ECONOMICS AND PROGRAMMING DEPARTMENT

FINANCING GROWTH AND DEVELOPMENT IN THE CARIBBEAN - THE ROLE OF THE CARIBBEAN DEVELOPMENT BANK

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ABBREVIATIONS

Dollars throughout refer to United Stated dollars

BMCs	-	Borrowing Member Countries
bn	-	billion
BNTF	-	Basic Needs Trust Fund
CDB	-	Caribbean Development Bank
CTCS	-	Caribbean Technological Consultancy Services
DFCs	-	Development Finance Corporations
EU	-	European Union
GDP	-	Gross Domestic Product
IDB	-	Inter-American Development Bank
IMF	-	International Monetary Fund
LDCs	-	*Less Developed Countries*
LIAT	-	Leeward Islands Air Transport
MDCs	-	More Developed Countries
mn	-	million
MSE	-	Micro and Small Enterprises
OCR	-	Ordinary Capital Resources
OECS	-	Organisation of Eastern Caribbean States
SFR	-	Soft Fund Resources
US	-	United States
UWCH	-	Urban Working Class Housing
WISCO	-	West Indies Shipping Company

INTRODUCTION

The Caribbean Development Bank (CDB) initiated operations in January 1970. According to Article I of the Bank's Charter, the purpose of the Bank is the pursuit of the "harmonious economic growth and development of the member countries together with the promotion of economic cooperation and integration, special emphasis being placed on the needs of the less developed countries (LDCs)."[1] As indicated in Article 2 of the Bank's Charter, this is to be achieved through:

(a) the mobilisation of regional and extraregional resources for regional development;

(b) funding of development projects and programmes;

(c) provision of technical assistance especially as regards project identification and preparation;

(d) the stimulation of public and private investment;

(e) cooperation in the development of regional and locally controlled financial institutions; and

(f) the expansion of international trade, especially intra-regional trade.

The paper reviews the role of CDB in the provision of development financing in region during the period 1970 to 2000. The review begins with a presentation of the development context that motivated the establishment of the institution. The second section looks at the evolution of CDB policy as the institution attempted to address the changing development challenges that confronted the region. Section III reviews the role of the Bank as financial intermediary, discussing the various sources of financing and analysing broadly the structure of its allocations. Section IV reviews the sectoral allocations, presenting and evaluating CDB's strategic thrusts in the various sectors. Section V takes a critical look at CDB's operations during the 1970-2000 period, identifying lessons learnt and prospective challenges and changes for the medium term.

In the study, 'growth' is defined as the expansion in output [(Gross Domestic Product (GDP)]. Following Demas but expanding his definition to include the social sector, 'development' is defined as having four key elements: [2]

(a) to the extent possible, a diversified economic structure spearheaded by a competitive, diversified and dynamic export sector;

(b) establishment of inter and intra-industry linkages;

(c) low levels of unemployment, underemployment and poverty; and

(d) a well-established social sector catering to the diverse social needs of the population.

I. DEVELOPMENT CONTEXT

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[1]The more developed countries (MDCs) in CDB's categorisation currently are the Bahamas, Barbados, Jamaica, Trinidad and Tobago and Guyana. The LDCs are the remaining borrowing member countries (BMCs) - Anguilla, Antigua and Barbuda, Belize, British Virgin Islands, Cayman Islands, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turks and Caicos Islands.

[2]CDB, Statements by the President, 1971-80, p.49.

The rationale for the establishment of the Bank was the state of underdevelopment that characterised the region in the sixties. While the decade witnessed an expansion in output, growth was often highly variable. For example, annual real GDP growth in Barbados during 1962 to 1970 averaged 6.6% ranging from a low of 2.5% in 1965 to a high of 11.7% in 1968. In the case of Jamaica, the average for the period was 5.3% ranging from a low of 2.0% in 1962 to a high of 7.7% in 1970.[3] In the Organisation of Eastern Caribbean States (OECS), while real income expanded at a reasonable rate in some countries (Antigua, St. Lucia, Grenada), others experienced virtual stagnation (St. Vincent, St. Kitts). For the OECS region as a whole, real income growth was moderate and per capita income at $300 in 1971 was among the lowest in the Western Hemisphere.[4] In the case of Guyana and Belize, per capita incomes at $384 and $408 (1973) were slightly better. Barbados ($765), Jamaica ($793) and Trinidad ($843) had per capita incomes that were substantially better.[5] However, skewed income distribution in these as in other economies of the region made the economic and social realities worse than the per capita estimates would suggest.

Very importantly, also, the engine of growth, namely the agriculture sector, and specifically export agriculture (mainly sugar and bananas), that fuelled economic activity, was beginning to sputter. The contribution of the agriculture sector to economic activity had declined substantially in most countries in the decade of the sixties. In the case of Guyana, the contribution of the agriculture sector (including forestry and fishing) to GDP (at current factor cost) declined from 26.2% in 1960 to 19.3% in 1970. In particular, the performance of export agriculture which dominated the sector, had begun to wane. The contribution of sugar declined from 13.4% to 9.2% of GDP. In the case of Jamaica, the agriculture sector's contribution declined from 12% of GDP in 1960 to 7.9% in 1970. In some of the OECS countries, the decline was much more dramatic. In Antigua, the contribution of the agriculture sector plummeted from 26.9% in 1960 to less than 5% in 1970. In Grenada, the fall was from approximately 53% in 1960 to 23.8% in 1970. In St. Kitts, St. Vincent and St. Lucia, the magnitudes of the decline were similar.[6] At the same time, there were rising concerns about the size of the

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[3]International Monetary Fund (IMF), Financial Statistics Yearbook, 1992, p.150.

[4]World Bank, The Economic and Social Development of the Leeward and Windward Islands, Vol II, June 1975, p. i.

[5]IMF, Financial Statistics Yearbook, 1992.

[6]The World Bank, The Commonwealth Caribbean, The Integration Experience, John Hopkins

region's annual food bill which eventually reached $0.5 billion (bn) in 1974.[7] OECS countries, which were substantially more dependent on agriculture, witnessed dramatic changes in the contribution of the sector to GDP.

At the same time, the manufacturing sector, which was not large, and which at one time was touted potentially as the new engine of growth a la Singapore, never fulfilled this role despite substantial allocation of resources to the sector. In Barbados, Guyana, Jamaica and Trinidad, the contribution of manufacturing to GDP during the sixties hovered between 10% and 12%. In the OECS, the contribution was significantly less. With the exception of Dominica and Antigua, the contribution of the manufacturing sector to GDP was less than 5.0%. In the case of Dominica, the manufacturing sector's contribution stagnated between 7.0% and 8.0%. Antigua was the sole exception in that the contribution of its manufacturing sector climbed from 1.9% of GDP in 1960 to 10.2% in 1970. In his speech to the first CDB's Board of Governors' Meeting in Antigua on April 23, 1971, Sir Arthur Lewis declared that:

University Press, Baltimore, 1978.

[7]CDB, Statements by the President, 1971-80, p.48.

"Agriculture is in a bad way; sugar, bananas, cotton and foodstuffs have all declined. The fisheries show signs of exhausting and livestock output is not keeping up with demand. In manufacture, very little is stirring. The tourist industry is the only lively sector."[8]

In the case of those countries that were able to replace the decline in agriculture with growth in mining activity (Jamaica, Guyana, Trinidad), real GDP growth continued to be buoyant. However, the capital intensive and enclave nature of the mining sector left unaddressed the problem of urbanisation, growing unemployment and rising poverty levels. While tourism was able to absorb some of the excess labour in the agriculture sector, it also created problems for agriculture, pushing costs upwards through its impact on the real wage.

The unemployment rate in the CARICOM region in April 1970 was estimated at 17.0% ranging from a low of 5% in Belize to a high of 23% in Trinidad.[9] While estimates of unemployment remained relatively low for many countries, labour force participation rates had declined significantly between 1960 and 1970. In a sample of eleven current BMCs, the average labour force participation rate declined from 61.5% in 1960 to 53.4% in 1970.[10] Available social indicators for the period also paint a picture of considerable social sector underdevelopment and deprivation. Infant (under one year) mortality rates at the beginning of the seventies in the four MDCs ranged from 37 per thousand live births in Trinidad and Tobago to 42 per thousand in Jamaica. In a number of the LDCs, the rates were considerably higher. In Dominica and St. Kitts the numbers were 56 and 59 respectively. In St. Vincent, there were 95 deaths per thousand of live births. In Guyana and Barbados, close to 20% of children under five years were malnourished. In St. Vincent, the figure was closer to 30%.[11]

The region was also undergoing at this time the very important transition from colonial into independent states. By 1966, the four MDCs (Barbados, Guyana, Trinidad and Tobago and Jamaica) were independent and other member states were about to follow. As colonies, the region received substantial funding from the United Kingdom for budgetary support and capital development. Canadian aid had also financed a substantial portion of public sector investment. With the coming of independence, it was not irrational to assume that such aid would not be forthcoming or be substantially reduced. At the same time, the rising expectations of welfare enhancement

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[8]Ibid., p.7

[9]The World Bank, The Commonwealth Caribbean, 1978, p.259.

[10]Ibid., p.246. The countries listed were Jamaica, Trinidad and Tobago, Guyana, Barbados, St. Lucia, Grenada, St. Vincent, Dominica, St. Kitts, Montserrat and Belize.

[11]Ibid., p.269.

meant additional demands on governments for various types of infrastructure and services in economies that were starved of domestic savings. The lack of domestic savings and heavy dependence on foreign savings was particularly acute in the smaller territories.

The insertion of CDB into this environment was therefore motivated by a few central concerns:

(a) the need to sustain and even increase investment levels particularly through external funding;

(b) the need to stimulate growth, given the crisis in agriculture and lack of dynamism in the manufacturing sector;

(c) the imperative of diversifying the region's economic base and particularly its export sector, given the vulnerabilities of narrow production bases;

(d) the high levels of unemployment, poverty and inadequate social sector development;

(e) the responsibilities of self government thrust upon new political elites now faced with the rising expectations of improved social welfare on the part of their newly enfranchised populations; and

(f) a desire on the part of the newly independent and (soon to be independent) nations to chart a new economic course that was less dependent on their colonial masters and one that was more inward looking, one with a greater regional focus as indicated by the establishment of the Caribbean Free Trade Area (CARIFTA) in 1968.

II. THE CHANGING ENVIRONMENT AND CDB POLICY

CDB in the Seventies

With initial paid up capital of $25 million (mn) and callable capital of $25 mn, CDB began in 1970 its mission of funneling development resources to the region. During 1970-1980, the Bank approved net loans, contingently recoverable loans, grants and equity totaling $283 mn. The stimulation of growth was a major concern of the Bank as made clear by several references in CDB's Presidential speeches to the production crisis in the region. Close to 50% of the Bank's funding in the decade went to the productive sector (agriculture, manufacturing, tourism, mining) and the pursuit of a diversified economic structure for the region. There was also a growing realisation that stable growth required, in particular, a more diversified export sector. Hence the seventies witnessed the Bank's focus not only on the regeneration of the agriculture sector but also support for tourism and manufacture development targeted at regional and eventually extraregional markets. For the entire decade, the stimulation of economic growth remained the CDB's primary focus. The majority of resource allocations went to these initiatives with smaller allocations to economic (transport, power and energy and water) and social (education, health and housing) infrastructure development. According to the Bank's management, infrastructure development was only to be undertaken in support of productive sector activity[12]. Economic infrastructure however, received $81.9 mn or 28.9% of total CDB allocations for the period. While there was recognition of the low level of social sector development, it was recommended that expenditure on social sector infrastructure be reserved largely as the domain of national governments and/or aid donors since projects in the sector were not self-liquidating. The allocation to the social sector was $47 mn or 16.5% of CDB's total allocations for the decade. Much of the social focus of the Bank centered around the problem of unemployment

[12]Ibid., pps.56; 97;169.

and particularly youth unemployment to which a logical response was the stimulation of growth[13]. However, by the end of the decade, it was clear that more was needed to address unemployment and poverty. The response was the establishment in June 1979 of the first tranche of the Basic Needs Trust Fund (BNTF I), targeted at helping poor communities through the maintenance and expansion of social and physical infrastructure (schools, health clinics, roads, pathways, bridges etc.) . An important objective of the programme was the provision of short-term employment in these communities.

