

# **THE CARIBBEAN AT ANOTHER CROSSROAD**

**Statement by  
Sir Neville Nicholls, President  
Caribbean Development Bank  
To the Board of Governors  
At the Twenty-Second Annual Meeting  
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Radisson Resort Hotel  
George Town, Grand Cayman, Cayman Islands  
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### **1. OPENING REMARKS**

Mr. Chairman, Members of the Board of Governors and of the Board of Directors, Members of the Cayman Islands Legislature, Distinguished Delegates, Observers and Guests, Ladies and Gentlemen:

It is indeed a personal pleasure for me to be in the Cayman Islands again.

Since our last Meeting, the Region has suffered the loss of the first President of our Bank, the distinguished Nobel Prize Winner in Economics, Sir William Arthur Lewis. Let us always remember his great work in this Bank and elsewhere as we continue our efforts to build on the foundations he so ably laid.

Some change has also taken place, Mr. Chairman, in the senior management of

the Bank since our last meeting. Mr. F.A. Rupert Mullings, who joined the Bank's staff in September 1976 and served as Director of the Economics and Projects Analysis Division and later as Treasurer and Controller, before his appointment as Vice-President (Corporate Services) and Bank Secretary with effect from January 1, 1988, retired from that office on February 29, this year. I would like to take this opportunity to place on record my appreciation of the tremendous contributions made by Mr. Mullings to CDB (and to the Region it serves) during some sixteen years of service to the Bank.

Mr. Chairman, as you are aware, Mr. Mullings has been succeeded as Vice-President (Corporate Services) and Bank Secretary by Ms. Masie Plummer and it gives me great pleasure to welcome her to this, her first Meeting of the Board of Governors, in her capacity as Vice-President (Corporate Services) and Bank Secretary.

One of the most notable features of our assembling here is that, finally, after 22 years, we have brought our Governors' Meeting to the Cayman Islands, to the land of spectacular crimson sunsets; to one of the smallest of our Borrowing Member Countries (BMCs); and yet to be of the world's leading offshore financial centres. We are gratified that this has now occurred. The Cayman Islands has become the first country, from that constituency of five members which share a Governor, to host an Annual Meeting. We know how big a challenge that presents, and what a fine achievement it is to have done so.

I wish to assure you, Sir, that although our coming here has taken those many years, the spontaneity and warmth of the Caymanian people's welcome have been well worth the wait. Our experience here is testimony to the veracity of the ten Chairman-elect's assertion when we ended our Meeting in Merida last year that "the business of the Cayman Islands is being nice to people".

I think it very appropriate that we should be meeting at one of the memorable landmarks of Columbus' voyage at a time when the world is observing (celebratory or otherwise) the quincentennial of a remarkable course of events which so changed our people's destiny. Whatever the underlying reasons for, or causes of, what transpired so long ago, our people have made the most of our transplantation to the Western World. We have toiled and laboured, have survived and have developed norms, relationships, a lifestyle and culture which the world recognises as uniquely Caribbean. I have observed much in this country that expresses the Region's vitality and symbolises the success of our common endeavours for sustained development in the face of considerable odds.

We face enormous difficulties because of the relatively small size of our countries, and more so, because of exogenous factors of transportation, communication, technology, trade, politics, etc., over which we have little control and, most often, no control at all. Mr. Chairman, because of the factors to which reference was just made, the success achieved by the Cayman Islands is the more

remarkable. Education, health and other social services sector, as we have seen, are buoyant; and per capita income finds comparison mainly among the industrialised countries. It is to me a source of some pride and satisfaction that the record will show a not insignificant CDB participation and contribution to the process of economic advancement. To date, CDB's capital and technical assistance financing to the Cayman Islands is approximately US\$47 million. Those resources have gone towards airport development, agriculture, seaports, tourism, industry and other activities. Just this week, the Board of Directors approved technical assistance financing for a study to ensure that there would be no significant damage to the environment here, resulting from the extraction of construction and fill material which is necessary for the implementation of major projects within the Development Programme. I might add, also, that CDB has earmarked additional financing in the years ahead, in continuation of the close cooperation that has characterised the relationship between the Cayman Islands and the Bank.

