

THE MULTILATERAL  
DEVELOPMENT BANKS

VOLUME 3

THE  
CARIBBEAN  
DEVELOPMENT  
BANK

CHANDRA HARDY

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**THE CARIBBEAN  
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CHANDRA HARDY



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# FOREWORD

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I am delighted to have been asked to contribute this foreword to Chandra Hardy's book on the Caribbean Development Bank (CDB) for three reasons: first, the timeliness and quality of the publication; second, the tremendous contribution the CDB has made and continues to make to the Caribbean in general and the OECS countries in particular; and third, my family's very close association with this most West Indian of institutions.

My first knowledge of the CDB was through my father, Noel Venner, who called me at the University of the West Indies in Mona, Jamaica, to inform me of yet another dislocation in the life of the Venner family in search of the holy grail of regional cooperation and unity. He had been engaged by the United Nations Development Programme to do the preliminary work for the establishment of this new institution. Our odyssey, which started in St. Vincent and had so far encompassed Grenada, St. Lucia, and Guyana, would continue to Barbados. Since I was studying economics and my father considered me a good listener, I was at the receiving end of unsolicited lectures on development banks in general and on what was going to be the greatest regional development bank in particular. I was made aware of the fact that the CDB was a triumph for the many regionalists who were undaunted by the demise of the West Indian Federation and were certain that the road to progress in the Caribbean lay in regional cooperation, even if not at the political level.

The CDB has lived up to its early billings and expectations. It has been fortunate to have had excellent leadership in its three presidents: first, Sir Arthur Lewis, Nobel laureate and repository of the hopes of the regional technocrats; second, William Demas, an ardent regionalist and intellectual protagonist for the special circumstances of small states; and currently, Sir Neville Nichols, whose long association with the institution and calm approach to its administration has brought it through the turmoil of recent years.

As a director of the CDB for many years, I have stressed the need for the institution to be mindful of its dual mandate: to maintain prudent banking policies and to be an initiator and catalyst for the development of its member states. This particular issue is not dead, as Chandra Hardy confirms, but one that my own institution has sought to define in a pragmatic way. We place strong emphasis on stability and prudent banking practices as a precursor for sustainable development, but we also see a strong role for institutions like the CDB to undertake focused research efforts in order to define a suitable development paradigm for its member states. This matter has engaged my attention since my first meeting with Sir Arthur Lewis, when, as a newly minted graduate of the University of the West Indies, I was presented to the great man by my father, who was then the Bank secretary. I remember Sir Arthur, with his head slightly inclined to one side, quizzing me on the development prospects of the OECS countries and explaining to me the role of the CDB in its regional context. It was one of the most stimulating conversations I have been privileged to have in my professional life.

Chandra Hardy has done an excellent job of chronicling the achievements of the CDB. Its contribution to the OECS countries is clearly demonstrated by the progress of these islands. The CDB is by far their largest provider of development finance, which is reflected in vital infrastructure and a constant replenishment of the project pipeline.

The Bank's involvement with first Guyana and then Grenada is important in signaling its commitment to the economic recovery of its member states and is a clear case of its role being beyond simply a bank. Its active participation in the Caribbean Group for Cooperation in Economic Development illustrates another vital role of the institution as an effective intermediary between the region on the one hand and multilateral institutions and the donor community on the other.

This publication appears at a critical period of West Indian economic history, as we are in transition from an era of protected markets and concessional aid flows to a more open and liberalized trading and financial environment and a drastic decline in aid to the region. We look to institutions like the CDB to play an active role in our transition. Chandra Hardy's book clearly outlines the situation of the region and the CDB and provides an excellent platform for the efforts that need to be made in the next phase of our development.