The decade witnessed also CDB's very strong support to economic integration of the region as one of the cornerstones of growth and development. The evolution of CARIFTA into CARICOM in July 1974 provided an ideal opportunity to push forward the integration process. Accordingly, CDB during the decade was intensely involved in the preparation and funding of various regional projects including the West Indian Shipping Company (WISCO) and the Leeward Islands Air Transport (LIAT). The Regional Food Plan, which among other projects included the Corn and Soya Bean project in Guyana and Belize, three fisheries projects and the establishment of the Caribbean Food Corporation, was intended to stimulate growth and diversification of the agriculture sector.[14] Substantial consideration was also being given to regional industrialisation as exemplified, for example, by the proposed establishment of a regional cement company with Guyanese and Barbadian participation and of a regionally owned aluminum smelter with participation by Guyana, Trinidad and Jamaica. With the primary objectives of growth stimulation, the broadening and strengthening of the region's economic base, the Bank placed much emphasis on the development of production complementarities across the region in pursuit of scale economies, opportunities for import substitution at the regional level, together with the expansion of intra- and extraregional trade. By the end of the decade, however, many of these initiatives had fizzled and given way to more national concerns as countries battled with the fallout from the energy and food crises of the seventies. Under pressure of high energy and food prices, inflation skyrocketed, external imbalances worsened, economic growth waned, fiscal deficits ballooned forcing countries to be much more inward looking and defensive in their policy postures. The Bank responded to the crisis through support to the establishment of the World Bank-sponsored Caribbean Group for Cooperation and Development, intended to channel funds to aid in the adjustment process. By the end of the decade, structural adjustment was becoming a major concern.

CDB in the Eighties

The second oil crisis in the 1979-1980 period together with world recession during 1981-83 placed considerable burden on CDB's BMCs. Deterioration in prices for the region's major export commodities (sugar, bananas, bauxite/alumina) led to further balance of payments problems and pressure on foreign reserves which in many cases became a major constraint to growth and development. An important difference as compared with the previous decade was that the economic deterioration was much more wide spread, encompassing eventually

[13]Ibid., pp. 16,23

[14]Ibid., p.101.

even Trinidad and Tobago which had benefitted from the escalation in oil prices. In the decade of the eighties, most countries were, in fact, forced to engage in some form of structural adjustment.[15] The Bank was increasingly drawn inevitably into the structural adjustment issues that prevailed in the eighties.

[15] CDB, Statements by the President, 1980-89, p.190.

CDB responded by entry for the first time into the structural adjustment arena with a loan of $3 mn to Dominica in 1987 as part of a programme financed jointly with the IMF and the World Bank. The Bank made it clear that while it considered structural adjustment a necessity, it did not have the resources to address the issue in the region in a significant way, seeing its role essentially as being an advocate for the transmission of substantial concessionary resources to the affected countries to finance the adjustment process with itself playing a supporting but minor role[16].

Also, very importantly, the Bank began to dilute its involvement in direct funding of productive sector activity in favour of infrastructure development. The argument used was that financing for the productive sector was now more available through the Development Finance Corporations (DFCs) and other financial intermediaries.[17] Economic infrastructure received 33% of the allocations for the decade, up from 28.9% (1971-1980). Allocations to water rose from 3.5% to 6.8%, the largest increase in the economic infrastructure subsectors. Meanwhile, allocations to the productive sectors fell from 47.9% to 38.9% for the corresponding periods. Deterioration in budgetary balances together with the increased uncertainties facing the productive sector, and particularly the export sector, in the eighties BMCs had forced a deeper involvement in infrastructure development by the CDB.

The decade also witnessed an intensification in the Bank's strategic response to the issue of poverty. There was clearly some frustration that growth did not impact substantially on unemployment and hence lead to a reduction in poverty. Mr. William Demas, the second President of the CDB, in 1982 pointed out that, despite high rates of growth in the productive sector in the fifties and sixties based on foreign private capital, unemployment in the region had increased.[18] There was now greater concern about the development of support for medium and small enterprises. In a very thought-provoking presentation on an economic development strategy for the region, the President stated that the regional strategy should be more balanced, encompassing both large, capital intensive, foreign-owned enterprises and small to medium enterprises using more labour intensive technologies so as to accelerate labour absorption. This latter dimension was referred to as one component of the basic needs approach to growth and development which included increased access by the poor to credit, technical assistance, economic and social infrastructure to enhance opportunities for income generation and social welfare improvements.[19] Articulating this new approach to development, the Bank's lending to the

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[16]Ibid., p.101.

[17]Ibid., p.122.

[18]Ibid., p.61.

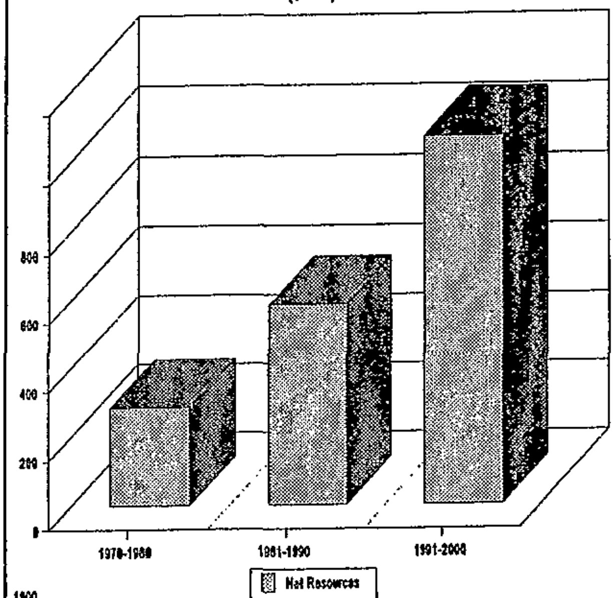
[19]Ibid., pps.59, 60, 182.

productive sector through the DFCs escalated from $40.7 mn (1970-1980) to $95.7 mn (1981-1990). In 1982, the Bank also established the Caribbean Technological Consultancy Services (CTCS) Network to provide technical assistance to small and medium sized enterprises. With the help of the donor community, the Bank also expanded the BNTF programme with two additional tranches, one each in 1982 and 1984 totaling $49.4 mn.

Additionally, the Bank entered a period of deepening concern with human resource development, an area that it had to a large extent eschewed in the first decade of operations as being the preserve of governments and aid donors. The Bank's management began to place greater emphasis on the development and efficient use of the skills base in the region.[20] It was becoming increasingly clear that human resource development was one of the keys to economic survival and poverty reduction as the region entered the decade of the nineties with trade liberalisation and globalisation issues moving centre stage and the Bank's involvement in the education sector began to expand.[21] Lending for student loans through the DFCs rose from $2.9 mn (1970-1980) to $12.9 mn (1981-1990). Direct lending to the education sector increased from $12.9 mn to $16.8 mn. The proportion of the Bank's allocations to human resource development had increased even though that to the social sector had declined. Structural adjustment and a changing international environment was beginning to push to the fore concerns about international competitiveness.[22] Attention began to focus on both macro (exchange rate, commercial, investment, monetary and fiscal policies), and micro (technical, managerial, labour) efficiency and the Bank began to expand its operations to include the deepening of human resource development in the region.

Figure 1: Net loans, Grants, Contingent Loans, Equity (1970--2000

($ mn)



CDB in the Nineties

The nineties witnessed the intensification of trends that had begun to emerge in the previous decades. Earlier fears about the discontinuation of preferences proved well-founded as the European Union (EU) began the process of dismantling trading regimes that had protected major export commodities for decades. The reduced availability of aid from traditional donors as a result of their focus on Eastern Europe and Africa and also their own monetary and fiscal policy concerns, were important developments, especially in Europe which was pursuing the establishment of a monetary union. The emergence of trade blocs (NAFTA, EU) was also a part on the new

[20]Ibid., p.137.

[21]Ibid., p. 178.

[22]Ibid., pps. 96, 151,191.

international economic landscape. The Caribbean found itself faced with reduced access to external concessional resources and with increased questions about its own competitiveness and ability to survive economically as preferences were dismantled.

The Bank responded by accelerating the flow of resources to the region. Between 1991 and 2000, the Bank approved allocations of $1.06 bn to its BMCs, 55.0% of all allocations for the 1970-2000 period, up from $0.58 bn in the previous decade or 30.2% of all allocations. The Bank supported attempts to enhance efficiency in traditional areas of production (bananas and sugar) and to accelerate the process of economic diversification, based on the region's comparative advantage. During the decade, with continued CDB support, the tourism sector strengthened and in some territories matured (together with the offshore finance sector), becoming the new engine of growth. Through the DFCs, the Bank funded the development of non-traditional agricultural exports which expanded significantly during the period. As part of the process of efficiency and output enhancement, some economies (Guyana, Grenada, Antigua) in the nineties undertook, with CDB's assistance, structural adjustment programmes. In the case of Guyana, the Bank contributed financial resources (US$42 mn) as part of the support by the international financial institutions and community. In the other two cases, CDB's support was mainly in the form of technical assistance to formulate the necessary adjustment policies. The Bank also helped the BMCs to lay the groundwork for increased labour productivity by accelerating the pace of human resource development. Direct lending to education escalated from $16.8 mn (1981-1990) to $59.7 mn (1991-2000). Allocations to student loans almost trebled, rising from $12.9 mn (1981-90) to $34.6 mn (1991-2000).

During the decade, there were two noticeable shifts in Bank policy. One may argue that there was merely a deepening of trends initiated in the eighties. The most noticeable of these was the Bank's further involvement in the social sector. The Bank's Social Development Division was established in 1994 to bolster lending to the sector. Direct allocations to health, education (including those from a fourth tranche of the BNTF) and housing ballooned from $28.2 mn ((1981-90) to $172 mn (1991-2000). Allocations for housing and student loans through the DFCs and other intermediaries grew from $33.4 mn (1981-1990) to $72 mn (1991-2000). Allocations to the social sector rose from 17% (1981-1990) to 26.6% (1991-2000) of net loans, contingently recoverable loans, grants and equity. This reflected two possibilities - continuing fiscal problems in some countries that made social sector funding difficult and also recognition that despite real income growth, social sector development was lagging behind in most countries.[23] Another important development was a deepened concern with the environmental impact of the Bank's lending, a reflection of the Bank's growing interest in the sustainability of the development process. Environmental impact assessments became a regular feature of project analyses. In all, the decade may be characterised as one in which the Bank matured into its responsibility as a channel of investment resources to the region. It was also a decade of deepened environmental and social consciousness and action.

III. CDB AS FINANCIAL INTERMEDIARY

A major responsibility of CDB as a multilateral development bank is the mobilisation of investment capital from the international financial community and official development assistance agencies for onlending to its BMCs. International capital sourcing has a clear justification in terms of aggregate savings-investment gaps. Further justification resides in the superior terms and conditions of CDB's external borrowing as compared with those faced by individual BMCs in international financial markets. In addition to the benefits of superior

[23] CDB, Statements by the President, 1990-99, pgs.7,126.

