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Survival at What Cost? The Impact of Financial Services on Small Caribbean States

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INTRODUCTION

Two trends have set the developed world and small Caribbean islands on a collision course. On the one hand, the developed world is increasingly concerned about money laundering and tax avoidance conducted through small nations' financial services sectors. On the other, Caribbean islands facing economic dislocation from the World Trade Organization (WTO) mandated phase out of trade preferences with Europe are frequently introducing off-shore financial services to bolster government revenue and generate employment. These two opposing trends intersected in 2000 when the developed world issued two reports condemning a variety of third world countries, including four Caribbean states, for lax supervision of offshore activities that, the reports accused, facilitated money laundering and the concealment of citizens' income in tax havens. The scrutiny placed on international financial transactions has increased since the World Trade Center attacks of September 11, 2001, as the United States has sought to track down the financial sources of international terrorist organizations such as Al-Qaeda.

This paper is a collaborative work by three authors. (See authors' box at end of paper for biographical information.) In section one Louise Shelley details the forces and events motivating rising international concern over money laundering and tax havens, and examines the steps the developed world has taken to try to force financial service providers in the Caribbean and elsewhere to regulate the sector more strictly. In sections two and three authors Jérôme Lebleu and Gillian Gunn Clissold provide case studies which illustrate both the positive and negative effects of financial services on the economies and societies of St. Vincent and Grenada respectively.

MONEY LAUNDERING: AN INTERNATIONAL PROBLEM WITH IMPLICATIONS FOR THE CARIBBEAN

Money laundering is the final stage of organized crime, corruption and tax evasion. It is the point at which the proceeds of questionable and outright illegal activities enter the world financial system, often disguised as capital derived from legitimate economic activities. Reducing the profitability of this activity has received greater attention from the international community as the world has become increasingly alarmed at the percentage of the global economy that is now subject to laundering. In 1996, International Monetary Fund (IMF) economists estimated that 2 percent of global Gross Domestic Product (GDP) was related to drug-related crime, while the laundered sums associated with corruption and tax evasion would be an even larger portion.

That percentage would be even higher today because the illegitimate economy has grown since the mid-1990s, and countermeasures have failed to slow the growth of these types of activities except at the margins. Nonetheless, the events of September 11th have added a new urgency to efforts to track flows of laundered money throughout the world. In particular, the U.S. government, with the passage of the Patriot Act, has augmented its power to regulate the due diligence process of financial institutions.

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The rise of new information technologies has also led to the proliferation of poorly regulated financial flows into such isolated places as Vanuatu, Nauru, and the Marshall Islands, through whose "banks" billions have been laundered in a couple of years. Facilitating the rise of virtual banking in offshore locations has been the willingness of major banks to receive funds that have been routed through these locales. The share of the world's financial flows that move through offshore locations rose dramatically in the 1990s. It is currently estimated that half of the world's money supply transits through offshore centers and that 20 percent of total private wealth is invested in these centers. While well-written software could screen these transactions and prevent the absorption of these funds into mainstream banking centers, such programs have not been developed.

The proliferation of computer-facilitated offshore banking has required the tacit or explicit acquiescence of major banks—and governments—around the world. Aside from United States and Switzerland, very few countries have done anything to seize laundered assets, and even the amounts those two nations have managed to freeze and confiscate are but a fraction of the overall volume. Many other major banking centers, including England and Germany, receive thousands of suspicious transaction reports, but there have been few successful criminal prosecutions or confiscation of assets. Therefore, while drug interdiction efforts have met with reasonable success, there is a much lower probability of losing the proceeds of drugs or proceeds from other criminal activities.

There are limited risks and few deterrents to those engaged in money laundering. Many professionals who facilitate money laundering have high social status, advise affluent clients and are employed or work closely with major financial institutions. They are lawyers, bankers and accountants, who, while not directly involved in this activity, help perpetuate it through their expertise. Indeed, the ability to safeguard the proceeds of transnational criminal activity, tax evasion and corruption have served as significant incentives for the growth of laundering. Losses associated with the limited number of seizures that have occurred can simply be considered "one more cost of doing business."

