



The Caribbean Development Bank by George Abbott

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The Caribbean Development Bank

During the twenty years of its existence, the Caribbean Development Bank (CDB) has exercised a decisive influence on developments within the Caribbean, both a source of development finance and as the primary driving force behind the move towards regional co-operation and integration. All the signs are that it will continue to play a major role in the development of the region. It is equally clear that the Bank will face new and serious challenges as it attempts to respond to the needs of its members. Among other things, this will require it to expand the range and scope of its activities and operations, even cut back some of its existing programmes, and to seek new sources of funding. This paper reviews CDB's principal operations and activities since its inception and evaluates its contribution to the process of regional co-operation and integration. It also identifies a number of problems which are likely to confront CDB during the 1990s and assesses its capacity to cope with them.

Functions of CDB

The CDB is essentially a dual purpose institution. It operates as (i) a Bank and (ii) a regional development agency. Consequently, its functions cover a wide range of activities. These include:

- a) helping members to co-ordinate their development programmes so as to achieve more effective utilisation of resources, making them more complementary and promoting the orderly expansion of trade, particularly among the members;
- b) mobilising additional financial resources for the development of the region;
- c) financing projects and programmes of a regional developmental nature;
- d) providing appropriate technical assistance to its regional members;
- e) promoting public and private investment within the region;
- f) promoting regional and locally controlled financial institutions and a regional market for credit and savings and
- g) stimulating and encouraging the development of capital markets within the region. (1)

This list shows not only the extent to which the CDB is involved in the affairs of the region, but also the essential dichotomy which it faces. As a bank, it has to operate according to strict financial and banking criteria and conventions. These

require it, for example, to back sound projects which earn a satisfactory rate of return; to establish and maintain an appropriate international credit-rating, and to operate competitively in international financial and money markets.

On the other hand, as a development agency, it is required "to contribute to the harmonious economic growth and development of the member countries in the Caribbean and to promote economic co-operation and integration among them, having special and urgent regard to the needs of the less developed members of the region". (2)

It has therefore, to provide enough resources on appropriate terms to meet the developmental needs of its regional members. Further, the stipulation that it must pay particular attention to the needs of its less developed members means that it has to provide soft loans and other subsidised forms of credit.

Membership

The Bank's Charter allows for regional as well as non-regional members. Initially, there were 16 regional and 2 non-regional members. In 1988, membership stood at 24, of which 20 were regional and 4 non-regional. The former includes Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago and Turks and Caicos Islands. Other regional members are Colombia, Mexico and Venezuela. The original non-regional members were Canada and the United Kingdom. France became a non-regional member in 1984 and Italy in 1988. Negotiations are in progress for West Germany to become a non-regional member. The regional members can draw on CDB's resources. The non-regional members cannot.

The Bank also makes a functional distinction between its more developed (MDC) and less developed (LDC) Caribbean members. The MDCs include Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago, and the LCDs Anguilla, Antigua and Barbuda, Belize, British Virgin Islands, Cayman Islands, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and the Turks and Caicos Islands. CDB has concentrated its operations and activities on the latter group of countries.

Capital Structure, Contributions and Voting Rights

CDB started operations in 1970 with an authorised capital of 10,000 shares, each with a face value of US\$5,000. This gave it a capital base of US\$50 million, half of which was in paid-up capital and the rest callable. In 1988, CDB was capitalised at US\$410 million, of which US\$95 million was paid-up capital and US\$315 million callable. Effectively, therefore, the proportion

of paid-up capital has fallen from 50 per cent to 23 per cent of total capitalisation.

The Bank's Charter stipulates that not less than 60 per cent of its total authorised share capital should be held by its regional members and not more than 40 per cent by its non-regional members. This was used as the basis for the initial subscription of its regional and non-regional members. Subsequent increases in its authorised share capital have altered the initial division in favour of regional members. In 1988, CDB's authorised capital stood at 62,302 shares, of which its regional members held 64.4 per cent.

The increase in the share of regional members has been due mainly to the admission of Colombia, Mexico and Venezuela, each of which holds 3.34 per cent of the total shares. There have also been major changes in individual member's subscription. When the Bank started in 1970, for example, Jamaica held the largest number of shares (22.4 per cent) of any member (regional as well as non-regional). It now holds 17.74 per cent, the same proportion as Trinidad and Tobago, which started with an initial subscription of 15.4 per cent. On the other hand, the proportionate share held by each of the other Caribbean members is now less than when it joined, except of Barbados, whose share has gone up from 2.8 per cent to 3.34 per cent. In the case of the non-regional members, Canada and the United Kingdom, each of which started with 20 per cent, is now down to 11.14 per cent each. France and Italy, the other non-regional members each holds 6.68 per cent. There will have to be another reallocation of quotas when West Germany becomes a member.

The regional members also have a built-in majority in terms of voting rights. Article 32 of the Agreement allows each member 150 votes plus one additional vote for each share of capital stock held. In 1970, they held 60 per cent of the capital stock and 64.9 per cent of the voting rights. By 1988, their share of the Bank's capital was 64.4 per cent and they held 65.1 per cent of the total voting rights. Both the ownership and control of the CDB rest effectively therefore with its regional members.

However, in terms of contributions to the Bank's resources, they are minority holders. In 1988, CDB's total resources came to US\$733.2 million including capital subscriptions, loans, grants and Trust Funds, but excluding net income of some US\$41 million from the Bank's Ordinary Capital Resources. The Commonwealth Caribbean members accounted for 13.0 per cent, and the other three regional (i.e. Latin American) members 11.9 per cent. In other words, the regional members contribute less than one-quarter of CDB's resources. Non-regional members (Canada, the United Kingdom and France and Italy) contributed 36.4 per cent between them. The rest (38.7 per cent) came from non-members, of which 17.4 per cent was contributed by the United States, making it the largest single

contributor. A further 15.3 per cent came from multilateral financial institutions, and the rest, 6.0 per cent represented contributions from Sweden, Nigeria, The Federal Republic of Germany and The Netherlands.

