

1985 - A CRUCIAL YEAR FOR THE  
BANK AND ITS BORROWERS  
STATEMENT  
BY  
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CARIBBEAN DEVELOPMENT BANK  
TO THE BOARD OF GOVERNORS  
AT THE FIFTEENTH ANNUAL MEETING  
HELD AT HEYWOODS, ST. PETER, BARBADOS  
MAY 15 & 16, 1985

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**I. PRELIMINARY REMARKS**

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

After six years, the Bank returns to its Headquarters country, Barbados, for the Fifteenth Annual Meeting of our Board of Governors. I am very pleased to note that the Meeting is taking place in Heywoods Hotel, the construction of which was partly financed by our Bank.

It is a source of satisfaction to all of us that the Meeting is being held here in Barbados; this country is well experienced in the hosting of international and regional conferences and its Government and people have a well-deserved reputation for hospitality.

The Meeting is also of significance in that it is being held under your Chairmanship. Although we deeply regret the circumstances, we are all pleased at

the fact that you have recently assumed the very high office of Prime Minister of Barbados and we are certain that in this capacity you will fulfill the high expectations which everyone has of you; for you already have a well-deserved Caribbean-wide, and indeed Third World-wide reputation for intellectual ability and managerial competence. You also have a justified reputation of being a steadfast and undaunted champion of Caribbean economic as well as political integration.

I also wish to take this opportunity to draw attention to the sterling contribution made to the work of the Board of Directors by the Director for Barbados, Mr. Steve Emtage. He has participated actively in the work of the Board of Directors from the Bank's inception and his views have always been characterised by a grasp of essentials, great astuteness and very sound judgment.

## II. INTRODUCTION

We are now in the middle of the decade of the 1980s. In the year 1980, in my Statement to the Annual Meeting, I set forth some of the major challenges facing the borrowing member countries and the Bank itself for the decade of the 1980s.

For reasons which will become clearer later on in my Statement, I believe that the year 1985 - the mid-point of the decade - is a crucial year for both the borrowing member countries and the Bank. The state of our economies (and of our Bank) in the second half of the decade will depend critically on decisions made (or not made) in the course of **THIS YEAR**.

I will therefore review some aspects of the progress made by the borrowing member countries and highlight some of the important tasks that remain to be accomplished.

In assessing the economic performance of the countries of the Region, we have to bear in mind the unfavourable international economic environment which has prevailed throughout the first half of the decade of the 1980s - the second big oil shock occurred in 1979/80; the period 1981-1983 was one of worldwide recession; very low prices were obtained for important Caribbean commodities such as bauxite/alumina, sugar and bananas; protectionism in the industrialised countries has been on the increase; and high international interest rates have prevailed, thus further compounding the debt service problems of some of our larger borrowing member countries.

We should also not be misled into thinking that the partial economic recovery and the positive growth in Gross Domestic Product (GDP) which took place in most countries of the Region in 1984 represents a long-term reversal of the unfavourable international economic environment. For one thing, there are signs

already in 1985 that the American recovery may not be as vigorous and sustained as was previously believed. For another, the basic structural deficiencies of our economies have not in any way been significantly remedied. These include excessive dependence on imported food, inadequate levels of domestic savings in both the public and private sectors, stunted indigenous technological development and insufficient regional entrepreneurial dynamic.

Moreover, the deep-seated problems (including high costs of production and relatively low prices) in many of the traditional export staples (sugar, bananas, citrus, cocoa, arrowroot and nutmegs) still remain and have contributed in part to severe declines in the terms of trade of most countries of the Region, as has the weak demand for bauxite and alumina.

After an assessment of the progress of the national economies, and a presentation of some fundamental national policy decisions which Governments have to take this year, 1985, I will review some of the achievements of CDB, both as a Bank and as a Development Agency.

I then outline some of the major issues relating to the role and orientation of the Bank which our Board of Directors will have to decide upon in the course of this year - 1985; and I end by saying a few words on what the international financial community might do for the countries of the Region THIS YEAR - 1985 - and next year.

### **III. REVIEW OF PROGRESS IN THE NATIONAL ECONOMIES SINCE 1980**

I will review progress made by borrowing countries in the following areas:

- a. improvement of the quality of national economic management;
- b. the production sectors of food and agriculture and related fields, agro-industry, manufacturing, tourism, energy, and bauxite/alumina;
- c. development of human resources and technology;
- d. defining the respective roles of the State, the local private sector and the foreign private sector in the development of our countries; and
- e. deepening the regional integration process.

#### **(a) Improvement of the Quality of National Economic Management**

All countries of the Region seem to have learnt from some of the mistakes and deficiencies in national economic management which manifested themselves during the 1970s and the early years of the 1980s.

All borrowing member countries are now seized of the urgent necessity for structural adjustment of their economies so as to resume economic growth while reducing to reasonable proportions the large structural deficits in their balance of payments. And they also recognise that structural adjustment is really nothing more than the quickening of the pace of structural transformation (or long-run development) of the CARICOM economies.

There is also now general agreement in the Region that costs of production must be kept competitive to promote exports and efficient import substitution, if the economies are to adjust and if continuing economic growth, foreign exchange earnings and high levels of employment are to come about. This means that costs of production should be made consistent with world prices through increases in productivity and through the adoption of appropriate exchange rate and incomes policies.

Again, there is general awareness of the need to formulate and implement sensible medium-term targets for the main aggregates of the economy as well as for the productive sectors and to have a realistic Public Sector Investment Programme (which must of necessity be based on the setting of firm priorities by Governments).

The importance of reducing consumption and increasing domestic public and private sector savings as part of the adjustment and development process is now fully grasped, as is the achievement of economic growth and high levels of foreign exchange earnings as a necessary, though not a sufficient, condition for the solution of the unemployment and under-employment problems in our countries.

There is also now a recognition by all Governments that, just as the process of long-term development is not without pains, so structural adjustment (which is an attempt to force the pace of development) requires great efforts and equitably shared sacrifices on the part of all groups in the society.

Again, the Governments of those countries in the Region suffering from rapid population growth are aware that this continues to pose a serious constraint on improvement in living standards and the prospects for achieving higher levels of productive employment as well as on the budgetary situation, through pressures for increased spending on education, health and housing.

Governments also have to make it crystal clear to the people of their countries that structural adjustment requires not only measures to increase the supply of exports and efficiently produced import substitutes but also measures to reduce aggregate demand for consumer goods and services in the economy and to increase domestic savings. This can result in many cases in cutbacks in Government and other public sector expenditures, and consequently in a certain amount of unavoidable retrenchment in both the public sector and the private sector, wage and salary restraint and higher public utility rates (when needed to avoid subsidies

from the Government), lower subsidies on consumer goods, restrictions on commercial bank credit and higher levels of taxation. In some cases, too, exchange rate depreciation may be necessary in the interest of increasing or maintaining volumes of exports and efficient import-substitutes and of achieving a better budgetary situation.

