CARIBBEAN DEVELOPMENT BANK

SPEECHES PRESENTED BY THE PRESIDENT
DR. COMPTON BOURNE, O.E.

During the Period

May 2006 to December 2006

SPEECHES DELIVERED
by
THE PRESIDENT
DURING THE PERIOD
MAY 2006 TO DECEMBER 2006

CDB is pleased to present this selection of Addresses delivered on various occasions between May 2006 to December 2006 by the President, Dr. Compton Bourne, O.E.

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ABBREVIATIONS

bn	billion
BMCs	borrowing member countries
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CDF	CARICOM Development Fund
CSME	CARICOM Single Market and Economy
FDI	Foreign Direct Investment
FTAA	Free Trade Area of the Americas
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
ICT	Information and Communications Technology
MDGs	Millennium Development Goals
mn	million
ODA	Overseas Development Assistance
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of Eastern Caribbean States
OPEC	Organisation of the Petroleum Exporting Countries
SDF	Special Development Fund
UNECLAC	United Nations Economic Commission for Latin America and the Caribbean
USAID	United States Agency for International Development
USD	United States Dollar
USDF	Unified Special Development Fund
WTO	World Trade Organisation

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The Caribbean Development Bank and The Economic Growth And Development of The Caribbean Community Countries

PRESENTATION

by

DR. COMPTON BOURNE, O.E.

PRESIDENT

CARIBBEAN DEVELOPMENT BANK

at the

INTER-AMERICAN DEVELOPMENT FORUM

JOINT MEETING OF THE ORGANISATION OF AMERICAN STATES

PERMANENT COUNCIL

and the

PERMANENT EXECUTIVE COMMITTEE OF THE INTER-AMERICAN

COUNCIL FOR INTEGRAL DEVELOPMENT

Wednesday, April 12, 2006

Washington, DC

UNITED STATES OF AMERICA

THE CARIBBEAN DEVELOPMENT BANK AND THE ECONOMIC GROWTH AND DEVELOPMENT OF THE CARIBBEAN COMMUNITY COUNTRIES

I. INTRODUCTORY REMARKS

Ambassador Ellsworth John, Chair of the Organisation of American States (OAS) Permanent Council, Ambassador Gordon Shirley, Chair of the Permanent Executive Committee of the Inter-American Council for Integral Development, Distinguished Secretary-General Jose Miguel Insulza, Distinguished Assistant Secretary-General Albert Ramdin, members of the Permanent Executive Committee, Ladies and Gentlemen.

It is an honour to address you this morning on the challenges of development in the Caribbean Community and on the role the Caribbean Development Bank (CDB) sees itself playing in assisting its member countries to respond effectively. I greatly appreciate the invitation graciously extended by Ambassador Ramdin.

II. INTRODUCTION TO THE CARIBBEAN DEVELOPMENT BANK

CDB was established in 1970 for the purpose of contributing to the harmonious economic growth and development of its Caribbean member countries, having special and urgent regard to the needs of the less developed countries. Its constituency of borrowing member countries (BMCs) is almost identical to the membership of the Caribbean Community, excluding only Haiti and Suriname. Haiti has fulfilled the financial requirements for membership and is expected to complete the remaining formalities soon. Suriname has been offered membership. The Bank's total membership includes other regional countries, namely Colombia, Mexico and Venezuela who are non-borrowing members and non-regional members namely Canada, China, Germany, Italy and the United Kingdom who are also non-borrowing members. At the end of 2005, the Bank's share capital was USD 705 million (mn) of which USD 155.6 mn is paid-up. Loans outstanding are USD 1 billion (bn). The Bank finances its lending and grant programmes by borrowing on the international capital market and by donor contributions made to its special funds. The most substantial of these special funds is the Special Development Fund which is in its Sixth Replenishment and cumulatively has received USD 648 mn from donors and USD 120 mn from BMCs.

A highly important aspect of the Bank's activities is its participation in economic policy development, especially within the framework of the regional integration movement which it supports in many ways, including institutional strengthening of the regional trade negotiation machinery and the regional disaster response mechanism.

CDB's mission as the region's leading development finance institution is to work in an efficient, responsive and collaborative manner with its BMCs towards the systematic reduction of poverty through social and economic development.

The specific strategies and activities of CDB are very much conditioned by the economic situation of its BMCs, their strategies for economic growth and development, and by the Bank's own understanding of the options open to them. Let me say how the Bank views these matters at this point in time.

III. ECONOMIC GROWTH AND DEVELOPMENT

The Bank's Caribbean member countries sustained moderately positive economic growth rates over the last two decades. The annual growth rate of per capita gross domestic product averaged 2.9% during the 1980s and 2.4% during the 1990s. This growth performance rested on structural foundations of preferential agricultural export markets in the European Union, buoyant tourism industries, the emergence and growth of international financial services industries in some countries, and direct foreign investment in the energy and tourism sectors. The emergence of a dynamic entrepreneurial class, export market oriented, seeking markets in Latin America and the Caribbean as well as in Europe and North America was an additional positive factor. It contributed in no small measure to improvements in living standards as revealed by the placement of these countries in the upper range of countries in the medium human development index. Nonetheless, there are significant pockets of poverty and limited access to basic services.

However, the present situation shows signs of weaknesses which must be overcome if the countries are to consolidate past gains and experience sustainable economic growth. There has been a deceleration of economic growth to a period average of 1.1% for the first four years of the current decade. If this continues, the economic and social gains of the previous decades may be eroded. Furthermore, there are no indications that the volatility of economic growth, which at 3 standard deviations is high by international standards, has lessened; to the contrary, it seems to have increased in several countries, especially those vulnerable to natural hazard events.

There are several explanations of varying salience for the fragile economic growth of these sub-regional Caribbean countries. One broad set of factors are the structural changes in their relationships with the world economy. In respect of international trade, trade preferences have been lost or eroded for the main agricultural and agro-processed exports, that is bananas, sugar, rice and rum with consequential negative effects on profitability, production levels, employment, labour incomes, and fiscal revenues. Global tariff liberalisation has also weakened fiscal revenue capacity in addition to increasing the import intensity of domestic demand. Negative action by the

Organisation for Economic Cooperation and Development (OECD) under the harmful taxation initiative was a major set back for the international financial services industry.

These adverse consequences are particularly severe because the small size of the economies limits their resilience to external economic shocks, constrains the scope for economic diversification and engenders protracted adjustment periods. Furthermore, several of these countries are excessively indebted, which severely circumscribes the use of fiscal revenues and limits capacity to undertake contra-cyclical expenditures.

In respect of international finance, overseas development assistance is on a declining trend. The ratio of net overseas development assistance (ODA) to gross domestic product (GDP) was smaller in 1998-2002 than in 1990-1997 except in Antigua and Barbuda and the Bahamas. Direct foreign investment, although not a major component of capital accumulation in many of the Bank's BMCs, generally decreased in proportion to GDP at the start of the current decade.

It is sometimes thought that migrant remittances are a feasible substitute for stagnant or decreasing exports and for diminishing net inflows of foreign financial aid and direct foreign investment. True enough, remittances may be remarkably large relative to exports, foreign assistance, and GDP in a few countries. It is estimated that in Guyana in 2004, remittances were equivalent to 49% of export revenues, 99% of ODA, 477 % of FDI, and 34% of GDP. The estimates for Jamaica in the same year are 104% of export values, 1986% of ODA, 276% of FDI, and 19% of GDP. However, in other countries remittances are of lesser magnitude. Moreover, remittances are usually directed towards consumption of durables and non-durable goods and services rather than towards the purchase of production inputs or capital goods. They, nevertheless, play an important role in the balance of payments of several BMCs, especially in the context of rapid increases in the energy import bill.

Economic growth has been vitiated by natural hazard occurrences with especially severe incidence on socially vulnerable groups. Attention tends to be focussed on hurricanes which are endemic to the sub-region, but tropical storms of lesser severity, floods, landslides, earthquakes and volcanic eruptions have been also damaging. Estimated losses in terms of production losses, capital stock damage and gross domestic product run into billions of dollars. Analysts have drawn attention to the increased frequency of occurrences, to the intensity of natural hazard shocks, and to the heightened vulnerability of countries, attributing them to degradation of the national and global environment, deficient physical planning and inadequate building code regulation and enforcement.

On the non-economic side, there are evident problems of social disorder and weaknesses in public governance which impose capital costs and transactions costs on households and enterprises to the detriment of economic efficiency and growth.

Elsewhere, I have suggested a connection between economic inequality and social discontent manifested in the various forms of social disorder. This is of course not the only link. Joblessness, lack of access to education and training opportunities, social exclusion and alienation are other elements in the matrix. On the matter of governance, there are several areas of weakness. They include complicated and time-consuming bureaucratic systems and expensive and time-consuming judicial settlement systems, especially in relation to civil matters. There are also insufficient avenues for citizen participation in decision-making, and in some cases inadequate capacity for economic management.