The disparity is even greater in respect of CDB's soft resources which totalled US\$510.3 million in 1988. The contribution of its Commonwealth Caribbean members, the principal beneficiaries, amounted to 5.7 per cent. The other regional members contributed 11.6 per cent making a total of 17.3 per cent contributed by its regional members. Non-regional members contributed a further 42.1 per cent. The other 40.6 per cent was contributed by non-members, of which the United States alone contributed 23.6 per cent, making it again, by far the largest single contribution to the Bank's resources. The share of multilateral institutions dropped to 8.9 per cent, while that of Sweden, Nigeria, West Germany and The Netherlands went up to 8.1 per cent.

This creates a rather anomalous situation in that although ownership and control rest with the regional members, CDB depends very largely on outside sources for its funding, particularly the United States. The extent and pace at which it extends its operations depend therefore, on the co-operation and contribution of non-members. So far, no major problems have arisen to force a resolution of this particular dichotomy, but clearly the situation is untenable in the long-run, given that (a) soft resources and special fund finance the largest share of CDB's operations, and (b) CDB's ability to borrow for Ordinary operations is limited by the callable capital of Canada, France, Italy, Trinidad and Tobago, the United Kingdom and Venezuela. Of these, only Trinidad and Tobago can draw on the Bank's funds.

Ordinary and Special Operations

CDB's financial resources consist of (a) Ordinary Capital Resources (OCR), and (b) Special Funds Resources (SFR). The former includes its authorised capital stock; funds borrowed by the Bank; funds received in repayment of loans; income received from loans; special resources and other funds which are not part of special funds. The latter consists of special funds contributed initially, or subsequently earmarked for inclusion in any special funds. It also includes repayment on earlier special loans or guarantees and income derived from the operation of such special funds.

The Bank's Charter specifically requires the "The ordinary capital resources of the Bank shall at all times and in all respects be held, used, committed, invested or otherwise disposed of, entirely separate from special funds resources. Each special fund, its resources and accounts shall be kept entirely separate from other special funds, their resources and accounts". (3)

OCR cannot, therefore, be used to finance special funds operations, and vice versa. More than that though, individual special funds, of which there are several, can only be used for the purpose for which they are intended. Similarly, liabilities incurred under any fund are limited to the operation and available resources of that particular fund. While these requirements do undoubtedly conform to the principles of sound financial and accounting practice, they create inflexibility and reduce the scope for internal economies, particularly in the case of special funds for developmental projects and programmes.

The most important of the special funds is the Special Development Fund (SDF), which is used to make or guarantee loans of a high developmental priority, calling for longer maturities, longer grace periods and lower interest rates than those set for ordinary operations. In 1988, the average rate of interest on SDF loans was 3 per cent per annum. Grace periods average 8.8 years and maturity 26.8 years. Table 1 shows the average terms of lending on SDF loans for the three borrowing groups and the proportionate share of total loans approved in 1988.

TABLE 1. CDB TERMS OF LENDING ON SDF LOANS IN 1988

	Maximum Maturity(a) (years)	Maximum Grace Period (years)	Interest Rate (per cent)	Share of Total
Group I	20	5	5	1.9
Group II	30	7	4	40.8
Group III	40	10	2	57.3

Note (a) including grace period.

Source: CDB Annual Reports 1987 and 1988, Barbados.

In all, 17 projects totalling \$44.7 million were approved in 1988. Of these, 13 went to Group III borrowers, the so-called LDCs. Jamaica was the only Group II borrower. It received 3 loans, one of which amounting to \$15 million, was for rehabilitation of hurricane damage. This had the effect of virtually doubling in a single year the amount of loans approved. Total disbursements however, amounted to \$17.1 million, the same level as in 1987.

Very definite limits are set on CDB's authority to lend, invest or borrow. The total amount of loans, equity investment and guarantees which it is allowed to have outstanding in respect of its ordinary operations at any one time is limited to the amount of its unimpaired subscribed capital, reserves and surplus and other funds included in its ordinary capital resources, exclusive of the special reserve set aside for meeting the Bank's liabilities. The total amount of funds which can be invested in equity capital is limited to 10 per cent of the aggregate amount of the unimpaired paid-up capital stock of the Bank actually paid up at any one time together with the resources and surplus included in its ordinary capital resources, excluding the special reserve. Equity investment is also limited to 10 per cent of the equity capital of the entity of enterprise concerned. In its special operations, total loans outstanding in respect of each special fund cannot, at any one time, exceed the total amount of the unimpaired capital of that fund.

Table 2 shows total resources and the different funds operated by CDB between 1983 and 1988. Ordinary Capital Resources constitute its hard funds and go mainly to the MDCs, with small amounts to the LDCs for private enterprise and public sector activities which are commercially viable or financially self-liquidating infrastructure. The terms of repayment attached to these loans are harder than SDF loans. The rate of interest, for example, is 9.5 per cent per annum. In 1988, OCR loans outstanding amounted to \$132.8 million.

Special funds are the Bank's soft window. They provide cheap loans for projects of a high developmental priority which are not usually self-liquidating. They constitute the chief means of supporting small enterprises indirectly through loans to national development finance corporations and infrastructure projects which support such enterprises. A basic rationale for their use is the need for development assistance to ease fiscal pressures and the external debt service burdens of very small and open economies where size and resources make development costly and limited in scope.

Most of CDB's soft-loans operations have been concentrated in the LDCs. Initially, this was done by the MDCs foregoing their entitlement to draw on the resources of the Special Development Fund (SDF), the largest of CDB's special funds. Later, it was decided that in the allocation of soft funds between LDC and MDC members, where aid donors do not stipulate the shares, the former should get no less than 70 per cent of the total, taking one year with another. It was also decided the LDCs could borrow up to 90 per cent of the project cost while the MDCs would be restricted to 80 per cent. By deliberately favouring the smaller, poorer members, it is hoped to counter-balance the natural tendency towards polarisation and for the benefits of integration to accrue to the more developed members. In 1988, total loans outstanding on Special Funds Resources amounted to almost US\$264 million.