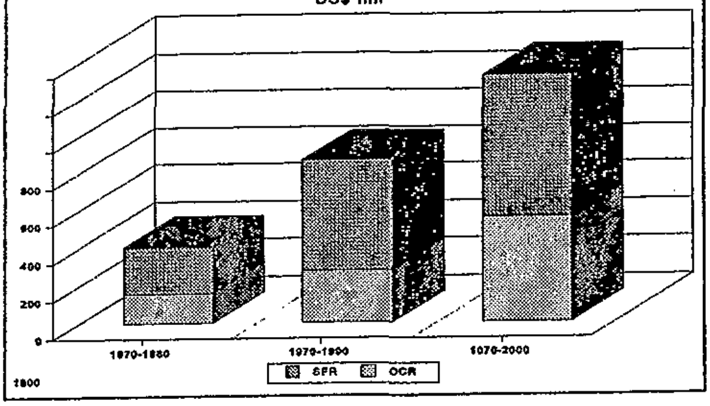
loan size, the Bank with an asset portfolio consisting of credits to individual Caribbean countries, is a de facto country risk pooling entity, thereby minimising the sum of individual country risks and reducing the risk premium (Bourne 1996). Reduced market interest rates with long grace periods and maturities translate into significant cost savings which are passed on to borrowing members. Moreover, CDB by virtue of its superior knowledge of local conditions and influence on national economic policies, has become the referred conduit of donor funds in many instances.

The Bank's Resource Base

CDB's financial strength has grown considerably since its inception. Its capital base consists of members' subscriptions that are divided into paid up and callable portions. At its inception, the Bank's ordinary capital resources were $50 mn (10,000 shares) evenly divided between paid up and callable capital. Since then, the Bank has had three general capital increases and several special capital increases which were associated with the admission of new members. At the end of 2000, the Bank's subscribed capital amounted to 107,971 shares with a value of $705 mn. Callable-share represented 78% while paid-up share capital stood at 22%.

The Bank's Charter stipulates that not less than 60% of its total authorised share capital should be held by its regional members and not more than 40% by its non regional members. This was used as the basis for the initial subscription of its regional and non-regional members. Despite these defining parameters regarding ownership structure, it is interesting to note that in terms of contributions to the Bank's resources, regional members are in the minority. As at December 31, 2000, the total resources available to the Bank for its ordinary and special operations amounted to $1,232.9 mn. If one excludes from this total, net income and reserves, the BMCs' total contribution is approximately 16%. As such, CDB's ability to continue providing the quantum of resources at past prices will largely be contingent upon the continued support of non-borrowing members.

Figure 2: Capital Structure (1970-2000)
US$ mn



CDB's financial policies are designed to reduce risk within the broad parameters afforded by its minimum profitability requirements. The Bank's asset and liability management has been very risk-averse and is mirrored in its conservative borrowing and lending limits. In fact, prior to a private placement in 1992, CDB's borrowing had been limited to the Wold Bank and the Inter-American Development Bank (IDB).

The Bank's resources consist basically of hard and soft components. Hard funds which attract a higher rate of interest and shorter payback periods, are represented by its Ordinary Capital Resources comprising Paid up Capital and Ordinary Reserves in addition to some commercial borrowings. Soft funds are captured under the Bank's Special Fund Resources and comprise both the Special Development Fund and the 'Other Special Funds Resources. Consistent with the principle of seeking to finance the development agenda of its borrowing member countries in the most cost effective manner, CDB has placed much emphasis on the acquisition of soft resources. In this spirit, over the decade to 1980, approximately 63%, ($245.2 mn) of the Bank's loanable resources were soft. On a cumulative basis, this figure increased to 68% ($589.4 mn) by the end of 1990 but thereafter declined by thirteen percentage points to 55% ($678.4 mn) by 2000. This reduction in the soft component of CDB's resources broadly reflects two developments:

(i) a greater reliance on market borrowings during the early nineties primarily in response to greater loan demands by its BMCs; and

(ii) the prevailing mood of both donors and developed countries towards the granting of aid resources.

In terms of the CDB's lending patterns, there has been a deliberate bias in favour of the LDCs[24]. This distribution of funds is consistent with the Banks's mandate which requires the Bank to pay special attention to smaller less developed countries in the region. On a cumulative basis, LDCs have absorbed a total of 52.7% ($1015.6 mn) of total loans, contingent loans, equity and grants approved by the Bank since 1970.

IV. SECTORAL ANALYSIS

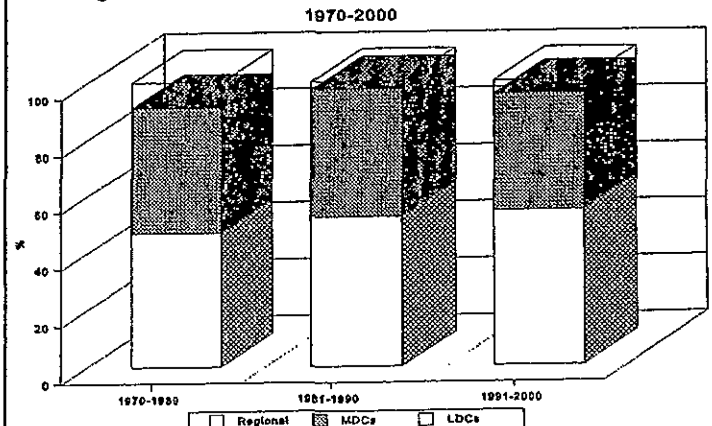
The Productive Sector

From its inception, the Bank paid particular attention to the development of the productive sector, focusing on agriculture, manufacturing and tourism and to a lesser extent on the mining sector which was largely foreign-owned. During 1970-2000, the Bank approved an estimated $649.7 mn or 33.7% of net loans, contingent loans, grants and equity for the productive sector with an estimated $272.6 mn or 42% going to the agriculture sector, $276.9 mn (42.6%) to manufacturing, $61.6 mn (9.5%) to tourism and $38.6 mn (5.9%) to mining.[25]

Agriculture

The substantial involvement of the Bank in the agriculture sector was a natural outcome of the sector's importance in Caribbean economies in terms of its contribution to GDP, foreign exchange earnings and employment and growing concerns about its performance prior to and during the review period 1970- 2000. Caribbean agriculture had been essentially geared towards preferential export markets, the main agricultural commodity exports being sugar, bananas and citrus. Export agriculture and Caribbean

Figure 3: Distribution by Country Groups
1970-2000



[24]See Footnote 1.

[25]CDB, Annual Report 2000, p.120

economies generally benefitted from protected markets despite production problems and sometimes volatile price fluctuations. However, the nineties saw a gradual diminution of preferences, forcing Caribbean agricultural exports to face the full brunt of international competition and posing serious questions about sustainability. The changed marketing environment has resulted in initiatives to stimulate productivity and to some diversification of agricultural exports and markets. However, export revenues from non-traditional exports generally still lag substantially behind revenues from traditional exports. Similarly, agriculture production for domestic markets lags substantially behind food demand, continuing to make the region a net importer of food.

The unsatisfactory performance of the agriculture sector is the result of various constraints including a skewed distribution of land resources and insecurity of land tenure, high land prices, limited extension services, poor soil fertility, undercapitalisation, high input costs, restricted access to credit, poor marketing, insufficient infrastructure (feeder roads, drainage and irrigation), low skills, limited availability of labour and poor agricultural technology. The difficulties in the sector are sometimes compounded by poor macroeconomic policy such as overvalued exchange rates making imports cheaper and more competitive and price controls which have reduced the profitability of certain products. As in the 1960s, the challenge remains of transforming the agriculture sector as a whole, making it more competitive.

CDB's Interventions in the Agricultural Sector

The Bank's approach to agriculture has been to lend directly to private enterprises or governments or indirectly through the DFCs and other financial intermediaries. In its direct lending the Bank has placed substantial emphasis on lending for crop production. Approximately 43% of direct lending has been in support of crop farming, essentially in the export sector to enhance foreign exchange earnings. In the export sector, the Bank has funded land development, production of planting material, crop replanting, crop establishment, pest and disease control, harvesting and factory refurbishment. In further support to export agriculture, in this case, particularly the banana industry in the Windwards, the Bank has placed substantial emphasis on feeder road development. Approximately 33% of direct lending to the agriculture sector has been for the development of feeder roads to facilitate the transport of inputs and output in the farming regions and to enhance fruit quality. The Bank's involvement in other infrastructure development such as drainage and irrigation has been much less in part possibly because of the involvement of other donors and also because of the high cost and consequent low demand from the BMCs for this type of infrastructure. The Bank has also been very much involved in financing especially post-hurricane rehabilitation efforts in banana agriculture in an attempt to expedite a return to normalcy. It is estimated that close to 80% of direct lending by the Bank has been in support of export agriculture in the region.

Other direct lending for production purposes has encompassed essentially horticulture and livestock production (beef, sheep), the former in particular for export markets and the latter intended both for the domestic and possibly regional markets. Additional areas of direct lending to the agriculture sector have included land settlement and rural development, fishing and forestry. Lending for these activities, however, accounted for less than 10% of CDB's direct allocations to the agriculture sector. Lending for land settlement and rural development has generally been in support of land redistribution, especially in the Windwards and Leewards. The objective has been the expansion of the production base and enhanced productivity, with production targeted mainly for the domestic market but also for export markets where possible. The Bank's direct involvement in the fisheries and forestry sectors has been minuscule (only one forestry project in Trinidad and two fisheries projects, one each in the British Virgin Islands and Antigua) in part because of high risk and also the substantial involvement of other donors in these sectors. The Bank has chosen to provide resources to these subsectors mainly through the DFCs.

As indicated above, particular emphasis has been placed on export agriculture, given its importance to regional economies. However, as a result of concerns about the region's growing reliance on food imports, the Bank has also attempted to fund production for domestic markets. This objective has been pursued essentially through the DFCs. Import substitution initiatives have also been pursued at the regional level in the agriculture sector, though, as noted above, not with much success. The DFCs have been used to improve access to agricultural credit especially to small farmers, an important development in the financial sector which has traditionally shied away from small farm agriculture. In addition to increasing the supply of food to domestic markets, lending to the small farmer has helped the Bank to achieve one of its most important objectives which is an improvement in farm incomes and a reduction in rural unemployment and poverty. The DFCs have also been a source of funding for the development of non-traditional export agriculture which has been expanding in recent years especially in response to difficulties in the traditional export sector. Hence, while it is difficult to estimate with certainty the size of the Bank's allocation to export agriculture, it is certain that any estimate based solely on the Bank's direct lending to the sector is essentially biased downwards.

While the Bank has clearly supported the expansion of the region's agriculture, the sector's continuing lack of competitiveness forces the question as to whether enough attention has been paid to productivity enhancing issues such as the development of the right policy framework (pricing, land market, labour market policies etc.), institutional development (establishment of farmer organisations to facilitate dissemination of knowledge, marketing infrastructure development), support for training in agronomy and improved farm management, technological enhancements (tissue culture, new varieties, introduction of capital equipment etc.) and productivity enhancing infrastructure (drainage and irrigation). The task of transforming the agriculture sector remains a major challenge for the region and for the Bank.