IV. OPPORTUNITIES FOR ECONOMIC GROWTH AND COMPETITIVENESS

There are promising opportunities for resuscitation and acceleration of economic growth. In broad terms they entail some degree of economic diversification and economic modernisation, utilisation of cheaper energy sources, product innovation, and enlargement of the size of production enterprises to provide a basis for international competitiveness even in niche markets.

Within the agricultural sector, the regional market for sugar and the internal export market (tourism) for products such as bananas can substitute significantly for the contraction of market opportunities in the European Union if there is a regional policy governing purchases within the framework of the Caricom Single Market and Economy (CSME). Furthermore, some Caricom producers can maintain or expand market share for sugar in Europe if their industries are rationalised and reorganised and if requisite investments made in productivity enhancing technologies and production systems. Similarly for the rice industry where there is scope for import displacement if product quality deficiencies can be eliminated. More generally, the sub-region is a food-deficit one partly because of problems in production, distribution and marketing nationally and regionally. Land tenure, water resource management, a virtual absence of private enterprise in distribution, inadequate intra regional freight facilities, and inadequate port infrastructure are some of the bottlenecks.

In the tourism industry, competitive challenges have come from new, price attractive destinations, some of which offer products different from the traditional sunshine and beach facilities. To maintain or expand market share, the tourism sector in the Bank's BMCs must similarly introduce new products especially those linked to the Caribbean's rich history and culture and must achieve cost efficiencies which result in competitive product prices in the hotel industry.

The mining and energy sectors also present opportunities for growth. Bauxite and alumina are experiencing a new surge in investment and production. In the energy sector, exports of natural gas and derived chemical products are likely to continue to underpin the rapid economic growth of the Trinidad and Tobago economy. Belize has recently begun production of petroleum. Other countries are engaged in exploration. Export of energy products or import substitution in energy supplies have evident benefits for the energy exporting or energy importing countries. However, there are additional significant potential sources of economic growth emanating from the energy sector in the subregion. One is the tremendous production cost-advantages that can accrue to enterprises if they could access the abundant natural gas resources of Trinidad and Tobago. Another is the possibility of using biomass and ethanol energy sources based on the sugar cane industries. Yet another is renewable energy production from water and wind resources. Many of these potential developments could be facilitated by the existence of a regional energy policy.

I have touched on just a few illustrative areas of opportunities for a competitive Caribbean business sector. Others can be found in the manufacturing, transportation and finance sectors. However, certain key factors or enabling conditions must be given attention.

It is usual with justification to cite the governance and macroeconomic frameworks as two of the critical conditioning factors on the economic growth performance of countries. It is necessary to go beyond these to recognise the importance of an adequate stock of well educated and trained human resources, good physical and social infrastructure, adequate information and communications technology (ICT) capacity, and sound environmental and natural hazard risk reduction policies. The Caribbean's human resource stock while not terribly deficient needs replenishment and expansion, and no less importantly should be enhanced in terms of the range and modernity of the knowledge and skill sets. In respect of the physical and social infrastructure such as port facilities, utilities, and health care facilities, there is much unevenness supportive of the general conclusion that these too ought to be improved to facilitate economic growth.

With respect to ICT, there is little debate about the positive effects of access to low cost, high speed internet facilities on production and marketing efficiency (especially in service industries), on the quality of human resources, on the cost-efficiency of knowledge generation and acquisition systems, and on public governance.

Lastly, environmental and natural hazard risk reduction policies could contribute to preservation of the physical environment for production and exchange and reduce vulnerability to the natural hazard events which severely debilitate economic growth capacity in the sub-region. As the region's tourism industry moves into a new investment expansion phase, it is important to ensure that due consideration is given to the sustainability of the industry through careful monitoring of the carrying capacity of the natural environment.

Given the small sizes of CDB's BMCs and the limitations of small size in respect to international competitiveness, it is essential that improvements in productive efficiency and increases in economic sizes of enterprises be encouraged by liberalisation of movements of production factors and investment capital within the Caribbean. This is a central rationale for creation of the CSME.

Implementation of development strategies of the kind sketched in this presentation implies major calls on financial capital, well in excess of the countries' savings capacity not withstanding domestic savings rate between 15% and 35% in most countries in recent years.

V. CDB STRATEGIC PLANS

CDB takes account of many of these considerations in developing its own strategies for fulfilling its mandate. It goes without saying that the Bank sets a high priority on intermediating resources from the global financial system of private investors, bilateral donors and multilateral financial institutions for sustaining and expanding its supply of highly concessionary loans and grants to its BMCs. In this way, it can significantly augment investible resources available to the countries. CDB is able to do so largely on the strength of its own financial standing in the international capital market and on the international community's recognition of its comparative advantage in financing the relatively small projects consistent with the small economic size of the countries.

In terms of the intended beneficiaries of its activities, the Bank's overarching strategic focus is on poverty reduction through broad-based, sustainable economic growth. In the Bank's view, broad-based economic growth is a prerequisite for reducing poverty.

In pursuing this objective, CDB intends to make interventions which strengthen and modernise public utilities and infrastructure that support economic development, improve the competitiveness of business enterprises, and support agriculture and rural development.

A second strategic objective is fostering inclusive social development mainly through improving the quality of, and opportunities for, access to education and training, promoting social protection, and promoting gender mainstreaming.

A third strategic objective is promoting good governance essentially through interventions aimed at supporting the creation of modern, effective and accountable public sectors, strengthening capacity for macroeconomic policy formulation and management, and promoting social partnerships and participatory decision-making. In doing so, the Bank will further deepen and strengthen the well established democratic traditions of these Caribbean nations.

A fourth strategic objective is fostering regional cooperation and integration by interventions which strengthen the capacities of the regional institutions with mandates for promoting economic integration and by supporting the provision of regional public goods. In this regard, the Bank was instrumental to the establishment of the Caribbean Court of Justice. It is at the forefront of efforts to establish a Regional Development Fund within the provisions of the Revised Treaty of Chaguramus and envisages no less pivotal roles in relation to other key institutional components of the framework for regional economic integration.

The fifth strategic objective is environmental sustainability and disaster risk management and reduction. These two closely related facets will be reflected in CDB's interventions across all sectors as well as through specific interventions on environmental and disaster risk management and reduction policies.

The Bank is acutely aware of the serious debt problems of several of the BMCs and of the dangers they pose to capital expenditure programmes as well as to current expenditure programmes integral to improvements in public sector efficiency and provision of social services. Two complementary approaches to this issue are envisaged. First, provision of policy-based loans which provide budgetary support directed at an industry, a sector, or the macroeconomy bundled with a policy reform agenda. Second, assistance to countries in strengthening their fiscal capacity and their debt management capacity.

VI. DEVELOPMENT COOPERATION AND COLLABORATION

The challenges of sub-regional development are so immense that they cannot be successfully addressed by development-promoting institutions acting in an uncoordinated and competitive manner. The effects of such approaches are resource fragmentation, higher unit costs of delivering assistance, higher transactions costs imposed on aid recipients, and poorly inter-related development projects.

These problems can be moderated by the existence of a forum within which all development partners and Caribbean countries periodically discuss major development issues with a view to arriving at a common understanding of the development objectives and strategies and identifying their individual roles. The Caribbean Forum for Development administered by CDB is an attempt to do so.

Another far-reaching initiative would be the de-emphasis of traditional bilateral direct aid programmes and instead the channelling of financial resources through sub-regional entities acting either as financial intermediaries or implementation agencies. This entails recognition of the comparative cost advantage of the sub-regional entities and trust in the effectiveness and probity of their operating systems. CDB has a model arrangement with Canada through which Canada pursues its bilateral objective of direct poverty reduction in the Caribbean by placing the administration of its financial provision in an existing CDB programme. The Bank's Unified Special Development Fund (USDF) is another example of development partners contributing financial resources to a sub-regional bank for well-defined, mutually agreed action programmes.

Finally, development institutions and multilateral institutions like the OAS should constantly seek out possibilities for joint actions. Two examples that come readily to mind are fields of information technology and entrepreneurship development where the work of the OAS can be effectively combined with that of the sub-regional development banks to enhance their individual impact on the problem of economic underdevelopment.

The Impact of Globalisation On Developing Economies: Are We Ready?

by

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at the

BARBADOS INVESTMENT AND DEVELOPMENT CORPORATION CONFERENCE

HILTON HOTEL, BARBADOS

MAY 31, 2006

The Impact of Globalisation On Developing Economies: Are We Ready?

The topic for my address posits that globalisation is of significance for developing economies and poses a question about the readiness of Barbados and other small Caribbean economies. I would like to begin by repeating a point I made in an address on the subject of a little more than three years ago. It is this: , while not a new historical phenomenon, in its current epoch engenders much denser interactions across national boundaries than in earlier epochs and has a much more encompassing geographical coverage. All forms of human activity and economic transactions are tightly interwoven across geographical space.

However, the degree of integration into the global economy, society and polity is not uniform. Countries differ markedly in their centrality to the processes, in their benefit-cost outcomes from participation in the international economy and in their influence on world developments. With few exceptions, perhaps, small developing economies must operate within the framework of rules and sanctions devised by the wealthy and powerful developed economies.

