

Feature Address Delivered By Sir K Dwight Venner, Governor, ECCB
At The Official Launch Of The Eastern Caribbean Securities Market
19 October 2001

Mr Chairman:

The launching of the Eastern Caribbean Securities Exchange this morning is the culmination of several years of hard and dedicated efforts and the beginning of a new era in the life and history of the people in the Eastern Caribbean Currency Union.

The Monetary Council in the early 1990s had mandated the Central Bank to proceed with the activation of Article 4(3) of the Agreement which states that the purposes of the Bank are *“to promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the participating Governments”*. This was interpreted to mean, in practical terms, the development of money and capital markets.

The Bank then established a special unit to carry out this mandate which after a number of changes became the Financial and Enterprise Development Unit.

We would like to acknowledge the work of the staff of this Unit, led successively by Mr Arthur Campbell, Mr James Fleming and today Mr Trevor Blake, for successfully delivering this project.

We would also like to acknowledge the support given by the Legal Unit under Ms Lydia Elliott, and the Bank Supervision Department under Mrs Mignon Wade as well as the specific work of Mr Everette Martin and the other staff members who worked with him on this project. We have also had a number of committees established to treat with this matter, many of them being chaired by the Deputy Governor, Mr Errol Allen, duly assisted by senior members of staff. I would also like to acknowledge the efforts of Mrs Pamela Williams of the Inter-American Development Bank and Mr Elliott Murphy of the Caribbean Development Bank (CDB).

The Intradoss Consulting Group has been our partners and supporters from the very beginning of this project and has seen it through to the end.

We would also like to thank the National Steering Committees in each island for their support and belief in this project as well as such institutions as the Social Security Schemes, the Development Banks and the Commercial Banks who shared the vision with us.

I would like to thank the Interim Board, Mr John Benjamin, Mr Howard McEachrane, Mr Eustace Liburd and Mr Trevor Blake who brought us to this point, for their wisdom and perception.

Finally, I would like to thank the Commissioners of the Exchange, the Council of Wise Men, Mr Crispin Sorhaindo, Mr Errol Allen, Mr Charles Brisbane, Mr Calvin Rodgers and Mr Dunbar Mc Intyre for agreeing to serve as the first Commissioners.

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This has been a very important week for the Eastern Caribbean Currency Union (ECCU) and the Bank which celebrates its 18th anniversary this month. The activities this week represent, as it were, a response to the immediate crisis which now confronts us, after the tragic events at the World Trade Centre, and a long term strategy to deal with our fundamental development problems.

On Monday, in collaboration with the statistical offices of each member country, we rolled out a new consumer price index, which for the first time in the history of these islands was compiled on the basis of a common methodology and using the same base year. This will be an important tool for economic policymaking in the ECCU.

On Tuesday, the Bank advanced the working of the Inter-Bank Market for short- term funds among the commercial banks by moving to an auction system using an Electronic Bulletin Board. The interest rates for these funds will now be market-determined instead of administered.

On Tuesday night, the Governor of the ECCB at the request of the Monetary Council, delivered a broadcast on the economic situation facing the Currency Union in the aftermath of the World Trade Centre tragedy and the responses contemplated at the ECCU and national levels.

Today we launch a major institutional element in the development of our money and capital markets. For the purpose of this launching, all of these things must be placed in context as we in the OECS embark on what will be one of the most challenging periods of our economic history.

First of all, we have to understand that there is a governance and decision-making framework under which we operate in these islands. This comprises the Treaty of Basseterre 1981 establishing the OECS, the ECCB Agreement 1983 establishing the ECCB, and a Common Judiciary which goes back to the West Indies Associated States Supreme Court Act of 1967.

This provides for us a two-tier system of Government and Governance based on the fundamental premise by which the capability of each member country is strengthened, according to Article 3 of the Treaty of Basseterre, endeavouring to coordinate, harmonise and pursue joint policies in the critical areas of importance to a sovereign state. Among these areas are listed Foreign Affairs and Relations, Mutual Defence and Security, the Judiciary, Central Banking, Public Administration and Public Finance, Science, Technology and Tertiary Education, Economic Policy-making and Integration.

Annex I to the Treaty of Basseterre established the East Caribbean Common Market which treats with a number of fundamental economic policy issues including free trade in goods, the movement of labour and capital, inter-regional transport, and a common agricultural and industrial policy.

Suffice it to say that if all the provisions of the Treaty of Basseterre were implemented, we would have, de facto, a new state. As it is, we have, as compared with CARICOM, a highly integrated arrangement, including a common judiciary and a common currency, and an authority,

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the highest political body which approximates to a quasi cabinet. The trick, as some would say, is how do we translate these structures into an effective economic, even political union with a single financial and economic space.