TABLE 2 - CDB'S TOTAL RESOURCES, 1983-1988

	(\$US'000)					
	1983	1984	1985	1986	1987	1988
1. <u>Ordinary Capital Resources</u>	164,166	171,988	190,010	192,703	197,343	210,469
a) Paid-up Capital	65,708	74,302	80,237	80,237	80,237	94,813
b) Ordinary Reserves, Special Reserves, Current Net Income	25,407	23,639 (d)	29,141	30,144	34,280	41,044
c) Borrowings	73,051	74,047	80,632	82,322	82,826	74,612
2. <u>Venezuelan Trust Fund</u>	16,133	15,814	14,822	13,129	11,994	11,073
3. <u>Special Funds Resources (a)</u>	299,581	361,134	375,277	392,147	423,967	510,077
a) <u>Special Development Fund</u>	<u>137,749</u>	<u>178,154</u>	<u>197,417</u>	<u>219,470</u>	<u>244,779</u>	<u>334,505</u>
i) Contributions	78,983 (b)	133,176	150,082	168,660	187,795	279,187
ii) Borrowings	33,257	31,362	33,518	35,996	38,521	35,466
iii) Accumulated Net Income	25,509	13,616	13,817	14,814	18,463	17,585
iv) Other (c)	-	-	-	-	-	1,602
b) <u>Other Special Funds</u>	<u>161,832</u>	<u>182,980</u>	<u>177,860</u>	<u>172,677</u>	<u>179,188</u>	<u>177,174</u>
i) Contributions	19,580	33,252	35,004	27,983	24,027	24,093
- Canada	10,813	10,386	10,012	10,092	10,501	11,116
- United States (c)	4,619	15,486	13,171	7,832	5,172	4,786
- Other (c)	4,148	7,381	11,821	10,059	8,354	8,191
ii) Borrowings	<u>137,821</u>	<u>145,905</u>	<u>140,228</u>	<u>140,014</u>	<u>148,443</u>	<u>144,067</u>
- Nigeria	5,000	4,800	4,600	4,400	4,200	4,000
- Trinidad & Tobago	4,167	4,167	2,778	2,646	2,558	2,088
- United States	97,762	97,593	97,413	95,230	95,039	93,930
- IDB	11,592	8,179	13,209	13,059	12,278	11,686
- IDA	14,414	13,882	14,787	15,710	23,447	22,537
- EEC	4,881	17,284	7,441	8,969	10,921	9,826
iii) Accumulated Net Income & Current Net Income	<u>4,431</u>	<u>3,823 (d)</u>	<u>2,628</u>	<u>4,680</u>	<u>6,718</u>	<u>9,014</u>
TOTAL	479,880	548,936	580,109	597,979	633,304	733,221

Notes:

- a) Excluding the Venezuelan Trust Fund
b) Includes an amount of \$14.6 million held on behalf of Canada as accumulated net income
c) Non-reimbursable technical assistance
d) Restated as a result of prior year adjustments

Source: CDB Annual Reports (various years).

The Venezuelan Trust Fund was established with a contribution of 53,750,000 Venezuelan bolivars and US\$12.5 million from the Government of Venezuela. The purpose of the fund is to contribute to the financing of projects and programmes which may have a significant effect on the development of regional members, especially the LDCs, through better utilisation of their natural resources and the promotion of industry, agriculture and agro-industry, and the financing of exports and investment programmes for the development of tourism. The Venezuelan Investment fund has the right to the return of all sums received in repayment of loans and to the net income earned. In 1988, the value of the Fund stood at \$11 million.

Operations and Activities

The principles governing lending operations are very explicit. CDB is required, for example, to concentrate on the financing of projects which form part of a development programme whether at the national, sub-regional or regional level. It is also required to provide loans or guarantees to national development banks and other financial institutions, such as development financial corporations, where the scale of operations is too small to warrant direct supervision by the Bank. In making loans, it has to pay particular attention to the ability of the borrower to obtain finance elsewhere as well as to meet its service obligations. Any risk which it undertakes must be suitably and adequately compensated. Procurement of goods and services financed by its loans must normally be undertaken within the region, and help to develop and strengthen undertakings, entities and skills of individuals within the region. Further, CDB must ensure a reasonable distribution of the benefits of its operations as well as maintain reasonable diversification in its investment in equity capital.

In appraising projects, CDB must have regard to their technical, commercial, financial, economic, cost-benefit, legal organisational and managerial, environmental and social points of view; their effect on the general development activity of the country concerned; their contribution to the removal of economic bottlenecks; the capacity of the borrowing country to service additional external debts; the introduction of appropriate technologies to raise the contribution to domestic output and productivity; and the expansion of employment opportunities. In effect, it follows the same procedures and criteria used by the World Bank and other multilateral financial and development institutions.

There is a deliberate bias in CDB's financial operations towards its LDC members. Between 1970 and 1988, the cumulative total of net approvals of loans, including contingent loans and equity, amounted to \$665 million. Of this, 55 per cent was allocated to LDCs members and 45 per cent to MDCs. Net approvals from special funds over the same period ran to \$428.4 million, of

which 73.7 per cent went to LDCs and 26.3 per cent to MDCs. In 1988, cumulative grant financing amounted to \$75.2 million, with more than 90 per cent going to the LDCs.

On a cumulative basis, disbursements, including grants, at the end of 1988 amounted to \$545.3 million, or 76.4 per cent of total net approvals, which is better than average for most multilateral financial institutions. About 69 per cent of all disbursements for project financing has been funded by soft resources with the larger share going to the LDCs. To date, 58 per cent of all disbursements and 72 per cent of all concessionary special funds resources have gone to projects in these countries. In summary, up to the end of 1988, CDB provided a total of \$714 million as loans, equity and grants. Of this, 91.4 per cent were loans and 8.3 per cent grants. Equity accounted for less than one half of one percent. With a total of approximately \$2 million over 20 years in 3 LDCs, it is clearly the Cinderella of the Bank's operations. 90 per cent of all equity financing went into agriculture, manufacturing and tourism. These received 9 per cent and 1 per cent, respectively. Table 3 gives the percentage distribution of loans, contingent loans, equity and grants approved by sector for each member country between 1970 and 1988.