In the economic sphere, includes the deepening of international trade relations evidenced by higher ratios of trade to national income and by higher ratios of imports to national income. Countries have become more trade-dependent. At the same time, has been attended by strong movements towards regionalism which in the case of industrial Europe and North America have ensured that trade deepening and the benefits associated with it have been largely confined to the countries within those trade groups.

A very important concomitant of globalization is the erosion of trade preferences from which small Caribbean economies have traditionally benefited. The affected commodities are mainly agricultural and agroindustrial (bananas, rice, sugar and rum) but manufactured commodities may also be affected. The removal of trade preferences has proceeded at a faster pace than the dismantling of protectionist barriers erected against agricultural and manufactured goods in which developing economies largely because of labour cost differentials and natural endowments would have competitive advantage.

In addition, the rules by which the WTO governs world trade make it extremely difficult for small developing countries to protect their own producers from import competition from large economies in which producers more readily benefit from economies of scale and scope as well as from government financed support programmes.

There are at least four points of significance to this set of characteristics for small developing Caribbean economies. One is that Caribbean producers have to face more intense international competition in their national markets. The growth of this competition is paralleled by and facilitated by a modernized distribution sector taking full advantage of a broadening of consumer tastes itself heavily influenced by of the electronic media. To retain market share, local producers must be able to achieve higher levels of production efficiency reflected in more competitive prices and offer qualitatively superior products. They must also improve their distribution systems, i.e their systems for getting goods to market, and their relationships with local distribution enterprises especially to assure reliable and consistent supplies.

The second point is that Caribbean exporters face stronger competition, indeed competition for the first time in some product markets, because of the erosion of preferences and the entry of new suppliers into what were previously closed markets. This requires reformulation of business strategies based on recognition that a fundamental change is occurring in the marketplace. It is necessary that producers in the traditional export industries recognise that the industries are transiting from a situation of periodically negotiated product prices intended to guarantee income on assumption of satisfaction of production targets. The new situation is one in which product prices, product quality and supply reliability are means to generate sales and win market share in openly competitive markets. From this recognition would follow a search for production efficiency, product innovations and quality improvements and new, non-governmental modalities of business interface with the global economy.

To speak of "non-governmental modalities" is not to propose that governments would have no role in the search for international markets. Trade diplomacy should continue as an important form of business support. What is being suggested is that business enterprises will have primary responsibility for establishing the international markets for their products. International relations would play a supporting role rather than a dominant role.

The third point is that small developing Caribbean economies have no alternative but to seek to develop new product lines as part of their adjustment to loss of market share in those lines in which they are not sufficiently cost-competitive. In a business world in which products are highly differentiated and market niches appear, there are opportunities for small innovative producers. However, investment in research and development and in technology acquisition and adaptation will be critical.

Fourth, markets comprised of migrant communities can be approached as a way of export diversification even within traditional geographical trading patterns. The Caribbean diaspora has received little sustained, systematic attention as a market for

Caribbean products despite its continuing growth and the visible success of the few ventures thus far. Two noticeable features of some of the successes in diaspora marketing is that sales spread beyond the migrant community and that distribution methods and outlets are modernised, e.g. freight transport instead of passenger accom-panied baggage, and supermarkets instead of street markets as that community becomes more integrated into the host community. The diaspora market could therefore be viewed as an entry point rather than as an exclusive end in itself.

International trade is not the only important economic facet of for small developing Caribbean economies. International financial transactions are another. These could take the form of direct equity participation in green field ventures as would be the case with the establishment of a new hotel or a new energy sector enterprise. More commonly, they are taking the form of acquisition of pre-existing enterprises. They have also taken the form of commercial loans and bond market transactions. All of these forms are evident in the Caribbean. They can be beneficial. Whether they are beneficial or not depends on the terms of the financial transactions, on whether the investment is long term or short term, whether there is positive complementarity with other investments or displacement of capital, and whether the foreign investment stifles local investment and enterprise. There is a real danger in small developing economies that unless there is a well considered policy framework for financial interrelations with the global economy that domestic enterprise and investment can be crowded out and that instability can be engendered in the financial system.

The last characteristic of to which I draw attention is the movement of people. Whether out of curiosity, a sense of adventure, or a consequence of higher levels of wealth and income, recreational travel has expanded exponentially. This presents opportunities for exports in tourism and related services for the Caribbean. Taking full advantage of those opportunities requires the strengthening of marketing capacity, continuous product development, maintenance of high standards of service delivery and competitive pricing. There is much unevenness within the Caribbean in all of these areas.

The movement of people also includes movement for the purpose of work and settlement. To this we must also add the disembodied supply of labour services across borders. In econospeak, disembodied supply of labour services means that the provider of the service does not have to travel. For example, the consultant who stays in Barbados but works for overseas clients. Labour mobility has become a pervasive element of the international economy with small developing countries at a competitive disadvantage with respect to both embodied and disembodied labour services in specific high skill categories, notably nurses and medical practitioners. One result is human capital loss which adversely affects production and economic growth.

It has been widely observed that production of globally traded goods and services is very knowledge intensive as is the production of services which support international trade. This places a high premium on the development of knowledge systems and on education and training. Small developing countries which do not have the advantages of economies of large scale production or economies of scope, i.e. cost savings accruing from multi-product operations, must seek competitive strength in their human resources. Investment in human capital is not optional for such countries if they wish to retain an economically rewarding place in the global system. It is a necessity.

An issue which has arisen is the extent to which the prospects of small developing economies might not be enhanced by economic integration among themselves as a kind of cooperative institutional device for enlargement of resource base, garnering economic efficiencies and more effective economic diplomacy. This question has of course been posed and answered in the affirmative by Europe, notwithstanding the implementation lags and problems attending the attempt at European Union. It is also the question with which Caribbean Community states are grappling at present. There is a formal positive answer in the declared intent of a Caricom Single Market and Economy (CSME). The path from declaration to achievement has its share of detours and reverses. Nevertheless, there is discernible progress.

Are the Caribbean economies ready for ? Well, not quite! They have been getting ready but as might be inferred from the preceding discussion of international trade, financial markets, labour markets and the CSME , there is much that can still be done. It is advisable that our societies adapt more rapidly if we are not to fall too far behind for meaningful recovery. Moreover, it is necessary that we recognize that is a continuous process so that there can be no final state of readiness only a permanent determination to do what is necessary to succeed in the fiercely competitive global environment.

Making the Best of an Economic Boom

ADDRESS

by

DR. COMPTON BOURNE, O.E.
PRESIDENT
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to

THE INDUSTRIAL ENGINEERING AND MANAGEMENT
(IEM-2006) CONFERENCE
on
BUILDING ENGINEERING AND MANAGEMENT
COMPETENCE

at the

UNIVERSITY OF THE WEST INDIES, ST. AUGUSTINE
TRINIDAD AND TOBAGO
JUNE 1-2, 2006

MAKING THE BEST OF AN ECONOMIC BOOM

I am pleased to address this IEM-2006 Conference on Building Engineering and Management Competence. The topic is extremely important and timely in this period of rapid economic growth which makes great demands on the engineering profession. I have therefore chosen to speak on the subject ***"Making the Best of An Economic Boom."***

Trinidad and Tobago is experiencing its second economic boom in a little more than 30 years. As for the boom of the 1970s, the current one is based on a period of extraordinarily high petroleum prices in world markets. Unlike in the preceding period in which the price trend reflected the exercise of power by a producers' cartel, i.e. the OPEC oil producing nations, the price surge now seems to reflect market fundamentals of higher and growing demand in the face of war-induced shortfalls in global production. Chinese and Indian economic growth on the demand side and supply impediments caused by the war in Iraq and international political tensions over Iran's nuclear ambitions are major factors underpinning the price surge. It is therefore anticipated that the upward shift in world petroleum prices will be sustained into the medium term.

Economic progress achieved during the 1970s boom was significantly reversed during the 1980s according to many of the conventional economic indicators such as the growth rate of GDP, unemployment rate and foreign exchange reserve balances. Unemployment rose. Profits and labour incomes fell precipitately. Businesses closed. Mortgaged residential properties were repossessed and sold. The economy entered into a long recession. The reversals and the associated deterioration of personal economic wellbeing were damaging to confidence and the national psyche. With hindsight, one could claim that the best use was not made of the opportunities presented by the first boom. Resource wastage was enormous. The challenge now is to do better; to make the best of the current boom. The outcome will turn upon the quality of management in government, in enterprises and in households.

Let me say something first about government. There is a conventional view that government should follow a kind of annuity rule which smooths expenditures over a defined long period of time. Most of current fiscal resources would be saved to finance deferred expenditures under this rule. This principle would be valid if the economy was already well endowed with capital and wealth and growing on its steady state growth path. However, in a case such as Trinidad and Tobago where the economy is starting from a low base of income and wealth, it makes good economic sense for government to utilise its fiscal windfalls to put the economy on a higher growth path than would be feasible in the absence of a greatly enlarged public purse. It has been established by many international empirical studies that government spending can have positive effects on national productivity and on private investment. The mechanisms include improvements in community health, better social and productive infrastructure, more efficiency in the delivery of public services and social stability. But for these benefits to accrue there must be efficient management of the fiscal resources in several respects. Expenditures have to be carefully planned. Implementation, especially of capital projects, has to be tightly managed to avoid delays, cost overruns, and sub-standard work.