In the face of this crisis and taking into consideration our long-term interests, we need to examine the political and governance structures we have at three levels, namely, the local, the national and the OECS. There are three areas of relevance in this regard.

1. Representativeness
2. Accountability
3. Effectiveness

We would have to establish the relative balance between all three at various points in time and under varying circumstances to arrive at the appropriate mix.

It would be fair to say however that given our capabilities and resource constraints, certain activities which cannot be carried out effectively at the local level, are passed on to the national level and those which cannot be executed effectively at the national level are passed on to the OECS level. There is, however, only one level of directly elected representativeness in the scheme and that is at the national level. The question then becomes, how can we combine effectiveness with representativeness and accountability directly through new and relevant political arrangements?

This is important because politics and economics are closely intertwined and political arrangements are necessary precursors for economic change. We will, in the not too distant future, need to resolve this dilemma.

On the other hand, there are financial arrangements which can facilitate the emergence of new political and economic structures. The Stock Exchange is one such arrangement. Indeed, the stock exchange is one of the critical institutions in our quest for financial development and the establishment of viable money and capital markets in the Currency Union.

Our starting point in the Currency Union is that while we have a common currency and a common central bank, we have eight separate markets. We have therefore set as our goal, the development, integration and regulation of a single financial space. We therefore have to create both markets and institutions to achieve this goal. With respect to markets we have already established the inter-bank market for short-term liquid funds. We then established a secondary market for mortgages. Today we have established a market for equities. In February 2002, we will establish a market for government securities starting with treasury bills.

We have identified four critical institutions to be established at the Currency Union level.

- (a) The Eastern Caribbean Home Mortgage Bank which already has a track record of paying dividends in its last two years of operation.
- (b) The Eastern Caribbean Securities Exchange being established today.

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- (c) The Eastern Caribbean Unit Trust which will be our next major target.
- (d) The Eastern Caribbean Enterprise Fund.

An adjunct institution, which we have helped to establish with the whole-hearted support of the commercial banking community, is the Eastern Caribbean Institute of Banking whose role is to increase the expertise in the financial sector.

The establishment of the Eastern Caribbean Securities Exchange will go down in our history as one of those fundamental shifts in social and economic arrangements that are defined in terms of 'the before' and 'the after'. This institution will have an impact on our laws, on our enterprises, on how these enterprises will be financed, and who will own our enterprises. It will have an impact on the distribution of incomes and on the relationship between workers and employers. It will have an impact on and will be impacted upon by the air transportation and telecommunications industries.

Our media will have a great deal to do with the development of our financial markets and this will change their profession. Many of our young people will want to become financial journalists and to have a deeper insight into how our economies and financial systems work. People in different islands will now have an interest in how the economies and companies in other islands are performing because it will affect their welfare directly. All these things are possible and we can assure you, will come to pass.

There is an excitement about our enterprise which is shared by many in the international community. We are embarking upon the unique experience of, not only developing, but integrating a financial system at one and the same time. This has engaged the interest of not only the World Bank and the IMF but also the European Union and the proposed West African Monetary Union which are following our progress with interest and in the case of the West African Union has requested our assistance.

The ECSE addresses a fundamental issue of how productive enterprises can be best financed in our countries. The present method of financing is not appropriate to projects in the productive sectors with long gestation periods. If, for example, an entrepreneur was to establish a shirt factory with bank financing, before he becomes profitable he would have already started to repay both principal and interest and in fact would be highly leveraged. The alternative to this would be equity financing in which the shareholders knew in advance that dividends would not be forthcoming until the enterprise had made a profit. Another alternative would be for a number of people to combine their resources in a partnership to establish the enterprise with either a gentleman's or contractual arrangement about the sharing of benefits.

The nature of these arrangements depends on the level of trust in these societies. This is reflected in the low success rate of partnerships and the unwillingness of individuals to open up their businesses to public participation. The end result is that most businesses are under capitalised, the accessibility to good management is limited, and they can only service very narrow markets. This frequently ends up in a low growth scenario. The financial resources of

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the society are not being efficiently allocated and the capacity to produce output and jobs is limited.

In the Currency Union, our economic prospects are limited by extreme fragmentation of both financial and natural resources and so we need a paradigm shift in the way we aggregate and allocate financial and other resources.

A whole new culture in business and production must come to the fore if we are to progress beyond this point. We must create industries of sufficient scale to be competitive within the Currency Union and beyond, as opposed to isolated production units. This will require production units to be spread across the Currency Union with distribution and marketing arrangements to match the scale of operation. This will involve a change in the type of firm and production unit which will become predominant in our economic circumstances.

There are models of trading firms and export/import enterprises which through networking and other associations can source raw materials for the production of goods and services by smaller firms for sale in international markets. We will have to find out which arrangements suit us best.

