

CONFERENCE ON "FINANCING ECONOMIC DEVELOPMENT IN THE CARIBBEAN"

SAM LORD'S CASTLE
DECEMBER 4-8, 1989

ROLE OF CDB IN FINANCING ECONOMIC DEVELOPMENT

by

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What is Development?

Economic Development is a complex concept. Since it is included in the title of this paper but obviously will not be the focus, I would wish merely to offer a brief comment on the connotations of the phrase "economic development".

Admittedly, "development never will, and never can be, defined to universal satisfaction".¹ However, the attainment by an economy of sustainable economic growth (measured in terms of per capita income) has been accepted by many development theorists as a major objective of development policy. An economy's ability to satisfy certain basic needs (measured by some index of the quality of life) is also an accepted yardstick of development. Where the theorists differ is in the identification of the factors that stimulate economic growth. Hence, some emphasise the role of physical capital formation. Others focus on the need for such factors as: backward linkages; industrialisation and/or rural

¹ "North-South: A Programme for Survival", Brandt Commission, Pan World Affairs, 1980, p. 48.

development; import-substitution and/or export promotion; structuralism or market-based development; and technical assistance and investment in human capital.

Growth in per capita incomes is a necessary but not sufficient criterion for economic development. It is a useful measure. In addition, it should be noted that development is not a state of being - it is a process which, by definition, takes place over time, hopefully a short time, but more realistically attainable only in the longer term. Further, economic development depends to a large extent on many non-economic factors.

This paper considers economic development to be the process of pursuing sustainable growth and thereby improving the society's social welfare through minimisation of inequities in the distribution of income, and marginalisation (if not elimination) of poverty.

Investment in capital formation - both physical and social - is widely regarded as one of the major prerequisites to development. Essentially, CDB's designated role is to assist the region to attain its capital formation objectives.

The Caribbean Development Bank

The Caribbean Development Bank (CDB) was established in 1970 as an inter-governmental banking institution to assist in the development of the Commonwealth Caribbean countries - all 17 of which were either among the founding members or have subsequently become shareholders.

One often overlooks the significant differences, in terms of size, population, incomes, and economic conditions, which exist among this collection of mini- and micro-states that comprise CDB's borrowing membership. The smallest is Anguilla, an island of 91 square kilometres. Guyana has a land area of 215,000 square kilometres. Population ranges from as few as 7,000 in Anguilla and 12,000 in Montserrat to 2.4 million in Jamaica. For 1987, estimated per capita incomes ranged from US\$455 in Guyana to US\$18,300 in the Cayman Islands. Six of the countries have Central Banks, each of which issues a national currency. The East Caribbean Central Bank serves the eight countries (some independent, some not) which form the Organisation of Eastern Caribbean States (OECS). Monetary Authorities in the Cayman Islands and the Turks & Caicos Islands issue their own respective currencies; and the United States dollar is the currency of legal tender in the British Virgin Islands. Such diversity among the Bank's members has implications for the type of role CDB plays or can play in the region's development.

CDB's membership includes countries beyond the Commonwealth Caribbean. Canada and the United Kingdom were among the founding members. France joined in 1984; Italy in 1988; and the Federal Republic of Germany completed membership formalities a few weeks ago.

Venezuela, Colombia and Mexico became members in 1973, 1974 and 1982 respectively; and they, together with the Commonwealth Caribbean Members are referred to as "regional members".

To date, the Bank lends mainly to the Governments, statutory corporations and public sector-owned Development Finance Corporations/Development Banks of its Commonwealth Caribbean Members; and also to private sector entities in those countries.

The Purpose of CDB

The usual, but admittedly somewhat sterile, approach to defining CDB's purpose is to refer to Article I of its Charter which states, inter alia, that the purpose of the Bank is "... to contribute to the harmonious economic growth and development of the member countries of the Caribbean (the region) and to promote economic cooperation and integration among them, having special and urgent regard to the needs of the less developed members ...". However, underlying that general statement was a deep and compelling rationale, which one may usefully explore here even briefly.

