THE CARIBBEAN AGENDA AND SELF-RELIANCE
STATEMENT BY
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CARIBBEAN DEVELOPMENT BANK
TO THE BOARD OF GOVERNORS
AT THE TWENTY-SIXTH ANNUAL MEETING
HELD AT
PLANTATION STE MARTHE HOTEL
ST. FRANÇOIS, GUADELOUPE
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TABLE OF CONTENTS

1. OPENING REMARKS

Mr. Chairman, Mr. Prefect of Guadeloupe, Madame President of the Regional Council, Distinguished Governors, Directors, Diplomatic Representatives and other Dignitaries, Observers, Guests, Vice-Presidents, Directors of Departments and other Members of Staff of the Caribbean Development Bank, Ladies and Gentlemen.

We are very pleased to be in Guadeloupe, and to have been greeted and embraced so warmly by its people since our arrival here. Everywhere, and at all levels, we have encountered an endearing enthusiasm for our comfort, and for ensuring that this first meeting of our Board of Governors on French soil is an outstanding success.

Twelve years ago - in May 1984 - when the Republic of France first formally took its seat on the Board of Governors of the Caribbean Development Bank, its Governor remarked that it had been considered an honour to be participating in the activities of this Bank, towards improving the quality of life for the people of its Borrowing Member Countries (BMCs).

And, indeed, the very strong commitment was given that the Republic of France was prepared and willing to undertake the duties which it was assuming through membership. It is in the noble tradition of this proud Republic that it has sought to honour those commitments.

Over the years, Mr. Chairman, the Republic of France has shared equitably in CDB's resource mobilisation efforts, regarding both the Ordinary Capital Resources and the Special Funds Resources. At present, this country holds the equivalent of US$50.2 million in subscribed capital and up to the end of 1995 had contributed the equivalent of US$53 million to the Unified Special Development Fund which was established in 1984. It has also contributed US$375,000 for Technical Assistance in the area of Environmental Impact Assessment.

In addition to this financial support, Representatives of France on our Board of Governors and Directors have contributed in significant measure, to the intellectual leadership and guidance of this institution in the formulation of strategies, policies and programmes which can effectively respond to the development challenges in the near and medium term.

I am therefore pleased to express once more our deep appreciation to the Republic of France for its valued contribution to the multilateral character of CDB and towards the well-being of countries that are extremely vulnerable to economic and natural hazards because of size and geographic location. The Bank also appreciates the ongoing beneficial bilateral relations between France and the Bank's BMCs.

We thank the Republic of France for this policy of partnership in the Caribbean. And as we assemble here today in these excellent conditions which you have prepared for this Meeting, I express the hope that those bonds of cooperation within the CDB which so strongly unite all of our members will continue to strengthen so that we can increase our contribution to the sustainable development of our BMCs.

2. ANNUAL REPORT AND CDB'S PERFORMANCE DURING 1995

Mr. Chairman, Governors have before them the Annual Report for 1995. It highlights developments affecting the Region during the year and presents a brief summary of the Bank's operations.

1. BMCs Performance

1995 was, in many ways, not a good year for the BMCs. The weather played a critical part in their failure to perform to expectations. During the first part of the year, agriculture flourished under more favourable weather conditions, and the Region began to recover from the prolonged drought of 1994. By mid-year, there were encouraging projections of significant growth, particularly in a number of the smaller BMCs. In others, the parched sugar fields of the previous year were in verdant growth, promising high yields for the 1996 crop. And much was expected in most destinations from tourism, the principal foreign exchange earner and employment provider among the critically important services sectors.

But, Mr. Chairman, this early optimism was shattered by the most active hurricane season in more than 60 years, during which 19 storms developed and 11 of them became hurricanes. The considerable damage and destruction caused by these storms as well as the prolonged volcanic activity in Montserrat retarded growth and, at that time, cast a cloud over the prospects of the Region.

The international community and neighbouring countries which had been spared the severity of the hurricanes rallied to the cause. CDB itself responded with grant financing for emergency assistance from its own resources as well as from resources provided by the Inter-American Development Bank in addition to providing concessionary loans for longer-term rehabilitation.