As I conclude this introductory segment, Mr. Chairman, may I also say how impressed we have been with the excellent arrangements made to ensure our comfort. Also, we have had put at our disposal very commodious facilities and capable support personnel from various areas of public administration in this country. I am sure that these facilities and such support will contribute in no small measure to a very successful outcome of this Meeting.

## **2. ANNUAL REPORT AND CDB'S PERFORMANCE DURING 1991**

The Board of Directors has submitted to the Board of Governors an Annual Report which contains not merely the facts and figures of our 1991 performance, but evidence of continued expansion and growing maturity. But before detailing the highlights of this performance, it is worth mentioning that CDB's performance in 1991 could be regarded as the base from which, in the first quarter of 1992, CDB was able to put its financial status to a rigid international test by making its first approach to the financial markets for a private placement. The Triple A rating which was accorded CDB by one of the world's leading rating agencies and the favourable response to the Placement for US\$30 million in the United States capital market were a tribute to the work of successive Board of Governors and Directors and the Management and Staff of CDB over the years.

Further, Mr. Chairman, in 1991 we also tested a non-governmental mechanism through which assistance might be channelled speedily to small and micro-businesses. We also initiated in 1991 a new kind of mortgage financing facility which incorporates a revolving fund, and which will help to provide homes for low-income families, particularly those headed by women.

In general, while the Region on average reflected an economic performance in 1991 that falls below the level attained in 1990, there are some positive aspects which should not be too lightly dismissed. Foremost among those positive aspects is the fact that two of our largest BMCs (Trinidad and Tobago and Guyana) have returned to a growth path. Their improving performance means much to the Bank and to the Region - their markets being critically important to CARICOM. Noteworthy also is the level of fiscal discipline being exercised in many of our BMCs, along with other measures that are being put in place to soften the impact of the largely externally generated recession. CDB's forecasts are for continued sluggishness in the economies of the BMCs; hence prospects cannot be bright. However, the determination is there to confront the challenges with clearly defined policies and purposeful action. Our plan at CDB is to continue to provide advice and, of course, technical assistance and capital financing to the extent that our resources allow.

Mr. Chairman, I choose at this point to express CDB's appreciation of the support from all Contributors for their ready replenishment of the Special Development Fund, thus ensuring continued financing of priority projects at low interest rates over a longer term. As you know, this Third Cycle extends over the period 1991-95 for which a replenishment of approximately US\$124 million was agreed. Of this, US\$18.5 million has been confirmed to date. We are very pleased that those negotiations were concluded in a timely manner and that our BMCs are demonstrating increasing self-reliance by making a proportionately greater increase in their contributions.

I wish also to express again CDB's appreciation of the additional grant resources being made available to the Region through this Bank by the Inter-American Development Bank. Totalling US\$3.8 million, the money is being channelled towards four regional projects for the following purposes:

- a. improvement of the standard of health in the Eastern Caribbean;
- b. institutional strengthening of the University of the West Indies;
- c. support for work of the Independent West Indian Commission; and
- d. assessment and analyses of indigenous entrepreneurial development in the Eastern Caribbean.

Let us now turn to the Bank's operational and financial performance. A close examination of the details of the Annual Report would show that the 1991 outturn was an improvement on that of the previous year, which had included a large Economic Recovery Programme loan to Guyana. Loan Approvals in 1991 of US\$109 million were substantially higher than the US\$82 million target set in the Work Programme at the beginning of the year. This increased project activity resulted from greater collaboration and cooperation between the Bank and the BMCs. Without doubt, the pressure on staff was greater and I wish to commend

all involved on their commitment, dedication and professionalism in staying with the task to completion.

Loan Approvals, net of cancellation, in 1991 amounted to US\$108.7 million, compared with US\$101 million in 1990. A new landmark was reached as Net Cumulative Approvals crossed the billion-dollar mark and were US\$1,009 million at December 31, 1991, including Net Cumulative Grant Financing of US\$70.8 million. Disbursements for the year under review were US\$53.8 million. But the comparison with the 1990 Disbursements of US\$88 million must be viewed in the light of the extraordinary circumstances of the Guyana loan that year for which a substantial disbursement took place. Cumulative Disbursements (including Grants) at the end of 1991 were US\$759.4 million.

