDB has from the beginning of its operations in 1970 to March 1983, approved US\$420 million in loan, equity and technical assistance financing to its borrowing member countries, and of this total US\$287 million or 68.3% has been disbursed.

Most of the soft (or concessionary) resources totalling US\$269 million have gone to the LDCs while most of the hard resources totalling US\$151 million have gone to the MDCs. The total population of the LDCs is one-seventh that of the MDCs. Thus the LDCs have received from the Bank several times more soft money than the MDCs per head of population. Clearly, then, CDB has been fulfilling its purpose of having special and urgent regard to the needs of the less developed member countries.

(b) Technical Assistance

In addition, a considerable amount of free technical assistance has been given to all borrowing member countries, particularly the LDCs. It cannot be emphasised too often that under the Charter project preparation (or the feasibility study), which is time-consuming and onerous activity, is the indispensable basis for project appraisal and, strictly speaking, is the responsibility of borrowers, and not of the Bank whose responsibility it is to appraise projects. But CDB has been providing services in both

identification and preparation of projects free of charge to both the public and private sectors.

CDB has also established, with the assistance of USAID, a Technology and Energy Unit to address the technology, energy and related information needs of the countries of the Region. Our aim here has been to assist member countries in developing a capacity to make rapid and deliberate progress from ideas through to successful practical or commercial use of available resources.

One of the more important mechanisms which we have created is the Caribbean Technological Consultancy Services Network involving ten major technological institutions, six national development banks and nine libraries in the Region. The Network is rapidly being recognised by its clients as an important mechanism for the delivery of advice and technological services to small and medium-scale enterprises. It is also providing an important mechanism for promoting coordinated approaches to common technical problems and maximising benefits to the Region from its scarce skilled manpower. With respect to energy, we have been charged with demonstrating the feasibility of alternative forms of energy resources - e.g. solar, wind, biogas, biomass, etc.

(c) Training in Handling Projects

A Project Administration Training Unit (PATU) has also been established to train staff of borrowing member countries in all phases of the project cycle - identification, preparation, financial and economic appraisal, and implementation of projects. And this is provided free of charge to personnel from both the MDCs and LDCs.

(d) Support to the Private Sector and to DFCs

CDB has also been very active in promoting the development of the private sector in the Region. If we take all loans (net of cancellations) to the private sector - both direct and indirect through the DFCs in both the LDCs and MDCs - we find that to date 35% of all CDB's financing has gone to the private sector. Indeed, our very first operation in September 1970 was with a new privately-owned hotel in one of the LDCs.

DFCs, particularly in the LDCs, have been established - in many instances on the urgings of CDB. They have all been strengthened through continuing technical assistance from CDB staff.

Considerable financing has been made available by CDB to DFCs in both the LDCs and MDCs.

During the past three years, the Bank has been undertaking, with the assistance of soft loans and technical assistance grant funds from USAID and IDA, an extensive DFC institutional strengthening and restructuring programme. This exercise included the provision of training to DFC staff in various aspects of project management in PATU; provision of full and part-time industrial promotion personnel; reorganisation of the loan portfolio; provision of concessionary or soft loans to Governments to inject Government-owned equity into these institutions; provision of concessionary or soft loans to allow the DFCs "spreads" of as much as 8% per annum between their borrowing and lending rates; and assistance in developing their organisational structures, systems and procedures.

(e) CDB's Policies and Procedures Now Better Understood by Borrowers

Nearly all the borrowing countries, including the LDCs, now have a much better understanding than in the Bank's early years of the rationale of our policies and procedures. I believe, too, that they are more appreciative of our continuing efforts, always consistent with our Charter and with stipulations laid down by donors when making available hard and soft funds, to modify and simplify these policies and procedures so as to expedite loan approvals and disbursements, to train staff in the borrowing countries in handling projects, and, generally, to promote sound development more effectively. At the same time, officials of most borrowing member countries are now better able to make use of the Bank's resources, partly through experience and partly through more formal training by PATU.

(f) Promotion of Economic Cooperation and Integration

With regard to the promotion of economic cooperation and integration, we have taken the project approach and have made available loans for regional integration projects. We have made three loans to the intra-regional shipping line WISCO (two hard and one soft); we have lent considerable sums to LIAT, the small airline serving the Eastern Caribbean islands and indeed, had it not been for CDB's making of a large loan in 1975, LIAT would have collapsed with enormous detrimental consequences for tourism and inter-island commerce and people-to-people contact. We have also made a loan available for a regional project in agriculture based in Guyana and jointly owned by the Governments of that country, St. Kitts/Nevis and Trinidad and Tobago.