2. **Some Specifics on CDB**

Mr. Chairman, unlike 1994 when income from ordinary operations declined, 1995 was one of the most financially successful years in the history of the Bank. Net income on ordinary operations reached US$15.5 million compared with US$11.8 million in 1994. This outcome was made possible by a combination of factors, including a buoyant performance of the investments portfolio, the write-back of significant loan loss provisions, and lower borrowing costs resulting from a restructuring of the borrowing portfolio.

In the area of operations, there was an increase in the number of capital projects. Gross loan approvals were twice the amount attained in 1994, and gross disbursements were 15% higher.

I believe that these very satisfactory statistics on the 1995 performance are the more encouraging, Mr. Chairman, because they have been achieved amidst some structural reorganisation within the Bank and our much deeper involvement in the intensely challenging areas of social development and the environment. All the while, our Staff have been having to adapt to new technological systems which CDB has been gradually introducing.

It is certainly a credit to our Board of Directors, my Management colleagues and the Staff, the extent to which they have responded to the new demands upon the Bank arising from a changing international situation with reordered parameters for development banking with a stronger human resource development and other social sector issues.

3. THE CARIBBEAN AGENDA AND SELF-RELIANCE

1. Introduction

Mr. Chairman, when we met in Jamaica last year on the occasion of our Twenty-fifth Annual Meeting, we were, understandably, in a fairly celebratory, perhaps, self-congratulatory mood. Today, I wish in part, to return us to a theme that has haunted past Presidents and figured prominently in previous statements to this Board.

Almost 60 years ago, in 1939 to be exact, one of this hemispheres and one of this century's greatest poets, Aimé Césaire, in his epic work, *"Statement on my Return to the Land Where I was Born*" described the West Indian Territories, in quite graphic language, in the following passage:

*"Au bout du petit matin bourgeonnant d'anses fr*êles *les Antilles*
qui ont faim, les Antilles grêlées de petite vérole, les Antilles
dynamitées d'alcool, échouées dans boue de
cette baie, dans la poussiére de cette ville
sinistrement échouées."

"At the end of the dawn, blooming with frail coves, the hungry
West Indies, pitted with small-pox, dynamited with alcohol, stranded
in the mud of this bay, in the dust of this town sinisterly stranded."

Mr. Chairman, while Aimé Césaire's graphic description would no longer be literally true of either the French Departments in the Caribbean or of the English-speaking Caribbean, one relic from those times persists in our Region. It is the scourge of chronic unemployment that, in particular, wastes the lives of our youth and distorts their aspirations. I would, therefore, urge this Region to adopt a development Agenda to achieve during the next ten years, the reduction of unemployment to acceptable levels.

If such a goal is to be achieved, our BMCs will not only have to invest considerably much more than they are now doing; they must also, even more urgently, strive to increase the productivity of their existing capital stock. And I think I shall be able to show you, that to do so, we shall, among other things, have to rely increasingly on our own domestic savings. That is the burden of my address to you today, which I call *"The Caribbean Agenda and Self-Reliance."*

2. The Setting

Mr. Chairman, there has been a much slower growth and development in most of our BMCs than is warranted by their potential. The two waves of newly industrialised countries (NICs) in Asia and other small states like Mauritius provide an important contrast for the performance of our BMCs. In the 1960s, their condition was no more advanced than that of our BMCs. But since then, their pace of development has far outstripped that of our BMCs. The general consensus is that their secret was essentially well prepared human capital, high rates of investment mostly from high savings ratios and macroeconomic policies that were appropriate, well managed and sufficiently flexible to change course as circumstances evolved. The crucial component was the policy fundamentals which induced the savings and investment. A few of our BMCs have also had comparatively better outcomes than the rest, generally for similar reasons.

Our failure to seize the opportunities and match the Asian NICs has had a telling impact on our labour force. The unemployment rate has remained unacceptably high in nearly all of the BMCs and even increased in some. Persistent unemployment in excess of 20% is commonplace. Our youth and women are most affected by this scourge. Hopelessness and bitterness are on the faces of too many of our young people. These conditions fuel the growing menaces of illegal drugs, crime and violence. In turn, some of us with resources allocate it excessively to security of self and property. That retards productive investment and aggravates the problem of lowered job opportunities. Indeed, Mr. Chairman, the unemployment would have been far worse if there had not been scope for emigration. But now, even that relief valve has been closed to a trickle.

