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DEPARTMENT OF STATE

Washington, D.C. 20520

August 22, 1969

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MEMORANDUM FOR MR. HENRY A. KISSINGER
THE WHITE HOUSE

Subject: Caribbean Development Bank (CDB)

In your memorandum of July 22, 1969, you asked for a report on the current status of the Caribbean Development Bank (CDB) and the Department's views on the question of equity participation in the bank.

Current Status

The CDB was launched as an idea in mid-1967 following a study made by a team sponsored by the United Nations Development Program (UNDP). After almost a score of meetings and many fits and starts the bank is now scheduled to be formally established by the end of 1969, although experience would suggest that there might be some further slippage. The bank is to be capitalized at US\$50 million with the non-regional members (United Kingdom and Canada) contributing 40%, or US\$10 million each, and the Caribbean governments 60%, or US\$30 million on a sliding scale. The U.S. has budgeted in the FY 1970 A.I.D. request a US\$6 million development loan to the bank, the uses of which are to be negotiated when the bank is established.

Background

The idea of a development bank for the Caribbean arose out of a meeting held in Antigua in November 1966 when representatives of the United States, United Kingdom and Canada met with officials of Barbados and the Leeward and

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Windward islands to discuss follow-through action on a tripartite economic survey of the area. Impressed by the fact that the Leeward and Windward islands (with a population of 500,000) had no access to economic development funds except the limited resources which the UK was able to make available, the conferees decided to ask the UNDP to ascertain if some public financial institution for the area might be feasible and acceptable to the various islands. Not only the original islands, but also the Bahamas, British Honduras, Jamaica, Trinidad, and Guyana informed the UNDP of their desire to participate in such a bank. On this basis, UNDP recommended the establishment of a bank capitalized at US\$50 million (half paid and half callable over a five-year period) with 40% of the equity (or US\$20 million) allocated in equal shares for the U.S., UK, and Canada and 60% (or US\$30 million) for the islands.

U.S. Position Up To This Time

Under the original proposal the U.S. equity participation was US\$ 6.666 million (i.e., one-third of US\$20 million) over a five-year period, or US\$666,000 paid in and US\$666,000 callable for each of the five years. The Department thought that the U.S. should take up this equity participation in the belief that this bank was a true self-help measure (the U.S. equity share was only 13% of the bank's capital), that the bank was a vehicle which would keep the UK committed to a long-term institution in the Caribbean, and that the bank would also be a means for U.S.-Canadian cooperation in the area.

Unfortunately, at that time the Congress, which would have had to approve U.S. membership and equity participation, already had under consideration legislation concerning the World Bank, the Inter-American Bank, the Asian Bank, and the African Bank, and the decision was made at the White House level that the U.S. would not participate in the CDB as an

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equity member but would, funds permitting, make available A.I.D. development loans to the bank, when established, in an amount substantially equal to half of the total UK-Canadian participation. This decision was communicated to the other governments in October 1967. They were understandably unhappy with the U.S. decision but did accept the fact that the U.S. would cooperate with the CDB. The UK and Canada then agreed to absorb in equal shares the proposed U.S. equity participation.

U.S. Equity Participation

By not committing itself to equity participation in the beginning, the U.S. lost an element of leadership in the establishment of the bank and an opportunity to lend its financial prestige to the institution. With final steps toward the establishment of the bank being carried out in the coming months, it would not be advisable for the U.S., by offering equity participation now, to delay the setting up of the bank. Equity participation, and each increase in funding, no matter how small, would require extensive hearings in at least four congressional committees (Foreign Affairs, Foreign Relations, and Banking and Currency of each branch). In addition, there is the question as to whether the Congress should actually be asked to hold full-scale hearings and otherwise tie itself up for what is a relatively small amount of money.

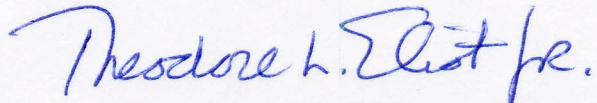
The relationship to which we have committed ourselves is the same as that which we have with the Central American Bank of Economic Integration (CABEI). This has worked reasonably well and as CABEI has become more active, the U.S., through A.I.D., has been able to make a substantial amount of loans available to that bank.

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The Department, therefore, for the reasons cited above, does not believe that the U.S. should at this time consider equity participation in the CDB.

A handwritten signature in blue ink that reads "Theodore L. Eliot, Jr." with a stylized flourish at the end.

Theodore L. Eliot, Jr.
Executive Secretary

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