Once again, and as stipulated in our Charter, CDB's operations and activities in 1991 took seriously into account the special needs of the Less Development Countries (LDCs). Seven countries within that group received 49.6% of the total value of capital loans and 74% of all concessionary funding approved in 1991. Of four Contingent Loans, three were for the LDCs. Of eight technical assistance grants to individual countries, four went to the LDCs. And, of course, that group was the principal beneficiary under the ten Regional Technical Assistance Grants approved. The LDCs continued to receive the larger share of cumulative disbursements, getting 56.4% of the US\$759.4 million disbursed by the end of last year.

Mr. Chairman, a comparison of Net Income between 1991 and 1990 must take account of the special circumstances relating to Guyana in 1990. Net Income from CDB's ordinary operations in 1991 was US\$12.4 million, compared with US\$25.9 million in 1990. With adjustment for extraordinary earnings of US\$18.2 million related to the Guyana circumstances, the outturn for 1991 shows an increase of US\$4.7 million, or 61% over that of 1990.

In summary, while CDB in 1991 continued to focus on viable economic development projects and macroeconomic management, it commenced significant consideration of human resource development, poverty alleviation, increased women's participation and environmental conservation, within the framework of prudence and sound judgement as a bank. We move onwards into the 1990s guided by our Directional Plan to the Year 2000 and determined to rise to the challenges associated with the current new crossroad in Caribbean history.

### **3. THE CARIBBEAN AT ANOTHER CROSSROAD**

Mr. Chairman I am sure you will agree with me that the Bank's 1991 performance, which I have just outlined is indeed very encouraging. But what can

we say about the prospects of the Region that the Bank serves - whose development is its *raison d'être*?

At the end of 1990, the weighted-average per capita income of our 17 BMCs was \$3,000 in current US dollars. This compares very favourably with the level for developing countries as a whole. It is however, not sufficiently stressed and not often recognised, that this level of income is generally more equitably distributed than in many other developing areas, and is accompanied by an entrenched democratic political culture.

I have stated the foregoing, not in order to boast about the Region's achievements - though I think there are grounds for some measure of satisfaction - but to focus our attention on some threats I see to the prospects of sustaining our hitherto good performance.

### **Foundation of Current Welfare**

It is generally agreed that much of the socio-economic foundation for the modern English speaking Caribbean was laid in the 1930s following the widespread social unrest in the Region, and the response it engendered. Assessing the conditions of those times, the young Arthur Lewis in his Fabian pamphlet **Labour in the West Indies**, that has become a landmark social commentary for this Region, quoted approvingly, Professor Macmillan who was able to say about our fortunes then: "A social and economic study of the West Indies is..necessarily a study of poverty". According to that same author: "the masses <were> poor of very poor with a standard of living reminding one of the naive and coloured communities of south Africa even more than of the peasants of West Africa".

Those events took place at a time in history that bears a marked resemblance to our present. The world economy was in deep recession. Its trading system was in disarray. Commodity prices including those for sugar and bananas, our staples then as now, were depressed. Our Region was at a critical crossroad.

The Royal Commission headed by Lord Moyne that looked into the causes of the disturbances that spread throughout our region, from St. Kitts where they began in 1935 to Jamaica where they culminated in 1938, made significant recommendations to the Government of the UK, which acted on many of these recommendations. There followed improved access and protection for Caribbean agricultural exports to the UK and a great deal of social and political legislation that vastly improved the conditions of the general mass of our people. There we should note that whatever new and improved imperial preferences were granted to the Region were in addition to a system of preferences that Canada, a long lasting friend of our region, also granted and has still retained.

For the most part, this regime of preferences facilitated a succession of peaceful and progressive changes in our Region that have transformed our people's conditions to what we now know. In the course of these changes, much of our region has become fully self-governing and relatively prosperous - and Mr. Chairman even if your territory and those others for which you are Governor are not fully self-governing, you can have the satisfaction of knowing that they are amongst the most peaceful and prosperous parts of our globe.

Nonetheless, Mr. Chairman, our region's economic progress now seems to me either to have arrived at or to be approaching another crossroad that we would do well to consider.