Efficient scheduling of input supplies and management of labour are no less important. In skills-deficient economies or in situations of general labour shortage, it will also be necessary to augment domestic labour supply by resorting to imported contract labour. Shortage of highly skilled labour during the 1970s was one of the reasons for insufficient supervisory and monitoring capacity in the management of foreign civil works contractors and the corresponding implementation failures.

The decision calculus which informs private expenditures is different from that governing public expenditures in that there are no considerations of externalities and inter-temporal maximization of social welfare. Business enterprises attach zero or minimal weight to the economic effects of their activities on entities other than their own enterprise. Community benefits and community costs do not enter into their calculations of profits. They also do not take into account the long run social consequences of their actions. Those considerations, they are quite happy to say, are the business of governments. The core consideration is private net benefit. For enterprises, the net benefits are represented by a future stream of profits. Many of the management issues raised in relation to government expenditures would apply to expenditures by private enterprises: the planning of investment; the management of implementation; scheduling of inputs, including labour, etc. But there is at least one significant additional factor, i.e. the management of financial arrangements.

One feature of economic booms is that interest rates as a measure of financing costs lag behind expected returns in the upswing of the economic cycle. There is a positive gap from the perspective of debtors. During the down swing, however, interest costs do not come down as rapidly as expected returns. The result is negative gaps from the perspective of debtors. The implications of negative gaps between interest rates and expected returns during the downswing contrast with those of positive gaps during the upswing. The positive gaps stimulate both a demand for credit and a willingness to provide it. The outlook seems like a "win-win" outcome. Everyone is happy. During the period of negative gaps in contrast, debtors are stuck with debt repayment obligations contracted at higher levels of expected revenues and creditors having revised their expectations pessimistically are less inclined to make new loans. One moves into a "loss-loss" situation. Everyone is unhappy. The overall result is that enterprises may experience liquidity problems, difficulties in refinancing and even insolvency. Financial management should therefore not be taken lightly during economic booms.

Let me now turn to the household sector. Household expenditures are intended to generate a stream of consumption benefits especially from expenditures on durable goods such as residential property and transportation goods. They also generate periodic benefits from non-durables such as entertainment and recreation. Households have to be careful not to over-extend themselves during economic booms. They have to ensure that their payments stream does not exceed their income stream. The danger lies in misjudging the degree to which income changes during a boom are either transitory and reversible or are permanent and sustainable. Transitory incomes do not provide a reliable basis for servicing debt. The larger the transitory component of total household income, the greater is the likelihood that household expenditures financed by credit will cause loan delinquency and default. Resolution of these two financial problems may entail dis-investment of financial and non-financial assets with losses to both debtor and creditor. Euphoric conditions associated with economic booms and loan pushing by financial institutions tend to weaken financial prudence on the part of households, sowing the seeds of later crises in the financial system.

In a paper published in the 1980s, I analysed the experience of Trinidad and Tobago during the 1970s economic boom. That analysis showed that a weak regulatory framework for financial institutions, especially the finance companies which mush-roomed in a regulatory vacuum combined with expansionary private debt and credit policy, unrealistic expectations about the duration of the economic upswing and almost Ponzi-type financial schemes were the main factors behind the financial crash from which recovery was difficult and protracted.

I have spoken about the importance of management at the levels of government, enterprises and households. Management issues arise at the macroeconomic level also. Some of the characteristic conditions of an economic boom are (i) an acceleration of inflation; (ii) an upward shift in importation of goods and services; (iii) decumulation of the economy's stock of foreign reserves; (iv) the tightening of labour market conditions evidenced by falling unemployment rates and rising wage rates; and (v) rapid sustained credit expansion.

The overheating of the economy, which is the term often used to describe these events collectively, interacts dynamically with transactions in the three economic sectors discussed earlier, compounding the problems of micro management. The government sector's institutions of macroeconomic management, e.g. Central Bank and the Ministry of Finance, are therefore central to the objective of making the best of economic booms. The responsibility for restraining the growth of the macro variables and keeping the economy on a stable but higher growth path is theirs. Their task is complicated by the intrinsic uncertainty of economic behaviour especially in periods of rapid economic change. Not only are there changes within the domestic economic and social environment, the international environment, which has tremendous influence, is also changing quickly.

The responsibility of macroeconomic management is an enormous responsibility. Failure at this level has pervasive effects on the country. There is no doubt that the economic authorities are fully seized of the incipient dangers to the macroeconomy. Recall for instance statements made by the Governor of the Central Bank when presenting the Monetary Policy Report for April 2006 last week. Inflation, the boom in consumption and construction and large sales of foreign exchange by the Central Bank were highlighted.

The considerations which I have advanced this morning are not immaterial to the community of engineers, whatever their specialisation. They have salience for what engineering professionals do as engineers and as managers of enterprises and projects. I suggest that they are worthy of reflection.

Economic Challenges in the Caribbean Community

Panel Address

by

DR. COMPTON BOURNE, O.E.

PRESIDENT

CARIBBEAN DEVELOPMENT BANK

to the

TWELFTH CONFERENCE OF MONTREAL

CANADA

JUNE 8, 2006

ECONOMIC CHALLENGES IN THE CARIBBEAN COMMUNITY

Mr. Chairman, Colleague Panelists, Ladies and Gentlemen: Allow me to begin by thanking the Chairman of the Conference of Montreal for inviting me to participate in the 12th Conference of Montreal. I am particularly glad for the opportunity to speak briefly about the economies for which as President of the Caribbean Development Bank (CDB) I have a modicum of responsibility. The member countries of the Caribbean Community (CARICOM) are in some ways a unique subset of Caribbean countries. With the exception of Belize, Guyana and Suriname, they are island economies. They are small economies whether measured in terms of geographical space, population or aggregate economic transactions. Their dependence on international economic transaction is acute. The ratio of foreign trade to gross domestic product (GDP) typically exceeds 70%. Migrant remittances are a major source of capital inflows in many counties, surpassing exports of goods or services in a few of them. Migration of the unskilled and semi-skilled is an important mechanism for reducing high levels of unemployment.

The economic record of CARICOM countries during the 1980s and 1990s while not outstanding was on the whole positive. Unlike Latin America, the 1980s and 1990s were not lost decades as far as economic growth is concerned. Economies grew in real terms by an average of 4-6% yearly. However, economic growth started to decelerate towards the end of the 1990s and became increasingly volatile. International economic shocks are a major source of the weaker growth performance.

A fundamental change in the regime for exports of bananas to Europe resulted in dramatic falls in output and exports in the Windward Islands for which bananas are a principal export. Even in larger or more diversified economies such as Jamaica and Belize the negative effects were severe, impacting most on rural households. Family farms have been unable to retain labour thereby shifting many family members on to the wider job market where chances of employment are not great. Rural incomes have declined. Regime changes in progress for exports of sugar to Europe are an additional significant adverse trade shock to several countries.

The sugar industry up to this point contributes importantly to GDP, employment, export earnings and fiscal revenues in Guyana, Belize and Jamaica. The new price regime which takes effect in 2007 will reduce earnings and make some enterprises uncompetitive in the global market.

One of the challenges confronting CARICOM countries is to quickly restructure their export sectors to develop new product lines, to achieve greater competitiveness in some of the existing product lines, and to establish or develop other economic activities to absorb labour displaced by the unavoidable contraction in sugar and bananas. This restructuring covers all sectors, including tourism, mining, manufacturing and finance. The essentials of the plans are: (i) the recapitalisation and modernisation of those industries with prospective international competitiveness; (ii) the phasing out of industries which cannot be competitive; (iii) strengthening of tourism exports through intensified marketing combined with product innovation and greater cost efficiency; (iv) expanded investment in human resources through education and training as well as through health services; and (v) geographical diversification of trade and other international economic relations. All countries have embarked upon this process of restructuring but not fast enough. One constraint inheres in the small size of the economies. Diversification is riskier and more difficult to implement when it does not take place at the margin of existing operations.

Another constraint is that of financial resources. As a concomitant of the new trade regimes, the European Union has made or is making available sizeable financial resources to Caribbean countries to part finance their adjustment. This is evidently laudable. However, there will still be a significant financing gap which is extremely difficult for fiscally weak governments to fill. This is all the more troubling since overseas development assistance to the Caribbean has been on a declining trend. The reasons for the decline include the view that by virtue of their middle per capita income status Caribbean countries, Haiti and Guyana excepted, are not among the more economically disadvantaged in the world and therefore are not as deserving of international aid. Other reasons include the diversion of financial resources to theatres of war in the Middle East, Africa and Asia which has substantially reduced the amount available for development financing. As is well known, few OECD countries have met the targets set at Monterrey for increasing aid to the developing countries.