Manufacturing

The manufacturing sector in the region can be broken down into three major categories:

(a) heavy industry concentrated in the larger territories - Trinidad and Tobago (petroleum, petrochemicals, steel etc.), Jamaica (alumina); Guyana (gold, alumina);

(b) light industry, including agro-industry, producing for the domestic, regional markets or preferential extra-regional markets (rice, sugar); and

(c) assembly type industries (garment, electronics) targeting mainly the United States (US) market.

The first category is generally highly capital intensive, geared mainly towards extraregional markets and with access to external financing. The second industrial category, especially in the case of industries not serving preferential markets, has operated essentially behind protective barriers (tariffs, quotas) and generally has not matured into extraregional exporting because of inefficiencies related to scale diseconomies, the disincentives towards enhanced efficiency provided by a sustained protective regime, input constraints such as a limited availability of skilled labour and poor raw material base. The third category of industry is mainly low wage, high employment, enclave industries producing for the US market.

CDB's Interventions in Manufacturing

CDB has essentially focused its interventions on the second and third categories of the manufacturing sector discussed above.. The objectives of the Bank's interventions in the manufacturing sector have been employment creation, foreign exchange generation/savings and the development of domestic and regional entrepreneurship. To foster industrial development and also promote inter and intra industry linkages in its BMCs, the Bank has placed high priority on agro-processing for domestic and export markets. Approximately 25% of the resources allocated to manufacturing has been for agroprocessing (excluding sugar) - rice milling; meat processing and packing (Belize); milk and arrowroot processing, meat packing (St. Vincent); and cocoa fermentation (Grenada).

Sugar with approximately 14% of the allocations has been the Bank's other major area of involvement in agro-processing. In the decade of the seventies, most of this effort was focused on Antigua and St. Vincent where unsuccessful attempts were made re-establish the industry. Loans were provided for the establishment of factories and in the case of St. Vincent also for the rehabilitation of cane fields. The Bank's efforts in sugar in the following two decades were concentrated on Barbados with funds allocated for the establishment (Portvale sugar factory), rehabilitation and upgrade of sugar factories. Other direct allocations to light manufacturing have been scattered over a range of products - textiles, shoes, paper, wood, chemical and non-metallic mineral products. Funds going to these industries together account for less than 10% of the allocations to manufacturing but have been part of the Bank's strategy of fostering the development particularly of medium-sized enterprises.

While in general not lending directly to assembly type industries, the Bank supported their development through the provision of funds for physical infrastructure development. The largest direct allocation of resources to the manufacturing sector, approximately one third, has been for the establishment of industrial estates, mainly in the OECS region. The objective has been to provide ample infrastructure necessary for the establishment of light manufacturing, intending thereby to generate foreign exchange and also help alleviate the unemployment problems that have continued to plague many of CDB's BMCs.

As in the case of agriculture, the DFCs have played and are continuing to play an important role in the development of light manufacture through the provision of access to credit particularly for small industrial enterprises, complementing the Bank's efforts in the provision of infrastructure. It is estimated that close to 25% of the Bank's allocations to manufacturing have been through the DFCs. In fact, the data show an interesting change in the Bank's strategy over the three decades with lending through the DFCs assuming increasingly greater importance, rising from approximately 10% of total allocations to manufacturing in the seventies to close to 40% in the nineties.

An important CDB contribution to the development of the region's manufacturing sector, especially small and medium-sized enterprises, has been the provision of technical support to enhance efficiency, formulate promotion and marketing strategies, devise financial and operational restructuring strategies and generally provide, on a short term basis, skills in areas of need. This has been done through the CTCS Network established since 1982 and which has used its access to domestic, regional and extraregional skills to address the skills bottlenecks in the manufacturing sector. During 1982 to 2000, it is estimated that the Network responded to more than 3,000 requests in CDB's seventeen BMCs and close to 5000 persons were trained.[26]

Despite all of the foregoing efforts, indications are that the current decade will witness in many BMCs a miniaturisation of the manufacturing sector because of the inability to compete internationally. This gives rise to at least two important questions:

(a) which industries currently have the best chance of survival and therefore should receive support; and

(b) in addition to more enlightened national macroeconomic and industrial policies supportive of the development of efficient enterprises, should there not be a refocusing of the region's industrialisation strategy, based on exploiting regional production complementarities so as to reduce scale diseconomies?

Tourism

[26] Association of Canadian Community Colleges, CTCS Network, Summary Presentation, p.5.

Despite constraints of air access and limited promotion in some cases, tourism has been one of the fastest growing areas of economic activity in the region providing foreign exchange and expanded employment opportunities. Tourist arrivals almost quintupled between 1970 to 1999.[27] Quite unlike other export endeavours in the region, this has been achieved outside of the context of preferential market arrangements, underlining the region's international competitiveness and buoying hopes of sustainability. However, in the current economic environment, the region recognises the need to maintain and even enhance its competitiveness in order to ensure sustainability. The rapid growth of tourist arrivals has made the development of accommodation a priority for the region. While cruiseship arrivals have exhibited quite robust growth within the last decade, expenditure by this tourist category accounts only for approximately 10% of tourist expenditure in the region.[28]

CDB's Interventions in Tourism

In an effort to strengthen the region's tourism industry, CDB has provided resources for the expansion of tourist (hotels, cruiseship piers, tourism shopping complexes, tourist sites) and related facilities (airport, roads, water and sewerage infrastructure development). The allocation of resources to the tourism sector, while not as large as that to agriculture and manufacturing, has not been insignificant. Direct lending to tourism totaled $61.6 mn during 1970-2000. Reflecting the scarcity or limited access to domestic resources in its BMCs, the Bank's most dominant area of involvement has been in construction, expansion and rehabilitation of hotels of all sizes - small, medium and large- but with focus on small and medium enterprises in an attempt to stimulate domestic entrepreneurship.[29] Close to 60% of the Bank's direct lending to the tourism industry has been focused on the expansion of accommodation capacity. The Bank's lending for hotel development has been to both the public and private sectors and has spanned both the MDCs (Barbados, Trinidad) and LDCs (St. Kitts, St. Lucia, St. Vincent, Grenada), including the dependencies (Anguilla, Cayman Islands, Turks and Caicos Islands). Most of the lending for this purpose has taken place in the last two decades with the surge in tourist activity in the region.

Another important area of the Bank's involvement has been physical infrastructure development. In addition to airport development which has impacted on tourism expansion, especially the stayover segment, and which is discussed below, the Bank has also financed the development/rehabilitation of cruiseship piers as, for example, in Jamaica and St. Lucia. Other CDB involvement in the tourism industry includes the development of ecotourism sites and ancillary investment (parking, viewing platforms etc.) as in Dominica and heritage projects as in the Cayman Islands. The Bank has also lent indirectly to the industry through the DFCs for small

[27]Caribbean Tourism Organisation, Caribbean Tourism Statistical Report, 1999-2000, p.21.

[28]Ibid., pgs. 32, 95.

[29]It should be pointed out that CDB's policies also limited its involvement in tourism sector financing. For example, lending to any single private sector tourism project was limited to 15% of the Bank's ordinary reserves and equity involvement was limited to US$50,000.

hotel construction, expansion or rehabilitation and for ancillary developments in transportation (taxis, boats) and in the restaurant industry.

After having experienced very rapid growth in tourism, there is now a growing unease about the region's ability to maintain its competitive position. This suggests the need for CDB and other donors to refocus their involvement towards more efficiency enhancing measures such as product quality and pricing, monitoring of industry standards, environmental enhancement issues (cleanliness, beautification).

Mining

The mining industry until recently has not figured prominently in CDB's operations, a reflection of the capital intensive and predominantly foreign-owned character of much of the sector for a significant portion of the period. The industry accounts for less than 10% of allocations to the productive sector and approximately 2% of CDB's allocations for the period 1970 to 2000. Close to 90% of those allocations have been to two projects in the oil sector in Trinidad and Tobago for the expansion of oil and gas production - the Onshore Secondary Oil Recovery Project approved in 1992 ($11.8 mn) and the project for the Expansion of the National Gas Company ($21.5 mn) approved in 1996. In the case of both projects, CDB collaborated with other institutions to provide financing. The financing of both projects is consistent with CDB's objective of helping to expand output in the region with particular emphasis on those sectors earning foreign exchange. A project of similar character financed by the CDB was the expansion of the aluminum plant in Jamaica (JAMALCO Plant Expansion) in 1993. The majority of the other projects funded in the mining sector have been in support of quarry development to augment product supply to the domestic market. These projects have been located in St. Vincent, Grenada and the Cayman Islands.

Economic infrastructure

The Bank has placed significant importance on the development of economic infrastructure (physical infrastructure and public utilities) to support economic growth and development in BMCs. During 1970-2000, the Bank approved $604.5 mn or 31.4% of net loans, contingency loans and equity for economic infrastructure with an estimated $438.9 mn (72.6%) for physical infrastructure (roads, seaports, sea defence and airports) and $165.6 mn (27.4%) for public utilities (power and energy, water and telecommunication).

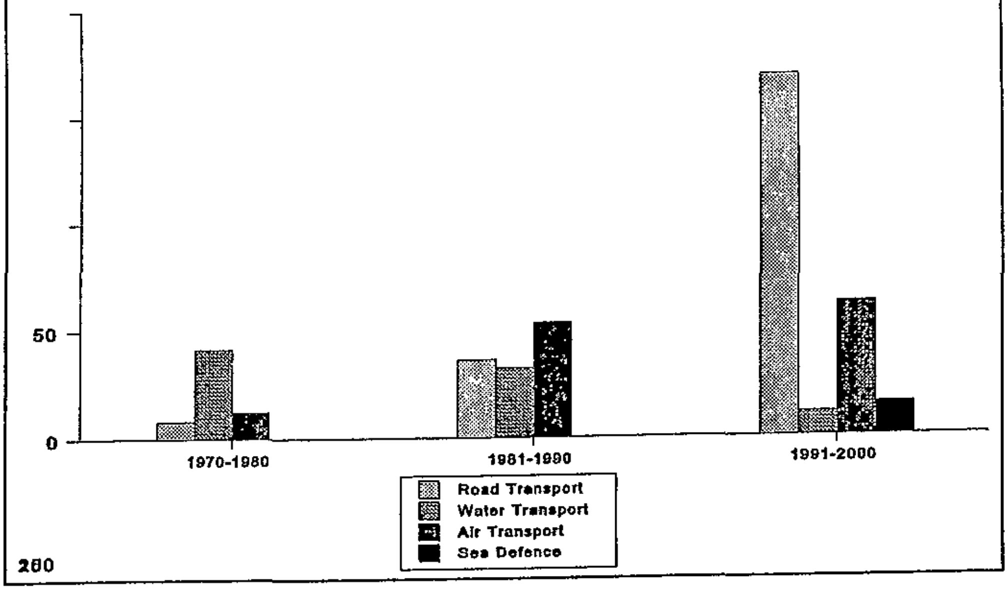
Physical Infrastructure

Many borrowing member countries during the review period have had relatively low levels of infrastructural development. The inadequacy of physical infrastructure (roads, bridges, sea and air transport) limited their potential for growth. The dispersal of CDB's BMCs over a wide geographic area also made it critically important for the countries to have reliable transportation links with each other and with the rest of the world. In addition, natural disasters (mainly hurricanes) have caused frequent damage to physical infrastructure and countries have had to incur enormous costs of repair and rehabilitation. Many BMCs have also faced difficulties because of poor maintenance, low and, in some instances, deteriorating operating efficiency; uneconomic pricing, weak investment project management and lack of counterpart funding.