CDB was conceived and established at a time when the countries of the Commonwealth Caribbean were each becoming politically independent and the enormity of the development challenge which they faced was widely recognised. The "two-gap" syndrome that is a major characteristic of under-development was very much in evidence. Their levels of income and domestic savings were low in relation to the level of investment required for growth. At the same time, many of them faced large foreign exchange gaps and relied significantly on the Overseas Development Administration flows (grants-in-aid in several cases). Further, appropriate financial institutions with the capacity to mobilise

both domestic and foreign resources were either non-existent or insufficient. Also, it was generally perceived and agreed that a regional approach to the problems would greatly assist.

Against this background, CDB was established as one element in the strategy for Caribbean economic growth. Essentially, it was envisaged as a regional financial institution which would, if I may synthesise and paraphrase its specific functions outlined in Article 2 of its Charter:

- (a) assist in the mobilisation of capital for investment, whether such capital be in the form of official development assistance, private foreign investment, domestic savings, or technical assistance (the latter defined here as "the non-monetary transfer of managerial and technical knowledge");
- (b) assist regional members in the coordination of their development programmes and expansion of their trade (including intra-regional trade); and
- (c) promote and assist regional efforts to develop a capital market and other financial institutions which could enhance the capacity to generate the levels of credit and savings deemed necessary for the longer term development of the region.

Since the title of this paper focuses on CDB's "financing role", what follows will necessarily emphasise CDB's activities in mobilising resources and on-lending long-term capital and providing technical assistance.

The financial resources of CDB consist of:

- (a) Ordinary Capital Resources (OCR) comprising subscribed capital and reserves; and
- (b) Special Fund Resources (SFR) comprising:
 - (i) the Special Development Fund (SDF); and
 - (ii) Other Special Funds (OSF) which include the Venezuela Trust Fund (VTF).

The original authorised capital of CDB was US\$50 million (mn) (US\$25 mn paid-up and US\$25 mn callable). Table 1 below gives a detailed breakdown (by selected categories of sources) of the resources mobilised by CDB in its financing of capital projects, balance-of-payment loans and technical assistance as at December 31, 1988.

Table 1: Financial Resources mobilised by CDB by Selected Category of Sources
As At December 31, 1988
 (US\$ million)

	OCR	SFR			TA	Total	% of Grand Total
		SDF	OSF ¹	VTF			
1. Paid-up Capital (members)	95.0	-	-	-	-	95.0	8.9
2. Callable Capital	316.0 ²	-	-	-	-	316.0	29.6
3. Technical Assistance	-	-	-	-	75.4 ³	75.4	7.1
4. Contributions (Interest Free):							
a) Commonwealth Caribbean	-	20.0	-	-	-	20.0	1.9
b) Regional 'non-borrowing' Member	-	13.0	37.1	11.1 ⁴	-	61.2	5.7
c) Non-Regional Members	-	224.0	11.2 ⁴	-	-	235.2	22.0
d) Non-Members	-	12.0 ⁵	4.2 ⁶	-	-	16.2	1.5
5. Loans (concessionary)							
a) Commonwealth Caribbean	-	-	2.1 ⁷	-	-	2.1	0.2
b) Non-Members	-	-	177.4 ⁸	-	-	177.4	16.6
6. Reserves/Accumulated Net Income	41.0	4.0	24.3	0.6	-	69.9	6.5
	452.0	273.0	256.3	11.7	75.4 ³	1,068.4	100.0

¹ Net of repayments.

² Net borrowings against this: \$66.1 mn outstanding; contracted but undrawn \$8.6 mn.

³ Breakdown, by source, not readily available.

⁴ Canada.

⁵ Kingdom of the Netherlands.

⁶ Sweden.

⁷ Trinidad & Tobago.

⁸ USA (\$113.3 mn); FRG (\$16.1 mn); Nigeria (\$4 mn) EEC (\$9.8 mn); IDB \$11.7 mn; IDA (\$22.5 mn).

Source: Compiled from CDB's Annual Report 1988.