We have also been giving considerable technical support to the integration movement by participating in several meetings of CARICOM at both technical and Ministerial levels and by undertaking sectoral studies and

prefeasibility work on projects forming part of regional programmes, particularly in agriculture.

We have not endeavoured to any great extent to discharge our Charter function of "assisting regional members in the coordination of their development programmes with a view to achieving better utilisation of their resources, (and) making their economies more complementary". Given the tendency of the Commonwealth Caribbean countries to economic fragmentation and wasteful and uneconomic duplication of economic activities, many developmental facilities and even some administrative services, and given the strict adherence to the doctrine of formal (as against effective) sovereignty, this is a task of truly herculean proportions, which would require the leveraged use of vast financial resources by CDB and, even more important, deep commitment to regional unity and unswerving political will. (Perhaps if all bilateral and multilateral donors to our borrowing member countries placed the promotion of national development within the framework of the economic integration effort through the Caribbean Community, and coordinated their aid efforts very closely indeed, there might be more success in this area.)

(g) Mobilising Financial Resources

Because of the satisfactory progress made by the Bank in all fields we have been able to attract considerable financial resources from both inside and outside the Region. We started with total resources of US\$25 million in 1970. These now stand at US\$488 million - US\$186 million in hard resources and US\$302 million in soft resources. Resources mobilised from within the borrowing member countries of the Region amounted to US\$59 million, mainly from Jamaica and Trinidad and Tobago. Resources from Colombia, Mexico and Venezuela (all Third World countries), totalled US\$66 million. Resources from non-member countries - USA, Federal Republic of Germany, Sweden, the Federal Republic of Nigeria and New Zealand - amounted to US\$228 million, and from the non-regional member countries of Canada and the United Kingdom US\$82 million. The biggest single contributor to our soft resources has been a non-member, the USA, which contributed US\$137 million.

(h) CDB's Performance as a Bank

Viewed as a bank, CDB has also performed with a reasonable level of effectiveness. We have maintained every year a good financial position. Our net income in our Ordinary Resources operations has grown from US\$14,000 in 1970 to US\$3.9 million in 1982. We have built up a healthy level of reserves (both general and special). Our reserves and net income grew from US\$14,000 at the end of 1970 to US\$22.4 million at the end of

1982. At the latter point in time our outstanding OCR loans amounted to US\$59 million. We have a very good level of liquid assets which we have managed prudently and therefore received good returns from their investment mainly in member and non-member donor countries. We have managed successfully to cope with the severe risks in making such investments.

Indeed, it is the high returns from our liquid investments that have enabled us to keep down our rate of interest on loans - although our Board of Directors, while being mindful of the needs of our borrowers, has never hesitated to raise interest rates on our Ordinary Resources loans when necessary in the interest of financial viability of the Bank. At one time our interest rate on our Ordinary Capital Resources loans was significantly lower than that of the world's major international financial institutions; but at present, despite our relatively high costs of operations per dollar lent, our OCR lending rate compares favourably with the major financial institutions' rates and are significantly lower than commercial lending rates.

We have not been able to do much to develop national and regional capital markets, because of the difficult economic and financial situation in most of our borrowing member countries. But we have raised three loans totalling US\$25 million in the private capital market of Trinidad and Tobago in which the Government of Trinidad and Tobago has allowed us to raise funds. We have also issued three sets of short-term two-year bonds of US\$10 million each to regional Central Banks and Monetary Authorities, which we have since repaid.

(i) Overall Assessment of CDB's Progress

The result of all this is that CDB has now become a full-fledged regional financial institution well respected both inside and outside the Region. For example, it has, along with other international financial institutions (that is, the World Bank, the International Monetary Fund (IMF), the Inter-American Development Bank (IDB) and the United Nations Development Programme (UNDP), played an important coordinating role in the activities of the Caribbean Group for Cooperation in Economic Development (CGCED).

What is even more important, CDB has established itself as an active regional organisation and as a symbol of regional cooperation and unity.