One difficult area of structural adjustment which applies to all borrowing member countries (both MDCs and LDCs) is the need to reduce the overall fiscal deficit, and to produce a budget surplus on recurrent account. One reason for this is often heavy over-manning of the Civil Service, Statutory Boards and State enterprises. Here Governments are faced with a real challenge since it is extremely difficult to keep down the growth of Government recurrent expenditure. In the face of this challenge Governments have to show an extraordinary degree of political courage in firmly controlling the growth of recurrent expenditure in the entire public sector with regard to increases in wages and salaries as well as to levels of employment. Governments also have to refrain from excessive borrowing from their Central Banks.

The associated issue of far-reaching reorganisation of the structure and functioning of the Civil Service and other public sector entities is now being tackled in some countries and it is hoped that before the end of the decade all countries will have undertaken and implemented such a reorganisation.

There is also a view emerging in the Region that the levels of personal taxation are too high to generate the necessary attitudes towards work, skills improvement, savings and risk-taking. There may well be some merit in this view; but the answer is not necessarily to abolish personal income tax. As an alternative, both the general levels of personal income tax rates and the degree of progressiveness of the rate structure might be reduced. In addition more effective action programmes (admittedly difficult) might be developed for getting more income tax from the self-employed at all levels of income and types of occupation. Moreover, any loss of revenue from adjusting the Income Tax system in this way should be immediately recouped, at least in part, by additional indirect taxation of non-essential goods and services. In the short run, however, movement in this direction may have to be slowed down because of the need to reduce large fiscal deficits.

Undoubtedly, the most important lesson to be drawn from the experience of both the 1970s and the 1980s is the need for early action once there are signs of balance-of-payments and/or fiscal weaknesses and of long-run decline in the prospects for certain traditional agricultural and mineral export staples. Any delay in implementing firm measures simply worsens the situation and leads in the end to the need for draconian measures which severely test the social and political framework of the country concerned.

#### **(b) Developments in the Production Sectors since 1980**

**(i) Food and Agriculture**

Generally speaking, the contribution of the agricultural sector to the economies of the Region has continued to be somewhat disappointing. On the positive side, there have been increases in the production and export of bananas from the Windward Islands; sugar output in Barbados, Guyana and St. Kitts and Nevis has risen; and there have been increases in food crop production in Barbados, Dominica, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago. In addition, there has been a substantial extra-regional export effort in a number of non-traditional crops - in winter vegetables, tropical fruit (such as mangoes and avocado pears), cut flowers and tropical foliage. Production in the poultry and pig industries is approaching self-sufficiency in most member countries (although there is still far too heavy reliance on imported feeds), and the output of marine and aquaculture products is growing across the Region, although there is still excessive importation of fish and related products.

Unfortunately, this is only part of the story. Although banana production has risen in the Windwards as a group, there has been an observable decline in Grenada; and the trend in banana production in Belize and Jamaica is downwards. Further, apart from Jamaica, all the banana exporters have been seriously affected by the decline in domestic currency earnings caused by the depreciation in the value of sterling in relation to the US dollar, to which the currencies of the countries concerned are tied.

In the sugar industry, export prices are at a fourteen-year low (although our producers are partly cushioned by the ACP/EEC agreement on prices), our market is shrinking as a result of US quota restrictions and competition from beet sugar and the new artificial sweeteners (High Fructose Corn Syrup), and there is a stagnating or declining production in Belize, Jamaica and Trinidad and Tobago. And here again most of our producers have been affected by the decline in the value of sterling in relation to their national currencies.

I should draw your attention to the well-known fact that both the banana and sugar industries continue to exist as a result of special marketing arrangements granted by our trading partners.

There have also been declines in domestic currency earnings from the export of rice, cocoa, nutmeg, and, in the case of St. Vincent and the Grenadines, there have been a virtual disappearance of the previously profitable arrowroot market.

There has not been much progress with the development of the cattle and small stock industries in the Region, particularly in relation to meat and milk production, although there has been some effort in Belize, Guyana and Jamaica. I can also report little progress in increasing the production of feeds for cattle, just

as there has been little in relation to poultry and pigs.

In the area of agro-industry, few new products of consequence which are intensive in the use of indigenous inputs have been added during the past five years to the list of those produced in the Region. In many of the countries in which agro-industrial enterprises have been established there have been substantial imports of raw materials with which to sustain the operations. Most of these enterprises have geared their production to the domestic and in some cases regional market.

As a result of all this, the Region continues to be a very heavy importer of food. Gross imports of food (including animal feeds), drink and tobacco now amount to approximately US\$1.25 billion. After exports of food, drink and tobacco are deducted, net imports still remain relatively high at approximately US\$600 million.

It is absolutely vital that the maximum contribution to output, to employment and to foreign exchange earnings and savings be obtained from the agricultural sector. Given the situation with our traditional agriculturally based exports, serious examination of and decision on their future cannot be postponed for much longer beyond this year - 1985. Whichever way the decisions go, they will have far-reaching implications for our economic future. In any event a number of objectives will have to be achieved in the areas of agriculture and agro-industry. These are:

- significant improvement in production efficiency in order to improve competitiveness in the marketplace;
- improvement in grading and packaging arrangements can make a substantial contribution to the marketing effort;
- more efficient management and greater use of the Region's marine, aquaculture and forestry resources;
- diversification of agricultural output through greater productivity (and perhaps reductions of acreage) in existing non-traditional crops as well as through the introduction of new crops;
- the production of agricultural output specifically for agro-processing as opposed to the existing tendency to process by-products.

## **(ii) Manufacturing**

There have been problems in the manufacturing sector as well. Since the 1960s and 1970s, manufacturing activity in the Bank's borrowing member countries has generally been geared either to supplying the domestic as well as the wider regional market or, as in the case of the enclave (or off-shore assembly) operations, to producing output entirely for export, mainly to the United States. In the latter case, with the level of production tending to move with demand

conditions, the pattern of output growth has more or less followed the fortunes of the United States economy.

Over the last five years, there has been little in this basic situation. Domestic and regionally oriented manufacturing production has been substantially affected by the poor overall economic performance and fall in purchasing-power and other factors inhibiting imports from CARICOM in the bigger countries in the Region in recent years; by the extreme shortage of foreign exchange in two of these countries and, in consequence, by the collapse of the CARICOM Multilateral Clearing Facility (CMCF).

The sector remains characterised by a low level of inter-industry production linkages; by deficiencies in managerial, marketing and entrepreneurial skills; and by a general reluctance to enter the extra-regional market - in spite of opportunities long in existence under the last two Lome Conventions and newly created under the Caribbean Basin Initiative (CBI).

It is now clear to all that in the interests of generating foreign exchange earnings and promoting economic growth and productive employment, a major thrust in our development efforts must come from locally-owned or joint venture export-oriented activity, particularly in the manufacturing sector utilising high levels of local technological and managerial skills and making the maximum feasible use of local and regional raw materials and other inputs.

This means, above all, that production will have to be made more efficient and that costs will have to be competitive. In some situations cost control will be a matter purely for the enterprise; in others, national economic decisions will have to be taken. The external marketing effort will require a great deal of attention. One approach to the external marketing issue, and to financing as well, is for production and marketing to take place in joint venture arrangements with foreign partners who already have market access.