CDB's paid-up capital and general reserves are directly available for lending operations while the callable capital is used on a standby basis to cover borrowings and guarantees for ordinary operations. To date, CDB has contracted OCR borrowings totalling US\$93 mn (of which about US\$75 mn was either still outstanding or undrawn at year end 1988). Of the borrowings, US\$25 mn was raised on the Trinidad and Tobago capital market when that country's reserves were relatively high in the 1970s; and the remainder from other Multilateral Development Banks, namely, the World Bank, the Inter-American Development Bank (IDB) and the European Investment Bank.

CDB lends mainly for investment in discrete capital projects in its borrowing member countries. It also provides credit to national development financial institutions which in turn make loans to their respective private sectors. Direct loans by CDB to the private sector are from OCR only; and SFR loans are to governments and government-owned corporations only.

Over the years, interest rates on CDB's OCR loans have ranged between 7% and 12%, and between 2% and 5% (depending on the condition of the particular economy) for SFR loans. The term to maturity is generally "long", that is, from 15 to 35 years including 3-10 years grace periods. These loan conditions are important because they indicate the quantum of concessionality or

the grant element¹ contained in CDB's financing. Lower than market interest rates, longer maturities, and the granting of grace periods increase concessionality.

Table 2 shows the distribution of net loan approvals by CDB for the period 1970-1988 and indicates the distribution by economic sector.

Table 2: Distribution of Net Loan Approvals by CDB
by Economic Sector - 1970-1988
(US\$ million)

Sector	OCR	VTF	SDF	OSDF	Total	% of Grand Total
Agriculture, Forestry & Fishing	14	-	13	10	37	5.7
Mining & Quarrying	-	-	4	1	5	0.8
Manufacturing	28	2	33	42	105	16.1
Tourism	17	5	4	-	26	4.0
Transport & Communication	65	-	82	42	189	29.0
Power, Energy & Water	16	3	32	10	61	9.4
Social & Personnel Services	9	-	4	37	50	7.7
Multi-Sector & Others	7	-	22	3	32	4.9
Financing & Distribution	53	8	65	20	146	22.4
	209	18	259	165	651	100.0

Source: CDB's Annual Report

¹This may be calculated by subtracting the discounted (at market rate) present value of the debt service on a loan from its original face value and expressing the result as a percentage of the face value. (Incidentally, a negative result would suggest the presence of an element of usury.)

It has been estimated that the total cost of projects with which the above CDB lending was associated, amounts to some US\$1.2 billion of which CDB provided about 54% and project sponsors themselves and foreign sources put up approximately 36% and 10% respectively - an indication of the extent to which CDB's existence has served as a catalyst for mobilising investment capital in the region. In this regard, one should bear in mind that total capital investment, both public and private, in the region for the period - including the above US\$1.2 billion - has been estimated to certainly over US\$15 billion.

CDB approved contingent loans of US\$2.7 mn; equity investments of US\$2.0 mn; and grants of US\$59 mn. These, together with project and balance-of-payment loan approvals of US\$651 mn put the total CDB financing for the 19-year period at US\$715 mn of which US\$545 mn had been disbursed.

It should be noted that 55% of those resources were channelled to the so-called Less Developed Countries (LDCs) with 10.3% of the region's population. Such financing has been mainly on very concessionary terms - the present rate of interest on SDF being as low as 2% per annum with repayment period up to 35 years including up to 10 years grace. Most of that financing was directed towards the development of infrastructure - for feeder roads, industrial estates, ports, electricity and the like - and by way of lines of credit to Development Finance Corporations to encourage small productive enterprises engaging in agriculture, industry, tourism, lower-middle income housing and student loans.

Grant financing for technical assistance to help develop national institutions, strengthen national economic management and build capacity for project identification, implementation and management has featured heavily in CDB's financing packages in the region - particularly in the OECS.

CDB's activities in financing development are therefore more pronounced in its smaller and poorer borrowing members than in the larger ones.

Finally, it appears that the trend of CDB's lending since 1970 reflects the priorities of economic development as perceived over the years. The main emphasis has been, in the following order, on: infrastructure, mainly transportation and communication, power, energy and water; the financing and development of national DFCs; manufacturing; and agriculture including agricultural feeder roads, fisheries, land settlement and rural development.

So much then for the quantum, sources, and uses of CDB's financial resources!