(j) Increasing CDB's Effectiveness

There are no grounds, however, for complacency. We are aware that for the rest of this decade we ought to chart and follow a flexible course in

which serious attention is paid to enhancing even more the effectiveness of the Bank, particularly its operational capability. Such a course is inevitable if we are to continue to attract both hard and soft resources in the face of worldwide financial stringency. The rest of this statement will therefore be devoted to an all too brief survey of ways and means of adjusting our policies and procedures and enhancing the Bank's operational capability for the rest of this decade.

Let me here stress that the success of CDB depends not only on the attitudes and actions of the Bank itself but also on the support and encouragement of its borrowers and its member and non-member donors.

(A) ACTIONS OF THE BANK ITSELF

(a) International Bank Organisation, Procedures and Systems

Towards the end of 1981, our Board of Directors decided that an independent management Study should be undertaken to develop proposals for changes in CDB's organisation and operating systems and procedures in order to achieve the Bank's objectives as effectively as possible. The Study was also to include the preparation of an organisation and personnel plan, together with proposals to implement the planned changes.

The Report has been completed and is now under consideration by our Board of Directors, who has already accepted in principle the broad thrust of the Report and will now go on to a more detailed examination of it. Some of the broad approaches recommended by the Study form the background to some aspects of the discussion which follows immediately on internal Bank organisation, systems and procedures. (The Consultants, of course, were not asked to get into the area of financial and lending policies.)

The Consultants stressed the need for a greater formalisation of both strategic and operational planning, for differentiating between operations and support services in the activities of the Bank, and for systematically documenting procedures and developing and refining systems with a view to the speedier and more cost-effective delivery of aid by the Bank.

The Bank's Board of Directors and Management have responsibility for corporate planning which can be divided into four mutually inter-related areas - namely, country assessment and aid coordination; financial planning; organisational and manpower planning; and operational planning. These are, of course, now being done, but need to be done more systematically in future.

CDB's corporate planning activities must, and do, start with an assessment of country needs and absorptive capacities; its sectoral emphases and preferences; level of hard or concessionary resources needed; and micro and macroeconomic policies required to maximise benefits to be derived from the use of CDB's resources. In doing such exercises, we have also to bear in mind the activities of other donors and other sources of funds, with CDB assuming the role, selectively, as lender of last resort.

With these country assessments determined, the three other areas are integrated into the overall planning process, taking into account the final realities of raising an adequate volume of hard and soft funds.

CDB's Management undertakes annually and submits for consideration of the Board of Directors a comprehensive financial evaluation of its operations with financial projections covering a five-year period. On the bases of these evaluations, financial policies on levels of liquidity, interest rates, etc. are determined. These financial planning exercises will in future be more tightly integrated into a more formal overall planning system.

CDB determines operationally what are the most effective means for providing financial assistance to its various borrowing countries - e.g., project loans, sector loans and programme loans; what should be the most appropriate channels (e.g. indirect loans to small indigenous enterprises through national DFCs) or what sectors to favour (e.g. the productive sectors of agriculture, industry and tourism, and the various types of infrastructural projects).

We have already embarked on the production of additional relevant management information, a better allocation of costs among our various activities and better control of our general operations and financial transactions. We will speed up this process in the future.

(b) Financial and Lending Policies

Some important aspects of our financial policy on which more emphasis will be placed in future include the setting of realistic interest rates for our loans; keeping down growth in our administrative costs; obtaining from members increases in their paid-up and callable capital; and maximising through prudent management the return on our liquid investment.

These policies are intended to earn a return on our equity which is at least equal to the rate of inflation. In this way we would be maintaining the real value of the Bank's capital.

To ensure that projects provide the maximum benefits to a country as speedily as possible, CDB will in the future pay even more attention than

in the past to designing and redesigning projects, bearing in mind the particular country's situation, not only to get an acceptable rate of return but also to try to maximise that rate of return.

The assessment of the impact of projects funded by the Bank on the economy of the borrowing countries (that is to say, post-evaluation, to use the jargon) will be intensified so that both CDB and our borrowers may learn from the experience of projects already financed and implemented. We will devote more resources and efforts to this function.

An important method of reducing our costs is to increase the minimum size of loans which we make. At present, our minimum direct loan size is US\$100,000. But in the interest of our containing our staff and travel costs, our Board of Directors is giving consideration to increasing this amount. Moreover, our average loan size, which now stands at US\$1.6 million, must as soon as possible be raised to a higher level - perhaps around US\$2 million. (This will not, however, mean that we intend to cease making loans for small projects costing small amounts.)