CDB's Banking Role and Operations

CDB has powers to borrow funds in its members territories or elsewhere, buy or sell securities, underwrite and/or guarantee securities in which it has invested, or otherwise has an interest, invest or deposit funds in any member country and assist regional members in matter relating to the foreign placement of official loans.

As the figures in Table 2 show, borrowings under its OCR in 1988 was well down on previous years. US\$74.4 million, or 10 per cent of total resources is conservative by international banking standards. Net income from ordinary operations in 1988 was US\$6.5 million, more than double the figure for 1987. A significant part of this gain (US\$1.9 million) was realised as a result of the devaluation of one member's currency. If this is excluded, net income would have increased by 50 per cent. However, investment income, having declined from US\$3.6 million in 1986 to US\$2.7 million in 1987, a drop of 30 per cent, remained stable, while the average yield on investment, including capital gains realised, was 8.5 per cent compared with 10.4 per cent in 1986.

TABLE 3 Percentage Distribution of Loans, Contingent Loans, Equity and Grants Approved (Net) by Sector for each Country (1970-1988)

Country	Directly Productive Sector					Economic Infrastructure & Other								Multi-Sector	Percentage of Total
	Agri-culture, Forestry and Fishing	Manu-fac-turing	Tour-ism	Mining	Total	Power and Energy	Water	Trans- portation and Communi- cation	Housing	Education (including Student Loans)	Health	Sani- tation	Total		
Anguilla	4	26	10	-	40	31	4	5	8	4	-	-	52	8	1
Antigua and Barbuda	20	34	9	-	63	1	-	2	12	6	-	-	22	15	2
Bahamas	5	14	8	-	27	-	26	31	-	-	-	16	73	-	4
Barbados	6	25	6	-	37	-	1	38	3	14	4	2	62	1	7
Belize	22	16	2	-	40	11	-	34	7	3	-	-	55	5	8
British Virgin Islands	22	28	3	-	53	39	-	1	-	6	-	-	46	1	2
Cayman Islands	3	4	3	-	10	10	-	52	2	1	-	25	90	-	4
Dominica	16	11	-	-	27	11	2	29	8	9	-	-	59	14	8
Grenada	13	13	-	-	26	-	5	43	10	9	-	-	67	7	6
Guyana	28	44	-	-	72	9	-	12	3	4	-	-	28	-	6
Jamaica	15	29	6	-	50	-	5	9	13	2	1	-	30	20	19
Montserrat	17	19	-	-	36	20	-	5	-	19	-	-	44	20	1
St. Kitts and Nevis	9	23	4	-	36	-	-	28	10	15	-	-	53	11	4
St. Lucia	8	24	9	-	41	2	13	21	6	10	-	1	53	6	8
St. Vincent and the Grenadines	10	26	-	8	44	12	3	23	4	8	-	-	50	6	8
Trinidad and Tobago	91	6	-	-	97	-	-	-	-	-	-	-	-	3	2
Turks and Caicos Islands	2	15	27	-	44	-	-	44	4	6	-	-	54	2	1
Regional:															
LDC Focus	3	2	1	-	6	2	-	77	-	-	-	-	79	15	6
MDC Focus	-	-	-	-	-	-	-	100	-	-	-	-	100	-	1
LDC/MDC Focus	3	4	10	-	17	4	1	3	1	17	-	-	26	57	2
Total	14	21	4	0	39	5	4	27	6	6	1	2	51	10	100

Source: Caribbean Development Bank Annual Report 1988, Barbados, Appendix I - F, p.84.

Borrowing for SFR operations exceeded US\$144 million in 1988, US\$4 million less than the previous year. This does not include borrowings for the Special Development Fund which also declined in 1988. The United States is by far the largest supplier of cheap, subsidised credit to the CDB. Significantly, Trinidad and Tobago is the only Caribbean member to make a loan to CDB. That was in the days when oil prices were booming. But times have changed. Its economy is not as buoyant nor its prospects as bright as ten years ago. One must therefore, regard this essentially as a one-off operation, particularly as none of the other Caribbean members have followed its lead. The value of this loan in 1988 was put at US\$2 million, less than half of one per cent of CDB's total resources. CDB's ability to raise loans within the region is thus very much open to question.

This is in direct contrast to its efforts at mobilising resources outside the region. From an initial capital base of US\$50 million, it has managed to expand the combined resources of its OCR and SFR to over US\$733 million. Virtually all of this has come from non-Commonwealth Caribbean countries. Its efforts to mobilise domestic resources and develop capital markets within the region have been confined to making loans, totalling US\$20 million, to National Development Banks and two public bond issues of US\$15 million in Trinidad and Tobago. These early successes have not however been repeated. CDB has also channelled substantial resources to local financial centres and development finance corporations for on-lending. At least one-third of all, its lending is tied up in this way.

At one level, this is indicative of CDB's success in strengthening and promoting the financial infrastructure and institutions of its Commonwealth Caribbean members. At another level though, it goes to the root of a major dilemma. The proliferation of national development banks, finance corporations and related financial institutions imposes a serious strain on CDB's technical and professional services. Secondly, most of the smaller member states do not have enough qualified and trained staff to service these institutions. Consequently, there has been a lot of slippage in terms of performance and repayment. The Caribbean Investment Corporation, for example, had to be wound up, and several LDCs are in arrears on repayment of outstanding loans.

For a long time, CDB has been concerned over the multiplicity of special funds, most of which are pre-packaged for specified projects. A reduction in the number (though not the resources) of these funds and, more particularly, some liberalisation and rationalisation of their operational requirements would clearly reduce operating costs and improve efficiency. It has also repeatedly expressed concern over the proliferation of statutory corporations acting as Executing Agencies for projects financed by the Bank. The inefficiency and operating standards of many of these financial intermediaries, particularly in the LDCs, not only adversely affect its

international credit rating (as a Bank) but also make it more difficult for CDB to raise replenishment funds and so fulfill its developmental role to the full.

CDB has performed reasonably well as a Bank. It is in surplus and it has a high credit-rating. As Table 4 shows, it also compares favourably with the World Bank and other regional development banks in terms of profitability (income before interest as a proportion of total assets) and its liquidity ratio (liquid assets as a proportion of undisbursed loans). The table also shows how poorly endowed CDB is as compared with the other multilateral financial institutions. It urgently needs to increase its capital base and its capacity to raise additional resources.

