STATEMENT BY
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OF THE CARIBBEAN DEVELOPMENT BANK
TO THE BOARD OF GOVERNORS
AT THE FIRST ANNUAL MEETING
ANTIGUA, APRIL 23, 1971

As required by our rules, an Annual Report on the operations and policies of the Bank has been approved by our Board of Directors and is submitted to our Board of Governors at this meeting. Appropriately, this is a somewhat constrained document of record. I am glad to have this opportunity to speak in a less formal way about what we have been doing over the past few months.

There has of course been a great deal of routine work of an administrative kind, setting up the Bank as an organisation; recruiting staff; making our internal staff rules, pension rules, financial controls and so on; setting up the special rules for the soft window; drafting our standard loan conditions, our rules for procurement and other business documentation. Most of this paperwork has been circulated to Governors, either for formal review, or as part of our background material. Though very time consuming and important, it is pretty straightforward, and it is not about this that I wish to speak.

Side by side with this, the staff and the Directors have been searching to establish the special role of this Bank, and in the light of this to set out policies and strategies. This is a continuing and challenging task.

We have started from the phrase in our Charter which requires us to give special and urgent regard to the needs of the less developed members of the region. From this came agreement with our more developed members that for the time being our soft window is open only to our less developed members while our hard window is open to all. Beyond this, the Bank is giving special study to the needs and problems of the less developed countries. in order to assess how it can be most helpful.

It is not difficult to spot the most urgent need of these countries; their productive sectors are in trouble. In recent years their infrastructure has improved very significantly. With the help of British and Canadian aid, government expenditure has been rising swiftly. Considerable improvement has taken place in roads, schools, medical services, water supplies, electricity and airports. Capital cities have been expanding rapidly. and there have been booms in commercial property and in urban housing.

However, in the last analysis all such activity, if it is to continue viable, must be maintained by parallel expansion of the productive sectors of the economy; and here the picture is very different. Agriculture is in a bad way; sugar, bananas, cotton and foodstuff have all declined. The fisheries show signs of exhausting; and livestock output is not keeping up with demand. In manufacturing very little is stirring. The tourist industry is the only lively sector.

It is therefore immediately clear that our Bank could be most helpful if it could help directly in strengthening the productive sectors of our less developed member countries. This is a tremendous challenge and is not obviously one that we can meet. The forces which have weakened these sectors are very powerful and are not under the control of this Bank. We can try to do our best but we cannot guarantee to succeed.

The decision that we should nevertheless take up this challenge explains a very important paragraph in the document entitled Financial Policies, which our Board of Directors has issued to explain the current strategy of the Bank. That paragraph states that the Bank will not for the time being finance infrastructure of a general nature, but will instead concentrate on agriculture. industry, tourism and infrastructure directly related to the development of these sectors.

The main outlines of this programme are now beginning to take shape. In agriculture it has three main features. First, we are willing to lend to governments to support the infrastructure of agriculture - for feeder roads, terracing of land, control of water flows, drainage. irrigation, reclamation, and the Land Authority type of function. We have an agricultural engineer who has specialised in this type of operation, and who will be glad to help governments formulate schemes of this kind.

Secondly, we are lending to the Agricultural Credit Banks for re-lending to farmers with less than 200 acres. As a development bank we cannot finance capita! transfers or lend money to buy land; we are only in new capital creation. But we are giving the highest priority to farm improvement schemes, and will initially meet the cost of trained agricultural officers who help small farmers to prepare such schemes.
Thirdly. we are also interested in lending to the larger estates, and we handle this business directly from our headquarters. We are beginning to receive quite a few applications in this category, especially for livestock production, and various tree crops. We have four technical officers - an agronomist, an agricultural engineer, a livestock officer and an agricultural economist - who travel up and down the islands seeking to identify and helping to formulate bankable agricultural projects, private or public.