*K. Dwight Venner*  
Governor, Eastern Caribbean Central Bank  
St. Kitts-Nevis

# PREFACE

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In 1991 the North-South Institute launched its research project on the multilateral development banks (“the MDB Project”). The principal focus of the project was the group of regional development banks (comprising the African, Asian, and Inter-American Development Banks) plus the subregional Caribbean Development Bank. All these banks, created more or less in the image of the World Bank, had been around for two to three decades. Yet, in contrast to the World Bank, they had been subjected to little critical scrutiny.

The project was designed to provide a consistent framework within which each of the banks could be examined. Besides providing a brief history of the origins and evolution of its subject, each study reviews the experience of a selected group of borrowing countries, as well as the bank’s performance as a lender and as a mobilizer of resources. In all of the studies, the operations and policies of the regional bank are compared with those of the World Bank; also addressed are relations between the two agencies and the division of labor between them. Finally, each study looks ahead at the challenges facing the banks in the future.

In a word, the studies seek to determine the *development effectiveness* of the regional banks by examining their impact on growth, poverty, the environment, and social indicators of development. It is hoped that the project will make an important contribution to ongoing discussions regarding the future of the multilateral system of development financing, now in its fiftieth year after the Bretton Woods Conference. In addition to this volume on the Caribbean Bank, the project will yield four other major publications—one each on the Inter-American, Asian, and African Banks, as well as a “synthesis” volume. There are also two studies on Canada’s role in the MDBs, one on Sweden and the MDBs, and one on Jamaica’s relations with the MDBs.

The project has been generously supported through grants

from the Canadian International Development Agency, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the Ford Foundation, the Swedish Ministry for Foreign Affairs, the Caribbean Development Bank, the Norwegian Ministry of Foreign Affairs, and the Netherlands Ministry for Development Cooperation. The views contained in this volume and in others issuing from the project, however, are those of the authors alone and do not necessarily reflect the views of the project's sponsors, the funders of the multilateral development banks project, the North-South Institute, its supporters, or its board of directors.

*Roy Culpeper*  
MDB Project Director  
The North-South Institute

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This book is part of a larger study of the regional development banks undertaken by the North-South Institute. I would like to thank the North-South Institute and, in particular, Roy Culpeper, the director of the project, for inviting me to be a member of the team and for giving me wise counsel throughout.

I wish to acknowledge the extensive cooperation provided by the management and staff of the Caribbean Development Bank in carrying out this study. I am grateful for the encouragement and insights provided by Sir Neville Nichols, president of the CDB. Marius St. Rose, vice-president of operations, and Masie Plummer, vice-president of corporate services, were generous with their time for interviews. I cannot list all the staff who provided assistance, but I trust that they will recognize their contributions in the completed work. I do wish to mention and thank R. Mullins, N. Grainger, A. Eustace, D. Brunton, A. Maughn, J. Dellimore, W. Lawrence, K. Worrell, and Dorla Humes for the time spent discussing various aspects of the Bank's work. I also thank the staff of the library for their unfailing courtesy. I am especially indebted to Jasper Scotland, deputy director of policy and planning, who coordinated my work at the Bank, provided guidance at each stage, and gave detailed comments on an earlier draft.

I would like to thank Ione Marshall for her assistance in conducting research, compiling statistical information, and conducting interviews. The country studies draw on research provided by Sharon Singh for the OECS countries, Ione Marshall and Courtney Blackman for Barbados, and George Reid for Jamaica.

I have also benefited from the cooperation of staff at the World Bank—in particular, José Sokol and Yoon-Bo Shim—and of the staff at the IDB, especially R. Fletcher, C. Skeete, and the executive director for the Caribbean, J. Siewrattan.

My colleagues on the MDB project team, Nihal Kappagoda and Diana Tussie, who have written studies on the Asian



Development Bank and the Inter-American Development Bank, shared their knowledge and provided encouragement and comments. I have benefited from the guidance and suggestions of members of the advisory board, in particular John Lewis, Jean Quesnel, and Catherine Gwin, and of the participants of the two roundtables held in Ottawa in 1992 and 1993. I am also most grateful to Andrew Clark and Sarah Matthews at the North-South Institute for their administrative support and to Clyde Sanger and Maureen Johnson, who edited and greatly improved my text.