While the emphasis in our lending will continue to be on project financing, innovative means of delivering financial support to borrowing Governments will be investigated. CDB intends to consider such other forms of aid delivery as sector, and probably programme, loans which take a more comprehensive and inter-related view of an economic situation. We also hope increasingly to make integrated or multi-sector project loans to our smaller borrowing countries. In these countries and territories, there is much scope for the cost-effective procedure of combining several mutually supporting projects into a cohesive and coordinated whole.

We will also have to consider lending for the very important sub-sector of forestry which has always been eligible for CDB financing. Broadly speaking, most countries of the Region have tended to neglect, if not overlook, this vital sub-sector. Indeed, we have already approached the European Development Fund for funding on a grant basis of a comprehensive study of this sub-sector in all our borrowing member countries.

We are also being requested by other international financial institutions to finance technical and vocational education in the LDCs if very soft or concessionary funds can be obtained. The matter has not yet been determined by our Board of Directors. Let me merely say that at the present time, the technical and vocational training needs of the LDCs are not so much for capital investment in new buildings as for the provision of software, the formulation and implementation of appropriate policies and programmes, and proper and adequate maintenance of existing buildings and equipment.

With regard to private sector projects, the Management of the Bank is now addressing all the issues involved in a more expeditious processing of loan applications from this sector for projects in the productive sectors. While in the past the Bank has made several adjustments in its policies and procedures in order to expedite the processing of productive sector projects (for example, requiring simple "competitive shopping around" rather than the full rigour of the formal procurement procedures maintained for public sector projects, and lengthening to a maximum of 18 years the amortisation period for loans to hotels should the projected cash flows of the project justify this), further consideration of the issues by our staff has shown that more could be done. The Board of Directors will soon be considering their proposals. Indeed, the November 1982 Conference of Heads of Government of the Caribbean Community asked the CARICOM members of the Bank's Board of Directors to continue to provide as much support to the private sector as possible and, if necessary, even to create a special fund within the Bank for this purpose.

But one thing must be made crystal clear. As an international development bank, we can never take the same approach as a commercial bank and approve project loans within, say, a few days or weeks for well-established borrowers whose financial situation and history are well known to the bank concerned. If we are able to have the same length of time elapsing between loan application and loan approval as the International Finance Corporation (IFC), we should be doing well. At the moment, we are not all that far from the IFC in the time we take to deal with private sector projects. As a development bank, we have to look at the economic benefit of a project to the country as well as the financial benefit to the borrower.

One crucial area of project preparation in productive sector projects is careful market research. We shall have to intensify our efforts in this regard or make greater use of specialist consultants.

As a development bank, we have to promote and foster entrepreneurship in both small and medium-sized enterprises and not only in the well-established business sector. Scrutiny of such proposals often takes a longer time than for the bigger, more established business firms. Existing small-scale enterprises need to receive, on a continuing basis, technical assistance and training. In a small way we have been using grant funds from CIDA and USAID for this purpose.

We are sure that we will continue to have a good private sector portfolio. Indeed, we would be happy to continue to co-finance and cooperate in a more systematic way with commercial banks and other similar institutions.

Everyone would agree that commercial banks in the Region need to devote a much larger part of their portfolios to long-term project financing both for the well-established business firms and for smaller and newer enterprises, and we have already approached the commercial banks with proposals for cooperation in this regard.

We must also be prepared, as permitted in our Charter, to devote a small amount of our total resources to making equity investments in the private sector, especially in the LDCs. (Our Charter also permits us to make loans to private sector enterprises without a government guarantee.)

The national DFCs will continue to be the recipients of a fair proportion of CDB's resources so as to develop an institutional capability in their countries, ensure that funds are channelled to small enterprises and local entrepreneurs and to reduce the staff costs per dollar of CDB's project financing. At the same time, the maximum amount of a single sub-loan made by the DFCs from CDB funds will be increased, as individual DFCs become more mature and viable.

In the past, CDB's technical assistance resources concentrated on the financing of pre-design feasibility and general studies which identified projects and problems. CDB intends to be more innovative and adaptive in its technical assistance programme. Thus, for instance, packaging technical assistance to implement and execute a project in a loan/grant package will be a more regular feature in CDB's technical assistance activity. Similarly, where resources permit, CDB may want to consider with UNDP and other donors a topping-up of funds to attract and retain skilled professionals required for national service who are currently abroad.