Regional Co-operation and Integration

Since its inception, CDB has worked tirelessly to promote regional co-operation and integration. It has helped members to co-ordinate their development programmes so as to achieve better utilisation of their resources, make their economies more complementary and to promote the orderly expansion of their international trade, particularly intra-regional trade. It has accordingly promoted projects which have a direct integration aspect principally in agriculture, transportation, industry and energy.

In the field of agriculture, CDB has promoted and financed regional agricultural, including fisheries and livestock, projects as part of the Regional Food Plan, adopted by CARICOM in December 1975. More recently, it helped in the development and adoption of the New Marketing Arrangements for Primary Agricultural Products and Livestock which aims to increase the region's net foreign exchange earnings through a reduction of its food import bill and an increase in the value of agricultural exports marketed both within the region and to third countries. It also played a major role in devising the Agricultural Sector Programme (1987-1991) for the co-ordination and integration of agricultural policies and programmes within the region.

CDB's policy in the industrial sector has been to support and promote projects which will not only make industrial development throughout the region more complementary, but also lead to more orderly market-sharing and the development of internationally competitive enterprises. To this end, it works closely with CARICOM in devising guidelines and instruments for implementing the Common Market trade and development policy, e.g. Customs Tariff, Rules of Origin and the Fiscal Incentive Regime. It also helped to mount the first Caribbean Manufacturers Exhibition in Barbados in 1985. On a cumulative basis, 9 per cent of CDB's funds have been allocated to regional projects, with the main emphasis placed on the LDCs.

Table 4: Performance Indicators of the Regional Banks and the World Bank, 1988

	IOB	AfDB	ADB	CDB	World Bank
1. Establishment (Year)	1960	1964	1966	1970	1945
2. Membership (Number)					
Initial ^a	20	25	31	18	n.a.
Present Total	44	75	47	23	135 ^b
Regional Countries	27	50	32	20	-
Developed Countries	18	17	18	3	26 ^b
3. Voting Power (%)					
Initial					
Developing	58.18	100.00	35.34	64.90	n.a.
Developed	41.82	nil	64.66	35.10	n.a.
Present Total					
Developing	54.01	67.93	45.088	67.37	37.55 ^b
Developed	45.99	32.07	54.912	32.63	62.45 ^b
4. Authorized Capital (\$mn.)					
Initial Amount	813	250	1,100	50	-
Present Amount	34,073 ^c	6,605	19,663	347	77,526 ^b
Subscribed by					
Developing	9,538	4,583	7,973	225.6	24,149
Developed	24,535	2,022	11,503	121.4	55,273
Paid-in Total	2,600	1,625	2,354	80.2	6,850
Callable Total	31,474	4,877	17,122	266.7	72,571
Callable, Developed	14,509	n.a.	10,118	93.7	n.a.
5. Statutory Funds (\$ mn.) ^d					
Cumulative Total	8,397	4,291	7,745	436.0	40,723
Recent Replenishment	703	2,700	3,600	118.5 ^b	12,400
6. Other Funds (US\$ mn.)					
Cumulative Total	1,188	305	82		-
7. Gross Borrowings (\$ mn.)					
Cumulative Total	12,155	2,156	7,561	148.4	65,846
1986	1,911	202	813	-	10,500
8. Loan Approvals (\$ mn.)					
Cumulative Total	35,438	8,445	19,491	678.4	n.a.
Average (84-86)	3,222	1,225	2,048	47.2	15,426
All Funds Cumulative Total	10,666	3,603	6,175		n.a.
Average (84-86)	273	746	651		3,248
9. Loan Disbursements (\$ mn.)					
Cumulative Total	24,027	3,139	6,092	491.3	n.a.
Average (84-86)	2,328	497	645	42.6	11,219
All Funds Total	-	1,297	2,384		n.a.
Average (84-86)	568	212	367		2,743
10. Assets (\$ mn.)	17,847	3,470	11,354	179.1	108,224
11. Profitability (%) ^e	7.5	6.0	7.7	6.8	6.3
12. Liquidity (%) ^f	40.7	44.5	71.0	62.5	68.8
13. Administrative Expenses (\$ mn.)	165	92	86	7.2	746

^a Initially the IOB had one developed member; AfDB had none; ADB had 15.

^b IBRD only.

^c Including inter-regional capital.

^d Fund for Special Operations (FSO) in the IOB; African Development Fund (AfDF) in the AfDB; and Asian Development Fund (ADF) in the ADB. World Bank figures are for IDA, the Special Fund and the African Facility.

^e Profitability is income before interest as a proportion of total assets.

^f Liquidity-ratio is liquid assets (cash and investments) as a proportion of undisbursed loans.

^g Pledged for the period 1988 to 1991.

Additionally, it provides funding for a range of other regional programmes, workshops and projects, too numerous to mention in a short paper (4). The rewards have not however, been commensurate with its efforts. Performance in the productive sector, the main focus of its attention, has been at best patchy. Agriculture, in particular, remains a major headache. Also, several programmes have either stalled or had to be wound up because of financing and implementation problems. The major expansion of intra-regional trade, one of the main planks of its regional co-operation and development policy, has not materialised. Indeed, the reverse has happened. Most of the region's growth in trade is with non-regional members. Further, imports have increased while exports show very little growth, adding to the members' balance of payments problems.

On the positive side, CDB's policy of special treatment for the LDCs has definitely paid off. Their economies are stronger, essential infrastructure has been put in place, and their growth rates exceed those of the MDCs. Inflation is also much lower in the LDCs. The danger of polarisation and uneven distribution of benefits inherent in regional co-operation and integration has been largely avoided. However, while CDB funds have played a crucial role in developing and strengthening the economies of the LDCs, they may eventually prove counter-productive to the process of regional integration. Lacking a history of economic co-operation and a strong basis for integration, the LDCs have always preferred to go it alone. Basically, what CDB funds do is to strengthen the economies of individual members to stand on their own. The evidence on this point is overwhelming not only in terms of the number of Bank financed projects which are duplicated throughout the LDCs, but also the lack of progress made in the harmonisation of their economic and financial policies, structures and systems (5).