### **Threats to Our Current Well-being**

Let me tell you what I believe are some of the factors that are bringing us to this new situation. Firstly, I think that the world economy is relentlessly moving to an era of universalistic trading norms, in which there will be increasingly little scope for preferential arrangements of the kind to which we are accustomed. However, hard we strive to protect whatever favourable bilateral trade relations we have, it would be, on our part, foolhardy not to prepare for what now appears to be an almost certain end to any benefits that flow from these.

These benefits are indeed very significant. As has recently been estimated by World Bank officials, the value of the subsidy implicit in the preferential price that the UK market affords bananas from our OECS BMCs is on average around 8 percent of their GDP. We urge our BMCs to recognise the possibility that, in time, that and similar arrangements might be part of history.

A second factor I believe will impact on our welfare is one that I have spoken about on several recent occasions. It is the increasing decline in concessionary financing from sources that have traditionally favoured this region. There are several reasons for this that can be readily understood. Concessionary finance does not spring from a widow's cruse. Financial investments imply prior financial savings, either our own, or other people's. We know that over the last decade or so, the savings behaviour in many advanced economies has altered considerably. Some countries that traditionally ran surpluses are now running secular deficits. These countries include some of our traditional donors. We must face the fact that they have less to give. But everyone knows, in particular since the recent events in Eastern Europe, that there are now even greater demands on their altruism not to mention obvious changes in their spheres of interests. Even as we meet here, this problem is being severely compounded by developments in the capital markets of those countries that have recently financed large parts of the deficits of some of the major industrial economies. The consequences of these developments are sure to worsen the situation I am discussing.

Mr. Chairman, I am often reminded that the eminent statesman Lord Palmerston stated it as a canon of British diplomacy that Britain had no permanent friends nor enemies only permanent interests. This is now a universal theorem, which even whilst attributing the noblest of motives to our friends, we do well to bear in mind, for all of our bilateral relations. In other words **we need to be alert to the fact that nothing in our history guarantees that others will continue to treat us favourably even when their strategic interests have changed drastically and permanently.**

Those two impending changes in our circumstances are both external to ourselves. I want now to mention a few changes that are more in the nature of being domestic in origin. The first of these is the rising - perhaps exploding - expectations of our people. I sometimes get the feeling that for many of our people, the Caribbean of which I spoke earlier, and which the Moyne Commission investigated, is not so much our region at an earlier stage, but an almost altogether alien place. In a way this might be a good thing. But we could take it too far. Notwithstanding that there remain considerable pockets of poverty in our region, and that the economic progress of some of our BMCs has suffered a prolonged interruption, the general change in the welfare of the majority of our people has been significantly beneficial. Mr. Chairman this appears, perhaps understandably, to have given rise to a pervasive reluctance on the part of many of our people, to countenance the thought of any diminution in their living standards. In fact very many have now come to expect that those standard should rise appreciably every year.

Mr. Chairman, even if our region were not facing the external threats to which I have referred earlier, it is doubtful that our resource base is large enough to satisfy those escalating expectations. The possible negative response to the failure to satisfy those expectations is one of the threats I perceive to the maintenance of our current well-being. However, like all domestic factors, we can do much to prevent this from becoming a serious problem.

There are, as well, Mr. Chairman, two other domestic threats which I think we must act quickly to neutralise. One of these, is the declining productivity in areas where we used to have a comparative advantage. This is taking place, without a compensating increase in competitiveness in new areas. The final threat I perceive to our prospects is a growing scepticism among our people about the ability of the various social partners to respond appropriately to the other problems I have outlined above.

Mr. Chairman, let me stress that I am not intending this statement to be a litany of our failures. And I am fully aware that our present standard of welfare, which I now perceive to be in danger, is due, in no small measure, not only to the favourable external factors I mentioned earlier, but also to the hard work and industry of many of our citizens past and present. What I am really intending is to



outline in start detail the challenge I se facing our region, to indicate how I would like to see it respond, and to tell you at the same time how I would wish to see CDB assist in meeting this challenge.