Identification of industries with good market prospects is a crucial element in gaining access to extra-regional markets. Work is now underway on two identification exercises. One is a study for CDB by the GATT-UNCTAD International Trade Centre (ITC) on the scope for exporting outside of CARICOM the products of already existing industries selling to the local and CARICOM markets; the exercise will also identify joint-venture partners for CARICOM firms exporting these goods. The second is a study for the CARICOM Secretariat on the identification of mostly new industries for establishment in the Region in the light of extra-regional market demand.

In the case of borrowing member countries which are short of the necessary foreign exchange for the purchase of raw materials and rehabilitation equipment, one possible approach could involve a foreign joint venture partner which supplies inputs in return for the output. But we must nevertheless face the fact that



the extreme shortages of foreign exchange can only be overcome by internal measures of structural adjustment, backed up by programme or sector loans on concessionary terms from multilateral and bilateral donors.

Finally, we should start planning now - in 1985 - for entering some skill-intensive and high-technology areas as part of our extra-regional export thrust, since we have to think of products and processes which have good future prospects in terms of external demand. This requires, inter alia, that we must begin to introduce our young people in our secondary schools to "systems-analytic" thinking, including exposure to the use of the computer, in addition to normal training in literacy, numeracy, natural sciences and social studies.

### **(iii) Tourism**

The performance of the tourism industry in the Region has generally reflected the economic performance of the countries from which the visitors to our shores come, with domestic peculiarities within the Region affecting the performance of each destination. Thus the recession in the industrial countries following the second oil shock manifested itself in a reduction in visitor arrivals during 1980-1983, with the recovery in arrivals resulting from the resumption in economic growth taking place in 1984, especially in the United States.

As a result of the developments in 1984, and in particular the just-completed winter season, there has been substantial recovery in the Region's tourism industry. Given the expectation of slower growth in the United States and the current exchange rate relationships, we cannot expect the current rate of tourism recovery to continue in the medium term. In consequence, we need to rely on our own efforts to make the industry more responsive and more efficient, and to improve the competitiveness of the industry in the Region. The main economic objective of the industry is to maximise visitor expenditure and to retain locally the maximum proportion possible of that expenditure. In a situation where people are increasingly seeking to obtain value for money, we need to ensure that the quality of facilities and services is maintained or enhanced while prices are kept at competitive levels.

It is now a resounding platitude that the tourist should be served more local and regional food than is now the case. What is not so obvious is that the forests of the countries of the Region (where they exist) could be used as places of interest and recreation for both local people and tourists.

In a number of the Bank's borrowing members in which there is a tourism industry, there is continuing visitor complaint about the absence of local attractions (such as historic sites and authentic cultural expressions) and of items to purchase. The objective of maximising visitor expenditure requires that our tourism authorities remedy this perceived deficiency as quickly as possible. It appears to me that, apart from the development of the visitor attractions which are

most appropriate for each member country (and we need to learn to differentiate our product), there is an opportunity for the domestic production of souvenir items to replace those which bear our country names but are produced elsewhere.

In some of our member countries there may be a need for more precise identification of the type of tourism industry which ought to be developed. Each segment of the industry has its peculiarities, its advantages and its associated pitfalls: playing the numbers game is not necessarily a recipe for success.

Moreover, over the longer run in the small and very small islands it is necessary to start now - in 1985 - to determine the optimum number of tourists, taking into account environmental, infrastructural, social and cultural factors.

#### **(iv) Other Service Activities which Earn Foreign Exchange**

The wider issue of the creation of a wide range of foreign exchange-earning service industries must also begin to be addressed now - in 1985. In this connection, we should note that you, Mr. Chairman, recently stated that you wished Barbados to become an important service centre in the Eastern Caribbean; yet you and your Government are very concerned with promoting rapid development and diversification of the agricultural and manufacturing sectors. The small and very small Caribbean islands should not seek their economic salvation only in tourism and other service activities, but should aim at as diversified an economic structure as is feasible.

#### **(v) Bauxite and Alumina**

Two sets of factors have adversely affected the bauxite/alumina industry in the Region in recent times. The first was the recession in the developed countries following the 1979/80 oil price increases, which led to a sharp fall in demand for bauxite and alumina. The second factor involved the development of new sources of bauxite and a tendency towards the smelting of aluminium in bauxite-producing areas having a cheap supply of energy - usually hydro-electric. This second factor accounted for a shift in bauxite mining activity to Australia and Brazil (near to cheap sources of hydropower), as well as the relocation of alumina production and aluminium smelting from the US Gulf region to the west coast. These factors have had the effect of putting Guyana and Jamaica at a competitive disadvantage in production.

In both countries long-term planning for the future of the bauxite/alumina industry must be given even greater impetus now - in 1985.

#### **(vi) Energy**

It is very well known that - except for Trinidad and Tobago, the sole exporter of oil - the countries of the Region suffered a large and permanent deterioration in

their terms of trade as a result of the massive increases in the price of oil in 1973/74 and in 1979/80.

One of the most notable initiatives to alleviate the adverse impact of the energy crisis on the Caribbean economies has been the adoption in 1983 by the CARICOM Heads of Government in Port-of-Spain, Trinidad of the Regional Energy Action Plan (REAP) formulated jointly by the Caribbean Development Bank (CDB) and the Caribbean Community Secretariat (CARICOM). The Plan aims at coordinated action in:

- k. the development of new and renewable alternative sources of energy;
- l. conservation of energy and reduction of power losses in electricity transmission and distribution;
- m. exploration both on-shore and off-shore for oil and natural gas; and
- n. rationalisation of production and marketing of petroleum products in the Region.

CDB has, with assistance from the United States Agency for International Development (USAID) and the German Appropriate Technology Exchange (GATE), been assisting its borrowing member countries in developing alternative sources of renewable energy - wind, solar, mini-hydro and biomass. The Government of Canada, through Petro Canada International Assistance Corporation (PCIAC), has also been providing assistance to the Region with petroleum exploration, both on-shore and off-shore.

A regional programme to generate electricity from surplus bagasse and sawmilling wastes is also under implementation and is progressing well. Under this programme, in 1984, CDB made a loan of US\$2.2 million to finance a capital project for generating electricity from surplus bagasse which will contribute 20% of the total power generation in St. Kitts and Nevis when the plant becomes operational in 1987.

Energy conservation efforts to promote power sector efficiency through REAP and a series of loss reduction studies on the transmission and distribution systems by CDB in about ten countries is now underway. To date four studies have been completed and CDB has financed a capital project which is expected to save about US\$0.7 million annually in oil imports and also reduce financial losses to the utility. In Barbados and Jamaica major technical assistance projects are also underway.

Despite the cost-effectiveness of several energy conservation measures yielding high rates of return, implementation of such measures has been very slow. There are several reasons for the lack of success in this area and many of them are related to incorrect policies pursued by regional Governments such as the setting of energy prices at levels that are too low from an economic standpoint. Regional

Governments have also done very little to encourage energy efficiency investments through incentives and there is still a lack of awareness and know-how regarding measures to improve the efficiency of energy use at the enterprise level.