Sources of Laundered Millions

Laundered money derives from the full range of illicit activities linked to organized crime, such as narcotics and arms trafficking, trafficking in human beings, extortion, gambling, counterfeiting of money and goods, trafficking in endangered species and stolen art and automobiles. Corrupt government officials are also a source of laundered funds, when they move bribes or embezzled money to offshore locations. However, some transactions cannot be treated as illegal because in many countries bribery and/or embezzlement are not predicate offenses for money laundering. (A predicate offense is an illegal activity from which "dirty" money is obtained. It is needed to establish that money laundering results from such a criminal act.)

The laundering activities of organized crime groups have grown in sophistication. Organized crime, with the assistance of professional expertise, has penetrated legitimate economies and financial markets. It has laundered its assets from these diversified, legitimate investments as well as from its original illicit activities.

Furthermore, the wave of relatively untransparent privatizations in the 1990s created opportunities for insiders to appropriate significant resources, with deleterious social and economic effects. For example, Russia has been deprived not only of present but future taxes from formerly valuable state assets because many of the greatest revenue producing assets were transferred to offshore trusts in tax havens after privatization.

In fact, the money laundering associated with the privatization process has resulted in some of the largest and most visible cases of international money laundering. In the Raul Salinas case in Mexico, payoffs from drug traffickers were com-

mingled with payoffs for beneficial privatizations of key state industries. In the Pavel Lazarenko case in Ukraine, privatization of the oil and gas industry allowed the former prime minister to accumulate hundreds of millions of dollars and led to his indictment for money laundering in both Swiss and American courts. The sums involved recall the cases of former President Ferdinand Marcos of the Philippines and Mobutu Sese Seko in the Congo (formerly Zaire), who both had access to large portions of their national treasury.

Indeed, more cases of astronomical sums laundered by political leaders have come to light in Switzerland and in the private banking operations of American and British financial institutions. Laundered money is not only siphoned out of national treasuries and from the proceeds of privatization, but also diverted from foreign assistance funds and extorted from foreign investors and contractors. These funds have found their way into American banks because governmental corruption was not a predicate offense for money laundering in the United States.

As the issue of corruption is no longer taboo for employees of multilateral financial institutions, the prevalence of money laundering associated with project and structural adjustment loans has gained attention. For example, researchers at the IMF now acknowledge that they observed the financial flows out of Haiti immediately after international loan funds flowed into the country. An investigator examining the diversion of a World Bank loan to Pakistan traced \$30 million to a Swiss bank. Increasingly corruption investigators in these international financial institutions must be trained to identify instances of money laundering because both bribe money and actual project loans wind up in Western banking centers despite the most well-intentioned due diligence efforts.

Banks and Other Financial Institutions Engaged in Money Laundering

Money laundering occurs in a wide range of financial institutions. These include large banks, offshore banks, currency exchange and wire transfer businesses, stock brokerage houses, gold dealers, casinos, insurance providers and trading companies. The types of financial institutions used for money laundering have proliferated as the reporting requirements for major banks have increased. Especially popular for money laundering purposes are cash-intensive businesses that permit the proceeds of illegal activity to be disguised easily.

Size and location alone are not absolute determinants of whether a financial institution is used to launder money. Moreover, not all offshore banks engage in money laundering. Many parts of the Caribbean have established large legitimate banking services that are providing services to an international clientele of legitimate businesses. The most flagrant abusers of financial institutions are those offshore locales with limited financial infrastructures and regulatory mechanisms to monitor the financial transactions, such as Nauru.

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At present, there are different niches for various categories of money laundering. While drug dealers, who have the widest range of assets to dispose of, use all available financial instruments, there is a significant differentiation in the market. For example, street level drug dealers use wire transfer businesses whereas the private banking services of major banks are available only to large-scale clients. Although prudential regulation of large financial institutions has been strengthened in recent years, recent cases reveal that it is still possible to launder significant sums through major banks and their offshore affiliates. Major banks such as Citibank, the Bank of New York and UBS Warburg have figured prominently in recent investigations of money laundering. As one of the minority congresswomen on the House Banking Committee commented in the Bank of New York hearings, the failure to sanction Citibank in the Salinas case and other banks guilty of drug money laundering has perpetuated the problem. While actions such as a Geographic Targeting Order in the New York area have limited wire transfers out of small businesses, it is still possible to move large volumes of money with questionable legality through the private banking operations of major banks. The profits for the institutions, and particularly for the officials of relevant divisions, provide an incentive to bankers to look the other way.