*Chandra Hardy*  
Washington, D.C.

# ACRONYMS

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ACB	Agricultural Credit Bank
ACP	advisory council to the president (of the CDB)
AFI	approved financial institution
BHN	basic human needs
BMC	borrowing member country
BNTF	Basic Needs Trust Fund
BSIL	Barbados Sugar Industries Limited
CARIBCAN	Caribbean-Canada preferential tariff agreement
CARICOM	Caribbean Community and Common Market
CARIFTA	Caribbean Free Trade Association
CBI	Caribbean Basin Initiative
CDB	Caribbean Development Bank
CDC	Commonwealth Development Corporation
CDF	Caribbean Development Facility
CGCED	Caribbean Group for Cooperation in Economic Development
CIDA	Canadian International Development Agency
CTCS	Caribbean Technological Consultancy Services Network
DFC	development finance company
ECCB	Eastern Caribbean Central Bank
EDF	European Development Fund
EDI	Economic Development Institute (of the World Bank)
EEC	European Economic Community
EIB	European Investment Bank
ERP	Economic Recovery Program
EU	European Union
FAO	Food and Agriculture Organization
GCI	general capital increase
GDP	gross domestic product
GNP	gross national product

IDA	International Development Association
IDB	Inter-American Development Bank
IDRC	International Development Research Centre
IFF	Intermediate Financial Facility
IFI	international financial institution
ILPES	Latin American Institute of Economic and Social Planning
IMF	International Monetary Fund
LDC	less-developed country
MDB	multilateral development bank
MDC	more-developed country
NDB	national development bank
OCR	ordinary capital resources
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
OSDF	other special development funds
OSF	other special funds
PAHO	Pan-American Health Organisation
PIEU	Post-Implementation and Evaluation Unit
PSIP	public sector investment program
SDF	special development funds
SDR	special drawing rights
SFR	special fund resources
SIDA	Swedish International Development Agency
TAF	Technical Assistance Fund
TW	Third Window (of World Bank)
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USDF	Unified Special Development Fund
UWI	University of the West Indies
VTF	Venezuelan Trust Fund
WHO	World Health Organisation

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# INTRODUCTION

The Caribbean Development Bank (CDB) is a subregional bank that has, over the last twenty-five years, focused its efforts on development of the Commonwealth Caribbean countries and, in particular, the seven small island states that form the Organisation of Eastern Caribbean States (OECS). It is small in size of staff (it has fewer than 200 at its headquarters in Barbados); and the average size of its project loans, at about \$5 million,<sup>1</sup> is also small in comparison with the two development banks above it: the Inter-American Development Bank (IDB) and the World Bank. But the advantages of smallness, as well as proximity to and continuity of relations with the partner countries, are clear in the CDB's record. It offers the addition of a modest, but significant, success story to the worldwide chronicle of efforts to reduce poverty and improve skills in the less-developed countries.

The CDB has played an important role in the mobilization of resources for investment in parts of the Caribbean. The Bank began operations in 1970 with eighteen members and \$25 million in paid-in capital subscriptions. By 1991, its financial resources amounted to almost \$1 billion, and the membership had increased to 25. Overall, the CDB has financed only 6 percent of the public sector investment in the region, but in the countries of OECS, its share of the financing has been up to 40 percent.

When the CDB was launched, Canada and the United Kingdom each advanced U.S. \$10 million (half paid-in and half callable) of the initial capital. This amounted to the maximum 40 percent shareholding allocated to nonregional members. Later, when France, Germany, and Italy became nonregional members, the Canadian and British shares were correspondingly reduced. The United States is not a member of the CDB since it is U.S. policy not to join any subregional bank, but its contributions to the

special fund resources (the Bank's concessional window) meant that it has accounted for more than 11 percent of the CDB's total resources.