### **Towards an Appropriate Response**

Let us assume that I have correctly identified the threats we face. It is said that to be forewarned of a danger, is to be forearmed. Confronted by a threat to our present situation, the right response is to adjust to that threat. Yet Mr. Chairman, I must confess to you, a degree of trepidation at the thought of suggesting to this audience, so soon after [my address at the 20<sup>th</sup> Meeting](#) of the Board of Governors in the Bahamas, the need for even more adjustment.

That is why on the four previous occasions I have addressed this Board, I have tried to develop a single or common theme. The common thread running through those earlier statements is the urgent necessity for us, the people of this Region, to become and remain realistic about the economic options that are available to us and to pursue them relentlessly. This is so precisely because the rapid changes in our global environment will severely punish a tardy response to them.

For that reason, in [St. Kitts and Nevis in 1988](#), I urged our countries to look realistically at the possibilities of tourism. We have not always exhibited a positive approach to this industry. What I tried to show, was that in fact, it was an industry with much potential for the economic dynamism of our area. A fact that some of our BMCs had already grasped, but which was not sufficiently appreciated by others. There was, and is, even further scope for realistically assessing its importance.

In the [following year, in Trinidad and Tobago](#), I emphasised the necessity for us to become more competitive in every economic activity we pursue. I hinted then that this might require serious changes in our macroeconomic environment. I returned to that theme the following year in The Bahamas, when, as mentioned earlier, I sought to show that remaining competitive necessarily requires periodic bouts of what is now called structural adjustment.

Mr. Chairman, today, notwithstanding the trepidation I earlier confessed, I wish to extend this last thought, and to elaborate on the kind of policies in the design and implementation of which I think that we can take our people along with us, whilst at the same time avoiding some of the more negative aspects of policies that have come to be associated with the concept of adjustment.

For what has that concept come to mean for some our people? They associate it with: long queues for the purchase of staple foods including even those that are produced by ourselves; health services that have run out of essential medicines

and other basic items; schools, especially those serving the rural poor, that sometimes have teachers but no teaching supplies; families, unable to send their children to school because they can afford neither lunch nor bus fares; and I could go on. It is this that makes some people say that among us there has set in an element of adjustment fatigue.

This, then, is what some of our citizens often understand adjustment to mean, and they do not like it. But, Mr. Chairman, how nevertheless do we as leaders respond to the threats I have outlined above? As I said, it would be foolhardy to ignore them. But neither can we ignore the deep anxiety many of our people now feel about adjustment policies. I think Sir, that our present task is to bring our people much more along with us, than we have, for various reasons, managed to do before, in the design of those policies we feel are necessary to confront the threats I have outlined. It is after all, the people, and not their governments, or their development bank, who, in the last resort, must adjust either voluntarily or not.

Nonetheless, Mr. Chairman, the search for a more participatory approach to the design and implementation of policies, which clearly is what I am suggesting, should not degenerate into procrastination. The world does not stand still, whilst we search for the most palatable style of adjustment to current circumstances and future threats. We need consensus, but it must be a consensus regarding how to get on with things, rather than one based inertia. It is about such an approach to solving our problems, and the role I see for CDB in that approach, that I have been concerned with over the last several years, and especially since I became President.

The signpost which points the way forward to sustainable development requires us to persist with the necessary macroeconomic stabilisation policies, to improve our adeptness at responding to the global economic and other developments which have critical implications for our survival and progress, and continue to search for, and implement, realistic approaches to the enhancement of the performance of each sector of our economies. And as I said last year in Merida, there is much scope for all this to be done in a framework of enhanced regional cooperation.

### **The Policy Environment**

Mr. Chairman, I now wish to make a few remarks about what I see as the global environment in which we must frame our policies. We are a very small and open region. Inevitably therefore, the socio-economic and political affairs of, in particular, our large neighbours but also the rest of the world, impinge on our own sovereignty. For small nations, there will always be somethings that it is not realistic to expect they can hope to change in the immediate future. It is critical, that we acquire the strategic intelligence about what these things are, so that we

do not take our people into unnecessary quixotic struggles with reality. What I mean is that the policies we envision must be those that we can have reasonable confidence of implementing in the world we are likely to encounter.