We normally do business with private enterprise only in our less developed member states. **In** the more developed countries we lend to governments through our hard window. But these countries have their own Development Finance Companies and Agricultural Banks for lending to private enterprise which we are willing to help finance, so we shall not normally deal directly with their private enterprise. What I am discussing at the moment is our programme in the less developed countries of the region, where we have to perform as retailers as well as wholesalers of finance.

Our biggest problem in the agricultural sector is how to cut down on the imports of food from outside the region. Meat and other livestock products illustrate the problem. On examining the livestock projects presented to us, the most frequent obstacle is the high cost of feed; if it takes 7 lbs. of imported feed to produce 1 lb. of meat, it is often cheaper in foreign exchange to import **the** meat than to import the feed. We have to learn to produce our own animal feeds. This is partly a matter of improving our grasslands and partly a matter of productivity in cereals. The Americans can deliver maize on our doorsteps more cheaply than we can produce it because they get 4,000 lbs. to the acre, where most of our farmers get less than 1,000 lbs. to the acre and because their labour reaps in one day as much as we can reap in a week. **In** other words they apply much higher levels of scientific technology and of capital per man than we do. The moral for us is clear. The income our agriculture has to yield, whether as wages or as profits to small farmers, is determined by the relatively high earnings now offered in mining, industry and the tourist trades. Our agriculture cannot survive at these costs levels unless it revolutionises its structure so as to permit the highest inputs of science, as well as high - inputs of capital. This applies to everything we produce. In sugar we are in the forefront of scientific technology, but way behind in capital input. In everything else - bananas, cotton, cocoa, foodstuffs, livestock ¯ our agriculture needs massive new inputs of both biological science and capital; otherwise our fields will increasingly lie fallow while our people roam idly through our capital cities. Our Bank must do anything it can to support this agricultural revolution. As a modest start, we are now making a study of how to produce animal feeding stuffs efficiently, so as to see where we can best intervene.

We have also in the food industry enormously to increase our output of vegetables and fruit, and we are anxious to finance sound ventures in these sectors- This is a hard nut to crack, since it is bound up with adequate marketing and processing facilities. The hotels industry has rather special requirements. Also exporting from the Windward Islands to Barbados or Trinidad depends on adequate transportation in small vessels. Here we find the facts very hard to come by, and we are again engaged in. studying the problem. We shall be grateful for any light that others can shed on the situation, or on what the Bank can do to improve it.

Our programme in manufacturing industry has the same three-pronged pattern as our agricultural programme. First, we are willing to lend to the governments for industrial infrastructure, such as for building industrial estates, or for vocational and technical training. Secondly we have a programme for lending to workshops and small industries, under the supervision of two small industry loans officers, working out of our headquarters. And thirdly we will lend directly to the larger industrial firms, where the sum involved exceeds EC$100,000.

Our less developed members lack industrial development corporations. so this Bank has to sponsor industrial research if it is to build up a sound portfolio. We are just about to commission a team of industrial consultants, which will send some four to six men to spend the second half of this year in the Associated States and British Honduras, seeking out economically viable possibilities. They are to try to identify a number of medium scale manufacturing industries which could survive economically, whether for the Eastern Caribbean Common Market, or for the wider Carifta market, or for export outside the region. We shall have their report early in the new year. It will be published widely and will, we hope, help to procure some significant industrial advance in our less developed countries.

The easiest part of our business would be the financing of larger hotels, for which we receive constant enquiries; we could put all the Banks money into this in a very short period. Our Directors wish to restrict this part of our portfolio. if only because of the clause in the Banks Charter which is intended to discourage the Bank from financing projects for which other sources of finance are easily available.

Where hotel money and expertise are hard to come by in our less developed member territories to build up the small hotels and guest houses with under 50 rooms, run mainly by West Indians, and trying to maintain a steady summer trade. The Bank has received some applications of this kind. Unfortunately the costs are usually very high, especially the building cost per room, since their architecture tends to be modelled on that of the huge expensive hotels now building throughout the islands. We are studying this problem. We are about to commission architectural studies of how to design small hotels cheaply, so that we can advise our clients what **to** avoid. We have also made a study of the cost of operating small hotels, based on a number of successful small hotels already operating in the region; this also helps us to help our clients.