Moreover, a sophisticated money launderer can exploit significant loopholes in the United States to move large sums of questionable money through leading American financial institutions. Indeed, a report by the investigative branch of the

General Accounting Office (GAO) determined that it is relatively easy to launder money in the United States. The report traced \$800 million that had been laundered throughout the 1990s by one Russian citizen who had registered companies in the “offshore location” of Delaware. (Delaware’s incorporation laws protect the anonymity of corporations, rendering it a virtual offshore location.) The money was subsequently moved into accounts in the private banking practice of Citibank, from which it could circulate with ease. No legal action has been taken against the banks, the account holders or the individual who moved these funds through the American banking system.

Why Has It Been So Hard To Move Against Money Laundering?

It has been hard to combat money laundering because of weak political will and cumbersome, ineffective international legal mechanisms. The profits of this activity, particularly in the private banking area, have been very lucrative for financial institutions. Fees generated by registration and associated services provided by offshore financial sectors, represent an important revenue stream for many states with struggling economies. Finally, many authoritarian leaders of foreign countries were protected by the United States throughout the Cold War for geopolitical reasons despite widespread knowledge of their involvement in embezzling and laundering funds.

While the end of the Cold War removed one obstacle in the fight against money laundering, many of the others outlined above remain. For example, legal institutions are ill prepared to combat the recent explosion of digital money laundering. It already takes U.S. law enforcement roughly one year to unravel all stages of a wire transfer which is moved among four jurisdictions in an hour, (a typical move for a money launderer), because of the need to present documentation to four different jurisdictions. In some cases, it is either legally or physically impossible to obtain needed information on the money movement.

In the United States, a predicate offense is needed to prove money laundering, but establishing a predicate offense requires the cooperation of law enforcement in the home country. In cases where the money belongs to a high level official or where domestic law enforcement has been neutralized by corruption, that cooperation is rarely forthcoming. In many countries, many categories of crime are not predicate offenses for money

laundering or there is an absence of a money laundering law, placing many financial transactions outside the reach of American law enforcement. The number of countries without a money laundering law has declined dramatically since September 11th, 2001. But the passage of a law has not always ensured implementation.

A novel situation now exists. The complexity of the cases of money laundering means that the number and expertise of the enforcement needed to address these crimes is so significant that even well-staffed U.S. law enforcement agencies can address only a few major money laundering cases annually. Furthermore, between the corruption of domestic law enforcement in many foreign countries and high levels of bank secrecy in others, most money laundering investigations are condemned to failure from the start. As the amounts of laundered money continue to grow, the capacity to address the problem remains perpetually behind. The renewed sense of urgency, purpose and most importantly, U.S. leadership that has emerged since the terrorist attacks on the World Trade Center, however, have served to increase the political will and legal cooperation among concerned states to fight money laundering. But many countries and regions remain outside of adequate regulation.

Why the Current Campaign Against Money Laundering?

A growing consensus among many developed countries is that the problem of money laundering must be addressed both within their economies and in offshore locations. Much of this is proceeding on a diplomatic level and is aimed at financial institutions, because the legal strategy that preceded it has inherent limitations. Focus is now on prevention rather than on legal remedies. Shaming of banking institutions that may be contributing to terrorist funding is also an important current strategy.

The present movement against money laundering is the result of a convergence of mutual interests rather than as a consequence of a unified view of the harms of money laundering. For the United States, up until September 2001 the driving force was the impact of the international drug trade, as a result of its concomitant financial and social costs. U.S. policy makers were increasingly concerned about the role that money laundering played in the perpetuation of drug trafficking. Post-September 11th, the emphasis has shifted to cutting the financial flows of funding for international terrorist organizations (which in many cases also engage in activities related to illegal drugs).

For European countries, the opening of borders and the establishment of monetary union have increased the risk to their territories and financial systems from transnational crime. The loss of tax revenues to offshore havens has also been an important motivating factor driving collective efforts by E.U. members, particularly in those countries with low economic growth rates and high rates of taxation. Increasing amounts of capital sheltered in offshore locations are preventing the collection of taxes needed to maintain expensive social welfare systems and care for aging populations.