Due to the declining levels of crude oil production and prices in recent years, the Government of Trinidad and Tobago has granted various incentives for greater exploration and production efforts on both land and sea and has adopted measures of structural adjustment to cope with the less favourable balance-of-payments and fiscal situation at the national level. The Government has also just acquired most of Texaco's assets in Trinidad and Tobago with a view to maintaining and increasing levels of crude oil production and to upgrading existing refinery capacity. The Government of Barbados (a net importer of oil) also acquired some two years ago the crude production facilities of Mobil. The rapid increase of local crude oil production since would seem to have justified the decision.

For the future, CDB and CARICOM will need to redouble their efforts to mobilise the funding required to implement the REAP. Governments will also need to explore the use of incentive packages, including energy investment tax credits and free technical assistance, if the potential for energy conservation is to be fully realised. Most importantly, Governments will need to implement pricing policies which will allow the economic cost of supplying various forms of energy to be reflected in the price.

Government and private sector must decide this year - 1985 - to adopt concrete and specific policies and actions on energy conservation and energy efficiency.

### **(c) Development of Human Resources And Technology**

The importance of improvement to and better utilisation of our human resources is now fully grasped by all our Governments, and the result is a search not only for more educational and training facilities, but for greater relevance as well. Emphasis has been shifted to paying more attention to both the primary level and the non-university tertiary level.

In the LDCs, the public sector is experiencing shortages of trained high-level and, even more so, para-professional and middle-level personnel. This is also true of most of the MDCs, to a somewhat lesser extent. Such shortages constitute a crucial constraint to the effective formulation and implementation of development policies, programmes and projects. It also holds back performance in the private sector.

Perhaps the most serious consequence of the economic downturn which has occurred in many of our borrowing member countries in the last few years has been the migration of skilled human resources from the Region, in large part because of a perceived lack of opportunity to develop and utilise their skills. This

strikes at the very heart of the development effort by eroding our most critical resource: our technological base. These people take with them not only their skills, but also a major part of the base of information and experience about the local environment required to support the decision-making and project implementing processes in the Region. In many areas, skill deficiencies created by migration could be in part compensated for by more effective manpower development policies and programmes, and by the judicious use of appropriate Technical Assistance.

In this regard, two very significant developments in the Region which can increase access by the countries to Caribbean expertise are:

- xv. the Transfer of Know-how and Technology through Expatriate Nationals (TOKTEN) project of the United Nations Development Programme (UNDP), which promotes the return from abroad of skilled nationals to serve in our member countries; and
- xvi. the Caribbean Technological Consultancy Services (CTCS) Network Project being implemented by the Bank, which promotes the sharing of expertise between member countries of the Bank, and the intra-regional transfer of information and skills.

In many areas there is no indication of any substantial growth in the technological base required to support development of a modern competitive productive system. In the fierce competition of the international market place technological capability is a critical factor. The current drive to break into export markets can only succeed in the long run if we can be on top of trends and innovations in manufacturing, agriculture and the new information industries and adapt them to our small-scale operations.

A requirement which has already been pointed out in our discussion of export manufacturing is the equipment as from now - in 1985 - of many of our secondary school children with some knowledge of the computer.

Another very critical area is technical standards and metrology. To break into sophisticated export markets, our products must meet stringent technical specifications. In most countries in the Region adequate laboratory and testing facilities are not in place to support adoption and implementation of appropriate standards; and even in those countries with laboratory facilities more needs to be done if our products are not to be turned away at the ports of our export markets.

#### **(d) Defining More Precisely the Role of the State, the Private Sector and Small-scale Enterprises in the Economies**

In recent years, all the borrowing member countries have publicly stated their commitment to the private sector as an important instrument of development. But

many borrowing member countries still need to define more explicitly the respective roles of the State, the foreign private sector, the large-scale private sector and the small-scale and medium-sized local private sectors in their economies. This definition needs to be made in full recognition of the fact that ultimately the development and structural transformation of any country, whatever its ideology, must rest mainly on local (and in the case of regional groups, regional) private and public efforts - even though foreign private investment has an important supplementary role to play in providing not so much capital as know-how in management, marketing and technology and even though foreign aid is needed to alleviate the shortage of both domestic savings and foreign exchange.

What can be said, however, is that increasing recognition is being given to the role of the small-scale and medium-sized local private sector and that both Governments and regional and national private sector organisations have, often with support from Canada and the USA, been formulating and implementing concrete programmes of training and technical assistance to raise standards of efficiency and profitability in the small-scale and medium-sized local private sector.

A clear-cut regional policy on the role of different types of investment in the development process must be adopted and implemented during this year - 1985.

#### **(e) Deepening the Regional Integration Process**

##### **(i) The Caribbean Community (CARICOM)**

Over the last five years the economic and balance-of-payments difficulties facing many of the larger CARICOM countries have had an adverse impact on the economic integration process through a decline in the level of intra-regional trade. This has fallen because of declines in real purchasing-power in the three biggest countries and also because there are various factors inhibiting intra-regional trade flows.

At the same time the CARICOM Multilateral Clearing Facility (CMCF) stopped functioning because of severe intra-regional imbalances in trade. At the 1984 CARICOM Heads of Government Conference in Nassau, Bahamas, Heads of Government agreed to work immediately towards freer intra-regional trade and to give more protection to regional producers against imports from third countries by an absolute tariff increase of 15% on certain specified items now being produced within the Region.

It is a moot question whether the CMCF, if revived, should contain a credit element or whether a separate scheme should be formulated to provide credits for both intra-regional and extra-regional exports. External financial assistance for such credits seems to make better sense than for a CARICOM Global Balance-of-

Payments Support Facility. Given the size of the external inflows still required, appropriate adjustment measures, adequately backed up by large inflows of programme assistance from multilateral and bilateral sources, are the best methods of dealing with the overall balance-of-payments problem.

While the thrust over the next few years should be on promoting (as far as possible on the basis of regional cooperation) exports outside the Region, there is still scope within CARICOM for some kind of cooperation in regional industrial development which would avoid in the future uneconomic duplication of industrial capacity and promote new industries or expand existing industries so that they can achieve economies of scale within the Regional market and even ultimately be able to produce competitively for world markets. Such a scheme was worked out more than four years ago; yet no progress has been made in its implementation. It may be appropriate to note here that, in the view of Sir Arthur Lewis, the illustrious West Indian economist who was the first President of CDB, the creation of such integration industries is the main rationale for economic integration among Third World Countries.

Decisions must be taken this year - 1985 - on the establishment of a regime for integration industries in the Caribbean Community.

Similarly, inadequate progress has been made in implementing the Regional Food Plan (or the Regional Food and Nutrition Strategy) which aims at increasing significantly, through coordinated national efforts, the degree of national and regional self-sufficiency in food.

There has been some progress, however, in revising the Agricultural Marketing Protocol and in creating a substantially free intra-regional market for regional agricultural production. Moreover, after a rather slow start, the Caribbean Food Corporation (CFC) has become more active and has made loans to, and equity investments in, several agricultural production and marketing projects throughout the Region. Because of the very difficult and risky nature of agricultural production and marketing in the Region, the CFC, in order to accomplish its task properly, needs large amounts of financial assistance on concessionary terms and of technical assistance from both multilateral and bilateral agencies. The European Economic Community (EEC) and the Government of the Netherlands have so far been of great support to the Corporation.