For instance, we cannot afford to pursue fiscal and exchange rate policies that run counter to the global macroeconomic environment. For at some stage, someone will have to give, ourselves or the rest of the world. History shows that when this is a matter of cricket, it is the rest of the world. However, we should not necessarily expect this to be the case also in the international economic arena. Mr. Chairman, I am saying this, because I think that in the past, we may have expended too much of our resources on policies that did not take sufficient account of global parameters. And I think, Mr. Chairman we cannot afford to do this again.

Mr, Chairman, just as we must take our external environment as a given, we must accept the reality of our history. Our policies must start from what is positive about our history. We are more fortunate that we sometimes appreciate. As I said earlier, we have in most of our countries, a reasonable level of per capita income that is, by the standards of this hemisphere, fairly equitably distributed. The crushing poverty that Professor Macmillan observed in the 1930s is no longer pervasive and now exists only in some pockets of our region. At the same time, we have acquired a deep-rooted attachment to democratic institutions and the free enterprise economy.

Much as we would wish it to be otherwise, nothing in this world is without its price. Mr. Chairman, you must forgive me if I am somewhat inclined to believe that much of our sometimes weak response to economic challenges is part of the price we have paid to sustain a liberal democratic culture. With genuine modesty, I feel that this is something that some of the newer converts whom we wholeheartedly welcome to our way of life, will also have to face. Nonetheless, I feel there is considerable scope, for the social partners in our Region to develop a more mature approach to the resolution of their various conflicts.

In particular, I would like to see workers and management or, if you prefer labour and capital, develop mechanisms for setting wage claims and industrial disputes that do not diminish the size of the social cake after each round of settlements. In none of our countries, can we any longer resort to the government's fiscal deficit or to external borrowing in an attempt to sustain a level of consumption that is beyond our earning capacity.

Mr. Chairman, what I have been trying to suggest is that whatever policies we frame to deal with the new situation we are in, a situation that can be likened to being at a critical crossroad, must begin with an awareness that there are important global parameters that will impinge on those policies. I am calling this, for lack of a better phrase, The Policy Environment. Because that environment also includes our history and culture, there are things in it that we can and must

use to our advantage. Most noticeably we are fortunate to have in place the institutional framework for making consensual social and economic policies. We must start to use it more effectively.

### **Relevant Policies**

Mr. Chairman, I believe that the broad outline of the policies we must pursue is implied in the analysis of the threats I have referred to earlier. I have argued that we are facing a world trading system that will leave little room for the kind of preferential arrangements we have enjoyed for a very long time. The exact shape of the likely new trading regime is unknown and will be greatly influenced by how the much-stalled negotiations of the current round of GATT are concluded. Whatever their outcome, this region is going to have to be more competitive and dynamic.

I have already said, Mr. Chairman, that our region is too small to be able to influence significantly the global macroeconomic environment, especially the world trading system. But I think it is not amiss for us to expect that our major trading partners, both in this region and elsewhere, will do their part to make the new trading environment one in which there is no conflict between free trade and fair trade. We should expect in particular that as our countries respond to the challenge of trade liberalisation in their own economies, they will not encounter markets with both stubborn and subtle barriers that are costly, indeed too costly for ourselves, to mount. In other words, I am offering this challenge to richer trading partners, that as we do our part to level our domestic and regional playing field, they will do nothing to frustrate the good intentions behind the global trading arrangements. Together we could then look forward to a truly open global marketplace that allowed all countries, rich and poor together, to share the benefits of a truly open dynamic and expanding world economy.

Mr. Chairman, I know that whether or not our richer partners respond responsibly, we have no choice but to become as I earlier said more competitive and dynamic. But I think I should let you know that our task becomes even harder, if, as has happened in the past, for very temporary, sectional benefits, the richer trading countries or blocs fail to rise to their own challenge to open up their markets for our products. Although, given the world we see emerging, we have no choice but to further liberalise our Region's economies, I wish to caution that the speed at which we do so must certainly bear in mind the rate at which our trading partners also address the distortions in their own markets, and the impact of liberalisation on our own economies.

As I said in 1989, in Trinidad and Tobago, we will not in the future, be able to afford real exchange rates that are out of line with our competitors. This means that our Central Banks will require the authority and the competence to keep

nominal exchange rates under constant review. I am sure I need say no more about this to this audience. Similarly, the various social partners must, not only as I said earlier, settle wage disputes in a mature fashion, but must do so at levels that do not erode any cost advantages our exporters enjoy. The same social partners must learn to distribute the gains from commerce in a way that motivates our whole economy to remain competitive. And those who manage our fiscal affairs must do so in a way that also does not erode our competitiveness.