The Role of CDB

CDB's fundamental role may be described as that of supporting the developmental endeavours of the Commonwealth Caribbean. A review of CDB's activities reveals the multi-dimensional nature of that support. The following are the major 'personnas' that CDB portrays:

- (a) An Intermediary;
- (b) A Coordinator;
- (c) A Lender and Source of Technical Assistance;
- (d) A Macro-Economic Adviser; and
- (e) An Integration Institution.

CDB as an Intermediary

Reference has already been made to the quantum of external resources channelled through CDB to the region. The variety of sources is somewhat impressive.

First, one may note that the region, by pooling some of its resources in CDB, demonstrates that the institution is a vehicle for regional self-help.

Second, the "non-borrowing" members of CDB's 'partnership' use the institution as a point of contact, and as a multilateral conduit for financial and technical assistance to the Caribbean - the multilateral framework often being regarded as more convenient and cost-effective than a bilateral one.

Third, an almost symbiotic relationship has developed between CDB and the World Bank and, to a lesser but significant degree, the IDB. Several Commonwealth Caribbean countries have joined the World Bank and the IDB, thereby qualifying for access to the resources made available for development by those institutions. The Washington-based institutions are large and can be relatively costly when they have to do economic work and appraise 'small'

capital projects in micro-states. CDB serves as a channel for on-lending resources from those institutions to the region.

One may observe that CDB has not yet taken any major steps to access resources directly from international capital markets. However, CDB seems to have the potential to do so effectively. No doubt, it will, when confident of an adequate and sufficiently long 'track record' of sound banking which will enable it to raise resources for investment in the region from the international capital markets on the best available terms.

CDB as a Coordinator

Since 1977, CDB has been participating in the Caribbean Group for Cooperation in Economic Development (CGCED), along with the World Bank (which plays the leading role), the International Monetary Fund, the IDB, the United Nations Development Programme and the Organisation of American States. This international forum serves as an avenue for bringing together Caribbean countries¹ and donor countries/agencies to put their collective wits (no pun intended) together in identifying funding and technical assistance requirements of the Caribbean and possible sources for meeting such requirements. The Group's influence extends beyond the circle of official aid donors; and particularly in respect of the larger Commonwealth Caribbean economies, it has helped the region to raise resources from international commercial banks. Under the aegis of

¹Including some others which are not members of CDB.

the CGCED, special external assistance was channelled through CDB by way of a Caribbean Development Facility (CDF), in 1979, to help some of CDB's BMCs maintain some minimum level of development and employment while they implemented painful structural adjustment measures.

CDB also plays a role in the formulation and coordination of national and regional Public Sector Investment Programmes (PSIPs) and development programmes and in 'brainstorming' regional problems and issues. These aspects will be discussed later under the headings: "CDB as an Integration Institution" and "CDB as a Macro-Economic Adviser".

CDB as a Lender and Source of Technical Assistance

As already noted, CDB operates at two broad levels: as a Bank which, from its OCR, provides loans and supervises credits for capital projects¹ which are expected to increase the capital assets, income, output, employment and the foreign exchange earnings of the target economies; and as a Development Agency which not only mobilises resources for similar lending, on more concessionary terms (than OCR), but also provides technical assistance, training and economic advice. The two roles are mutually reinforcing.

¹It may make sector and programme loans and has indeed done so on a few occasions for balance-of-payments support and for natural disaster and rehabilitation.

CDB lends for projects (or sometimes programmes) that are deemed to be of high priority for the economic development of the borrowing countries. CDB is a "hands-on" lender.¹ It has established criteria to seek to ensure that the projects which it finances are economically, technically and financially feasible. In appraising a project, much attention is paid to the expected net economic benefits from the project in terms of increased output, employment and foreign exchange. In a sense, CDB serves as a technical arm of regional governments as they decide on the optimal investment of scarce capital resources. Technically, borrowers prepare their project proposals which CDB appraises. Actually, CDB is often involved in the whole cycle for public sector projects, from identification through preparation, appraisal, implementation and post-implementation evaluation. CDB is not only committed to financing regional investment, it is intensely involved.