Meaningful economic integration also requires cooperation among countries (at both the public and private sector levels) in the pursuit of specific activities of benefit to the participating countries. Two good examples of these have been the establishment of joint ventures between the Governments of Barbados and Trinidad and Tobago in Cement (Arawak Cement Company) and in Air Cargo transportation (CARICARGO).

Insufficiently rapid progress has been made on the formulation and

implementation of a revised and comprehensive Common External Tariff and Protective Policy (under which many, though by no means all, existing protective quantitative restrictions might be phased out over time and the tariff become the main instrument of protection). The same is true with regard to a revised Scheme for the Harmonisation of Fiscal Incentives to Industry, which would give considerable encouragement to exports of manufactures to extra-CARICOM markets as compared with production for local and regional markets.

These two exercises must be concluded before the end of this year - 1985.

#### **(ii) The Organisation of Eastern Caribbean States (OECS)**

The OECS sub-regional movement seems to be fulfilling its promise - with the fairly high level of commitment of its member Governments and with the two vigorous general and economic branches of its Secretariat; its Inter-Agency Resident Mission; its subregional programmes in trade policy, fiscal policy and planning, energy, and training in management of top and middle-level public servants. The current work on plans for a full Customs Union among the OECS member states is also worthy of note. The establishment of the new East Caribbean Central Bank has also been a considerable achievement, as has also been the establishment of an Economic Policy Review Committee, consisting of Financial Secretaries and Heads of National Planning Agencies of OECS member states as well as representatives of the OECS Economic Secretariat, the East Caribbean Central Bank and the Caribbean Development Bank.

There has also been much activity in the delineation of maritime boundaries of member states on the basis of the new Convention on the Law of the Sea, in grappling with the problems of university education and in dealing with the possibility of joint representation overseas.

Finally, it should be mentioned that member Governments have recently made considerable progress in keeping their contributions to the Secretariat current; this should assist the Secretariat in continuing to mobilise external Technical Assistance.

### **IV. CDB'S PERFORMANCE 1980-1984**

#### **(a) Overview**

What has CDB been doing during these difficult years? Let us attempt to answer this question by looking at the main indicators of CDB's performance. These include: the level of financial and technical assistance which CDB has been providing; the extent to which both donors and beneficiaries find the Bank to be useful as a conduit for funds and as a source of independent professional economic and technical advice; and the lead it has been giving to other donors



with regard to successful involvement in certain sectors and sub-sectors.

First, after fifteen years - that is, between 1970 and 1985 - CDB has provided total financing to its borrowing member countries of US\$514 million, 66% of which has been on concessionary terms. Of this amount, CDB has approved US\$477 million in loan financing for 374 capital projects and disbursed US\$302 million. One hundred and five or 28% of the projects funded are now in full operation. Most of the financing represents loans, but it also includes not only a small amount of grants made largely for technical assistance but also grant funds provided by the United Kingdom and USAID under the Basic Human Needs Programme. Fifty-eight percent of the total financing (both hard and soft) has gone to the LDCs. If we look only at total soft financing, the LDCs have got 75% of this.

Second, many of our borrowing member countries approach us not only for financial assistance but for technical assistance, and even more importantly, for guidance on the necessary project conditions that we recommend. Our borrowing member countries have now recognised that, while some of our project conditions may sometimes appear to be somewhat harsh, there is always good justification for them on financial and managerial grounds.

Third, many donors, who for diplomatic reasons hesitate to impose project conditions for their aid; have benefitted from CDB's pioneering efforts in laying down project conditionality. This creates a better environment for lending from the point of view of the donor as well as the beneficiary countries.

Fourth, some developed countries have been showing interest either in becoming members of the Bank or in contributing as non-members to the new Unified Special Development Fund or establishing a Trust Fund within the Bank for financing on a grant basis important social programmes, as in the case of the Basic Needs Trust Fund, the present phase of which is being funded both by the United Kingdom, a member, and the United States of America, a non-member.

#### **(b) CDB and the Agricultural Sector to Date**

CDB has provided substantial financial assistance in support of the agriculture sector. In particular, the banana sub-sector has benefitted from loans for rehabilitation, crop improvement, pest and disease control and for the provision of support services. In this way, CDB has helped to preserve the livelihood of many small farmers and boost foreign exchange earnings.

Though CDB has provided some direct assistance to the fisheries sub-sector, financing has fallen short of the level which this sub-sector can absorb. This is due to several factors. First of all, data on exploitable fishery resources are not available and this makes it difficult to quantify, in any meaningful way, the returns from any proposed project. In addition, our artisanal fishermen are often

not sufficiently receptive to the new techniques of fishing that would improve output and hence ensure project feasibility.

In addition to lending, the Bank has provided technical assistance grants to carry out a number of studies in the agriculture sector to improve the efficiency of existing production and marketing, and to pave the way for diversification into new areas of production. Studies in soil fertility, tropical fruit production, control of leaf scald disease in sugar cane, livestock production, and fisheries - to name a few - have been completed. In addition, new areas such as aquaculture and extra-regional marketing of ornamental plants, have been investigated. The findings of these studies have been shared with borrowing member countries. The problem which still remains is the extent to which the information available is being put to use.

**(c) CDB and Industrial Estates to Date**

CDB has achieved some success in the financing of industrial estates. To date, CDB has approved US\$36 million in funding to this programme. This has allowed borrowers to construct so far about 1.9 million sq. ft. of space at a cost of US\$34 million. Ninety percent of the space provided is occupied and provides employment to 9,000 persons. But CDB's success goes beyond these statistics. Borrowers have now accepted that the programme should not impose a financial burden on the Central Government and that rents paid for factory shells should approach economic levels. This approach by CDB has provided the necessary incentive to the private sector to build their own facilities, thus relieving Governments of the need to enter into this form of activity. However, Governments may still wish to provide factory shells in economically depressed areas, or where private sector supply does not match demand.

**(d) CDB and Agricultural Feeder Roads to Date**

Apart from Ports, Agricultural Feeder Roads have been a major area of project financing by CDB. Assistance has been extended to all the agricultural LDCs, and in a few cases borrowers are approaching their fourth operation. About 260 miles of feeder roads have been built and preliminary indications are that this programme has facilitated the rapid expansion of agricultural production in beneficiary countries.

**(e) CDB and Road Rehabilitation to Date**

The major road networks of CDB's borrowing member countries, especially the LDCs, are in a state of considerable disrepair. The general condition of some of the main roads has no doubt been responsible for increases in transport costs and caused difficulty in transporting goods to local and foreign markets. Between 1980 and 1984, CDB provided assistance for reconstruction of a major road in St. Lucia and for substantial road improvement in Barbados and Jamaica.