A position advanced strongly by CARICOM is that their economies are characterized by very high levels of economic vulnerability deriving from their small economic and geographical size and also characterised by extreme vulnerability to natural hazards. These truths are self-evident. The inference drawn from them is that they attenuate the importance attached to per capita income criteria by essentially recognising the high volatility of those incomes. The policy conclusions are the necessity of continued international development assistance within the framework of the regional economic partnerships agreement under negotiation with Europe and the FTAA, and the establishment of realistic time frames for the requisite structural transformation of the economies.

Meaningful access to the markets of the developed countries is also critical. Non-tariff barriers in developed countries to the products of developing countries continue to be major obstacles to their economic growth. These are most pronounced in the industries and economic sectors in which developing countries may have a cost advantage. Progress will only be made if the Doha Round reduces the asymmetry in trade liberalisation i.e. the opening of developing countries' markets at a faster rate than the opening of developed countries' markets.

Recent trends in the global energy markets are another major challenge for Caribbean economies, most of whom are net oil importing nations. Trinidad and Tobago is the only net exporter among them. Special purchase arrangements with Venezuela will provide some price mitigation and fiscal relief. Trinidad and Tobago has also established a fund to transfer some of the price gains to its Community partners. Nonetheless, the surge in energy prices is beginning to generate inflationary pressures and weaken the balance of payments of the oil importing countries. However, CARICOM remains a low inflation region with inflation currently in the range of 3-5% in most countries. Viewed from another perspective, the trends in the global energy market can reinforce and give added impetus to attempts to develop alternative energy sources. Wind power and solar energy are receiving renewed attention and ethanol and sugar cane biomass are being approached both as a means of energy diversification and a form of agro-industrial restructuring. It is envisaged that a few countries, once they implement the capital investment programmes to modernise production and improve productive efficiency in the sugar cane industry, will be in a position to export ethanol to Europe given the forecasts that European production will fall short of the targets set for energy substitution. It is also of interest that Jamaica in partnership with Brazil is planning to export ethanol to the US.

I made reference earlier to the fiscal situation. The erosion of fiscal capacity as a result of trade liberalisation as well as the urgent necessity of capital investment in physical and social infrastructure led many governments into excessive commercial debt. As might be expected this policy proved to be unsustainable. It has been observed that CARICOM countries are now among the most heavily indebted developing countries. There are now attempts at fiscal reform mainly through broadening the tax base by switching from taxes on foreign trade to transactions taxes, improving tax administration, and the reintroduction of personal incomes taxes in those countries that abolished them in the 1970s. Countries are being helped in these efforts by a multi-donor programme of assistance which includes both regional and non-regional entities. Nonetheless, there is need for debt restructuring, and in a few obvious cases debt relief, as a complement to the fiscal reforms if the countries are to a have a real chance of quick economic recovery.

The final economic challenge to which I will make reference is labour migration. facilitates the geographical movement of skilled people. At the same time, it intensifies the problem of the brain drain from developing countries where labour incomes cannot match those of developed countries. This is a real dilemma for the sending countries because while migrant remittances are a compensating flow, they may not fully offset losses in production capacity and in any case cannot address the problem of depopulation.

There is much more that can be said about the economic challenges faced by CARICOM but time does not permit an extensive treatment. However, I hope that I have succeeded in providing a useful introduction.

Thank you for the opportunity and your attention.

Poverty Reduction and Economic Integration in the Caribbean

Address by

Dr. Compton Bourne, O.E.

to the Roundtable

Ottawa, Canada

June 9, 2006

POVERTY REDUCTION AND ECONOMIC INTEGRATION IN THE CARIBBEAN

I would like to begin with the surmise that Caribbean countries given the economic progress achieved during the 1980-2000 period could not have expected the incidence of poverty and social alienation which now afflicts them. Leaving out Haiti and Suriname where the incidence of poverty is much higher, the proportion of the Caribbean population living in poverty around the late 1990s and early 2000s is estimated to range between 9% and 30%, with 9% - 20% being the more typical range. Moreover, there are indications that the incidence has increased during the present decade. The latest estimates give the range as 12% - 35%.

The Caribbean is credited with substantial achievement measured by the Human Development Index. The countries rank high among medium developing countries. At a disaggregated level, they have made good progress in relation to several of the MDGs, especially those pertaining to education, political participation and gender equality. However, as I pointed out in an address to the CDB's Annual Meeting two years ago, many of the indicators e.g. access to water and health services, are underachieved. Moreover, there is growing inequality of access. Reversion into poverty threatens the sustainability of what has been achieved and increases the difficulty of meeting the MDGs.

What explains this situation? One can point to the slowing down of aggregate economic growth since the later years of the 1990s and to the increasing volatility of economic growth. But what lies behind the economic growth performance? The erosion of trade preferences in Europe must be considered a significant adverse influence. Panel rulings by the WTO in respect of banana exports to Europe placed high cost Caribbean producers at such a competitive disadvantage and engendered such great uncertainty among producers that the industry contracted in the OECS countries, Belize and Jamaica, displacing rural jobs and livelihoods. A change in the price regime for sugar exports combined with the long term cost uncompetitiveness of sugar production in Barbados, St. Kitts-Nevis and Trinidad and Tobago is occasioning restructuring and downsizing among regional producers.

Emerging weaknesses in fiscal capacity is another explanation as governments, severely handicapped by excessive debt and the erosion of trade taxes, do not possess the capacity to maintain social programmes at previous levels. The attempt to maintain current levels of social expenditures in the face of diminished fiscal capacity is one explanation for the debt problems now experienced. Recovery of economic growth and improvements in tax administration and public budgeting are therefore dynamically linked to the sustainability of public expenditure programmes for poverty reduction.

One can expect that the global energy crisis which is characterised by surging prices for both petroleum and natural gas will further weaken economic growth in the short-term. The force of this factor could be mitigated in the short run by concessionary purchase terms being offered by Caribbean oil exporters such as Venezuela and by transfers through the Petroleum Stabilization Fund established by Trinidad and Tobago. However, it is important that countries seize the opportunity to develop alternative energy sources, especially renewable energy, as a way of reducing their long run dependence on fossil fuels.

Natural hazard occurrences have been another major cause of economic volatility and retarded economic growth. The devastation of Grenada in 2004 by Hurricane Ivan is a vivid example, but there are many other instances of the serious negative effects of tropical storms on small island economies. Of course, one must not ignore other natural hazards such as floods, volcanic eruptions and earthquakes. Many countries are in the process of developing and implementing plans for economic recovery. Their essentials are (1) the recapitalisation and modernisation of those industries with prospective international competitiveness; (2) the phasing out of industries which cannot be competitive; (3) strengthening of tourism exports through intensified marketing combined with product innovation and greater cost efficiency; (4) expanded investment in human resources through education and training as well as through health services; and (5) geographical diversification of trade and other economic relations. Private sector development is seen as a central instrumentality. The private sector is expected to generate employment and incomes and to lead the process of financial widening and deepening.

Sustainable economic growth is essential for sustainable poverty reduction. It is also necessary to address poverty directly through targeted interventions aimed at improving human capabilities. These include investments in education and training, investments in physical and social infrastructure in communities, and improvements in community governance and participation in national governance. There is evident widespread commitment to targeted poverty reduction by Caribbean governments, international donors and regional and sub-regional development banks. The Caribbean Development Bank through a Special Development Programme funded by contributions from both donors and Caribbean countries on a four year cycle is making a sustained assault on poverty. Its priorities in the current cycle are capability enhancement, vulnerability reduction, and good governance.

Canada is a very important partner in the Bank's efforts at poverty reduction. Not only does it contribute substantially to the various cycles of the SDF and encourages other countries to do so, it has channeled additional resources through CDB enabling previously excluded countries such as Jamaica to benefit. The task is enormous and much more remains to be done. In respect of vulnerability to natural hazards, it is necessary that governments as well as civil society transform their heightened awareness of catastrophic risks and otherwise negative social and economic effects into policies and action programmes for reducing those risks and managing them. The Caribbean Development Bank along with the Inter-American Development Bank and the World Bank have embarked upon expanded programmes of technical assistance, financing and policy advocacy intended to mainstream disaster risk reduction and management into public sector planning and budgeting.

Fully conscious of the global trends towards regional economic groupings and of the limitations associated with their own small economic size, CARICOM countries have set themselves the objective of creating a Caricom Single Market and Economy (CSME). The CSME is the latest stage in a sustained movement towards the integration of Caribbean countries as a deliberate strategy for social and economic development. It builds on the free trade and customs union provisions of the earlier stages and on the progress in functional cooperation in international economic matters. The CSME is intended to create the conditions for more efficient and internationally competitive production by allowing full and free movement of factors of production and capital among member States thereby enabling countries to interact more beneficially with the global economy. The requirements for trade liberalisation within the CSME have been satisfied. Capital although subject to restrictions in some member countries moves quite freely for investment purposes with the consequence of the growth of cross border enterprises capable of competing outside of CARICOM.