Foreign aid has also helped in providing jobs on projects and improving our infrastructure. It has supported the balance of payments position and helped macroeconomic stability which is crucial to the development process. But aid has also declined world-wide, especially on the bilateral side. What is left concentrates on areas of greatest need and strategic significance to donors. Aid levels will not recover, because our middle income countries are now out of that target group.

The world recession of the 1980s and the slow recovery with continuing fiscal difficulties in the industrial countries have made those countries much more inward looking, at least in some respects. There changing demographics have led to new problems. For example, the net present value of public pension liabilities for Germany and Japan are indicated as being over 100% of their respective Gross Domestic Product (GDP). These new conditions will result in pressure for charity to begin at home and will leave less for aid in the future.

Multinational Development Banks (MDBs) will, therefore, find it increasingly difficult to raise concessionary resources which depend mostly on the industrial countries. Indeed, that is the current experience of CDB which, for its Special Development Fund, has just joined other MDBs in failing to get replenishments to match the previous cycles in nominal terms. In fact, the rationale for continued existence of MDBs, as currently structured, is becoming a popular question and the subject of recent literature leaning towards private capital markets and the refocussing of MDB activity towards the financing of social programmes. In this regard, the rationale for CDB as a cooperative institution is important - perhaps moreso than other MDBs. The very small sizes of the BMCs and their inability to borrow economically in the financial markets makes CDB a crucial intermediary.

In assessing the situation confronting the BMCs, some may interject that we prefer trade to aid. But this is perhaps the area of most turbulent change for our BMCs. The relentless pressure against preferences so familiar to us in the case of bananas is only the first scene of the drama that will unfold under the WTO and GATT 1994. And such pressure is fast moving to the services and domestic investment. Global competition is the sole scenario. We will either struggle to survive at the bottom or rise by acquitting ourselves to compete amongst the keenest. Our people and our pride deserve and demand success - not just survival.

Mr. Chairman, I think that the outcome will depend largely on two things. First, is how we manage our economies. Second, is how we cope with the rapid technological changes which may prove to be crucial to our productivity and competitiveness. Our people have a penchant for novelty. If we could translate this into sufficient mastery of the new technology, we could well safeguard our future. So, let us turn to some of the critical demands that flow from this general setting.

3. Some Critical Demands

Mr. Chairman, generally, growth and investment are highly correlated. Our lagging economic growth and development hang essentially on our rate of investment and its productivity. The BMCs invested approximately 23% of GDP on average during the last 20 years, with country averages ranging between 17% and 37%. This average is around three-quarters of the rate at which two Asian NICs from the first wave and three from the second, together with Mauritius, invested during the same period. And it is interesting that Mauritius, a very small country, starting with a mono-crop economy similar to many of our BMCs, was investing 27% of GDP during the same period.

Mr. Chairman, the investment rate for our BMCs is not low among developing countries in general. But for reasons not always fully understood, this Region has a very high capital/output ratio compared with the typical developing country. The addition to GDP per unit of new investment in our BMCs is generally less than half of what it is in the Asian NICs. That causes a very heavy demand for investment funds in order to gain a reasonable rate of growth of GDP and jobs.

The **first critical demand**, therefore, is that we must increase the productivity of our existing capital stock by improving its utilisation, and we must do likewise with our new investment. I recall that former President Demas made a similar point on our low capital utilisation several years ago. But there has not been any noticeable improvement. We can start to achieve this higher productivity of our existing capital stock, if we introduce more operating shifts than the predominant single shift system. Markets will be critical. It will require us to produce for the global rather than the domestic or Regional markets. We would have to make sure that our input costs are kept globally competitive. But the more intensive use of capital should help reduce costs to make exports more visible. Shift premiums for workers would need to be reasonable in order to keep the labour cost from being a deterrent to export competitiveness and to encourage labour absorption.

Mr. Chairman, our BMCs saved around 22% of GDP on average, with country averages ranging from 7% to 26% during the last 20 years. This average is around two-thirds of the average saving ratio of the NICs mentioned earlier. Generally, there is no increasing trend of our saving or investment. But given our investment ratio of 23%, the outcome makes it look as if we have been close to self-reliance, taking the Region as a whole. And we are, if we are also contented with the present ratio of resource utilisation. But I know that we cannot be contented with out high levels of unemployment. For, apart from the awful waste of human capacity, it presents a severe risk of social instability.

