

May 16, 1973

To: Members of the Executive Board

From: The Secretary

Subject: Caribbean Development Bank - Report on the Third Annual Meeting
of the Board of Governors

Attached for the information of the Executive Directors is the report by the Fund observers on the Third Annual Meeting of the Board of Governors of the Caribbean Development Bank, held in Kingston, Jamaica, on April 26-27, 1973.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

Western Hemisphere Department

Report on the Third Annual Meeting of the Board of
Governors of the Caribbean Development Bank

Prepared by the Fund Observers

May 15, 1973

1. Proceedings of the annual meeting

The Caribbean Development Bank, established in January 1970, held the Third Annual Meeting of its Board of Governors in Kingston, Jamaica, on April 26-27, 1973. It was attended by the Governors and Alternate Governors of the 13 original regional members (Barbados, Guyana, Jamaica, Trinidad and Tobago, and 9 smaller Caribbean islands and territories),^{1/} 2 nonregional members (Canada and the United Kingdom), and Venezuela, which took its seat for the first time.^{2/} In addition, observers from several nonmember countries, from a number of regional and international organizations, as well as from official and private financial institutions of member countries attended. The Fund observers were Carlos E. Sansón and Andrew J. Beith.

The plenary sessions of the meeting were highlighted by an address by Sir Arthur Lewis, President of the Bank, on the need to develop entrepreneurial skills in the Caribbean area. A topic picked up by a number of other speakers was the uncertainty generated by international monetary developments over the last year; in particular, concern was expressed that the availability of capital resources for the Bank and trade outlets for the member countries might be affected if the uncertainty persisted. With regard to the Bank's operations in 1972, a number of speakers expressed their concern that the rate of loan disbursement had not picked up in 1972 although loan commitments rose sharply.

In addition, it was confirmed by a number of speakers that arrangements had been arrived at in February 1973 to replenish the soft-loan resources of the Bank with \$27 million in funds from the Canadian International Development Agency, the U.S. AID, Germany, and the United Kingdom. Two resolutions affecting the operations of the Bank were adopted by the Governors:

1/ Under the agreement establishing the Bank, Montserrat, the British Virgin Islands, the Cayman Islands, and the Turks and Caicos Islands are considered to be a single member.

2/ Colombia has not yet completed procedures for membership, which was approved by the Bank's Governors in April 1972.

(1) To increase the callable capital of the Bank and at the same time permit the Bank to borrow (for purposes of supplementing its ordinary capital resources) up to the amount of callable shares held by Canada, the United Kingdom, and future OECD members of the Bank. It is expected that this would permit the Bank to borrow at substantially lower interest rates.

(2) To allow the more-developed members of the Bank access to its soft-loan window. This would permit the Bank to obtain larger contributions to its soft-loan resources.

Finally, it was decided that the Fourth Annual Meeting of the Bank would be held in Grenada in April 1974.

2. Review of the Bank's activities in 1972

According to the 1972 Annual Report, the Bank approved 35 loans during the year, with a total commitment of over \$15 million. Also, the Bank earmarked \$3 million for a secondary mortgage program to match a U.S. AID loan. This rate of commitment represented a considerable improvement over the first two years of operation, when commitments amounted to only \$1 million and \$6 million, respectively. However, loan disbursements continued to lag in 1972 and, through the end of the year, total cumulative disbursements of the Bank amounted to less than \$500,000. The Annual Report attributes this slow rate of disbursement to a number of factors, the most important of which are: the large number of projects involving construction, for which the preparatory process is particularly lengthy; the fact that many private and other borrowers wait for Bank approval before mobilizing their own financial and other contributions to the projects; and a variety of administrative obstacles.

With regard to the sectoral distribution of loan commitments in 1972, loans to private agriculture gained momentum and the first loan was approved for a land settlement scheme. No loans were made to the Windward Islands' banana industry for which considerable sums have been earmarked, but the Bank is about to embark on a program of feeder roads in banana areas. During 1972, the Bank made contact with a large number of small hotels interested in expansion, but no loans materialized during the year, mainly because of lack of technical help (new arrangements are being made to intensify the Bank's technical assistance in this area). Infrastructure projects approved in 1972 included two deep water ports, wharf improvements, water supplies, and feeder roads. In 1972 the Bank began a new student loan program for university courses (other than in humanities, law, or social science), teacher training, technical and vocational training, business studies, and para-professional training. In manufacturing, the Bank continued to make loans to local development corporations and a new series of loans was begun to build industrial estates. The Bank has not yet made a loan directly to any manufacturing firm, as it has waited for completion of a report by the Economist Intelligence Unit on industries suitable for establishment in the less-developed members of the Bank. This study, which was completed in September 1972,

identified 16 industries which could be established on a sizable scale in the less-developed countries: (a) for North American or European markets: costume jewelry, sports goods, leather goods, canned fruit, plush toys, men's underwear, intimate apparel, outer garments, knitted piece goods, electronics, electrical accessories; and (b) for the CARIFTA market: bicycles, footwear, builders' hardware, hand tools and cutlery, domestic dinnerware.

The distribution of the Bank's commitments by economic sector as of December 31, 1972 was as follows:

	<u>(Thousands of dollars)</u>
Ports	5,080
Agricultural credit	3,120
Water supplies	3,068
Residential mortgages	3,000
Industrial estates	2,311
Roads	2,006
Agriculture and processing	1,694
Electricity	1,528
Small industry credits	1,275
Hotels	1,227
Telephones	718
Student loans	300
Airports	<u>50</u>
	25,378

3. Financial operations of the Bank

The authorized capital of the Bank was increased in April 1972 from \$50 million to \$100 million. At the end of 1972, the Bank received from the U.S. AID \$10 million of soft loans to initiate two housing programs. It is proposed to supplement the Bank's resources with other loan funds; thus, five monetary institutions in the area have agreed to support two-year bond issues and the Bank has begun to make arrangement for a market loan issue in 1973.

As of December 31, 1972 the total resources available to the Bank for lending were:

	<u>(In thousands of currency units)</u>
Ordinary capital (available over six years)	US\$54,286
Canadian contribution to Special Development Fund (available over five years)	Can\$5,044
Canadian Agricultural Fund	Can\$2,500
U.K. contribution to Special Development Fund (available over five years)	£2,083
U.S. contribution to Special Development Fund	US\$10,000
U.S. contribution to Housing Program	US\$10,000

In April 1972 the interest rate on loans to the private sector (excluding agriculture) was reduced from 10 per cent to 9 per cent. The rate of interest for agricultural loans remained at $8\frac{1}{2}$ per cent and for loans to the public sector at 8 per cent; a rate of $7\frac{1}{4}$ per cent was fixed for loans to government financial institutions for lending to the private sector.