CDB has developed important links with bilateral as well as multilateral donors and agencies. Among other things, it provides an effective channel for disbursing and monitoring donors' aid programmes, most of whom prefer to centralise operations and deal with CDB, rather than operate a series of small aid programmes in individual countries. The expertise and contact acquired have proved invaluable for improving the administration and effectiveness of aid to the region. Additionally, it has developed valuable contacts and working relations with various international institutions and governments which contribute to its SDF and other special funds.

It has also made a major contribution to regional aid policy and co-ordination. It participates in the work of the Caribbean Group for Co-operation in Economic Development (CGCED) which serves as a mechanism for the co-ordination and strengthening of external assistance to the Caribbean and for the continuing review of national and regional activities related to economic development of the region. Further, CDB was very active in the promotion of the Caribbean Development Facility (CDF) as a

mechanism for channelling foreign resources to help finance essential imports and to offer supplementary financing mainly for local costs in the execution of development programmes and projects. (6)

The Future

CDB has coped well with the problems of the past. It not only managed to establish itself, but also to gain the respect and confidence of the international financial community. This is a major achievement. Quite clearly though, it is being asked to do too many things with the limited resources at its disposal, and there is the danger of spreading its resources and energies too thinly over too wide a field. With twenty years of operational experience to draw on, now would seem the appropriate time to undertake a major and comprehensive review of its activities and operations. Among other things, this would identify its strengths and weaknesses, assess its achievements, and help to develop new strategies and policy responses to the problems of the 1990s.

One of the problems to be addressed is undoubtedly the adequacy of resources. CDB just does not have enough resources to finance all its operations. In 1988, for example, OCR loans fell to 20 per cent of total gross loan approvals (10 per cent lower than the previous year) mainly as a result of the shortages of loanable funds. The admission of Italy, and West Germany when formalities are completed, will provide a fresh injection of capital. But this will only be enough to finance its operations until 1991, after which the problem will resurface. A substantial increase in capital is in fact, urgently needed to ensure that it does not start the 1990s with a serious liquidity crisis on its hands. CDB is itself aware of this possibility, and has already initiated negotiations for a general increase in capital. It has also decided to have a regular (four-yearly) review of capital adequacy.

The admission of these two non-regional members will obviously facilitate borrowing in international capital markets. More needs to be done though, within the region itself, to increase CDB's lending and borrowing capacity as well as to develop and exploit regional capital markets. The Bank could, for example, issue local currency bonds in member countries, or encourage member governments to do so either at home or within the region. There is, in fact, a considerable amount of liquidity within the region which can easily be mobilised, if the appropriate financial instruments existed. CDB must take measures to develop this market.

New members bring new resources. However, given the requirement that ownership and control must rest with the regional members, the admission of non-regional members is limited to the status of minority shareholders. Further, the statutory limits placed on the amount of shares which they can

hold and their voting rights mean that new non-regional members can only be accommodated within very narrowly defined limits or by a re-allocation of existing non-regional members' quotas. This is what happened in the case of France and Italy. Britain's and Canada's quotas were reduced to make room for them. A similar re-arrangement will be necessary in order to accommodate West Germany.

On the other hand, there are not many Caribbean countries left to join CDB. In any case, their membership will not significantly increase its resources. There are also not many other regional (i.e., Latin American) countries anxious to join CDB. Nor is there likely to be, for a variety of reasons. Regional membership seems in effect to have reached its limit. CDB is thus faced with a dilemma which is very much of its own making. An increase in the membership of its regional (i.e., majority) shareholders is unlikely to strengthen its capital base sufficiently, or to provide enough additional resources to finance expansion of its OCR operations. At the same time, its Charter restricts the extent to which non-regional members (i.e., countries with the necessary resources) can subscribe to the Bank's Capital. A clear case of those who have the resources cannot increase their share of CDB's capital, while those who do not have the resources, can!

The division of subscriptions and voting rights clearly lies at the heart of this dilemma. It may have made sense to reserve majority rights to regional members at the outset. But times have changed. So, too, have the nature and functions of international capital. CDB has established itself as a reputable and efficient multilateral financial institution. It no longer needs to prove itself. There is also no longer any need to get hung up on outdated dogma. Regional ownership and control are no longer an essential pre-requisite for CDB. They are, in fact, an unnecessary and expensive restriction in its operations and ought to be relaxed. A more appropriate division of subscriptions and voting rights should therefore, be devised which would reflect the realities and requirements of the 1990s and at the same time preserve the essential characteristics of CDB.

As the data in Table 4 show, the other regional banks have already gone some way towards reducing the disparity in terms of capital subscriptions and voting rights between (i) regional and non-regional members, and (ii) developed and developing countries. The African Development Bank, for example, started out with all the voting rights reserved for African members. The proportion has now fallen to roughly two-thirds mainly to accommodate the admission of developed countries. More significantly, its authorised capital jumped from \$250 million to \$6.6 billion as a result. Similarly, the Inter-American Development Bank had one developed country member when it was established in 1960. The number now stands at 18, out of a total membership of 44.72 per cent of the Bank's share capital is held

by these developed country members, who collectively hold 46 per cent of the voting rights.

Two things emerge from this brief comparison. Firstly, any major injection of new capital will have to be accompanied by a revision of the distribution of voting rights in favour of those providing the funds. In the case of the CDB, this obviously requires the admission of additional non-regional members and a re-adjustment of the present statutory division of voting rights between regional and non-regional members. Secondly, the original pre-occupation with ownership and control has largely been superceded and rendered irrelevant by the need to attract additional external resources and the rapid globalisation of international capital markets. The other regional development banks have successfully responded to these developments without compromising the regional characteristics of their existence and operations. There is no reason to suggest that the experience of the CDB will be any different.