**(f) CDB and Ports to Date**

CDB has financed major port works and improvements in all but a few of the twelve LDCs. Needless to say, we have encountered some difficulties: reduced cargo throughput because of the international recession and natural disasters and significant cost overruns, have sometimes affected the attainment of our objectives. Nonetheless, as a result of our assistance, many borrowers have created Port Authorities with strengthened management and independent accounting. Tariffs have been increased, but so has efficiency. Many of these ports are at present making contributions to Government revenue, or will shortly be able to do so. At the same time, improvements to existing port facilities in the Windward Islands have facilitated an expansion in the export of agricultural produce to the MDCs.

**(g) CDB and Intra-Regional Transport to Date**

CDB has been particularly concerned about intra-regional transport and has continued to provide financial assistance to the West Indies Shipping Corporation (WISCO), and LIAT (1974) Ltd. These investments will result in significant lowering of operating costs, while improved frequency and reliability of service will accrue.

**(h) CDB and the Power and Energy Sector to Date**

CDB has been involved in the power sector in all but one of our borrowing member countries. We make no apologies for imposing as a condition of our lending that tariffs be increased to achieve economic pricing. We are gratified to see that, as a result, these utilities are no longer a financial drain on the Central Government. Technical and managerial efficiency has improved considerably, electricity outages are much fewer and power needs are met. Further, the utilities themselves now make a considerable contribution to future expansion and, more significantly, donors who were reluctant to fund these utilities in the past are now coming forward with financial resources.

Through its Technology and Energy Unit, CDB has been helping the borrowing member countries to cope more effectively with their energy problems. To this end, a Regional Energy Action Plan (REAP) was formulated jointly by CDB and the CARICOM Secretariat, and accepted by the Conference of Heads of Government in 1983.

CDB has been paying particular attention to the following:

- pilot and demonstration projects on alternative sources of renewable energy - solar, wind mini-hydro and biomass;

- i. developing projects to reduce power losses in transmission and distribution systems;
- ii. using bagasse as a source of fuel to produce electricity for the national grid. (One such project identified, prepared and financed by CDB is currently being implemented in St. Kitts and Nevis); and
- iii. advising on conservation methods - through physical modification of plant and through the adoption of policies where prices reflect true scarcity, values (CDB is now providing finance to DFCs to assist them in onlending to local hotels for energy conservation).

**(i) CDB and Water and Sewerage to Date**

As in Power, CDB's emphasis in the Water and Sewerage sector has been on improving managerial and technical efficiency, increasing user charges where appropriate, and training. Most of our objectives for the sector are being realised. Our financial assistance so far has focussed heavily on the Windward Islands and the Cayman Islands and, in some cases, there have been notable successes. Financial assistance for training is available to all LDC borrowing members.

**(j) CDB, the Private Sector and the DFCs to Date**

CDB has directed over 30% of its lending to date to the private sector - both directly and indirectly through the National Development Banks for the Development Finance Corporations (DFCs).

In addition to assistance in the preparation and financing of direct projects, CDB has provided a considerable amount of technical and financial assistance in creating and restructuring the National Development Banks or Development Finance Corporations in its borrowing member countries. Today, CDB has dealings with 21 DFCs. Only four of these were in existence in 1970. Between 1970 and 1984, CDB approved 103 lines of credit for a value of US\$74 million to these intermediaries, which disbursed about US\$50 million of the total.

Initially, external donors and agencies expressed the fear that these small public sector institutions could not be viable and many borrowing member countries reinforced that belief by under-capitalising and under-manning the institutions, and by interfering in their day-to-day detailed operations as distinct from setting general policy guidelines.

Today, the situation has improved considerably. While much still needs to be done, the problems of weak management, insufficient autonomy in day-to-day matters, under-capitalisation, subsidised lending, and delinquency are less acute than in the past. Many agencies and donors who had been skeptical about the prospects of the DFCs are now indicating a willingness to provide financial and technical assistance to them.

**(k) CDB and Student Loan Scheme to Date**

The Student Loan Scheme, administered by the DFCs on behalf of borrowing member Governments, deserves special mention. To date CDB has channelled US\$5.9 million into this programme which has assisted 1,302 LDC students to pursue middle-and higher-level professional and technical education, primarily in local and regional institutions. Of the 750 persons who by December 1984 had completed their training under the Scheme, about 90% had returned to provide services to their country or to the Region.

**(l) CDB and Training in Project Administration to Date**

It has already been stated that shortages of trained manpower in the public sector is a serious deterrent to effective governmental action in the field of development. CDB has sought to help overcome this bottleneck in the field of the entire "project cycle" - identification, preparation, appraisal and implementation of projects. It has established a Project Administration Training Unit (PATU), with the assistance of the Inter-American Development Bank (IDB) and the European Economic Community (EEC), to provide training to top- and middle-level public sector personnel. It has offered training courses both at the Bank's Headquarters and in many of the borrowing member countries. All the borrowing member countries have expressed satisfaction with the efforts made to date.

**(m) CDB and Technology to Date**

CDB's Technology and Energy Unit has been seeking to sensitise the people of the Region to the overwhelming need for a conscious technology policy as an important aspect of their long-term development programmes.

A very significant development has been the initiation of the Caribbean Technological Consultancy Network project which is now being implemented by CDB. This project promotes the sharing of information and expertise among the Bank's borrowing member countries.

**V. SOME CONCLUSIONS FROM THE EXPERIENCE OF BORROWERS AND CDB ITSELF BETWEEN 1980 and 1984**

From the review of the first half of this decade which I have provided, the following main conclusions can be highlighted:

- . even though many problems of development and structural adjustment have not been overcome, the public and private sectors of the countries of the Region are now more intensely aware than they were five years ago of the specific measures needed to bring about recovery and adjustment;

- a. Governments are learning the main lessons to be learnt from the experience of national economic management in the 1970s and 1980s - it is essential to take early corrective action as soon as there are adverse developments in the economy;
- b. although progress is not fast enough in all countries, there are hopeful signs of activity and achievement not only in national economic management but also in the production sectors - non-traditional export agriculture; food production (as well as agro-industry, fisheries, livestock and forestry); export-manufacturing; energy; and human resources and technology;
- c. in most countries of the Region (both MDCs and LDCs) there are large fiscal deficits (both overall and recurrent); this is in part due to fairly rapid rates of increase in wages and salaries and is also in some cases due to an over-burdened public sector, often with large financial deficits; these large fiscal and financial deficits constitute a serious constraint to structural adjustment and economic development;
- d. para-professional and skilled manpower shortages of all types are a serious constraint to both public and private sector development;
- e. there is scope for more lending for production to the private sector, both directly and through the national DFCs. In the past such lending has been constrained by national economic difficulties, limited market opportunities and shortage of national entrepreneurship;
- f. consequently, CDB has found itself in a position where it is much easier to identify and finance infrastructural than productive sector projects. There is clearly need for a better balance between the two types of lending;
- g. particularly in the LDCs, there is growing proliferation and duplication of efforts by both multilateral and bilateral aid donors in many if not most sectors - both infrastructural and productive;
- h. the LDCs face financing problems in the education sector - particularly vocational and technical education and tertiary education outside the university;
- i. severe shortage of foreign exchange (induced in large part by both deteriorating terms of trade and high debt service burdens) is now - in 1985 - one of the key constraints to development in some of our borrowing member countries; consequently, these countries require in 1985 and 1986 considerable amounts of programme and sector lending - over and above adequate levels of project financing. (This is not to downplay the urgent need for external project financing on appropriate terms and in adequate amounts to the other borrowing member countries, particularly the LDCs);
- j. although tourism has made an important contribution to economic growth, employment and foreign exchange earnings, there are environmental, infrastructural, social and cultural limits to its growth in small and very small economies. In some very small countries, there is also scope for the establishment of other services which are foreign exchange earners; but even in these countries all opportunities for economically producing

- agricultural and manufactured goods should also be taken advantage of;  
and
- k. an ultimately successful export drive in manufactures requires planning now - in 1985 - for skill-intensive and high technology activities.