The area of insufficient progress is geographical labour mobility. At present, provision is made for the movement of university graduates and persons possessing a small set of specified skills. However, consideration is being given to fuller liberalisation. As in all economic integration schemes where member countries differ in initial economic endowments and where the operation of market forces inevitably cause economic dislocation, the challenge within the CSME is to establish institutional mechanisms to avoid economic polarisation and foster cohesion. There are provisions such as the Regional Development Fund and a Regime For Disadvantage Countries in the Revised Treaty of Chagaramus but these need to be implemented. CDB itself has a historic mandate contained in its Charter to foster regional economic integration and promote economic and social cohesion. Much of both its loan and grant operations and its intellectual capital is increasingly allocated to these purposes.

MAINSTREAMING DISASTER REDUCTION

REMARKS

by

DR. COMPTON BOURNE, O.E.
PRESIDENT
CARIBBEAN DEVELOPMENT BANK

at

The Caribbean Development Bank/Inter American Development Bank
Joint Initiative on Mainstreaming Disaster Risk Management

TECHNICAL WORKSHOP: MANAGEMENT OF DISASTER RISK THROUGH FISCAL AND BUDGET PLANNING

Caribbean Development Bank
Conference Centre, Barbados
June 26-27, 2006

MAINSTREAMING DISASTER RISK REDUCTION

Mr. Alberto Moreno, President of the Inter-American Development Bank (IADB), Ms. Alicia Ritchie, Regional Manager of the IADB, Mr. Neville Grainger, Vice-President (Finance), Caribbean Development Bank (CDB), Distinguished Participants, Ladies and Gentlemen. It is my privilege and pleasure to welcome you to this Workshop on Mainstreaming Disaster Risk Reduction organised jointly by CDB and IADB. To our visitors to the CDB), I extend a warm welcome. President Moreno, this is your first visit to the CDB and we are especially pleased to have you with us.

This Workshop which is jointly conceived by CDB and IADB, is of major potential importance to countries vulnerable to natural hazards as well as to the international community which usually provides assistance in coping with the consequences of natural hazard occurrences. Caribbean countries, including Guyana and Suriname, at whom this Workshop is directed, are exposed to a range of natural hazards such as tropical storms and hurricanes, earthquakes, volcanic eruptions, landslides, and floods. Both the frequency and intensity of natural hazard occurrences have increased in recent years. Sea level rise which has not been problematic as yet is another of the hazards which Caribbean countries must anticipate.

The scientific community and intelligent observers associate the shift in the historical pattern with climate change and global warming. They understand that these proximate causal factors are themselves the outcome of human behaviour in relation to the environment -- behaviour heavily influenced by considerations of short-run gains and neglectful of the interests of future generations and even of sustainability of the quality of life in the current generation. But one also has to recognize that for the poor who constitute the great majority of the world's population, horizons are objectively and subjectively short and that for them environmental degradation is a concomitant of means to survival. From this perspective, poverty reduction is an important part of the solution to the problem of environmental degradation.

Most of the attention of national agencies in the Caribbean and that of international development partners has historically focused on disaster relief, that is to say, on the provision of assistance for ameliorating human suffering associated with severe natural hazard occurrences. Disaster rehabilitation is the next quantitatively significant component of action subsequent to natural hazard occurrences. Regional and multilateral development banks are especially prominent in this aspect.

A third component of responses to the experience of natural hazard occurrences is insurance and contingency funds. This response is not yet common in the Caribbean.

Insurance of physical structures and material goods against natural hazard risks is the exception rather than the norm among business enterprises and households. Governments have not established contingency funds, although one should note that post-hurricane Ivan there is expressed interest in the creation of a Catastrophe Fund.

Each of the three response mechanisms has its place in an overall scheme for natural hazard risk management but either individually or collectively they are not sufficient policy responses. None of them are risk reducing measures. They are either risk-mitigating or risk transferring in their essential characteristics. They are costly.

It is therefore highly important to complement these approaches to natural hazard risk management by explicit policies and actions for risk reduction. Apart from minimizing trauma and human suffering, *ex ante* risk reduction is likely to lower costs of risk mitigation and risk transference.

In Caribbean countries, the following is common:

1. Unplanned and unregulated residential settlements, largely through illegal squatting, but sometimes quite legally.

2. Creation of residential settlements in geographical areas vulnerable to windstorms, floods and landslides.

3. Unregulated construction of commercial structures in residential areas.

4. Non-observance of building codes, especially in respect of resistance to natural hazard shocks and most often in respect of residential structures.

5. Inadequately resourced and ineffective physical planning agencies.

6. Repetitive cycles of economic resource loss, production losses destruction of production capacity, destruction of residential housing stock, and destruction of physical infrastructure.

7. No financial provisioning for relief and rehabilitation necessitated by natural hazard occurrences.

8. No explicit attention in budgeting and socio-physical planning to natural hazard risk reduction and risk management.

The policy, planning and implementation failures in these eight areas have consequences of lower levels of economic activity and economic growth. Natural hazard induced losses of income and means of livelihood also push those without access to formal or informal sources of contingency funds into poverty from which they may have only recently escaped.

The Workshop aims at placing natural hazard risk reduction and risk management centre stage in the work of Ministries of Finance and Planning. It seeks to show participants how their activities can become integral to the goal of reducing vulnerabilities of their national communities as well as how their activities can assist in the better management of natural hazard risks by the public sector, the business sector, and the household sector.

The list of elements just outlined is suggestive of the various points of intervention by the Ministries of Finance and Planning in a comprehensive process of risk reduction and risk management. There are undoubtedly other points of intervention which will be addressed by participants. The Caribbean participants in particular will bring to the deliberations their intimate knowledge of recent experiences (they are all young persons) with natural hazard occurrences in their countries. The challenge is to integrate that empirical knowledge into the analytical frameworks and policy matrices which the resource persons will be presenting.

It is my hope that real progress is made over the two days and that the results of the sessions find their way quickly into annual work programmes and the policies of our governments. My best wishes for a successful Workshop.

FEATURE ADDRESS

by

DR. COMPTON BOURNE, O.E.

PRESIDENT

CARIBBEAN DEVELOPMENT BANK

at the
BARBADOS STATISTICAL SERVICE

FIFTIETH ANNIVERSARY AWARDS CEREMONY

HELD AT THE

HILTON HOTEL

SATURDAY, OCTOBER 28, 2006

FEATURE ADDRESS AT THE FIFTIETH ANNIVERSARY AWARDS CEREMONY OF THE BARBADOS STATISTICAL SERVICE

I am very pleased to have been invited to attend the fiftieth Anniversary Awards Ceremony and Dinner of the Barbados Statistical Service and for the opportunity to address you this evening. From small beginnings with a staff complement of 20 persons in June 1956, the Barbados Statistical Service has expanded not only in terms of its staff but very importantly in the scope of the statistical services it provides to users in Barbados, the Caribbean and internationally. Your role and functions are of immense importance as I am sure you are all aware. However, they are not always readily and easily appreciated by the various major segments of society.

In answering the question about what statisticians do, some cynic responded that a statistician carefully assembles the facts and figures for others who carefully misinterpret them. Had he or she not been cynical, the response could have been: "a statistician carefully assembles facts and figures for use by others." The modified statement speaks to the essence of the role and work of statistical services. That role is to inform others by presentation of data about the current state of affairs, the historical record i.e., past states of affairs, and about the projected future based on trends in the data. Without statisticians, our knowledge of the state of important facets of our societies and economies would be greatly deficient and our history would be incompletely recorded.

Carefulness and accuracy are essential performance requirements of statistical services. One must be able to rely on the data and information. They must have the status of facts and not be seen as intelligent guesses. Similarly, the projections must have their validity in the statistical theory and methods underpinning them, even though no prediction of variables affected by human behaviour can be 100 per cent certain. One may go even further and state that the accuracy of projections for some socio-economic variables is subject to ex post invalidation by changes in social behaviour (customs, mores, habits, etc.) and by natural hazard events such as hurricanes and volcanic eruptions. No analyses of previous trends could have predicted the demographic changes caused by HIV/AIDS in Africa nor the economic devastation of Grenada by Hurricane Ivan.

Statistics have to be timely in their availability if they are to have maximum value in use. Long delays in release of data and other information reduce their usefulness to end-users simply because the situations described by such data may have changed substantially. This is a weakness associated for instance with population census data. I know of one Caribbean country in which much of the data collected by the population census of 2000 are not yet published or otherwise made easily accessible. Delays are also a deficiency of surveys initiated to provide necessary information on some significant matter but whose results are reported with such long lags that the dimensions of the problems have altered greatly, making the survey results of intellectual value only. Timeliness is therefore another performance standard for statistical agencies.

While accuracy is one standard by which statistical services will inevitably be judged, satisfying that standard is not easy. Critical influences are the completeness and the reliability of information provided by others to the statistical agencies. For example, the accuracy of population census databases depends upon the public responses to questions which elicit varying degrees of truthfulness, accuracy of recall, and acuity of observation. Data on foreign trade, national income and production, and labour markets to mention just these few are also affected by the quality of responses from the pertinent segments of economy and society. The conclusion to be drawn from these examples is that there is a wider public responsibility for the quality of statistical services provided by government agencies such as the Barbados Statistical Service. The public should respond to data requests by treating them not as impositions, breaches of privacy and nuisances but by instead viewing them as means of gathering the raw material from which reliable and useful statistics can be constructed. In other words, the public as suppliers of information to the statistical agency has a beneficial interest in what is supplied and should be always aware of that interest and act consistently in relation to it. In plain language, the public should support the work of the statistical agency.