What is the Current Campaign Against Money Laundering?

In 1989 the Financial Action Task Force (FATF) was established to coordinate a response to the problem of money laundering. The following year the FATF issued 40 recommendations against money laundering which were subsequently revised in 1996. The FATF now consists of 29 countries and two international organizations and represents the larger developed countries as well as some of the more affluent developing countries.

The Vienna Convention only concerns the proceeds of money laundering related to the drug trade, but not the other serious categories of crime with which money laundering may be associated.

The task force's first recommendation is that countries become signatories to the Vienna Convention against money laundering. The Vienna Convention only concerns the proceeds of money laundering related to the drug trade, but not the other serious categories of crime with which money laundering may be associated. Consequently, the task force recommends that prohibitions against money laundering be extended to serious offenses but leaves considerable discretion to each country in determining what these offenses are. As a result, many countries have not made human trafficking, one of the fastest growing forms of organized crime, a predicate offense for money laundering. Likewise, corruption remains off the list of crimes that are predicates for money laundering in most countries, including the United States.

The recommendations also deal with measures to identify, trace and confiscate laundered assets.

Various measures must be taken by financial institutions to ensure that they maintain proper record keeping, know their customers and keep records for at least five years, in order to permit reconstruction of financial transactions. Bank officials are required to monitor large transactions and to report suspicious transactions to competent authorities without advising the customers in question. These principles would apply not only to domestic banks but also to subsidiaries that are located outside the country.

Other highlights of the 40 recommendations made by the task force include:

- Countries are to enhance controls at the borders to limit the movement of large amounts of cash and are expected to develop modern methods of money management, such as checks and direct deposits, that reduce reliance on a cash economy.
- Effective regulatory bodies are to be established to ensure that there are adequate measures and sufficiently trained personnel to implement these regulations. Regulators must ensure that criminals do not acquire or achieve significant control over financial institutions.
- International cooperation must be extended with regard to suspicious transactions, confiscation, mutual assistance and extradition. Cooperative investigations should be launched whenever possible.

In June 2000, the FATF made a "blacklist" of fifteen Non-Cooperative Countries or Territories (NCCT) whose compliance with anti-money laundering efforts was seen as deficient on the basis of 25 published criteria. Four of the fifteen locales, (the Bahamas, Dominica, St. Kitts-Nevis and St. Vincent and the Grenadines) were Caribbean states. Subsequently, in its June 2001 second review of NCCTs, the Bahamas was removed from the list. September of 2001 brought a new Caribbean addition to the list, Grenada, following an assessment of additional territories and countries. By June 2002, the list still numbered fifteen jurisdictions, and Caribbean countries represented three of those fifteen. Finally, after the fourth review of the NCCT list released in June 2003, the list stood at nine non-cooperative jurisdictions, with none remaining from the Caribbean. (Dominica was removed from the list in October 2002; Grenada was removed in February 2003 and St. Vincent and the Grenadines was removed in June 2003.)

A dichotomy exists between the perception of the developed countries and those less-developed

countries that have attempted to develop offshore financial centers. The latter claim that the legislation and infrastructure are in place to discourage money laundering in their territories, and that most money laundering occurs through large financial centers in developed countries. The former believe that money laundering occurs primarily in offshore locales.

Imposition of Sanctions

The FATF has warned the countries and territories on its blacklist that they will be sanctioned for facilitating money laundering, and in some instances has imposed counter-measures against non-cooperative jurisdictions. In order to evade sanctions for money laundering, countries on the NCCT list need to establish regulatory mechanisms that can prevent money laundering and the use of secrecy in offshore locations. The focus is on the regulatory regime, establishment of a legal framework and willingness to cooperate in legal actions to address money laundering.

There are several problems to this approach and some of them are of particular concern to the Caribbean:

Lack of equity in the sanctioning process:

Countries placed on this list are not necessarily the worst offenders. Other countries with very significant money laundering problems have escaped sanction because of their political connections. Some small countries in the Caribbean or territories of larger countries do not have the public relations capacity or the political protection to prevent sanctioning.

Willingness to cooperate does not prevent money laundering: Switzerland has escaped sanction because it has been cooperating in investigations, but it is addressing only a very small number of the cases of laundered money in its country. Therefore, the probability of successfully laundering large sums may be greater there than in many other jurisdictions that are considered medium or high risk. Evaluation criteria should include the possibilities of detection of money laundering and the successful completion of cases.