I turn now to what CDB can increasingly do in future in a fundamental area of Caribbean economic development.

Decisions on resource development are far from easy and are becoming increasingly problematic because of a great lack of relevant information about matters such as the likely changes in technology and in the use of end-products, the quality and availability of indigenous energy and other physical resources, the types of techniques that are best suited for utilisation in the Caribbean and requirements for their development (e.g. time, skills, financing, markets). A major part of this lack of information is the result of the absence of regional coordination and effective planning and can be substantially reduced by a systematic regional approach to assessment and use of available resources, technology (including skilled manpower) and information as key developmental resources.

To effect the required adjustments and to get away from the grips of what might be ailing primary and natural resource-based industries such as sugar and bananas (and possibly cocoa, coffee, citrus, residual fuel oil and bauxite), CDB expects to take the lead with other regional agencies in identifying new dynamic growth industries and establishing pilot projects based on new information technology and other pilot projects to adapt to new techniques which meet Caribbean needs and circumstances - e.g. micro-processors, bio-technology, etc.

All this the CDB's Board of Directors, Management and Staff do and will increasingly do, but its impact would be dulled if the appropriate responses and cooperation from donors and borrowers were not forthcoming.

We turn now to the role of donors - both members and non-members of the Bank.

(B) DONOR SUPPORT OF BANK IN FUTURE

The foremost requirement from donor member countries is continuing financial support in respect of increasing from time to time their paid-up and callable capital and continuing to contribute on concessionary terms to a Unified Special Development Fund. From donors who are not members, we of course look to their contribution on a grant basis to the Unified Special Development Fund. In this connection, I need not reiterate the case for unifying as far as possible the numerous separate funds into a single Unified Special Development Fund

The fact is that we would like to end up with three funds: an Ordinary Resources Fund, a Unified Special Development Fund and a Technical Assistance Fund. (But it may also be realistic to think in terms of additional Trust Funds to be established to receive hard and soft resources from international financial institutions).

In financing projects in the productive sectors and supporting economic infrastructure, CDB has a niche in the Region and is advantageous to donors and beneficiaries for several well-known reasons:

0. CDB aid delivery is administered at less cost per dollar of aid delivered than for almost all other aid donors, particularly those whose activities are small and diverse. In fact, this has been recognised by the major international development banks who, concerned over cost-effective aid delivery, use CDB's services to channel funds, particularly to the LDCs.

1. CDB, with the expertise of its Caribbean staff, has an intimate knowledge of, and sensitivity to and empathy with, regional problems.
2. There is a greater ease of dialogue among CDB, donors and beneficiaries than between donors and beneficiaries alone.
3. CDB with its significant pool of resources offers donors, particularly small ones, the benefit of wider procurement opportunities.
4. CDB offers to donors the advantage of aid coordination and the benefit of economic support services to assist in the identification of optimal policies and strategies to enhance the effective utilisation of resources.
5. CDB through its loan mechanisms gets beneficiaries to appreciate that funds have a cost and, hence, can induce them to make better use of all aid funds.
6. Support of the CDB is seen by many contributors as a tangible contribution to regional integration and cooperation.

Indeed these reasons weighed heavily with the Governments of the borrowing member countries (both LDCs and MDCs) when they took the decision to establish the Bank. The need for external donors to do all they can by their aid programmes to strengthen regional institutions was also recently stressed by the Heads of Government of the Caribbean Community, meeting in Ocho Rios, Jamaica, in November 1982.

Everyone would surely agree that donors should do nothing to undermine the existence, growth and integrity of regional financial and other cooperation and integration institutions. In fact, donors should do everything possible to sustain and enhance such institutions, since regional cooperation and integration are essential to the sound and lasting development of our area.

Donor members of the Bank (as well as beneficiary member countries) should be prepared every few years to increase not only their callable capital subscriptions to the Bank, but also their subscription to paid-up capital. If in future only increases in callable were to be provided in order to increase OCR (or hard) borrowing by the Bank, this would lead to interest rates on CDB's hard lending becoming unduly high. To avoid this state of affairs, donor member countries should also be prepared to put up from time to time additional paid-up capital so as to provide some cost-free OCR funds to the Bank to act as a buffer against high-cost funds borrowed by the Bank.

I wish to draw attention to three other related issues:

The first is that the greater the extent of donor support from both members and non-members to CDB, the greater the confidence the market will have in CDB and this will enhance its ability to raise resources in the capital markets on the best terms possible.