I am sure that no one here will dissent from the opinion that adequate access to resources – financial and human – is another critical requirement for a properly functioning statistical service. The statistical agency must be sufficiently resourced financially to acquire personnel, equipment and materials requisite for the level and scale of its operations. I will refrain from commenting on budgetary outcomes for the Barbados Statistical Service. However, it does appear to me from the experience of statistical agencies in other Caribbean countries that they are at a competitive disadvantage in the annual national budgetary allocation process.

This competitive disadvantage may be due to several factors. One of them is limited appreciation even among government officials and the political leadership of how much a good statistical service can facilitate high quality decision-making. Another factor is that until seized upon in political debate or general public discussions, statistics are low profile things. To illustrate, widening of roads appears to have more immediate and attractive benefits than improvements in the statistical database. These attitudes are a real challenge to statistical agencies in their efforts to obtain the financial resources to implement their work programmes.

The natural allies of statistical services in financial resource competition should be knowledge generation, transfer and dissemination institutions such as universities and colleges, social and economic research institutes, central banks and similar public sector institutions. They should be natural allies because the conduct of much of their work depends upon the availability of good statistical databases. They are critical users of statistics. They are not the user of whom my imaginary cynic said: "He uses statistics as a drunkard uses a lamppost, for support not for illumination." Knowledge institutions are in the "illumination" business, seeking to enlighten themselves as well as others. Furthermore, by virtue of being critical users of statistics, knowledge institutions should also be in a position to advise statistical agencies of limitations in their services provision, pointing among other things to gaps in statistical coverage revealed by analytical questions that cannot be addressed with the existing databases, pointing as well to the need for shorter periodicity in some data series, and highlighting the possible need for closer correspondence between some data and the concepts they are intended to represent and measure.

There is at least one other aspect to the natural alliance between universities and colleges and statistical service agencies, namely the role of universities and colleges as providers of trained personnel to the statistical agencies. The quality of the training they provide as well as the subject specialisations offered to students have a direct bearing on the quantity and quality of human resources available to statistical agencies. At the same time, the human resource needs of statistical agencies give rise to a demand for the education and training services of universities and colleges. There is mutuality of interest which should make them allies. Accordingly, statistical agencies should consider whether they should not as a matter of strategy pursue closer relations with knowledge institutions, including in those relations not only identification of training needs and areas for enhancement of statistical services but also collaborative analysis of some of the data output of the statistical agencies. In this conceptualization of the relationship, collaboration extends beyond the production and availability of statistics and encompasses partnership in the analytical use of data, providing statisticians with other opportunities for professional advancement, recognition and job satisfaction.

It has been said that many a speaker can rise to the occasion but few know when to sit. I will not tempt you into saying so of me. Let me therefore conclude by congratulating the Barbados Statistical Service on its 50 years of remarkable service to the community. As an occasional user of data generated by the Service since my early ventures in Caribbean economic research during the 1970s, I can personally attest to the importance of your contribution. The theme of this year's celebration "Fifty Years of Valuable Service, Providing Quality Statistics Fundamental to our Development Process" is not only truly merited and apt; it is a stated commitment to the future. I thank you for the honour of addressing you and for the kindness of your attention.

Development Banking in the Caribbean: Towards A Regional Approach

Address by

Dr. Compton Bourne, O.E.
President
Caribbean Development Bank

at the

Conference on Development Banking

Sponsored by

The Caribbean Development Bank
The Turks and Caicos Islands Investment Agency
United Nations Economic Commission for Latin America and the Caribbean

at the

Palms Hotel
Providenciales
Turks and Caicos Islands

November 23-24, 2006

DEVELOPMENT BANKING IN THE CARIBBEAN: TOWARDS A REGIONAL APPROACH

Your Excellency, Mrs. Mahala Wynns, Acting Governor of the Turks and Caicos Islands, Hon. Floyd Hall, Deputy Premier and Minister of Finance, Health and National Insurance; Mr. Daniel Titelman, Chief, Unit of Development Studies, United Nations Economic Commission for Latin America and the Caribbean (UNECLAC); Mr. Neil Pierre, Director, Sub-Regional Headquarters for the Caribbean, UNECLAC; Mr. Carlson Gough, Director, Projects Department, Caribbean Development Bank (CDB); other Distinguished Ladies and Gentlemen; colleagues and friends: it is a real pleasure to be back in the beautiful Turks and Caicos Islands and to witness it very visible economic progress over the past two years. The CDB is pleased to have played a role in the development of this country and to welcomes opportunities to continue doing so.

I am honoured to be have been invited to give the Keynote Address at this important conference on development banking. The theme of this conference is *Development Banking in the Caribbean: Towards a Regional Approach.* It evidently implies that one envisages a new perspective on development banking. To understand what may be contemplated and why it is contemplated, it may be useful to begin with a sketch of the point of departure and then to outline some developments that will undoubtedly shape the future of development banking. Perhaps in doing so I may succeed in helping to provide some elements of the contextual framework for your deliberations over the next two days.

Development banking until recently has a few predominant characteristics. First of all, it focuses on development of the nation state or national economy. This is self-evidently the case of development banks established in individual countries for the expressed purpose of fostering national development. But it is also true of regional and sub-regional development banks which, while having a regional or sub-regional mandate, seek to discharge that mandate by financial and technical assistance interventions targeted to the development of individual countries on isolated, stand alone bases rather than guided by considerations of interregional complementarities and inter-linkages. Even where the regional banks have promoted regional integration the focus has been on supporting institutions of integration and capacity for functional cooperation. In the case of the CDB, much assistance has been given to the Caribbean Community (CARICOM) Secretariat and to the Regional Negotiation Machinery.

The second characteristic is the concentration of financial resources on physical capacity: the expansion and enhancement of physical capital in social sectors such as education and health and in production-related infrastructure such as utilities, roads and ports.

Third, development banks were economic growth-oriented, in keeping with the economic orthodoxy that achievement of economic growth would automatically generate improvements in human welfare. This orthodoxy held intellectual sway until the close of the 1980s despite a few scholarly works which invalidated the trickle down effect and argued for development with a human face.

Fourth, development banks operated within the framework of a traditional Western concept of democratic governance in which policy decisions are centralised in majority elected political administrations. Local government which allowed for some geographical decentralization had all but disappeared in many Caribbean countries by 1980 and was fiscally impoverished and consequently ineffective where remnants could still be found.

Fifth, the stance of principal external donors was one of national competition for influence, feedback, economic benefit and national prestige. Donor collaboration was a rarity.

The environment for development banks is now becoming quite different. In some respects it is already quite different. Unlike the era of State-led economic growth, the private sector driven model of economic growth and development has become the dominant economic paradigm. There are of course caveats about the capacity and readiness of the private sector in the Caribbean and other regions to fully assume such a responsibility. However, there can be no doubt that it is not only an expectation but that governments are required to commit to it.

Another point of difference is the fact that economic integration goals have progressed from customs unions and functional cooperation to the creation of economic unions and regional economic partnerships between economic unions. One observes the growing movement towards closer economic integration in the Caribbean, in Central America and in South America. One also has to take note of the regional economic partnerships under negotiation between the European Union and the Caribbean, Africa, and Pacific Ocean countries. Paralleling these trends is the emergence of transnational enterprises within economic unions. Trans-border firms and joint ventures can be found in many industries, including financial services, manufacturing, tourism and agriculture.

It is important to understand the implications of these developments for the business of development banking. One implication is that development banks will find it necessary to expand the private sector proportion of their loan portfolios if they are to remain dynamic forces for economic growth and development. As public sector targets for capital infrastructure approach full realisation or fiscal difficulties, constrain debt-financed expenditure plans, developments banks are likely to find their major traditional source of growth not as propitious as before. They will therefore need to seek outlets in the private sector.

Another implication is that regional complementarities and inter-linkages cannot safely be ignored in credit risk assessment and in benefit-cost analyses. Whether some projects conceived and justified on a national basis will be successful may be contingent on actions taken in partner countries in the economic union. Nor can the creditworthiness of transnational enterprises be evaluated in the purely national context of the project under consideration for financing. Transfer pricing, intra-company resources transfers and economies of scope become potentially important. Moreover, the integration of economies and countries provides an entirely new set of opportunities for development banks. They include the need for regional physical infrastructure in transport and communications for linking countries. They also include complementary national investments in the social sector to make trade and factor feasible and frictionless and to foster economic cohesion in the economic union. These considerations point to a quite different regional approach from that which was described previously.