CDB intends to expand its work programme to assist borrowing member countries to address many, though obviously not all, of these issues.

## VI. CDB IN THE FUTURE

### (a) General

CDB, as a dynamic and responsive institution, has to be always alert to the changing development needs and priorities of its borrowing member countries. CDB must keep these needs and priorities, as well as its responses to them, under continuous review.

In future, CDB will have to help the borrowing member countries, through both financial and technical assistance, to overcome many of the recognised but as yet unsolved development and structural adjustment problems.

### (b) CDB and Future Assistance to Agriculture

CDB has to make greater efforts in the food producing sector, the traditional agricultural export sectors (perhaps to help to reorganise and diversify them); the new non-traditional agricultural export sector; agro-industry; fisheries; forestry; and the local manufacturing and tourism sectors. But CDB's role can be effective only if Governments adopt sensible policies and programmes at both the macro-economic and sectoral levels.

### (c) CDB and Future Assistance in Forestry

CDB has a decisive role to play in the development of the forestry sector, which remains one of the most neglected natural resources in the Region. A recently concluded Study of that sector (financed by the EEC) has identified over 20 potential national and regional projects for financing. The need for research and training was also emphasised as a prerequisite for future development of the sector. There is opportunity for CDB to mobilise grants from bilateral donors for projects in this sector. (There is also opportunity for the Faculty of Agriculture of the University of the West Indies to introduce degree programmes in this area.

### (d) CDB and Future Lending for Directly Productive Activities (including Sector Lending)

The continuing importance of financing productive sector projects cannot be denied, even though these projects tend to be more risky than infrastructure

projects, not only in the Caribbean but all over the world. While most of the lending for productive activities will go to the private sector, some lending to the public sector for this purpose will be inescapable.

CDB can have a great impact if it looks at the overall functioning of the sectors of agriculture, agro-industry, forestry, manufacturing, tourism and energy. CDB may even wish to enter directly the field of sector lending as distinct from project lending. The sectoral approach would allow CDB and the borrowers to identify the overall weaknesses in the sectors, to make policy recommendations and thereby improve the climate for investment by CDB as well as the private sector.

**(e) CDB and Future Lending for Regional Production Projects**

CDB will also be called upon from time to time to finance activities of a regional or integration nature such as those industries identified in the Regional Industrial Programming Scheme and the Export Industries Studies, or those agricultural projects forming part of the Regional Food and Nutrition Strategy. We are very much aware of the difficulties of financing regionally-owned projects (as distinct from integration projects which are not regionally owned) but we will redouble our efforts in the future. We may also use the technique of initiating the project as a national one, hoping that its operation, if successful, will attract more regional countries as participants.

With regard to intra-regional sea and air transport, CDB stands ready to continue its financing of these activities.

**(f) CDB and Future Lending in Infrastructure**

High costs per mile, coupled with the marginality of new agricultural areas, will contribute to a projected decline in CDB lending for agricultural feeder roads. In its new and continuing operations, CDB intends to focus extensively on developing an appropriate and efficient road maintenance capability, and on developing new cost-effective design standards appropriate to its borrowers.

Although CDB's assistance in road rehabilitation and reconstruction is justified on the substantial savings in vehicle operating costs and a decrease in the market price of goods and services, CDB's continued assistance will depend on what provisions can be made for maintenance by CDB and the borrower to ensure that maximum benefits are realised.

CDB will continue lending for port development, on a selective basis. Financing will be made available particularly for rehabilitation, expansion and upgrading of management and operations. Emphasis will also be placed on supervision of existing operations to ensure that the objectives continue to be met.



Future strategy in the power sector will be to co-finance with other donors, in order to ensure that the operational and financial policy gains already secured are maintained. We will focus on loss reduction, energy conservation, use of indigenous forms of fuel, and we will continue to stress technical efficiency and reliability, particularly through the concept of a sub-regional common service.

**(g) CDB and Future Lending for Housing**

Caribbean people's aspirations for adequate accommodation are well known. The fulfillment of such aspirations can be used as basis to stimulate employment, develop local building materials and the furniture industry, to foster commitment (particularly of the middle class) to their countries and to encourage employment and productivity among lower-income groups. While the development of this sector has its economic advantages, it has the major difficulty that it is not a foreign exchange earner and hence should not be excessively financed by means of foreign currency loans, particularly during a period of foreign exchange crisis. However, one means which could be used is for CDB to float bond issues within the countries of the Region and it is hoped that national financial institutions, and in particular social security funds which currently invest overseas, could subscribe to these.

**(h) CDB and Future Assistance to Education**

Education in the LDCs cries out for highly concessional IDA-type or granting financing, which cannot be provided by CDB. One answer seems to be for CDB to try to interest bilateral donors to resume providing grant financing for this non-self-liquidating sector and other similar ones such as health. New donors in this area would also be welcome.

Two important areas in education and training in the LDCs that are in urgent need of external grant financing are technical and vocational education and out-of-school skills training programmes.

There is undoubtedly scope for high-quality planning of the education sector in all the borrowing member countries. This involves addressing issues such as making greater use of plant capacity; designing more suitable curricula to foster a desire for self-employment among students; and to prevent loss of skills to the metropolitan countries. CDB can provide technical assistance funds for planning of the education sector.

**(i) CDB and Future Training in National Economic Management**

I have already indicated how successful CDB's Project Administration Training Unit (PATU) Programme has been. One of the areas which is generally recognised as also deserving of assistance is training in national economic management. We have already become involved in one training programme in

this area, along with other recognised training institutions. We will intensify action in this area in future.

**(j) CDB and Future Structural Adjustment Lending**

One of the issue of programme and/or structural adjustment lending, I indicated in last year's Statement to the Meeting of the Board of Governors that CDB's Management would submit proposals to the Board of Directors for:

"developing a variant of structural adjustment lending which will provide financial support for structural adjustment measures, particularly as these relate to the reorganisation of critical export sectors, without changing the Bank's procurement guidelines or reimbursement procedures. If the arrangement is acceptable, only a small proportion of the Bank's resources will be so channelled and every effort will be made to co-finance supply-side oriented programmes with the other international institutions."

I am still of this view.

**(k) CDB and Future Aid Coordination**

The presence of many aid donors and financiers willing to concentrate on the same sectors and sub-sectors in the countries makes even more important the issue of aid coordination. This is necessary not only to ensure that there is no unnecessary duplication of effort by both aid donors and beneficiaries but also to get donors sensitised to the sectoral policy objectives at the country level. In particular CDB would wish to see bilateral donors concentrating their efforts (particularly in the LDCs) in financing those sectors requiring highly concessional funding, while leaving the directly productive sectors and self-liquidating infrastructure projects as far as possible to CDB. As a result, CDB intends during this year to resume its lead role in the aid coordination exercises, particularly at the level of the LDCs.