Secondly, assistance provided by donors through regional multilateral financial and other institutions does not necessarily preclude bilateral aid programmes. In fact, many donors to the Region have been able to blend a bilateral and multilateral approach to the satisfaction of all concerned.

Thirdly, while money is fungible, it is my view, shared by some donors, that there should be some specialisation between donors as to the sectors which each should finance.

Another requirement is that donors should consult with national Governments and regional institutions when contemplating the provision of financial and other assistance. This is necessary to ensure that such assistance is consistent with national and regional goals, is complementary within the framework of a balanced investment programme, has realistic conditions and in general is not too burdened with unnecessary and restrictive conditions.

Additionally, donors should participate in regional aid coordination exercises to review with CDB their aid situation in the context of changing economic situations and so be encouraged to be sufficiently flexible to modify these conditions as situations warrant.

And so I turn to our borrowers.

(C) ROLE OF BORROWERS

It is not an exaggeration to say that borrowers have a critical role to play in supporting CDB, for the institution's success depends on the quality of its portfolio and the contribution of this portfolio to national and regional economic development. In turn, the quality of CDB's portfolio depends to a large extent on two factors - namely, the borrower's commitment to the project and the adoption of appropriate development policies (including relative emphases to be accorded to the various productive sectors and the use of correct monetary, fiscal and other economic policies to improve the framework within which the project is to be implemented). Borrowers will increasingly be encouraged (even more than previously) to understand what CDB is doing and why it is proposing its various project conditions.

Such understandings can be greatly facilitated if there could be more dialogue at a high level between CDB and the borrowers to discuss areas of mutual interest. In this regard, we propose to suggest to borrowing

Governments the need to have annual top-level discussions between high-level Government representatives and top CDB staff to discuss proposed lending programmes, difficulties and successes with the implementation of on-going projects, overall development and sectoral issues which need to be addressed and future lending programmes. Of course, we cannot dictate; we can only discuss.

To minimise the growth of external debt while promoting development, CDB intends to discuss with national governments ways and means of co-financing particularly in housing and especially with national financial institutions such as National Insurance and Social Security Funds. In this way, they would be directing into productive development activity some of the borrowing members' scarce foreign exchange which is currently frittered away on the importation of luxury consumer goods. Increased borrower commitment to projects would be secured.

It should be emphasised that to call for greater internal mobilisation of financial resources does not remove the need for CDB continuing to finance a part of local costs of projects, especially in the LDCs. CDB will continue this policy.

While continuing to be responsive to requests of borrowing Governments for infrastructure loans, we shall have increasingly to give more emphasis to lending for productive sector projects during the decade ahead, since infrastructure is not an end in itself, but is merely a basis for facilitating the growth of production.

Inevitably, project (as against macroeconomic) conditionality will have to continue. Of great importance is the condition laid down in our Loan Agreements for the recruitment of trained and experienced managers and technicians to implement and operate projects being financed. But of even greater importance is the imposition of covenants requiring a proper level of tariffs and other user charges to provide for the efficient functioning and financial viability of the Public Utilities, to promote national savings and to minimise waste. This becomes all the more important and obvious when account is taken of the fact that at the present time nearly all our borrowing members would find it difficult to provide subventions from the national budget to Public Utilities. Either the user pays the full cost of the services or the general taxpayer will have to pay increased taxes to finance the subventions. Moreover, user cost pricing systems discourage waste of the output of the Region's usually high-cost Public Utilities and so help to meet such objectives as conserving energy and putting scarce capital funds to the best use.

V. CONCLUDING OBSERVATIONS

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

I end on a very practical and operational note. In our current efforts to improve the effectiveness of the bank, the staff have been requested by our Board of Directors to extend our five-year programmes and related financial projections into a ten-year strategic and operational plan for the Bank. When such a long-term strategic and operational plan is adopted by the Board of Directors. I am convinced that CDB will continue to become even more effective in promoting national and regional development than it now is.

But in the last analysis, we can operate with maximum success only to the extent that the Board of Directors and Management of the Bank receive full and unstinted support of both borrowing and donor members of the Bank and of non-member donor countries in our difficult and exacting task. This should not only make us even more creditworthy for borrowing on hard terms from both international capital markets and international financial institutions, but also make us even more worthy of aid on concessionary terms from both international financial institutions and donor countries.