The review body which is currently studying the need for a general increase in capital will have to address this dilemma. Among the questions which need to be thoroughly examined are (i) what constraints, if any, does the statutory requirement of regional ownership and control impose on the efficiency and conduct of CDB's banking and financial operations, and how can these be removed? (ii) what does the concept of Caribbean characteristics of CDB mean in the context of the globalisation of international capital markets? (iii) how, and in what respects, would the nature and characteristics of CDB be affected if the present division of subscription and voting rights were varied?, and (iv) how would an increase in the proportion of CDB's callable capital, which presently stands at 76 per cent, affect its operations? The corresponding figure for the Inter-American Development Bank and the World Bank exceeds 90 per cent. How can CDB's capital base be restructured to bring it into line with that of these institutions, and what effect will this have on the regional members' ability to provide the necessary guarantees?

CDB urgently needs to decide what its role and relationship with the private sector should be, and the extent to which it should get involved in activities traditionally reserved for that sector. Consequently, its private sector portfolio has not been fully developed and remains out of focus with the rest of its operations. Less than 4 per cent of all its loans have in fact, gone to the private sector, and even then a substantial proportion of them has gone bad. According to the 1988 Annual Report, "Provision for loan losses increased by 73 per cent to \$1.9 million, mainly because of difficulties in the Bank's private sector loans portfolio. At the end of 1988, cumulative provisions for loan losses amounted to \$10.4 million, or 7.8 per cent of loans outstanding, compared with 7.3 per cent at the end of 1987." (7)

The private sector complains that there are too many layers of administration, each with its own conditionality leading in turn, to a bewildering array of cross-conditionality. Also, that there are too many delays in procurement, validation and other administrative procedures which increase costs and engender uncertainty.

The Bank has responded to these criticisms by improving its operating policies and procedures, restructuring its financial packages, and generally trying to win the confidence of the private sector. It provides up to two-thirds of the foreign exchange of project cost, subject to acceptable loan/equity ratios. However, much remains to be done, particularly in the field of equity financing, where the Bank's policies are unnecessarily cautious and conservative. The limits imposed on the level of participation in equity financing are now a serious constraint on its operations, and need to be relaxed.

Such a move would in fact, be consistent with the present trend adopted by the World Bank and other regional development banks in respect of co-financing, parallel financing, joint ventures and other forms of participation with the private sector. The Bank must make this one of its main priorities for the 1990s. The Report of the Task Force appointed to survey the needs of the private sector should provide valuable guidance on the extent of CDB's involvement and support for the private sector.

The debt crisis has not affected CDB as such, mainly because it only lends to Caribbean members, and the amounts involved are not significant by world standards. In 1988, total loans outstanding amounted to \$404 million. In terms of its current operations, total disbursements in 1988 ran to \$58.2 million, almost \$5 million up in the previous year. However, when repayments (\$34.6 million) are taken into account, net transfers (\$23.6 million) increased by only \$1.7 million, hardly enough to keep pace with the region's demand for additional resources.

More important than aggregates though, is the fact that (i) hard loans are rapidly driving service payments up, and (ii) the amount of loans on "non-accrual status" (i.e. in arrears) shot up sharply in 1988 (8). Arrears on OCR loans in 1988, for example, stood at \$28 million, an increase of \$5 million on 1987. This reduced CDB's income by almost \$4 million. In addition, arrears on CDB's soft loan operations in 1988 exceeded \$31 million, resulting in a further loss of almost \$1 million. In essence therefore, the makings of a major debt problem already exist, and all the signs are that it will get worse with the 1990s.

Further, CDB is not the only official creditor with debts outstanding in the region. Substantial amounts are also owed to various bilateral and multilateral creditors. In addition, the

proportion of commercial debts is steadily increasing. The debt problem will therefore deteriorate rapidly for all the well-known reasons. So far, the Bank's response to the problem of arrears and mounting indebtedness has been to seek to declare itself a preferred creditor; a position adopted by the World Bank and other multilateral financial institutions. This is hardly an effective or sympathetic way to deal with the problem. A lot more thought and analysis is required for a viable long-term regional debt management strategy, in which CDB plays a central role. This is undoubtedly the most significant contribution the Bank can make to resolving the debt problem of its members.

Then there is the problem of export promotion, trade liberalisation and the need for additional financing facilities for intra-regional trade purposes. The pressure for action on these fronts will intensify as the Common External Tariff (CET) in the OECS gets fully operational and intra-regional trade revives. While most members have some form of government-sponsored export credit and insurance guarantee agency, these are still in their infancy and vary vastly in terms of resources, operational coverage and experience. Also, they operate through the commercial banking system and are expensive. Having decided not to set up a Caribbean Export Bank, CDB will have to explore and develop ways of accessing existing sources of export credit and of encouraging regional institutions to increase the supply of pre and post-shipment credits on appropriate terms.

CDB will also have to explore ways of reactivating the Caribbean Multilateral Clearing Facility (CMCF) which was wound up in 1983. This will not be easy as there are several major problems to be resolved, the most obvious being, what to do about the outstanding debts. Guyana, for example, owed \$98 million, almost as much as the total amount of credits available to the Facility. Can these be written-off, or consolidated, and if so, how will this affect the credit-rating and operations of the new facility? Other outstanding issues concern such questions as what commodities should be included; should it cover existing patterns of intra-regional trade, or encourage new ones; what proportion of foreign exchange coverage should it provide, and how can additional external resources be mobilised to supplement its operations? Notwithstanding the problems ahead, CDB must find ways of re-establishing the CMCF (or some variant of it). The existing system of bilateral payments among members is clearly unsatisfactory.

The dictates of proper and efficient banking require CDB to maximise its net income, increase reserves, maintain a low loan/loss ratio and to satisfy all the other criteria of sound financial intermediation. At the same time, it is required to act as a development agency as well as to promote regional co-operation and integration. Although CDB has tried valiantly to straddle these three fences, it really is faced with an impossible task, given the resources at its disposal, the

multiplicity of special funds and compartmentalisation of operations.

Nowhere is this more evident than in the LDCs. On the one hand, these members do not have enough bankable projects to productively utilise the Bank's hard funds (i.e. for CDB to operate effectively as a Bank). On the other hand, they are the principal beneficiaries of its soft loan operations (its development agency role). The provision of subsidised loans and cheap credit is obviously intended to bring them to a stage where they can graduate to using CDB's hard funds productively. This has not happened. CDB's dual role is perceived essentially as being geographically rather than functionally separate. Hard funds and bankable projects for MDCs, and soft fund operations for the LDCs.