It can be taken one step further to deal with the implications of the interlocking of economic unions which expands the geographical scope of the regional concept with which development banks will ultimately have to work. The ambitious projects for trans-continental highways in South America intended to link CARICOM and Mercosur is an example of how the interlocking of economic unions might generate development banking opportunities for Caribbean and Latin American development banks.

A few other changes in the development banking environment can be identified. The first is the belated elevation of poverty reduction as a primary objective in its own right. The second is the recognition that poor governance vitiates development interventions and that the absence of beneficiary participation in public sector decision making can result in sub-optimal financial allocation. These two factors imply not only that development banks ought to have a broader focus than physical capital investment but also that their activities should be subjected to tests which embody the objective of improvements in human welfare rather than merely economic growth.

The third change is that the agenda for development banks is driven to a much greater extent by a global constellation of forces comprised of bilateral donors and multilateral institutions and organisations. The Millennium Development Goals (MDGs), global environmental goals, public and corporate governance are ready examples of changes in the agenda emanating from the coordinated decisions of the international community of donors and institutions. The organising framework is harmonisation. In relation to the development banks, harmonisation means the adoption of essentially similar policies, modus operandi, development goals and criteria for internal evaluation. From this perspective, the approach of development banks will not only be regionalised, it will be internationalised. Because the sizes of economies and their structural characteristics are unlikely to converge at a rapid rate, if at all, one should not fear that development banks will fall victim to the 'one size fits all' prescription. However, harmonisation will make it easier for regional development banks, and sub-regional development banks in particular, to adopt common approaches as well as identify opportunities for collaborative action.

The issues raised in this brief address are suggestive of a very challenging future for development banks. They have risen successfully to challenges in the past. There is no reason for thinking that they will be any less successful now. The deliberations of this Conference should be a good foundation. I wish you sessions that are both stimulating and productive.

Thirty Years of Economic and Social Progress in the Caribbean Economic Growth

Presentation

by

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President

Caribbean Development Bank

at the

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THIRTY YEARS OF ECONOMIC AND SOCIAL PROGRESS IN THE CARIBBEAN ECONOMIC GROWTH

I. INTRODUCTION

Mr. Sacasa, President and CEO, Caribbean and Central American Action; Mr. Harry Bratigaum, President, Central American Bank for Economic Integration; Mr. Luis Alberto Moreno, President, Inter American Development Bank; Friends; Ladies and Gentlemen:

I want to begin by thanking Mr. Sacasa for the opportunity to speak on the subject of socio-economic change in the Caribbean. Caribbean Community (CARICOM) member countries with a few exceptions can boast of discernible social and economic development during the last 30 years. Most countries experienced positive economic growth during the 1980s decade, averaging between 4% and 6% in real terms. Three countries grew at the slower rate of 2% -3%. The economies which did not do well i.e. experienced economic decline were Guyana, Haiti, and Trinidad and Tobago. Economic growth performance remained positive during the next decade, although at somewhat slower rates. Both Guyana and Trinidad and Tobago moved from economic decline to economic growth. After a shaky start to the current decade – the Bahamas, Barbados, Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines all experienced economic contraction in 2001 - moderate economic growth is once more evident for most countries.

II. HUMAN WELFARE

The record of sustained economic growth translates into substantial improvements in human welfare. Judged by the most aggregative of economic indicators, i.e. per capita gross domestic product (GDP), many Caribbean Community countries are well off compared with many other developing countries in the world. Per capita GDP are multiples of those of least developed countries and are usually higher than the average for countries placed in the United Nations medium human development category. In the Bahamas, Barbados, and St. Kitts-Nevis, per capita GDP is not less than half of that in the United Kingdom and 40% of the USA's per capita GDP.

The United Nations Human Development Index for 2006 which provides a more composite measure of economic and social progress tells much the same story. The index value for Caribbean Community countries ranges between .724 and .879 except for Haiti where it is .482. Countries classified as high human development category have a group average index of .923, and countries in the medium human development category have a group average of .701. There has also been a downward shift in unemployment rates from the high double digits which characterized the 1970s to 10% and under in many countries during the present decade.

III. THE SOURCES OF PROGRESS

Sustained socio-economic progress of the magnitude obtained rested on several foundations. One is the significant investment in human capital. Universal primary education was achieved except in Haiti. Secondary school enrollment increased so much that access to secondary education lost its exclusiveness even though it is by no means universal in any Caribbean country.

There has also been an expansion of tertiary and university education although here too, progress has been limited with no country capable of boasting cohort enrollment rates in excess of 20 per cent. The investments in education and training improved labour quality, overall productivity and expanded access to economic opportunity. A second source of progress was the diversification of the economies into services, notably tourism and international financial services which have proven to be important sources of economic growth additional to commodity exports and in many cases have become the primary sources of economic growth. With few exceptions, a record of political stability rooted in electoral democracy and strict observance of the rule of law was a third growth promoting factor. There are other factors that one can enumerate but these will feature as the main ones.

IV. CONSOLIDATING THE GAINS AND ENSURING THE FUTURE

It would be a mistake to think that Caribbean Community countries believe that they can rest on the laurels of past and current achievements. Several emergent facets of economy and society would counsel against such a perspective. Despite the measurable social and economic progress, many countries still have unacceptably high proportions of their populations living in poverty. In some countries, income inequality and wealthy inequality have widened. Youth unemployment and social alienation are stress fractures in the social order. The erosion of economic preferences for traditional major export commodities, notably bananas and sugar, combined with hostile action by the OECD against the region's international financial services industry have weakened export performance and economic growth capacity.

The leadership of Caribbean Community countries have understood these socio-economic issues to require significant changes in the structure of their economies, international economic relations, and in economic management. In the economic sphere, efforts have begun to modernise and transform economic sectors and industries. One example is the sugar industry where adaptation plans include rationalizing production and introducing improved technologies to achieve international competitiveness, identifying other uses such as energy generation and rum production for sugar cane, and switching some land into production of alternative crops for domestic consumption and the tourism industry.

In respect of foreign trade, attempts are being made to reduce the extent of geographical concentration of exports although these efforts need to be intensified. It is also very important that the developed industrial economies, especially the United States dismantle protectionist barriers and allow open access of Caribbean products to their markets.

There is also awareness that efforts must be made to lessen dependence on fossil fuels and to develop sources of renewable energy. Increasingly, governments and the communities as a whole are becoming conscious of the dangers of global warming and climate change especially for small island economies. Attention is being given to utilizing sugar cane as feedstock for ethanol and biomass generation of energy, to harvesting wind power, and to the development of geothermal resources.

Natural hazard events vitiate economic and social progress. Therefore it is necessary that much greater pro-active attention be paid to natural hazard risk management both in terms of risk mitigation and risk transference through insurance and similar mechanisms. These and other transformative initiatives are very demanding of financial capital. The countries do have relatively high domestic savings rates but they are insufficient to finance the rates of capital accumulation warranted by the need to maintain economic growth and even in some cases to resuscitate economic growth. Consequently, foreign capital inflows are of continuing importance. A few countries have fared reasonably well in attracting direct foreign investment. However, it is obvious that direct foreign investment is unlikely to be a major growth factor in many of the very small economies except in the tourism sector. Foreign aid is no longer a predictable and stable source of capital. As a result, one might expect increasing recourse by those countries to private creditors. Sound management of their economies will be critical to success in international capital markets.

An important part of the response to the challenge of international competition is the creation of the CARICOM Single Market and Economy. An essential feature of the CSME is the liberalisation of factor movements across the borders of CARICOM members so as to achieve greater productivity and price competitiveness. Another feature is the forging of a common monetary and fiscal policy, starting with monetary and fiscal coordination with monetary union being the ultimate target. A critical consideration is the avoidance of polarized development. This should be seen not as equalization of sizes of economies or even of per capita incomes, for that would be utopian. Instead one should interpret the avoidance of polarization as meaning equality of access to opportunity for development. In this context, the CARICOM Development Fund (CDF) is of immense strategic importance. The CDF is to be financed by CARICOM members but hopefully will receive financial contributions from the region's development partners. I would like to touch on two other matters. The first of these is private sector development. There is formal acceptance by governments of a leading role for the private sector. However, this must be translated more fully into more determined efforts to relax the constraints on private sector development. These constraints include the physical infrastructure, communications and transportation facilities and the operation of the regulatory and judicial systems. Availability of finance is less of a problem than these others.

The second and last issue can be considered a commercial. The Caribbean Development Bank is at the centre of the development process in CARICOM. It efficiently obtains international capital and transforms it into concessionary loans and grants to the countries of the region. It has been emerging as the architect of critical institutional and policy components of the CSME such as the CDF. It has with the assistance of USAID placed natural hazard risk management on the front burner of governments. It continues to counsel on national economic management. The Caribbean Development Bank has also spearheaded the acceptance of poverty reduction as a major objective in its own right I anticipate that CDB will have an active role in the development of sectoral economic policies at the regional level. The role of the Bank has expanded over time in keeping with the changing nature and intensity of the development challenges facing the Caribbean. We have worked closely with many development partners, bilateral and multilateral, and look forward to their continued cooperation in our efforts to maintain an upward trajectory of social and economic progress in the Caribbean.