Under our UNDP scheme we shall have an adviser on hotels, who will help to formulate small hotel projects and to advise on building and operation. Small loans will be available for this class of business, and also for restaurants catering for the tourist trade.

(Let me say in parenthesis that I know when I refer to the studies we are making that the word studies is distasteful to some of our countrymen, since our islands have been plagued with an excessive number of studies, ever since the end of the eighteenth century. However, freelance studies made merely to satisfy intellectual **curiosity** are one thing; while pre-investment studies for the purpose of investing money are in a different class. We have six major studies in hand; how to produce animal feeding stuffs cheaply. the marketing of food, small ships in the Windward Islands. the industrial consultants search for medium sized industries, the **cost** of building and operating small hotels, and a study of the co-ordination of Eastern Caribbean ports to which **I** shall refer in a moment. We shall be glad to be in contact with anyone else who is working in these fields).

We shall be concentrating on small hotels, but we are not ruling out our large hotels altogether. Indeed our first loan was to a large hotel, though in this case the special attraction was that it brought us into a close relationship with a German banking firm, which will open up our access to other German funds. As a matter of fact we are under pressure from several governments to invest in large hotels. Our Directors have ruled Out that we shall not invest in such hotels unless at least one-third of the equity is owned by nationals of this region. We are not yet applying this rule to industrial or agricultural enterprises, since in our less developed members this would gravely reduce the potential of agricultural and industrial development. Actually, our Charter, in prohibiting the Bank for the time being from investing in equity, and forcing us to provide only loan capital to private enterprise is rather out of line with modern thinking. In dealing with foreign enterprise the region should seek to provide as much of the equity as it can, so as to keep the profits here, and get the foreigners to bring in loan capital which we may amortise in due course. Our Directors will no doubt be taking this up with you on another occasion.

So far I have been speaking only of our programme in the less developed countries, since it is normally only there that we lend directly to private enterprise. But we are now also ready to do business with the governments of our more developed members through our hard window. The Bank has been in touch with each of them, and they are preparing projects for presentation to us. It seems quite likely that each of our regional member governments will have borrowed from this Bank by this time next year.

Now let me say a word about money. We are using a three-year budgetary period, since our soft loan from the United States must be committed within three years from December, 1970. The commitments to our soft window from the U.S., the U.K. and Canada during these first three years come to U$16 million. During the same period, payments of our share capital will come to US$13 million, making a total of US$29 million or EC$58 million.

Applications to the Bank, from our less developed countries alone, are substantially in excess of this figure, so if all applications were granted the Bank could suspend operations next week. Our staff is fully stretched assessing some 17 projects which have reached an advanced stage, as well as helping to prepare another dozen or so which are still in embryo state.

Naturally, the big pressure is on the soft window, from our less developed member governments. The hard window is not under pressure from our less developed members. Moreover we can replenish the hard window fairly easily by borrowing in the worlds capital markets. We would not want to borrow long at current interest rates, but we can now borrow medium term quite cheaply from overseas banks and relend for longer periods, since we can repay out of our share capital as **it** comes in. This is why we are able to lend sizable amounts of hard money to our more developed member governments without embarrassment to our other programmes.

The situation is very different at the soft window. We have to scale down each request to the minimum amount which is justified by its purpose. And even then we cannot possibly supply each member government with all that it justifiably seeks. In accordance with our Charters insistence on equitable distribution, we have to have some sort of rationing at the soft window.

What has flooded the soft window is the demand for deep water ports. The Bank has been asked to finance such ports in St. Lucia, Dominica, St. Kitts, the Cayman Islands, and British Honduras, and has been warned of requests in preparation in Montserrat and Grenada; that makes seven new ports or wharves. In each case we have received a thick report produced by consulting engineers and supported by economic studies. We have looked at each of these volumes from every angle ¯ engineering, financial returns, social aspects and so on. In nearly every case so far we have concluded that the essential job could be done for less money. We have so advised our clients, and have even produced our own engineering sketches of how it could be done. So far we have been most fortunate in securing their agreement, and that of the consultants, to have the job re-done on a more modest scale. Here alone we can already claim to have saved our clients several million dollars.