CDB's Interventions in Physical Infrastructure

During 1970 to 2000, the Bank approved an estimated $438.9 mn or 22.8% of net loans, contingency loans, grants and equity for physical infrastructure development with $212.5 mn or 48.4% for road transport; $84.4 mn or 19.2% for water transport; $14.9 mn or 3.4% for sea defence and $127.3 mn or 29% for air transport. The Bank supported the development of physical infrastructure to stimulate private sector investment, economic growth and development.

Figure 4: LENDING FOR PHYSICAL INFRASTRUCTURE (1970-2000)
($ mn)



Road Transport

Funding for the rehabilitation and reconstruction of the main roadways was geared to enlarge the road network so as to improve essential links with seaports and airports. In the seventies and early eighties, the development of road transport was focused on supporting the agriculture sector. Most of the coastal roads provided the only link between populated areas and between feeder roads and ports through which agricultural exports were shipped. The poor condition of some of these main roads contributed to high vehicle operating costs and a reduction of foreign exchange earnings because of damage to agricultural exports during transport to the port of shipment. However, with a changed focus on tourism development to support economic diversification from the mid-1980s, there was also the need for a proper road network system to facilitate speedy movement of tourists.

From 1970 to 1980, $8 mn was approved for road transport, representing 3.8% of total resources approved for the entire sub-sector. The approvals increased significantly to $36.1 mn during 1981-1990, and to $168.4 mn during 1991 to 2000, representing 17% and 79.3 % of resources going to the sub-sector respectively. This trend was also reflected in the number of approvals, which rose from 7 in 1970-1980 to 65 in 1981-1990 to 29 in 1991-2000. The major beneficiaries of the road transport programme included Barbados, Belize, Trinidad and Tobago, Jamaica, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines.

Despite significant loan approvals for improving the road network in many countries, poor roadways persist because of inadequate maintenance. The stress imposed by the use of heavy vehicles together with the absence of systematic maintenance programmes have accelerated the deterioration of main roads to the point where reconstruction in many cases has been the only option. CDB has encouraged governments to increase and utilise budget allocations for road repairs in accordance with agreed priorities and that maintenance units be established and maintenance manuals be prepared. CDB also recognises that urban transportation in a number of BMCs is becoming problematic because of congestion, and has urged formulation of road development strategies.

Water Transport

CDB's lending for water transport (deep water ports, wharf expansion) was most dominant in the early seventies. Significant lending during this period was focused on port/wharf development in several member countries, particularly LDCs, to promote international trade. Improved deep water ports and cargo facilities were built in Anguilla, Belize, Cayman Islands, Grenada, Dominica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Montserrat. The primary objective of improving the deep water ports was to expand docking capacity and to enhance the efficiency of cargo-handling, taking into account the changing technology in freight transport and the need for expansion especially in LDCs. During this period, CDB was involved in financing WISCO to improve inter-regional shipping in support of regional economic integration. The emphasis shifted from agricultural-based facilities to more tourism-based facilities beginning in the mid-eighties and continued in the nineties as tourism became the dominant industry in many economies. The improvement and upgrading of cruiseship piers and berthing facilities and related onshore facilities (reception building, parking areas, etc.) were necessary to accommodate increased cruiseship arrivals.

During 1970 to 2000, $84.4 mn was approved for water transport. During 1970 to 1980, $49.2 mn (38.2%) was approved for water transportation and $32.2 mn (38.2%) and $10.7 mn (12.7%) for 1981-1990 and 1991-2000 respectively. The allocation for sea defences was $14.9 mn for the period 1970-2000, 3.2% of total resource approvals for physical infrastructure. The beneficiary countries were Guyana and Dominica.

Air Transport

CDB's lending to this sub-sector in the early seventies was to LIAT under the guarantee of regional governments; to the Turks and Caicos Islands for the purchase of aircraft and spares and to St. Lucia and Antigua for the construction of an air cargo terminal to strengthen intra-regional travel and trade. The overarching objective during this period was strengthening regional integration within the Caribbean through the development of transport links. The growing importance of tourism in the eighties and nineties led to rising levels of resource approvals for upgrading airport facilities in many BMCs. In many instances, passenger terminal buildings had to be expanded and upgraded to improve passenger and cargo handling to ease congestion. In addition, airport runways had to be lengthened to accommodate larger aircrafts. The major beneficiaries of resources for air transport development were Barbados, the Bahamas, Belize, Cayman Islands, St. Lucia, St. Vincent and the Turks and Caicos Islands. For the period 1970-2000, net loans, contingent loans and grants approved for air transport amounted to $127.3 mn. For the sub-periods, 1970-1980, 1981-1990 and 1991-2000, $12.3 mn (9.7%), $53.1 mn (38.2%) and $61.8 mn (48.6%) were approved respectively.

CDB identified several institutional (lack of technical skills, poor management, weak accounting practices) and policy (mainly pricing) weaknesses that influenced negatively the financial viability of enterprises engaged in the management of economic infrastructure. The Bank recognised that the financial viability of these entities was of crucial importance and that they should not be a drain on government finances. In addition to the provision of technical assistance for institutional strengthening, CDB insisted on organisational, operational and policy reforms including the establishment of separate accounting systems and that tariffs and charges be set to cover operating costs, debt servicing, appropriate returns on equity and contribution to expansion. In cases where there were generally no tariffs or user fees, such as road transportation, CDB encouraged that special allocations in the recurrent budget be used solely for road maintenance. The Bank recognised that efficient management of infrastructure development was critical to enhanced fiscal performance and international competitiveness.

Power And Energy, Water And Communications

CDB has financed the development of utilities as an important strategic component of economic infrastructure expansion in support of economic growth and development. A major objective of CDB's intervention in this sector has been assisting its BMCs in satisfying increasing demand for water, electricity and communications services. However, in financing expansion, CDB adopted a holistic approach, taking cognizance of issues which would have implications for the efficient operations of the utilities. One of these issues related to utility pricing. Utility tariffs are the source of much contention because of the status of water and electricity as basic necessities. In the region, where per capita incomes are relatively low, there is often strong conflict between setting tariffs at levels which would guarantee financial viability and containing the cost of living. CDB's polices recognised that tariffs should cover operational costs, debt servicing, appropriate returns on equity capital and contributions to system expansion. There was also the recognition that tariff structures should take cognizance of the long-term marginal cost of satisfying demand since this has implications for the efficiency of resource allocation.

Another major concern in CDB's approach has been distribution. Many countries have been plagued by high distribution losses, which meant that more resources were being dedicated to satisfying a given level of consumption than was necessary. There was also the issue of the organisation of the industries. Most of the utilities in the region are monopoly suppliers, and hence the regulatory framework is a key component of the organisation of these industries, having profound implications for allocative efficiency. CDB's lending policies recognised the importance of the regulatory framework to efficient functioning of the industries. Additionally, efficiency is influenced by the level of autonomy and the implementation of sound management systems, with respect to information flows, human resource use, accounting and auditing, and environmental issues. These considerations were also factored into CDB's interventions.

CDB's Interventions in Power and Energy, Water and Communications

During 1970 to 2000, net loans, contingent loans, equity and grants approved for power and energy amounted to $70.5 mn, while approvals for water amounted to $86.3 mn. This represented 3.7% and 4.5%, respectively, of net total loans, contingent loans, equity and grants approved during the period. Communications received $8.8 mn, or 0.4% of total approvals. In terms of the number of projects, electricity and power and water supply accounted for 102 (5.5%) and 50 (2.6%), respectively, of the total of 1,891, while communications accounted for 0.4%.

From 1970 to 1980, the Bank allocated $10.3 mn to power and energy, representing 3.6% of resource allocation for that period. The resources going to this sector increased to $24.2 mn during 1981 to 1990, but more importantly, the percentage of total resources approved climbed to 4.1%. There was a further increase in nominal terms in 1991-2000 to $35.9 mn, but in percentage terms, there was a decline to 3.4% of total resource allocation. The trend was also reflected in the number of projects, which rose from 28 in 1970-80 to 65 in 1981-90 before falling to 9 in 1991-2000.

There were a number of reasons for these trends. As the economies grew, so did the size of the power companies and the size of the financing that they needed. At the same time, the incidence of privatisation in this sector increased. CDB's policy with regard to the private sector limited lending to any single entity to $7 mn, which was substantially below the needs of power companies, especially in the larger BMCs. Furthermore, CDB started to face competition from alternative sources of finance. Investment by power companies was increasingly financed by issuing bonds, accessing loans from larger financial institutions, and entering into "build, operate, transfer" arrangements.

Resources flowing into water supply increased from $9.8 mn in 1971-80 to $38 mn in 1981-90, and remained fairly stable at $38.5 mn in 1991-2000. As a percentage of total resources, this represented a rise from 3.5% in 1970-80 to 6.5% in 1981-90, followed by a decline to 3.6% in 1991-2000. The number of approvals climbed from 12 in 1970-80 to 18 in 1981-90, then fell marginally to 18 in 1991-2000. Most of the lending activity was concentrated in Belize and the OECS countries, as the financing needs of the larger BMCs were beyond CDB's lending limit. The fall in the percentage of total resources going to water supply reflected a deterioration in the performance of such utilities.

Resources going to communications were substantially smaller than those to power and energy and water. During the period 1970-2000, there were 7 projects financed in this category. One of these was a capital project, for which a loan of $8.3 mn was extended in 1982. The other projects were technical assistance interventions, all of which occurred between 1988 and 1997. The financing was mainly for institutional strengthening in preparation for liberalisation of the global information and communications industry.

Impact of CDB's Interventions

CDB's resources have been instrumental in facilitating the expansion in the supply of power and energy and water. This expansion has been a critical element in raising incomes and the standard of living in its BMCs. Living standards have been raised through increasing access to potable water, electricity and information and communications facilities. At another level, development of utilities has stimulated general economic growth and facilitated economic diversification which has had a somewhat stabilising influence on the volatility of incomes.

Consistent with its policies, CDB's contribution to financing the development of utilities has been broader than that of a typical financial institution because of its developmental approach to financing. Along with an examination of the financial aspects of performance, CDB has also focused on effecting improvements in the operating standards of the utilities. This has been achieved through the extensive use of technical expertise and reference to regional and international "best practices" during the loan appraisal and project supervision process.

All of CDB's interventions have involved a holistic approach to project financing. For example, in a loan for a typical power project, resources have been used to finance the acquisition of generating capacity; the construction of a station; the upgrade of the distribution system; environmental cleanup; institutional strengthening in the form of management system improvement, staff training and the retention of an environmental consultant; and project management. However, the appraisal process also focused on the adequacy of tariff levels, regulation, and the extent of technical and non-technical losses. As such, CDB's interventions have been critical in bringing about an improvement in the operations of power utilities. CDB has been particular influential in reducing distribution losses in electricity.

Social Sector Development

The social sector comprises education, housing and health. In total, the social sector received $306.4 mn or 15.9% of the allocations for the 1970-2000 period. The direct and indirect allocations to the sector totaled $47 mn (1970-80), $61.6 mn (1981-90) and $244 mn(1991-2000) for the three sub periods, indicating that there has been a significant escalation in social sector funding in the last decade. Funds earmarked for the social sector rose from 16.6% of total allocations in the first decade, declined to 10.6% but reached 23% in the nineties as the Bank moved more aggressively to fund social sector development.