The CDB has assisted the development of the region through the provision of both hard and soft loans, technical assistance, and policy advice; regional members have also benefited from obtaining more than 50 percent of the value of procurement contracts. Special attention was given to the less-developed member countries, which have received 55 percent of total lending and 85 percent of technical assistance grants. This was deliberate policy, but the decision was aided by the fact that, until recently, Barbados and Trinidad had little need to borrow from the CDB. In addition there was no lending to Guyana during the 1980s due to a build-up of arrears. Jamaica is the CDB's largest single borrower (with 18 percent of net approvals), and most of the loans have been directed to the small-scale private sector through local financial intermediaries, channelling funds through the National Development Bank and the Agricultural Credit Bank of Jamaica.

Although the CDB has had a limited record of project loans to Jamaica, it is nevertheless a strong project-lending institution. Its professional staff is competent and well regarded, and its project processing is faster and less costly than that of the IDB or the World Bank. The management and staff are knowledgeable about local conditions, and they have the confidence and support of politicians, government officials, the private sector, and the technical staff executing projects. The high rate of success in the projects and programs financed is a measure of the bank's effectiveness as a development institution.

The project portfolio has emphasized lending to the public sector for infrastructure development, mainly in the transport sector. The projects to build feeder roads and extend and rehabilitate main roads, ports, and airports have shown good financial rates of return as have project loans to public utilities to increase the supply of power and to improve the availability of clean water and sewer facilities. More important, the CDB has been successful in helping public utilities in the less-developed countries (LDCs) to show an operating surplus. The projects to support the export of bananas and other crops in countries such as Belize and St. Lucia have also been successful, but livestock and fisheries projects have encountered financial and managerial problems.

About one-quarter of the lending has been channelled through more than twenty development finance companies (DFCs) to small and medium-sized private sector enterprises, and considerable effort was put into strengthening these institutions. Support



for the social sector has been limited to the provision of loans for low- and middle-income housing, student loans for post-secondary education, and the Basic Human Needs Program (BHN), which emphasizes small community development projects.

The scope for policy-based lending was limited because the CDB has not had the staff to carry out detailed analysis of the fiscal and trade accounts nor the resources to provide balance-of-payments assistance, but the Bank has helped to channel funds from donors in support of structural adjustment. In 1976 the CDB helped to establish the Fund for Emergency Programs and Common Services in LDCs and, in response to the widespread balance-of-payments problems of its borrowers, made proposals to the aid group in 1978 that led to the creation of the Caribbean Development Facility (CDF) and the Basic Human Needs Fund to help countries implementing stabilization programs. In 1991, with the World Bank, the CDB cofinanced the economic recovery loan to Guyana—part of the package of support accompanying the clearance of arrears and the restructuring of the economy.

Country studies and project evaluation reports indicate that the CDB has had a positive impact on the OECS countries. They regard the Bank as a key partner in their economic development, and it has provided significant benefits to Barbados, partly in attracting other international agencies to the island, and partly in supporting efforts to revitalize the sugar industry and to improve the airport (and thereby the tourist industry). Because of its close ties to the region, the CDB has had a qualitative impact on economic policies beyond the resources it has made available. One example of this is the improvement in the public finances of several OECS countries, which benefited not only from macroeconomic advice but perhaps more from the effect of the CDB's policy conditions for project financing and efficiency. In the early 1970s, many of these countries were receiving budgetary support from the United Kingdom; when this support was withdrawn, they experienced severe fiscal difficulties. Today most OECS countries register budgetary surpluses.

In addition to lending, the CDB has provided resources for training and institution-building; aid coordination and economic policy advice have become important aspects of its operations. The Bank has complemented the role of governments in setting policies and has encouraged greater cooperation among Caribbean states. Lending to promote regional cooperation has been constrained by the lack of success of regional projects during the 1970s, but the CDB has subsequently supported a number of other