Whatever else we may do, in the final analysis, the second critical demand is that we must increase our savings significantly. That becomes more critical if we feel uneasy with foreign ownership of our means of production. All sectors need to contribute to this effort - the public sector, the corporate sector and households. Public sector savings have improved in recent years, but there is much scope to improve them even further. There are some signs that the fiscal savings could deteriorate in some countries. We must try to avoid this. With business surplus at around one-third of GDP and with depreciation and other capital consumption at around 10% on average, the business sector is quite well placed to save more and finance investment if the tax structure and other incentives are made more appropriate. And we need to take steps to increase individual saving. That will require that we improve the depth, quality and stability of our capital markets.

Mr. Chairman, the domestic markets of the BMCs are quite small. That makes any accelerated corporate savings and investment very dependent on export markets for profitability. The technological transformation of the economy and transformation of its output mix depend on the availability of export markets. The existing export product mix is troubled as demonstrated by sugar, bananas, and even textile products. Therefore, the product mix has to be rationalised to become more competitive. It has to be diversified to become less dependent on eroding trade preferences. It must incline more towards goods and services with accelerating and resilient market demand. In most of our BMCs the mix will have to emphasise services which are among the fastest growing areas of international exchange. We in the Region have demonstrated a degree of competitiveness with exports of non-factor services at around 25% of GDP on average, but much higher in some BMCs. However, our relatively high money cost of production must be brought in line with those of our international competitors. Stable but realistic exchange rates have an important role to play in this effort.

Our more self-reliant strategy will demand improved human resources. But it is my view that this Region is fairly well placed to accelerate its human resource development in the desired direction. Our peoples are comparatively well educated but nevertheless, there are significant deficiencies in our skills and systems of education and training. This includes inadequate emphasis on science and technical education, finance and accounting. It also includes our awkwardness with foreign languages, including the lovely one spoken by our hosts. These areas will need to be addressed and aligned more towards the required modernisation that is pervading technology as applied to production and marketing.

Education and training must not neglect the society's needs for well-rounded individuals with balanced personalities and sound values. But these activities need to move more to supplying the job markets with people equipped for the modern age and with a consciousness that profits to their employers secure their jobs and the welfare of their families. These critical elements of the work ethic must be instilled in the classrooms, in the homes and by public education programmes. Individual creativity needs to be stimulated and fostered. As a companion to it, self-reliant thrift should become a strong component of the process of building the appropriate attitudes in the youth as well as their elders.

All these critical demands on our societies cannot be met without improved institutional efficiency and efficacy, which are themselves critical demands on our public and private sectors. The schools, public sector agencies, publicly and privately owned utilities and other infrastructure must become more business-like than they are today. Good governance must become a hallmark of every public institution, but especially those that have development responsibilities. Time must be recognised as a critical input of the cost of doing business. Costs must be kept down so that public agencies do not act as a drag on any private efficiency and competitiveness that we may otherwise have gained. Corporate law and fiscal and accounting systems need to be modernised and standardised. Regulation must be reasonable, expeditious and implemented with transparency and even-handedness. The rule of law must be upheld and access to judicial procedures open and inexpensive especially as they affect business processes, and the sanctity of legitimate contracts. These qualities are mostly consistent without public service tradition. But they must be protected from decline and modernised to meet the needs of the very fast changing times. And this could be made a major source of competitive advantage for our Region.

The set of critical demands outlined above require a set of public policies to which I now turn.

4. Required Public Policies

As investment and growth are highly correlated, so are sound macroeconomic policies and investment. Investors are very sensitive to what may affect the return on their capital. They are even more sensitive to the factors that may affect the value of their capital. Their first guiding principle is to preserve their capital; their second is to ensure that their capital grows. Savers operate on the same bases. It is therefore important for policy makers and especially economic and financial managers at the macroeconomic level, to guard what savers and investors look at in determining what they do. The current and expected states of the balance of payments and of inflation are of paramount importance to saving and investment decisions.