**(l) Size of CDB's Future Lending Programme and New Sources of Funding**

There are two conflicting conclusions with regard to the volume of CDB's lending programme in the medium-term future. One is the fact that the economic difficulties being faced by many borrowing member countries might somewhat limit the demand for project financing. On the other hand, with graduation from hard sources of multilateral financing (e.g. the World Bank) facing some MDCs and from soft sources (IDA) facing the LDCs and with the likelihood of reduced availability of soft resources from other (e.g. the IDB), CDB may be obliged within two years or so to greatly expand lending programmes to replace (at least in part) lost sources of funding for its borrowing member countries.

One way of increasing the lending programme is to seek to attract new donor membership from the OECD countries, as has already happened in the case of the recent accession of France to full membership and Italy's application for the same status.

The issue of the size of our lending programme between now and the year 1990 is one that we have to solve now - during 1985. Quite apart from attracting additional membership, we should also think of attracting non-member countries either to contribute to the Unified Special Development Fund or to establish within the Bank on a grant basis Trust Funds to meet special needs for human resource development and social programmes, particularly in the LDCs.

### **(m) Need for CDB to Improve its Operational Capability**

When I point to some of the useful work which the Bank has been doing, I am by no means claiming that CDB is a paragon of virtue or a model of efficiency. The Management of the Bank (and not least myself) are very acutely aware of our problems and deficiencies. I refer here to three areas where improvements in our operations are needed - starting from this year, 1985.

The first area of concern is the continuing need for Bank Staff at all levels to continue increasing their productivity. The result of such an increase in productivity would be the presentation of a larger number of projects for funding every year to the Board of Directors. Another way of achieving higher productivity in the Bank would be to increase the average size of loans made to borrowers. Closely related to all this is the need for us in the Bank to accelerate our processing of both public sector and private sector loans. We are aware that the time between application for the loan and presentation of the project to our Board of Directors does not compare unfavourably with that of other larger and perhaps better known regional and international development banks; but we need to seek to achieve even greater speed so that we can more effectively meet the needs of our borrowers without, however, lowering the quality of our preparation and appraisal work.

The second area of concern is the achievement of even greater effectiveness in our operations so that our objectives can be better met. I refer here particularly to the need to integrate even more closely than at present the planning and operational functions of the Bank.

The third area of concern arises from the fact that the economies of our borrowing member countries are still facing considerable pressure and also suffering from the continuing shortages of trained manpower in both the public and private sectors. It is therefore of the utmost importance that we increase efforts at project supervision, particularly of the admittedly more risky productive sector projects. Experience has taught us that all projects (and particularly those in the productive sectors) need extremely close monitoring in both the construction and operating

phases so that incipient problems - whether of a managerial, technical or marketing nature - can be detected at an early stage and corrective action taken.

These are matters of the greatest urgency and we will speed up our efforts in these areas.

Let me in this connection express thanks, on behalf of the Board of Directors and Management of the Bank, for the considerable amount of technical assistance which the Canadian Government has been providing to the Bank in order to help us in improving our organisational structure and our operations.

## **VII. ACTION REQUIRED BY INTERNATIONAL COMMUNITY IN SUPPORT OF BORROWING MEMBER COUNTRIES**

In recognition of the limited role CDB can play because of its shortage of resources in relation to the magnitudes involved, I hope I can have the support of all Governors in calling upon both traditional and non-traditional multilateral and bilateral donors - preferably but not necessarily acting through the Caribbean Group for Cooperation in Economic Development (CGCED) - as a matter of the utmost importance and urgency to consider making for an extraordinary two-year period very large structural adjustment loans on highly concessional terms to those countries in the Region facing very severe foreign exchange constraints. Bilateral donors and commercial banks also need to undertake extensive rescheduling of external debt (even perhaps including moratoria on both interest and amortisation) for the countries concerned.

The very large structural deficits in the balance of payments in these countries are in large part the result of considerable deterioration in their terms of trade due to very low prices for bauxite, combined with a very high external debt service and imported energy burden. Such special assistance will be in the interests not only of the countries directly concerned but of the Commonwealth Caribbean Region as a whole and of all its other member countries. Prosperity and economic strength in the Caribbean Community are both in the short- and the long-run indivisible.

At the same time, the urgent need for external financing (mainly for projects) of the other Caribbean countries over the next few years should not by any means be neglected by multilateral and bilateral donor agencies. In this connection, I need not stress that every member country of the CDB should make every effort to ensure that the OECS countries are not prematurely graduated from eligibility for IDA funding.

I should also mention here that the special problems of many of the borrowing member countries of the Bank in the area of development finance are now fully appreciated by the Government of Canada, whose distinguished Prime Minister recently made, with some success, a strong case to the Bonn Summit (of the seven

largest Western industrial countries) for the establishment of an Intermediate Financing Facility (that is to say, one lending on terms intermediate between hard and soft) to meet the financing needs (on reasonably concessional terms) of many of our MDCs and some of our LDCs.

## VIII. CONCLUDING OBSERVATIONS

Mr. Chairman, Distinguished Governors:

These decisions about the Bank's future course have to be taken during this year - 1985. Similarly, borrowing member countries have to take important decisions this year - 1985 - on development strategies and priorities, on macro-economic policies, on sectoral policies and programmes and on the future of certain traditional export crops. They must also decide on the role, size and financial and economic viability of the public sector in their respective countries.

This year - 1985 - is the crucial one for fundamental policy decisions on both adjustment and development in our borrowing member countries, requiring adherence to difficult and often unpopular economic policies. And, since structural adjustment requires not only internal efforts, but also sizeable net inflows of finance, extraordinarily large capital inflows and extensive debt rescheduling are required for some of our borrowing member countries this year and next year in order to adjust their economies and to strengthen the CARICOM regional economy. Other CARICOM countries also continue to need sizeable capital inflows on appropriate terms for normal project financing.

Particularly because of the difficult world economic environment prevailing since 1973, the going has been rough - and continues to be rough - for most borrowing member countries, and for the Bank itself. The middle of the decade of the 1980s finds many of the regional economies still in grave economic difficulties and in some cases in a state of near crisis. Deep-rooted and long-standing deficiencies in the economic structures of borrowing member countries still remain to be resolved, in addition to some of the new problems that have emerged over the last decade. And the entire regional economy is now at the crossroads, crying out for fundamental decisions on policies and orientations.

The Bank itself has been adversely affected, because of an inadequate number of productive sector projects and, more generally, because - given its present levels of staffing - the Bank is being obliged to have a smaller lending programme than it could effectively cope with.

But these problems are not insoluble. What is important is that all borrowing member countries and the Bank itself have become increasingly aware of the problems and the lines along which solutions should be sought. What is more, CDB can claim, without undue immodesty, some credit for many of the economic and institutional achievements of many borrowing member countries.