Mr. Chairman, I have alluded on other occasions to the growing scarcity worldwide of financial capital relative to the demand for it. This is especially true for concessionary resources. This implies that we must learn to use such resources even more efficiently and effectively, in particular targeting solutions to those persistent pockets of poverty in our beautiful archipelago, where the vulnerable groups who have suffered most demonstrably from the negative effects of adjustment policies live. We must encourage our citizens to do their part to maintain what we construct, and our governments to run their fiscal arrangements in a way that ensures they can provide for maintenance budgets. And we must also learn to replace other peoples savings with our own. Governments therefore need to pursue policies that encourage domestic savings. I have in mind interest rates that encourage thrift, domestic prices that leave the consumer with surplus, and monetary policies that discourage capital outflows.

You will notice, Mr. Chairman, that it is convenient that some of the policies that will help us to meet the first external threat I outlined earlier, are the same that will assist us with the second. Furthermore, the solution to that first external threat is identical to the solution to one of the domestic problems I mentioned, namely the loss of competitiveness. And I am of the opinion, that the solution to the problem of rising expectation is to be found in increasing opportunities. We need only to create the environment in which our people will be motivated to work and save for what they aspire to. I think you will agree with me, Sir, that so far as this is concerned, I am not wishing for anything that is new. The Caribbean personality has long been renowned a industrious both in these islands and abroad.

So, Mr. Chairman, we are not without an appropriate policy framework into which I would like to suggest that the Bank's Directional Plan, which our Directors have recently approved, fits extremely well.

I will now indicate briefly how CDB hopes to assist in this endeavour.

### **CDB's Role**

Mr. Chairman, as you are aware, CDB has recently completed a thorough review of its role from now to the end of this century. Our new thrust is to be better

equipped to assist our BMCs to pursue an adequate level of economic growth to satisfy the reasonable aspirations of their citizens, whilst at the same time doing all in their power to protect their fragile and important physical environment. This is to ensure that, as far as possible, the needs of present generations are met without compromising the ability of future generations to meet their own needs. The quest for sustainability will form the prism in analysing and guiding the impact of the use of CDB resources to achieve balance in the development of the various sectors. In particular, there will be a substantial increase in the flow of resources to four areas considered critical to achieving sustainable development - Human Resource Development (HRD), environmental protection, public health services and poverty alleviation. For example, in the five-year period 1992-96, projected financing for social infrastructure (water and sewerage, basic housing, HRD, skills training, rural electrification and environmental conservation/mitigation) is expected to account for 15% of CDB's approvals. In comparison, during the five-year period 1986-90 the level of financing for social infrastructure was about 9%. Current issues such as gender impact will also inform the design, implementation and operation of CDB-financed projects.

In the area of HRD, we have already begun, as a co-financier with IDB, to assist in financing UWI's ten-year development programme, which includes elements such as the development of distance education teaching and a programme for further outreach by the School for Continuing Studies. We are also collaborating with the World Bank and the rest of the Region in examining the access, quality and efficiency of Caribbean education. This will help us frame policies and identify programmes and strategies on HRD which will, hopefully, contribute to a regional approach to the further development of our human resources which, when fully trained, promise to be this Region's greatest asset.

A continuing objective for CDB in the 90s will be to assist BMCs in their efforts to formulate sound macroeconomic policies which would improve the overall quality of investments and optimise the use of available resources. CDB will strengthen its efforts in this area. It will place greater emphasis than in the past on its role as a policy broker. In this role, CDB will seek to foster synergy in the advice and assistance the BMCs receive from various sources, by promoting a fuller understanding of the Region's development problems and their possible solutions among the BMCs, donors and other multilateral development institutions. CDB will also intensify and broaden its economic and sector policy insights and helping to put in place macroeconomic management capabilities which would enable it and the BMCs to make optimal use of available resources in the challenging environment of the nineties. CDB will therefore work towards improving its country socio-economic databases, provide greater support for research on issues of concern to BMCs and improve its assistance at the operational level in BMCs.