This attention to production and the creation of an export oriented private sector across the Currency Union is vital and urgent. Our production base in its current island specific state is extremely fragile. We have very few industries. We have in fact only the tourist industry, the banana industry, the sugar industry and the nutmeg industry. Nothing else can be accorded the name industry in the pure sense of the word.

When we work the numbers what we get is on one side a small production base and on the other side facilitators, namely, banks, insurance companies, the distributive trades and the government. At some point the facilitators become a drag on the productive sectors. In short the transaction costs get extremely high and the productive sectors become uncompetitive.

In the case of the population numbers, when we take out those over 65 and under 17, we are left on an island basis with very small numbers to be engaged in the production and facilitation areas. If we then factor in health standards, educational levels and skill training we are left with some serious distortions in our production structures.

We need to tackle this problem head on by having discussions with our productive sectors - agriculture, industry, tourism and services - to plan and strategise on the way forward. The policy framework and environment can only be successful if forged by candid and informed discussions.

The ECSE is a means to an end in what is and must be a carefully planned approach to our fundamental economic and social problems. The ECSE is being predicated on the basis of inclusiveness. Can we create a shareholding democracy in which the great majority of our citizens feel that they have a stake in our economies and societies. The creation of the Unit Trust

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is to ensure that small investors can use this institution to purchase blocks of shares within their means.

We are also very keen to support the establishment of investment clubs. The fascinating potential of investment clubs is that they are the obverse of the partner-hand (sou sou) which have taken root in our societies. While the partner system is consumption oriented the investment clubs concentrate on, of course, investment.

One can envisage groups of people getting together on a regular basis with rules and guidelines to discuss the economies of the Currency Union and the performance of companies. This will call forth an increased demand for financial and economic information, people will listen to budget debates whose quality will have to improve. The media will have to mobilise themselves to provide information and analyses.

This leads us to the issues of corporate governance and financial literacy which are very important matters on our agenda. With an increased level of public ownership the way in which companies are run, financially and ethically, will be major issues. Trust and confidence in the management of wealth producing units will be a serious issue as many citizens will have vested interests in the performance of public companies. Standards of ethics in the public and private sectors will be an issue which must be up for public discussion.

The proliferation of call-in programmes in the region is a clear indicator that there is a demand by the public to be better informed and to be consulted. This will resonate through the political, social and economic spheres of our lives.

There are three areas and professions which will play a significant role in this new dispensation, namely, the legal profession, the accounting profession and the profession of journalism.

For public ownership of shares to be encouraged so that the individual and the society can benefit there must be laws which protect property rights. There must be substantial judicial reform which is in fact now engaging the attention of the OECS Governments.

Security of person and property is a vital prerequisite to social and economic progress. I would like to allude in passing to our policing arrangements. The change in our economic and financial arrangements will require new levels of competence in combating white-collar crime. Already we have had to establish Financial Investigation Units in the fight against money laundering. Regional policing arrangements would seem to be the most appropriate if we are to have the capacity to deal with these issues which could seriously constrain our efforts at economic and social development.

The accounting profession is crucial to the accurate rendering and analysis of financial statements. We need to train a cadre of accountants who can effectively service our corporate sector. The ECCB in association with the accounting profession in the OECS has put forward a recommendation for the establishment of an OECS Institute of Accounting.

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The journalism profession is critical in the dissemination and analysis of the political economic and social developments in our sub-region. Journalism in the OECS needs to emerge from the strictly island orientation which is its present mode to cross the borders of the Currency Union. The unit of analysis must be enlarged to meet the development imperatives of the times.

The ECSE will have an impact on cross border activities in the Currency Union. Prior to this the beneficiaries of productive activities were localised. If a factory was established in a particular country, the main beneficiary factor of production was seen as labour or employment. With widespread shareholding, beneficiaries could be located away from the place of production. Dividends therefore can widen the area of effective economic activity and can make a clear distinction between geographic and economic boundaries. Freedom of movement of persons must logically follow freedom of movement of capital, and the removal of impediments to travel and the facilities for convenient and reasonably priced movement by air and sea must be put in place.

We are now at a crossroad in the OECS, in times which are not the best, and in fact we face tremendous challenges to our existence as viable states in the international community. We, however, are not without hope and in fact, on a collective basis, we are quite up to the task of securing our own survival and prosperity in this age of globalization. The opening of this Exchange should send a signal to our people that we can create institutions which can further our development and that we can run them successfully. We need to involve all of our people in this process of development. We need to elicit from all sections of our society what are their fundamental needs and desires and the contributions which they feel they can make to our societies. We fervently hope that this Exchange will serve as an opening to greater participation and inclusiveness in our economic systems, both within each country and across the Currency Union.

In conclusion, I would like to assert that the Treaty of Basseterre and the ECCB Agreement have served us well. The establishment of the ECSE is a living testament to this.