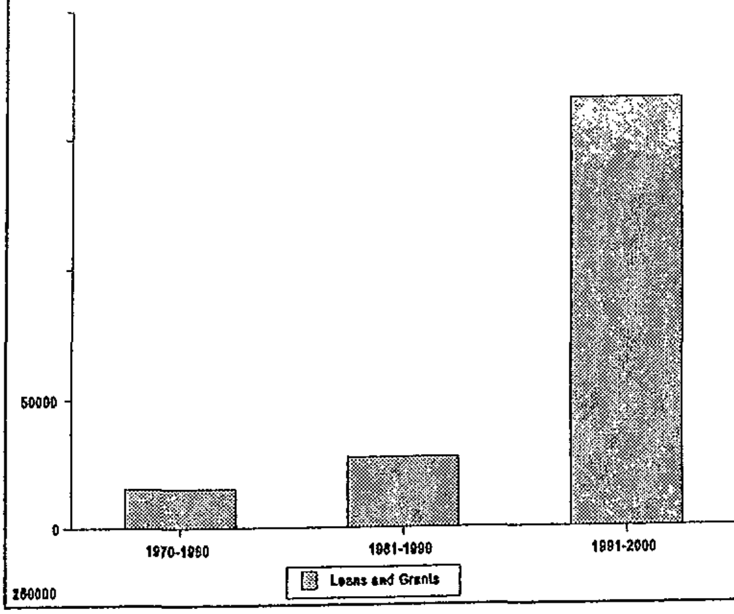
<u>Human Resource Development</u>

Historically, limited and inequitable access, unsatisfactory education quality and inefficient management in general, have plagued the education sector in the region, compromising the pace of human resource development. While some attention has been given, particularly during the nineties to expanding physical infrastructure to address the issue of access, inadequate emphasis has been placed on curriculum reform and development. In fact, an analysis of the subject areas being pursued raises questions as to whether a sufficiently large number of students are acquiring competencies in areas which would enable them to function effectively in the global environment.

CDB's Interventions in Human Resource Development

The Bank's policy position has always been informed by the need to maximise the sector's contribution to social and economic development. In rationalising its intervention, the Bank has been particularly cognizant of the need for the adoption of appropriate curricula and teaching methodologies to meet varying capacities, economic and social requirements. On the institutional side, the Bank has also sought to strengthen the Ministries of Education and training agencies in an effort to identify, prepare and implement appropriate educational programmes and projects and to improve information systems for policy formulation. The Bank has also sought to assist regional institutions including the Caribbean Examination Council and the University of the West Indies to provide support to education and training systems.

Figure 5: Interventions in Education (1970-2000)
US $ mn



In terms of its funding programme, the Bank has allocated a substantial amount of its resources to fund interventions in the education sector. Over the 30-year period to 2000, a total of $208.3 mn comprising net loans, contingent loans, equity and grants has been approved for the sector. Indeed, this amount represented the second largest allocation in the social sector. If one separates the review period into three distinct sub periods, some interesting observations can be gleaned. The figure shows quite clearly, the shift in the Bank's strategic direction which emphasised the growing importance of knowledge, skills and human resource development as critical in addressing the challenges posed by globalisation. In the first decade of operations, the Bank advanced a total of $15.2 mn to the education sector. However, in the two decades following, this allocation increased more than tenfold. Between 1981 and 1990 the allocation increased significantly by 78.6% to reach $27.1 mn and after, soared to $165.4 mn by the end of the decade. CDB's funds have been targeted almost evenly towards addressing issues relating to access, quality and effectiveness. In this regard common features of most basic education projects have included a teacher training component, curriculum development, improvements to physical facilities, increased provision of equipment and education materials and capacity enhancement to monitor performance and school effectiveness.

Teacher Capability

Teacher capability is considered an essential aspect of initiatives to improve the quality of teaching and student learning. The vast majority of CDB's BMCs is short of a fully trained stock of teachers at the primary and secondary levels of the education system. As a consequence, professional upgrading of teachers or teacher designates has featured prominently in CDB-funded education projects since 1993.

Curriculum Development

Curriculum development is another vital area in strengthening basic education at the primary and lower secondary levels of most countries in the Commonwealth Caribbean. In a number of cases, the curriculum being followed has not been reviewed or revised in the recent past. CDB's support for curriculum development has included advanced training for curriculum officers, strengthening curriculum development processes and assisting in the production, evaluation and distribution of teaching materials.

Education Management

A number of CDB-funded education projects have supported efforts to improve systems of data collection and management, as well as the monitoring and evaluation of education interventions. Assistance has included the conduct of management audits within Ministries of Education, preparation of medium to long-term education plans, training of education planners, data managers and testing and measurement personnel. The objective is to improve capacity and the practice of monitoring and evaluating impacts of education reform.

CDB ~~recognises that regional economies need to be restructured and repositioned in the global market~~ place. New institutional arrangements to build capacity and support a more diversified export driven competitive economy are imperative. Equally important, is the need for a highly educated, creative, skilled and flexible labour force to address new demands. CDB intends therefore to continue its strong support to Caribbean member states in the continuous assessment of their education systems relative to the requirements of the knowledge-based global economy, quickly instituting the necessary reforms.

<u>Housing</u>

There have been several problems and constraints in the housing sector in many CDB's BMCs. Severe housing conditions exist in many countries in the region due to the deterioration of the housing stock and significant overcrowding. The lack of adequate levels of soft financing continues to be a stumbling block to satisfaction of the housing needs of the majority of low income households. Access to mortgage finance by low income households is severely restricted, given the rates of interest charged, the relatively 'short' amortisation period, the collateral and equity required and the employment status of the heads of households. The provision of adequate housing at affordable cost particularly to the lowest income earners as well as upgrading squatter schemes to habitable communities present the greatest challenges to the authorities. Another major constraint to housing development relates to the unavailability of serviced plots for housing. In many countries, the cost of providing supporting infrastructural services and related maintenance is expensive, given the steep terrain, and funds allocated by governments for housing are limited. Also, the acquisition of new lands for residential purposes can be quite costly. The lack of government agencies capable of executing appropriate housing programmes is another major constraint to the improvement of housing in the region.

CDB's Policy in the Housing Sector

CDB has recognised the importance of housing as an integral part of social and economic development. The objective of CDB in the housing sector has been to provide financing to expand the supply of housing stock, to make housing as affordable as possible and to provide improved access to housing finance especially to low income families. Lending to the housing sector has been aimed at improving the living conditions of low income earners and providing greater access to services (water, electricity, roads, community services, etc.) with the objective of achieving:

(i) poverty reduction;

(ii) increased worker productivity;

(iii) increased domestic savings; and

(iv) promotion of inter-sector linkages within the economy to increase output and employment.

CDB's Lending for Housing Development

An analysis of CDB's portfolio at December 31, 2000 shows that \$101.3 mn (5.3%) of net loans, contingent loans, equity and grants have been approved for projects in the housing sector of which direct lending was \$29.9 mn and indirect lending (mortgage finance through DFCs) \$74.4 mn. CDB's lending in the housing sector over the period 1970-2000 can be categorised into three distinct sub-periods covering four broad programmes:

(a) an Urban Working Class Housing (UWCH) Programme in seven LDC's (Antigua, Belize, Dominica, Grenada, St. Kitts/Nevis, St. Vincent and Montserrat);

(b) a Secondary Mortgage Market programme in the LDC's, Barbados and Jamaica;

(c) global loans to financial intermediaries for the granting of mortgage loans; and

(d) a Shelter Development Programme. These programmes attempted to provide funds to the lower and lower-middle income groups in the various member countries where effective demand for housing was greatest and immediately serviceable.

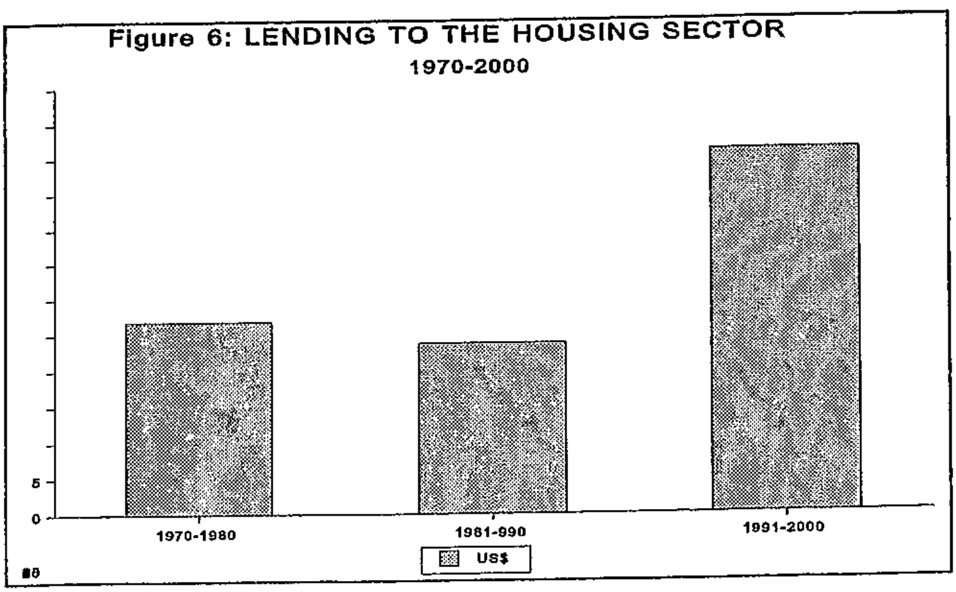


Figure 6: LENDING TO THE HOUSING SECTOR
1970-2000

In the period 1970 to 1980, the focus was on the construction of new housing for low-income workers in urban areas in the LDCs (the UWCH Programme) and development of the secondary mortgage market programme. The UWCH programme was relatively successful with nearly 1,200 mainly two-bedroom houses being built between 1973-1978. One fundamental problem which affected the implementation of the programme was the lack of effective institutions in the participating countries to implement and manage the projects. Consequently, many projects were plagued with significant delays in implementation which led to increased costs. Implementation of the programme was also affected by the unprecedented high inflation rates particularly between 1974 and 1977 and the limited capacity of indigenous builders to undertake large projects. The secondary market programme sought to provide funds to meet the demand for housing in the lower and lower middle income brackets and aimed at assisting the development of local financial intermediaries. Under this programme, CDB did not provide the funds directly for the construction of units but rather acquired eligible mortgages from approved financial institutions, conditional on the agreement of the institutions to ensure servicing of the mortgages on CDB's behalf and also the reinvestment of securitisation proceeds in mortgages of similar type. The performance of this programme was rather disappointing as many governments did not provide the required foreign exchange guarantee. Another major difficulty which CDB faced in its attempt to establish a viable secondary market was the low level of development of primary mortgage markets, especially in the LDCs.

The period 1981 to 1990 witnessed a shift in focus in light of the experiences in the 1970s. CDB made more mortgage finance available through financial intermediaries directly to specified target groups in this period as compared with funding housing construction by governments in the 1970s. CDB lent to financial institutions (DFCs, mortgage finance banks, commercial banks) with the intention of increasing the pool of funds available for the provision of medium and long-term financing for the housing sector. The loans to financial intermediaries were made for financing housing construction and rehabilitation. Sub-loans were made for the construction of new low-cost houses and the improvement of existing houses. The house improvement loans were to ensure that the life of the existing housing stock was extended as long as possible and that the amounts borrowed were in keeping with the amounts affordable by beneficiaries. This programme for home improvement was in recognition of the fact that over 60% of the housing stock in the region was over 20 years old and occupied by low-income earners who could not afford new houses[30]. CDB was relatively successful through its mortgage financing in significantly improving the lending conditions for mortgage financing in borrowing member countries. However, the low income earners to which the mortgages were to be directed were not always the major beneficiaries of these funds.