Growth in net financing is targeted at no less than 5% in real terms annually. If achieved, net annual financing approvals in the year 2000 would be close to the

US\$250 million mark. To achieve this increase whilst ensuring that its portfolio quality is maintained, CDB intends to modify its approach to development and supervision of its loan and technical cooperation (TC) programmes in the following ways.

Firstly, there will continue to be a stronger country focus in its banking and TC operations, with greater involvement of country economists in developing, screening and processing CDB's assistance programmes. This will help ensure that, as far as possible, individual projects are placed in a supportive macroeconomic framework and are mutually reinforcing. Country programming is being further strengthened by the resumption of regular project identification missions to BMCs and more frequent dialogue between senior officials of BMCs and CDB.

Secondly, CDB is developing a sector approach to lending. This approach involves the use of diagnostic sector analyses to identify policy, institutional and technical constraints on development of key sectors in BMCs and devise coherent TC and investment programmes to address the constraints and investment opportunities so identified. The approach is being spearheaded by a newly created Sector Analysis Unit. It is expected to generate many sector loans; however, a major additional benefit of the sector approach will be its contribution to, and the resulting improvements in, the quality of CDB's project pipeline and in the design of individual projects and lines of credit, which will still comprise the bulk of approvals in the nineties.

With regard to this sectoral approach, it should be mentioned that CDB is supporting an OECS programme for improving the competitiveness of the banana industry on the assumption that existing preferences will eventually cease. At the same time, we have helped to fund an Agricultural Diversification Unit, located in Dominica, which will play a major part in the rationalisation of the agricultural diversification process, a coordinating role among the several agencies which are already providing assistance in developing the required agricultural marketing framework, and a role in assisting in the commercialisation of other agro-production processes.

Thirdly, emphasis is being placed on institutional supervision. This entails developing and maintaining more active relationships with repeat borrowers and key national and sectoral institutions, to transfer to them knowledge and experience gained by CDB staff from its operations throughout the Region and to assist them in enhancing their own viability and their contribution to national development.

Traditionally, CDB has mobilised its financial resources primarily from capital subscriptions, contributions and from borrowings from international Financial Institutions such as the World Bank and the IDB, and it has utilised publicly-owned development finance institutions (DFIs) to channel funds to small and

medium enterprises in the BMCs.

The Bank's role in intermediating resources to BMCs will be further developed in two critical areas. Firstly, it will diversify its sources of funds to include the international and regional capital markets. Correspondingly, it will diversify the channels through which it provides funds to the private sector in BMCs, utilising a wider range of DFIs, indigenous commercial banks, central banks, venture capital funds and national development foundations) to reach a wider cross-section of the Region's private sector, including micro-enterprises.

#### 4. CONCLUSION

Mr. Chairman, I have so far been observing that the Region again stands at a very critical juncture in its history, at a cross road so to speak. I have examined the threats - both external and domestic - to the Region's current situation. We have to make clear choices from among the options that face us at this crossroad. The signpost that points in the direction of sustainable development indicates many of the policies and actions we will have to pursue vigorously.

The writing on that signpost reminds us that:

- although the world does not stand still while we search for the most palatable style of adjustment, we need a more participatory and consensual approach to the design and implementation of policies;
- as small nations, we have to acquire the strategic intelligence about global developments and trends so as to avoid taking our masses into unnecessary quixotic struggles with reality;
- we will not, in the future, be able to afford real exchange rates that are out of line with those of our competitors and we can no longer resort to the governments' fiscal deficit or to external borrowing in an attempt to sustain a level of consumption that is beyond our earning capacity;
- employers and workers, together, must endeavour to contain production costs and product prices at levels that do not erode the economy's competitiveness and our monetary and fiscal affairs must be managed in a way that fosters, rather than erodes, that competitiveness; and
- we need to pursue policies that encourage domestic savings, and then make efficient use, through productive investment, of all savings, foreign and domestic, that are available to us.

In effect, Mr. Chairman, we must become more competitive and dynamic and do so without delay. This is the challenge that I offer our Region. With God's help, we at CDB will do our part to take us beyond this critical crossroad in our history.