CDB has to resolve this anomaly particularly as (i) regional MDCs are now experiencing serious economic and financial problems and will increasingly look to it to provide additional development financing; and (ii) like other multilateral financial institutions, it will inevitably experience replenishment problems of its soft loan facilities. The LDCs have in fact done very well. With 13 per cent of the region's population, they received 55 per cent of total net loans and 90 per cent of all grants. They hold 6.5 per cent of CDB's shares and contribute even less to its total resources. The concentration of CDB's operations in the LDCs has, in fact, enabled them to outperform the MDCs. Perhaps, now is the time to redress the imbalance in the pattern and distribution of its operations.

There is also need for CDB to re-examine its sectoral priorities. The early emphasis on agriculture and tourism as the leading sectors seems to have given way to manufacturing and transport and communications without any appreciable improvement in overall economic performance of the beneficiary countries. The division between the directly productive sectors and economic and social infra-structure projects is in fact, heavily skewed in favour of the latter. On a cumulative basis, about 20 per cent of all CDB's resources have been channelled into social sector projects, with 14 per cent going on agriculture and 4 per cent on tourism. Given its limited resources and the economic and social characteristics of its members, it is legitimate to ask whether the present pattern of expenditure is appropriate for the region. As small, export-oriented, middle-income countries, the regional policy imperative must surely be to increase revenue-earning capacity on a path of self-sustained growth. CDB needs to re-orient its programmes to this end.

Finally, there is the question whether CDB should get into structural adjustment. So far, Jamaica is the only Caribbean regional member which has a structural adjustment programme with the World Bank. Guyana would, no doubt, have had one (or more) as well, if it had managed to sort out its problems

with the IMF, the other key actor in the adjustment process. However, leaving that matter aside, the point about these two economies is that they are the ones which have been experiencing the greatest difficulties in the recent past. Before it went into adjustment, Jamaica's GDP fell by 20 per cent between 1973 and 1980, and its public sector deficit ranged between 14 per cent and 18 per cent of GDP. Without an adjustment programme, Guyana's economic performance continues to deteriorate. In 1987, its public sector deficit amounted to 22.4 per cent of GDP, and its per capita income is now the lowest of CDB's members. It is therefore, the obvious, perhaps the only, candidate for an adjustment programme, World Bank/IMF style; that is, assuming Jamaica remains in adjustment with the World Bank.

Some of the questions which then have to be asked are:

- (i) Does CDB have the resources to finance a major structural adjustment programme for Guyana, and what effect would this have on its other lending operations throughout the region?
- (ii) What sort of terms and conditions, performance criteria, etc., would it impose on its own structural adjustment lending? How, and in what respects, would these differ from the standard World Bank/IMF package? If they do not, would the resources not be more effectively utilised in other activities?
- (iii) Does CDB have the technical, managerial and organisational expertise and capacity to devise, develop and administer an alternative regional programme of structural adjustment lending, i.e., effectively, to set itself up in competition with the World Bank and the IMF?

These are by no means the only questions which need to be asked. The point is, structural adjustment is a very expensive business. Only the World Bank and the IMF have the resources to mount and maintain these programmes. Also, there is no alternative for countries whose economies are facing protracted balance of payments and other structural problems, but to adjust. Experience from elsewhere suggests that although structural adjustment works, it takes time and ties up a lot of resources. Also, it requires sacrifices and hard policy decisions from the adjusting country. It is not a soft option. (9)

Unless CDB is prepared therefore, to make its own requirements and procedures substantially more liberal than those of the World Bank, then it would be futile to get into the business of structural adjustment lending. It would be equally futile for CDB to offer more liberal terms as its programmes would then effectively become a soft option. Either way CDB loses. It would make more sense to engage in limited operations and use its resources to supplement the World Bank's programmes. It could, for example, select a project or a series of sectoral activities which, for various reasons, fall through the interstices of the World Bank's programmes, and use its limited resources to develop them.

In summary, the 1990s will present CDB with a series of major challenges. Several of these have been identified in this paper, in particular, the shortage of funds. CDB must increase its capitalisation. It must also mobilise additional resources within the region as well as internationally. The Caribbean is in fact, well served by a variety of financial and commercial institutions, and there is no shortage of liquidity within the region. CDB needs to develop new instruments and forms of financial corporation with the private and commercial sector and the financial institutions for tapping into this market. This will require it to decide what its role and relationship with the banking and commercial sectors will be during the 1990s. Not much thought seems to have been given to this matter. The challenges which have been identified will require, inter alia, CDB to expand its operations, not on all fronts at the same time since it does not have the resources for that, but on a selective basis. There are too many separate special funds. Some of these can be consolidated and supplemented so as to allow greater virement of funds and flexibility of operations. They will also require CDB to amend its Charter in several important respects. But this is no bad thing. The essence of any viable institution is its ability to adapt to changing circumstances.

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FOOTNOTES

1. For a more detailed account, see, CDB - Its Purpose, Role and Functions - Twenty Questions and Answers; and CDB, The First Ten Years 1970-1980, printed by Letchworth Press Ltd. Barbados, 1980.
2. Article 1, Agreement Establishing the Caribbean Development Bank, 1970. Barbados.
3. Article 12, op.cit.
4. For a detailed discussion of these programmes, see Annual Reports, Caribbean Development Bank, Barbados.
5. See my study on Fiscal Harmonisation in the Eastern Caribbean, Commonwealth Secretariat, London, 1988. (Mimeo).
6. For a fuller account of CDB's contribution to regional integration, see CDB - Its Purpose, Role and Functions op.cit.pp.20-21.
7. Annual Report 1988, Caribbean Development Bank, Barbados. p.70.
8. The Bank places in non-accrual status all loans on which payment of interest, other charges or principal is overdue by more than twelve months.
9. See, Adjustment Lending - An Evaluation of Ten Years of Experience, Country Economics Department, Policy Research Series, The World Bank, Washington, DC, December 1988.