The period 1991 to 2000 witnessed an upsurge in lending to the housing sector through the shelter development programme. The shelter development programme was supplemented with the Basic Needs Trust Fund (BNTF) aimed at improving housing conditions of low-income households, mainly in deprived communities. The main challenges to the comprehensive development of shelter included the unavailability and lack of access to services and appropriate financing in light of increasing costs of traditional houses. The programme incorporated a shelter infrastructure revolving fund to finance infrastructural works as well as a special mortgage programme targeted at low-income households. The shelter development programme has

[30] CDB's Housing Sector Policy Paper, April 1981, p.7.

been relatively successful in that many new houses have been built for the lowest income households and ongoing efforts are made in upgrading squatter schemes in the most depressed areas.

Health

As indicated in the discussion in Section I, the social sector in CDB's BMCs was in the sixties generally weak. Health conditions in particular were poor as shown by the indicators on child mortality. This, of course, reflected not only the conditions of poverty and the level of medical care, but also the state of public health management. The infrastructure, both physical and institutional, for water and sewage management was generally weak because of underfunding and the limited availability of skills to manage centralised systems.

CDB's Interventions in the Health Sector

Recognising these constraints, the CDB in its interventions in the health sector, which have been focused essentially on public health as reflected in the large number of sanitation projects, has attempted to ensure through its lending conditionalities the financial viability institutions involved in waste management. In this regard, particular emphasis has been placed on appropriate pricing policies and the establishment of effective management through provision of technical assistance.

As a proportion of total direct allocations to the social sector for the period 1970-2000, the health sector received 19.1%, second to education which received 69.0%. When indirect lending to the other two subsectors - education and housing, are taken into account, the proportion of social sector funding allocated to health drops significantly to 12.4%, ranking third behind education (58.9%) and housing (28.7%). As a percentage of total allocations for the 1970-2000 period, health accounts for 2.3%. Hence the health sector has not figured prominently in CDB's portfolio.

Of the $49.8 mn allocated to the health sector during 1970 to 2000, $42.7 m was earmarked for the development of sanitary health facilities (sewerage, land fills, sewage ponds etc.). Funding for the development of these facilities has been targeted mainly at the OECS countries which received $22.8 mn or 53.3% of the resources earmarked for waste management. The major project was the OECS Solid Waste Management project funded jointly at a cost of $16 mn by the World Bank, the Global Environmental Facility and the CDB. The project focuses on the development of the physical (landfills) and institutional infrastructure for the effective management of solid waste which, in addition to the expected improvement in public health, is meant to achieve environmental enhancements critical to the continuing development of the tourism industry. Apart from the OECS, the other major beneficiary of funding in the health sector has been the Cayman Islands with a sizeable Sewerage development project approved in 1984.

The other interventions in the health sector (28.2% of allocations) related to the medical facilities subsector. In this category of projects, the two major allocations have been for the rehabilitation of medical facilities after Hurricane Georges in St. Kitts in 1998 ($1.6 mn) and for comprehensive Health Sector Reform in Belize ($5.6 mn). The latter project represents a significant departure on the part of CDB in health sector lending. The project seeks to provide enhanced access to health services for the poor, achieve increased efficiency in the health sector through organisational restructuring and strengthening and reduce the budgetary burden on Central Government through financing reform (establishment of National Health Insurance).

The Financial Sector

Overview

Over its thirty years of operations, almost 23% of CDB's total approved loans have been indirect loans made available to the final users through the intermediation of DFCs or, less often, commercial banks, governments or other intermediaries. The indirect channel has been the second major channel of disbursement after direct project lending to Governments. By comparison, the third most important channel of loan disbursement has been direct lending to the private sector, accounting for just less than 6% of sectoral commitments. The indirect channel has also been strategically very important, permitting CDB to finance a series of programmes, especially in the social and MSE sectors, which it would not have been able to do by direct lending. Indirect lending thus occupies an important role in the Bank's set of financial tools, although it has not always been an easy one to use, as evidenced by numerous reports pointing to a series of problems that arose in this area through the years of operations. Nonetheless, CDB remained always strongly committed to the indirect channel as a major conduit of funds distribution, and continues its effort to maintain its use as a part of its strategy to improve the regional financial sector.

The Rationale for Indirect Lending

Support for intermediaries in the regional financial sector is explicitly catered for in the Charter of CDB. Moreover, CDB's policy for direct lending prescribes that no loans under the size of $200,000 are to be undertaken. This limit is dictated by the limited availability of human resources to supervise directly a vast portfolio of small loans, and by prohibitive monitoring and supervision costs, which would raise the total cost of funds to borrowers disproportionately. Finally, in many BMCs, there has been in the past a demand for credit that could not be satisfied through other channels, such as commercial banking, either because they were unable or unwilling to cater to certain segments of the population or the economy. Fundamentally, indirect lending has been an essential instrument giving access to credit to those in the lower income brackets. Thus, indirect lending fits very well within the Bank's overarching mission of poverty reduction in the BMCs. Additionally, funds have also been channelled through the DFCs to satisfy social development needs, such as housing and higher education, at the lowest possible cost.

Geographical and Sectoral Breakdown of Resource Allocation Through The DFCs

Over its 30 years of operations CDB approved lines of credit accounting for almost 23% of its total commitments. Taken together, these loans make up almost 26% of all contributions to the productive sector (industry and tourism plus agriculture, forestry and fisheries, mining), and over 36% of all resources assigned to the social sector (health, education and shelter).

Indirect lending has been a very important channel of CDB funds especially in Jamaica, the British Dependent Territories and in the Bahamas. In Jamaica, roughly 28% of all CDB resources went through this channel. In the British Dependent Territories and in the Bahamas, almost 30% and 40% of CDB funds respectively were channelled in this way. On the other hand, this channel was almost not used in Barbados, where it accounted for slightly above 4% of CDB resources allocated, and in Guyana, where no lines of credit have been approved since 1990. The proportion of indirect lending to the OECS and the British Dependent Territories increased from 28% in the seventies to 46% in the nineties. This happened mainly because DFCs in those territories did not initially have enough managerial and administrative capacity and technical expertise. On the other hand, Jamaica and Belize over the same period saw their respective shares of indirect lending shrink from 18% and 29% to 11% each (excluding the funds made available to the Government of Jamaica for indirect lending to small sugar growers).

Indirect lending has been an important instrument of CDB's social improvement policies, and in some countries it represented by far the main channel of disbursement of CDB's funding in those sectors. In the British Dependent territories, indirect lending accounted for almost 63% of all social spending by CDB, and for the totality of educational and shelter spending, through the student loans for higher education and mortgage finance programmes administered by the local development finance institutions. Student loans for higher education administered by DFCs were also a major part of educational spending in the OECS and in Belize.

In some countries, indirect lending was also a very important part of CDB's lending to the productive sector, making up about 42% of all productive sector loans in Jamaica (excluding loans for support of small sugar growers, administered directly through the government), over 55% of support to the productive sector by CDB in the Bahamas and almost 27% of productive sector loans in Belize.

Priorities and Funding Over The Years

Over the history of the bank, the portion of lending through financial intermediaries has been roughly constant across the decades, with the amount of funds approved for indirect lending growing in parallel with general resource availability. What has been changing over time has been the relative importance of the channel in financing various sectors, its sources of funding and, to a lesser extent, the geographical distribution of commitments.

The funding made available for indirect lending has traditionally been a mix of hard and soft resources, enabling DFCs to face better repayment terms. Still, it has almost never been CDB's policy to allow the on-lending of funds at below-market rates in the productive sector, and the DFCs have been encouraged to follow this practice and eventually reinvest in their own operations any excess generated.

The importance of the channel in financing social development has already been mentioned. In fact, in the seventies almost half of the financing for the social sector passed through DFCs, and in the eighties, 60% of social development resources were directed through the DFCs. During the last decade, the relative importance of indirect lending in the social sector decreased to 30% of the total, mostly because of the shift from productive and infrastructure to direct social spending that characterized CDB's policy in this period.

The importance of the social sector in indirect lending can also be seen in policies regarding the allocation of funds. In the face of rapidly falling level of concessionary resources, concessional funds have been concentrated in social sector spending; but this phenomenon took a particularly important dimension in the indirect lending segment. Here, soft resources rose from 20% of social spending in the seventies, to 36% and 66% in the last two decades, respectively. In fact, basically no soft funding has been made available for productive sector lending since 1993, so that all soft resources available have been used in the social development sector, making funds available for social development to DFCs one of the "softest" mixes of resources currently made available by the Bank.

Issues in DFC Lending

Regular reviews of DFCs operations and policies by CDB highlighted over the years a set of problems including: inadequate government support; weak management; a lack of clearly defined policies; weak capital structure and a small asset base. Moreover, DFCs were often regarded by their respective governments as "lenders of last resort", who should extend high-risk, long-term loans at below market rates, where other financial institutions would refuse to operate, leading to inappropriate lending policies, in the form of unrealistically low interest rates and inadequate security; poor portfolio quality and lack of operational autonomy. In turn, this led the DFCs to experience a number of problems, which included excessive levels of arrears and narrow operating spreads, leading to continuous losses, poor liquidity and decapitalisation of equity.

CDB has always been cognizant of these issues, and directed resources, both financial and human, to help strengthen the DFCs both as a valuable channel of funds and as an essential part of its efforts to develop the regional financial sector. As a part of its efforts in the sector, CDB, after thorough research, formulated sets of operational policy guidelines for the DFCs, as well as minimum compliance parameters for lending. The first sector policy paper was released in 1981 and a review performed in 1994. The policy guidelines have been used as the basis for the effective management of the DFCs. Also, in 1979 CDB created a DFCs unit in order to better supervise operations in the sector. The unit later became the Financial Intermediaries Unit, and is today in charge of supervising all indirect lending and financial sector operations of CDB. Technical assistance in the form of grants and loans continue to be extended to DFCs, helping to develop managerial information systems and satisfy automatisation needs, as well as solving organisational and capacity problems. Over the last seven years, more than \$5 mn in institutional strengthening loans for DFCs were approved to their governments, excluding the amounts reserved for this purpose that were regularly included in lines of credit to the DFC themselves. Also, roughly \$2.5 mn in grants were approved since 1970 for institutional strengthening, the creation of management information systems, preparation of MSE programmes and strengthening of Credit Unions.

New Channels of Lending

CDB considers the DFCs to be an important channel of funds, and recognizes the positive role that has been played by those institutions. CDB will continue using financially viable DFCs as channels for its funds. The Bank will also continue with efforts to improve such DFCs' performances.

At the same time new initiatives are being undertaken. In particular, the two most relevant initiatives of recent years in the sector have been the use of private banks as intermediaries and the expansion of the Micro and Small-scale enterprises loans scheme. The first loans to private banking institutions started in the second half of the nineties. This programme had the main objective of expanding the range of available distribution channels, and presented the added benefit of strengthening the regional financial sector. The programme is proving successful, and has been absorbing a considerable amount of CDB's resources in recent years. The loans are primarily targeted at export-oriented industrial and service companies, and offer the opportunity to DFCs to join in partnerships with the commercial banks in "packaging" the loans, thereby achieving the double objective of making bigger loans possible and exposing the DFCs to valuable experience and expertise.

The MSE programme, on the other hand, encourages the "grass-roots" development characteristics of indirect lending. The programme was launched on the occasion of the third replenishment of the Bank's Special Development Fund, under the heading of the "Small Scale Enterprise Development Programme". It was intended to formalize within a more precise framework the ongoing concern of CDB for providing support to small scale economic activities across the region through its indirect loan schemes such as the Small Industry Credit and Agricultural Productivity Credit. Sub-loans from the MSE programme are aimed at very small scale businesses in any sector. They often include grant elements for strengthening MSE lending and supervision capacity of DFCs and are at times administered in collaboration with credit unions or NGOs specialized in micro-enterprise financing, as in the case of Belize. Again, this approach permits DFCs and other organizations to gain expertise and profit from mutual exchange.