This means that the state of the public sector finance is critical to the outcome of our agenda for increased self-reliance. When public finance is in trouble, the private sector runs scared and any private surplus that may have been available to finance the public sector deficit is hedged in unproductive activity or flight capital. The public sector is then inclined to draw on the central bank. This draws down the external reserves and eventually inflates the economy. Foreign creditors then run scared and hold back financing, imposing increasingly tough conditions. Therefore, macroeconomic stability, and confidence in it by savers and investors require that governments do not run large fiscal deficits and that public sector enterprises generally do not depend on fiscal subventions. That will keep domestic and external debt manageable and not crowd out private borrowers from the financial markets.

International experience suggests that it is not enough to achieve fiscal balance by ever increasing high taxes. That stultifies enterprise profits, private savings and investment outlays. Tax increases and the overall tax ratio need to be moderate. Taxes on savings and productive capital should be kept especially light.

If the public sector maintains surpluses or low deficits and keeps taxes moderate, the domestic policy impact on inflation and the balance of payments will be favourable. That kind of policy stance should attract both domestic and foreign investors to the further benefit of low inflation, sound balance of payments outcomes and growing employment opportunities. And the exchange rate should not be threatened by policy induced effects. Although external shocks and natural disasters may arise, the sound domestic policies will enable resilience. In this situation, there will be no need to have interest rates much higher than those in the world capital markets. That should induce borrowing for investment. But care must be taken to ensure that the real rate of interest is kept positive enough to induce savings. There is need for balance between the inducement to savers and that to investors. If real interest rates are significantly higher than real rates of return on investment, the financial economy will tend to delink from the real economy and productive investment will be retarded. The financial system may even become speculative and risk prone.

While keeping the fiscal balance tight, there is one area of fiscal outlay that will have to be emphasised. That is expenditure on human capital in the broadest sense. Its critical importance has already been discussed. Fiscal outlays on education and training must be kept buoyant in real terms in order to have the graduates appropriately tooled for the demands of the market. Improvements are badly needed in student performance and teacher-training. Health and sanitation expenditures will also need to keep pace to ensure that capabilities for learning and work are adequate.

In all of this effort, we need to recognise the possible value of regional cooperation. We should consider the benefits of enlarged, more diversified and soundly regulated capital markets open to savers and investors of the Region. Currency stability at appropriate rates of exchange will be critical for this. It can be achieved if we follow the sound macroeconomic policies previously discussed. We should cooperate much more in the process of negotiation that will flow out of the international requirements now developing. And our Regional markets should become sound bases for our small enterprises to learn and grow to the point of competing in the wider world. Improved cooperation in matters of air transportation will become very important especially to tourism on which so many of our BMCs are now heavily dependent. But it will be equally important if the Region is to grasp the evolving opportunities in other internationally traded services. Sea transportation should also become a matter for improved Regional cooperation.

4. **CONCLUSION**

In conclusion, Mr. Chairman, our BMCs have progressed more slowly than we hoped for since the founding of CDB. However, the problems that face us now are not insurmountable. The differences in performance of some of our BMCs in the last 26 years give us significant lessons. The most important is that our peoples and governments have made significant adjustment in recent years and have been grasping important opportunities that arise out of the challenges faced. The policy environment is much improved. There are indications that we can become increasingly self-reliant. And it will encourage foreign capital to supplement our savings in the years ahead. But investment and capital productivity must accelerate rapidly, or we will fail in the evolving world order based on competitiveness. In addition, labour absorption must accelerate or we will have an increasingly uneasy social order. That alone is worth the extra savings effort. And for our Region which has had the quality of human resources to produce two Nobel Laureates in the last 15 years, to supply top academics around the world, and to produce many more people of practical affairs with renown, we should be able to do it.

CDB will continue to work with each BMC in identifying opportunities, and analysing and financing them within its resource and policy constraints. As it has done for some years now, it is ready to help in the examination of policies and their adjustment. It has already moved significantly with financing for the human resource development and sanitation areas. It is considering increased operations for small and micro-enterprises. It is ready to assist in the strengthening of institutions appropriate to the tasks ahead. If the insights and the will exist at the national level, CDB's support can be counted on as a partner committed to appropriate action that will make our Region more self-reliant. We need that quality now more than ever.