US\$146 mn or 23% of CDB's net loan approvals to December 1988 was by way of lines of Credit to over 20 national development banking institutions (DFCs) for on-lending to small- and medium-sized enterprises. The DFCs themselves were created by governments as vehicles to assist achievement of development policy goals. CDB works quite closely with these institutions. They serve as channels for CDB's financial resources to reach "grass roots" developmental enterprises at a lower cost than would be the case if CDB lent directly to the individual enterprises. And the fact that

¹This phrase was first used to describe the World Bank.

CDB is the only lender to the DFCs in the less developed BMCs has enabled it to play a role in helping them to monitor capital adequacy, asset quality, earning capacity and technical/administrative efficiency. It assists them by providing Banking Advisers, Industrial Development Specialists, Farm Improvement Officers and consultancy services for improving their capability to promote development. In a way, CDB's role vis-a-vis the DFCs may be described as one of helping to build appropriate institutions which will themselves contribute to the development of the region.

CDB's Technical Assistance covers a wide spectrum of activities. It includes among others: pre-investment and sector studies and export promotion; advice and pilot projects on alternative renewable sources of energy; the Caribbean Technology Consultancy Service through which CDB provides "hands on" assistance in the use of technology by small/medium-sized businesses; project preparation and implementation work; advisory services; training, particularly in all aspects of the project cycle; and provision of consultants and personnel in response to the shortage of middle- and high-level management, administrative and technical, which exists in the region, particularly in the LDCs.

CDB as a Macro-Economic Adviser

The policy environment in which investment projects operate can and often does make the difference between their success or failure. Obviously, CDB does not have the responsibility or authority for management of the economies of its BMCs. However, as

part of its financing role, it dialogues with project sponsors not only on micro-economic policy and conditionality, but also, on an on-going basis, on what the macro-economic policy environment would need to be in order to obtain maximum benefits from investment efforts.

CDB engages in analysis of regional economies. It participates, with governments, in the formulation of their Public Sector Investment Programmes; and there is considerable evidence that the institution often proffers advice on such matters as fiscal and balance-of-payments deficits, public utility pricing, industrialisation and export promotion.

Financing of discrete projects in CDB's BMCs provides CDB with the opportunity to make an input into the macro-economic policy framework of the region.

CDB as an Integration Institution

Under the Caribbean Community and Common Market (CARICOM) arrangement, CDB is designated and recognised as an Associate Institution. In that capacity, the institution works closely with the CARICOM Secretariat, the OECS Secretariat and other regional institutions. It has often been in the forefront of carrying out economic assignments on issues of critical importance to the region - structural adjustment, debt crisis and regional payments arrangements, to name a few. It has made loans to regional projects - the West Indies Shipping Company (WISCO) and LIAT (a regional airline).

Conclusion

This paper has used a few examples to illustrate the various roles that CDB performs. More exhaustive review is, of course, possible; and would serve to confirm that the overall nature of the institution can be meaningfully described along the foregoing lines.

We started out by defining economic development and pointing out that CDB was established with the expressed purpose of contributing to the economic growth and development of the Commonwealth Caribbean. Reference was made to the parlous economic conditions of the region around 1970. The condition of the region's economies is today not much different from what it was in 1970. On the whole, they have experienced low to negative rates of growth. However, in the same period, many influential factors, positive and negative (both internal and external to the region), have been at work. The energy crisis, low commodity prices, increased protectionism, inflation, the region's failure to diversify, and natural disasters are among the negative factors. On the positive side, one could mention the growth of international tourism and the strides made by the region in developing its tourism. CDB too has been a positive factor.

CDB has played a significant role, working closely with its member countries and external donors and agencies, to mobilise resources for Caribbean investment. Its relationship with its BMCs ranges from providing broad macro-economic advice, to conducting economic research and carrying out special studies on critical

issues, to providing technical support, and to lending for projects with the potential to contribute to the economic development of the region. However, little attention has been paid to two areas stipulated in CDB's Charter. They are: equity financing of enterprises; and promotion of a regional market for credit and savings including stimulation and encouragement of regional capital markets. Perhaps these areas are now high on CDB's agenda.