Multisector

The multisector category of allocations is a residual category that captures a variety of CDB interventions that are not easily captured elsewhere under the Bank's current system of categorisation essentially because of their multifaceted nature. Multisector approvals have been quite large particularly in the last two decades, totaling $320.3 mn. or 16.7% of total approvals over the 1970-2000 period. An estimated $117.9 mn or 36.8% of multisector approvals have been for technical assistance in BMCs covering a wide range of tasks in both the public and private sectors and also regional institutions (CARICOM, OECS). As indicated in previous discussion, the Bank has in a number of sectors used technical assistance as an integral part of its interventions in many instances. Technical assistance has, in fact, helped to ensure in many cases the success of the Bank's interventions. Most of the allocations (79.4%) have been in the form of grants, the remainder being part of project loans.

The second largest category of multisector approvals has been for the establishment or strengthening of disaster management and post disaster rehabilitation. An estimated 24.8% or $79.5 mn of multisector approvals has been used for this purpose. The Bank sees its involvement in this activity as critical for the protection and maintenance of the region's assets so as to minimise loss and destruction together with their negative economic and social impacts. The majority (56.8%) of the resources allocated to disaster management and post disaster rehabilitation has been used in the Bank's LDCs (OECS and Dependent Territories). The third major category of multisector approvals totaling ($45 mn) or 14.7% of multisector approvals, has been used for structural adjustment in Dominica (1987) and Guyana (1990). A somewhat similar type of loan was made available in 2000 to Jamaica ($25 mn), 7.8% of multisector approvals, for financial sector reform. In 1999, Jamaica also received a loan of $14.1 mn, or 4.4% of multisector approvals, for its Social Investment Fund, targeted at poor communities. The remaining $38.8 mn or 12.1% of multisector approvals have been for a wide variety of projects which have not been categorised.

V. CHALLENGES FOR THE MEDIUM TERM

Despite the difficulties that beset the region during the 1970-2000 period, the economic circumstances of the region improved. Reflecting this fact, donors in recent years have been willing to graduate the region from the receipt of aid, preferring to focus their resources on Africa, Russia and Eastern Europe. While there has been a general improvement in economic circumstances in the region, however, unemployment and poverty remain major problems in many countries and the performance of the social sector, though significantly improved, as compared with three decades ago, is still in many cases less than satisfactory. The foregoing underlines the importance of CDB's continued emphasis on poverty reduction and social sector development for the foreseeable future. Current medium term prospects for the Caribbean economy in the light of global recession also suggest the need for CDB to maintain this focus and where possible deepen its involvement particularly as regards the issue of poverty which is likely to be exacerbated in the medium term.

Current economic prospects also point to the need for the Bank to address in the medium term, on a regionwide basis, the stabilisation and structural adjustment requirements of its BMCs. In the past, the Bank has generally played a minor role in this regard. However, current circumstances suggest the need for a deeper involvement especially as regards the provision of financial resources. The global recession suggests that less aid will be forthcoming from the donor community for these efforts. Additionally, regional governments already faced with declining growth prospects and revenue inflows, are also being besieged with requests for support from the hotel and airline industries. Some of those pressures are likely to be translated eventually into requests for more assistance from the CDB.

This, of course, leads naturally to the next major challenge facing the Bank - the need to increase its access to financial resources. There is clearly an urgent need to engage in strategies to expand the resource base. In this regard, the Bank has a few options with varying degrees of appeal. The general mood of donors regarding the replenishment of the Bank's special development fund suggests a definite decline in popularity in this mode of resource mobilisation. In light of this fact, the Bank may have to expand its membership base. As a consequence, CDB may have to revisit its original position with regards to its statutory limitations on non-regional ownership of the Bank's capital. Noteworthy is the fact that most MDBs including the IDB as well as the African and Asian Development Banks grappled with this same issue during the early eighties. Interestingly, the result in all cases was a ceding of both voting rights and a substantial increase in capital subscription by non-regional members. Alternatively, CDB in the future, may have to resort to increased market borrowing in order to satisfy its lending requirements. This, however, may alter the attractiveness of Bank funds particularly as it relates to pricing. The broad challenge will be to employ creative and imaginative ways to raise loanable funds at minimum cost.

Another important challenge facing the region and the Bank in the medium to long term will be the issue of the region's competitiveness. The response to this issue will determine the economic survival or demise of the region. The issue of competitiveness is not confined merely to the export/traded sector which is merely the frontline of the economic competition struggle, but ultimately encompasses every facet of economic activity and hence will need to be addressed comprehensively. Specifically in the case of the Bank, projects must increasingly focus on the likely impact of CDB's interventions on a country's competitiveness in whatever sector the intervention takes place. Project design will need to seek to maximise this element of a project's impact. More specifically, the Bank will need to ensure that it has or develops the necessary expertise in critical economic sectors (agriculture, manufacturing, tourism) that will allow it to engage in optimal project design.

Economic Infrastructure

The major task facing Caribbean Governments with regards economic infrastructure is the attainment of maximum efficiency in the provision of economic infrastructural services so as to minimise producer costs and, in particular enhanced export competitiveness. In this regard, the first specific challenge for CDB and its BMCs is the effective and timely implementation of projects. There is need to reduce as far as practical delays in project implementation so as to minimise cost overruns. Improvement in the institutional framework through which projects are implemented and policy dialogue between CDB senior management and national authorities can assist greatly in the endeavour to ensure that conditions precedent to disbursements are fulfilled within reasonable time, that selection of consultants and/or contractors takes place expeditiously and that proper supervision and management are in place.

A second challenge is the maintenance of projects to ensure sustainability of infrastructural services. While CDB has requested that budgetary allocations are set aside specifically for maintenance, there is no guarantee that these allocations are expended on actual maintenance especially in times of fiscal difficulties. Hence, the focus has to move beyond budgetary allocation for maintenance of projects to include ensuring overall fiscal improvement in BMCs.

An important challenge for CDB is increased focus on institutional reform in the management of physical infrastructural projects to ensure efficient operation. CDB must not only be satisfied to oversee the successful completion of a project but that continued provision of infrastructural services is maintained as efficiently as possible. Ensuring institutional and policy reforms in pursuit of cost effectiveness must be a major goal for all economic infrastructure projects.

In order to expand its customer base and increase its effectiveness as a channel of development funds, the Bank will also need to review some of its lending policies. For example, if CDB is to play a significant role in financing utilities in the future, it will need to review current policy, given the private-sector status of these entities. CDB's lending to the private sector has been limited because of risk considerations. However, the needs of the region's utilities are larger than allowed for by CDB's policies. The risk associated with lending to utilities may be smaller than that of other private-sector entities because of their monopoly status and the low price elasticity and high income elasticity of their product. Hence, there may be scope for increasing the lending limits to private utilities beyond those of other private-sector entities, a strategy worth pursuing, given the substantial experience resident within the Bank in the area of utility financing and development.

Social Sector

Health

While traditionally the intervention priority of CDB in public health has been on sanitation, a totally new kind of challenge will have to be faced in the near future as the AIDS/HIV epidemic develops in the Caribbean region. UNAIDS reports that the Caribbean basin region shows the second highest prevalence rate (the percentage of infected persons aged 14 to 44) in the world after Sub-Saharan Africa. In fact, the University of California, San Francisco reports that HIV is the primary cause of death among the young in the English-speaking Caribbean. The most recent estimates show that over 7% of pregnant women in urban Guyana tested positive for HIV. In the Bahamas, the adult prevalence rate is 4.1%, while Barbados, Belize, Trinidad and Tobago and Suriname have an HIV prevalence of approximately 1%, over four times the Western Europe average[31]. In Haiti, the most widely affected country in the region, prevalence rates of up to 12% have been found in urban areas[32]. While in most countries the situation is problematic, the epidemic is not already of devastating proportions, and

[31]Sources: UNAIDS program official web site and University of California San Francisco AIDS epidemic monitoring programme

[32]Source: UNAIDS program official website

the most recent developments on the availability of generic retroviral drugs seem to point out that at least part of the social catastrophe potentially underlying those figures could be avoided. However, the financial costs involved will surely be huge, especially if the epidemic is not stopped from spreading. There will be need for lots of interventions in this area in the short, medium and long term, to sustain prevention, medication and other connected forms of remedial action, including support for AIDS orphans and public education and awareness campaigns. Donors will have to upkeep their support for the health sector, and new ways to reach out to poorer communities will have to be found in order to diffuse prevention measures as much as possible. Action will need to be fast as well, or the epidemic could seriously endanger in a very short time the economic and social gains achieved by Caribbean countries over the last 30 years.

<u>Housing</u>

The major challenge for housing continues to be the provision of adequate housing at affordable cost to the lowest income earners. In this regard, CDB has to focus on a coherent planning/policy framework for housing in BMCs to address the following issues:

(a) implementing mechanisms for cost reduction through project designs;

(b) ensuring that the low income households are the major beneficiaries of the available financing for housing;

(c) the development of institutional capacity in governments' management of housing development; and

(d) the development of appropriate housing sector policies (availability of serviced plots, zoning and building standards, etc.)

The Financial Sector

While improvements in performance have been registered by the DFCs, and CDB has surely been acquiring important experience in operating in the regional financial sector, the road ahead is surely a challenging one. Changing global and regional circumstances impose a new way of thinking interventions in the financial sector, as liberalisation and free circulation of capital and goods modify the regional financial sector's landscape. While at this time it is not possible to predict the impact of these changes on the DFCs with any certainty, CDB's interventions aimed at institutional strengthening will need to continue, so that the DFCs can meet the new challenges and remain financially robust. Moreover, with recession imminent, if not already present, leading to increased vulnerability by the poorest segments of the population, CDB will need to strike a balance between support to growth and strengthening of the economies at large, and interventions targeted at those who cannot immediately enjoy the benefits of those interventions. The DFC channel, with its ability to lend to small borrowers and proven track record in social sector operations, is well placed to continue fulfilling a key role within this context. However, in this environment of uncertainty, the search for new channels of fund distribution, should continue by directly targeting other lenders that operate within the desired low-income population segment, such as NGOs and the Credit Unions, especially those with a proven track record. This could not only lead to establishing alternative channels of funds in those circumstances where it would seem impossible to establish financially viable DFCs, but it would also ensure diversification and enhanced management of risk by the Bank and a more solid basis for the Bank's initiatives in poverty reduction and social sector development.

VI. CONCLUSION

In its more than thirty years of operations, the Bank has been faithful to the dictates of its Charter. It has been an increasingly important mobiliser of external funds for the region, though more so for the LDCs than the MDCs, and in so doing has contributed to the region's growth and development. In addition to the provision of financing, it has also been an important source of technical assistance which has helped to enhance the impact of its interventions. The Bank through its persistent nurturing of the DFCs has contributed to the development of the financial sector in the region. Through direct funding and through infrastructure development, the Bank has also contributed to the expansion of the region's external sector. Further, the Bank has been an important contributor to social sector development in areas such as housing, human resource development and in efforts to reduce poverty. An area of disappointment has been its inability to contribute more substantially to the process of regional integration and economic diversification. Its current involvement in the implementation of the Caribbean Single Market and Economy, however, shows its continued commitment to regional economic integration even as it confronts yet another decade of challenges.

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