By this process we are reaching agreement on how much could usefully be spent on each port if it were considered in isolation. But do we suddenly need five new ports simultaneously in the Eastern Caribbean? This is a separate question, **to** which we are now addressing ourselves. The World Bank is sending us next month a consultant who will be reviewing the movement of shipping in the upper part of the Eastern Caribbean taken as a whole, and considering how it may be affected by the new developments in marine transportation. Are we going to get lighter-ships, which do not dock at all, but take up and put down fully loaded lighters? Ships are likely to be bigger; does this mean more transhipment from a single centre, in smaller ships of medium draft? What will be the impact on containerisation? The answer to such questions may very well rule out some of the proposals which we have reviewed, and to which some of our governments have great emotional attachment.

We do for all our projects what we have done for these ports. Our agriculturists examine the technical possibilities. Our engineers check the design and come up with suggestions. Our economists look at the market; and our accountants project the flows of cash. We separate the social from the financial tests, to ensure that benefit to the nation exceeds the social costs. Out of all this may come a project significantly different from the original proposal. This work takes a great deal of professional staff time, so our staff is fully occupied. Our work is not confined to assessing new projects. At present we are only at half strength; by the time we are at full strength we shall also have made several loans. and our staff will be engaged in administering and supervising these loans as well. We shall have special officers for administering our loans to small industry, to small hotels. and to small farmers, who will be visiting the borrowers from time to time to see how their improvement plans are working out; and our engineers and accountants will also be busy ensuring that our large construction projects are in accordance with contract. Beyond this, our Charter charges the Bank with general technical assistance functions, not necessarily connected with lending. and this side of our activities is building up steadily. We are very happy to release a staff member for such work whenever this is feasible.

To come back to money, we are very short of soft money - at least US$10 million short in the light of the three year programmes we now have and foresee, and more of course for good things that we have not yet heard about. And this assumes the continued flow of British and Canadian aid into the Associated States for the fields which our Bank has not been covering in those states - schools, hospitals, water supplies, electricity, roads and airports in particular. Our Bank is short of money even without touching these areas. Neither have we included urban housing, which is also a major need.

Accordingly. we have begun to approach other friendly governments. seeking contributions to our special funds. We could not do this until we had surveyed our task, so that we could tell our friends just what kinds of things we would be doing if they promised us the money. Last year we spent visiting our customers; this year we shall visit potential sources of soft finance.

We have a difficulty which sometimes gets us into trouble with some of our less developed members who are not used to dealing with multilateral lenders. A multilateral organisation gets its funds from several countries. Each of these is anxious to secure that when a loan is approved its suppliers. contractors and consultants shall have an equal chance to bid for contracts. It is therefore a strict rule that the Agency cannot finance projects which have already been started, or for which the contractors have already been chosen. A clear period must elapse after the loan is approved, during which all the countries concerned are notified and given the chance to bid. This of course adds to the length of time which must elapse between applying for a loan and actually starting the work. Some of our more go. ahead governments are vexed by these delays. but they are inherent in the nature of multilateral development banking.

To come back to money, I cannot now forecast what success we may have in raising more funds for the soft window in the course of the year. With the best will in the world such matters take time, and we have already tapped the three countries with which we have the closest connections. We shall try.

I also cannot forecast how successful we shall be in meeting our major challenge, which is to strengthen the productive sectors of our less developed members. Their agriculture requires to be revolutionised in technology, if it is to survive in the modem world. and their small markets are not the best foundation for extensive industrialisation. But again we have to try. The basic material is the human mind. Education is going ahead, both general and technical, and a new generation is growing up which can take advantage of new economic opportunities. To help frame such opportunities is **a** task to which we in the Bank are glad to bend ourselves.