TOP STORIES

The Caribbean is feeling the effects of the change taking place in the global financial system, say bankers and top execs

By Patrick Hoyos/The BSJ **Published:** March 27, 2008

The Caribbean needs to court new sources of investment financing, grow more of its own food and find more efficient ways to distribute it among its Caricom neighbours, as well as re-examine its role in a world in which fundamental financial changes are threatening to marginalise it, a panel of top bankers and business executives agreed this week.

In fact, the world's financial system is undergoing such extensive restructuring that it's being referred to as "deep dish pizza" change, says Banker Wendell Mottley.

Speaking at an economic forum hosted by the Caribbean Development Bank in conjunction with Institutional Investor magazine, the former Trinidad & Tobago finance minister who is now a senior executive with Credit Suisse First Boston, said the change was based on a move to more traditional forms of financing due to a waning of confidence in U.S. commercial paper.

Mr. Mottley told the panel at the CDB Roundtable, which journalists were invited to cover for the first time, and which was held at the new Hyatt Hotel in Port-of-Spain on Wednesday, that the current credit crunch was leading to rising interest rates for anything less than "investment grade" of grade A debt, and since over half of all debt owed by Caribbean nations was in the B categories, the cost of credit was rising for the region.
Other panellists, agreeing with Mr. Mottley's analysis, noted that the region must look to other sources of financing in order to stay in the game, with Citigroup executive Dennis Evans pointing out that the transfer of wealth from the energy-guzzling countries to the oil-producing countries was putting an average of over US$2 billion per day in new investment onto the world's financial markets. Republic Bank's managing director David Dulal-Whiteway agreed, saying that with most of the major new investment sources emanating from outside the United States, the Caribbean should look to them to build financial relationships. Eric-Vincent Guichard of Washington DC-based Gravitas Capital Advisors supported the contention with two simple numbers: global liquidity at present totalled US$151 trillion, but only one-third of that amount, about US$51 trillion, was already invested, leaving quite a lot of liquidity looking for a home.

CDB president, professor Compton Bourne, said that one of the solutions to the rising cost of development financing was for the region to grow more of its own food, thus reducing its import bill and foreign exchange consumption, but building the agricultural sector across the region involved much more than just growing food crops. The region's main downfall, he said, was in moving the produce from the farm gate to the processor or final consumer. That distribution bridge was not only lacking in terms of ground transportation, but also in poor distribution capacity between Caribbean countries.

The CDB's director of finance and planning, Dr. Warren Smith, agreed, noting that the region's agricultural sector was backward and incapable of addressing the needs of the region. He said the Caribbean needed a green revolution, in which agriculture would be transformed by the use of new technology, and the rising commodity prices could provide the impetus.

Mr. Mottley agreed, noting that one of the underlying realities of the economic megashift in the world today was due to the huge growth in demand for commodities in countries like India and China. And while things might slow down temporarily due to recession in the U.S., the fundamental shift was not going to stop, he said, calling it "the big one".
In the meantime, the increasing prices of commodities, including feedstock for agriculture, were leaving Caribbean governments with little fiscal space to support subsidies to help stimulate their agricultural sectors, noted Desmond Brunton, CDB's vice president for operations. He said the

bank could help governments to focus better on maintaining debt at sustainable levels, and also by supporting regional trade policies that would help reduce the cost of overheads, for example the freer movement of labour and capital.

His colleague Dr. Smith added that having a credible credit rating helps countries to get the best possible interest rates from the financial markets and this was one of the areas the CDB was focussing on in terms of providing technical assistance to borrowing member countries. He said it was not easy for a small country with a population of around 100,000 to go out and get a credit rating, and the CDB had been working with CariChris, the region's first indigenous ratings agency, on getting credit ratings for some of the region's smaller countries.

Mr. Brunton added that the bank had also moved to policy-based lending, under which countries qualify for loans when they attain certain agreed fiscal results, and even helping regional governments to shape their overall fiscal policies.
President Compton added that the role of the CDB in the coming era will be to help influence the policies of the donor countries towards its borrowing member countries, while Mr. Mottley noted that the idea of a country paying directly for its own credit rating could place pressure on the ratings agency to come up with a good rating, and he felt the CDB should take the lead in paying for these ratings, at least the initial assessment.

Finally Mr. Dulal-Whiteway said the region had to ask itself what value it added at the global level to a world in which its role was becoming more marginal.

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