Allocation of adequate resources to prevent and investigate money laundering: Evaluation of money laundering should be based not just on the legal regime but also on the possibility of actually being able to launder money successfully in a country. This would shift responsibility from the heavy focus on offshore islands to a more general capacity of a state to control and curtail money

laundering within its territory.

Corruption money needs to be a predicate offense in many more jurisdictions: The failure to address money laundering related to corruption in many mainland jurisdictions has allowed significant outflows of capital from developing to developed countries. This not only includes the resources of the country, but the loans that have been made to these jurisdictions by multilateral organizations.

ST. VINCENT AND THE GRENADINES

By 1996, the threat of the WTO ruling to end the EU preferential trade agreement for bananas with the Windward Islands forced the government of Saint Vincent and the Grenadines to begin the diversification of its economy away from agriculture. (That threat became reality after an April 2001 agreement between the EU and U.S. to phase out preferences over five years.) According to a study by the Eastern Caribbean Central Bank, agricultural production fell by 20 percent between 1995 and 1999. This translated to a drop in the banana industry's relative contribution to merchandise exports, from 39.3 percent in 1996 to 29.8 percent in 1997. The end of trade preferences has also had a resounding social impact because banana farming represents the livelihood of many rural Vincentians. As Mr. Wilberforce Emmanuel, Chairman of the Windward Islands Farmers Association (WINFA) puts it "Banana farming exists as a monoculture because it is a way of life." However, due to the WTO ruling, many youth now perceive banana farming as a dead end occupation. While official unemployment figures in St. Vincent hover around 20 percent, some feel it is much higher than that. Furthermore, unemployment among the youth is estimated at 40-50 percent. It is understandable that under such circumstances, the government would seek to shift the focus of the economy away from agriculture and towards the less volatile services sector.

Growth of the Financial Services Sector

Government efforts to create revenues to replace those lost by decreased banana production have been pinned on the success of developing the troika of service industries: tourism, financial services and information technology. While tourism has already been developed as an important part of the economy, financial services and information technology have not been fully

exploited. The offshore finance industry in St. Vincent and the Grenadines was created in 1976, but it was largely dormant until 1996. At that time, the government passed four laws designed to promote the rapid growth of the sector.

The International Business Companies Act, International Banks Act and International Trusts Act were designed to outfit the offshore sector with a wide variety of investment opportunities while ensuring the highest degree of secrecy. The Offshore Finance Authority Act established the St. Vincent Offshore Finance Authority (OFA) to both regulate and market these new activities. As a result, the OFA supervised the growth of registered offshore entities from 3,471 in 1996 to 11,364 in mid-2000. In light of this impressive growth, the U.S. Department of State's "Money Laundering and Financial Crimes" report for 2000 questioned that this dual role might represent a conflict of interest and that a mechanism should be put in place to "ensure separation between the offshore sector regulatory and marketing responsibilities."

This legislation has sparked controversy since the June 2000 publication of reports from the Organization for Economic Cooperation and Development (OECD) and the FATF which respectively targeted St. Vincent as a tax haven and non-cooperative jurisdiction in the fight against money laundering. The international scrutiny that has accompanied these reports caused some finger-pointing within St. Vincent regarding the reason for the blacklisting. In response to these critiques, St. Vincent amended the legislation in the second half of 2000 in order to increase staffing at the OFA, require recordkeeping on customers and increase the OFA's ability to cooperate with international agencies in investigations regarding specific customers.

Political Impact of the "New Bank" Scandal

One of the immediate effects of the July 2000 amendments was the government's revocation of licenses for six banks operating in St. Vincent and the Grenadines. The most controversial of these revocations was that of New Bank Limited, which is owned by Mr. Thierry Nano, a French and Vincentian citizen who had been operating in St. Vincent's offshore financial sector since the 1970s. In response, New Bank Limited sent correspondence to seven National Democratic Party (NDP) government ministers and officials, including the Prime Minister, Minister of Finance, and director

of the Offshore Finance Authority asking for loans of US\$30,000 previously issued to each individual to be repaid in full. The letters to these three particular officials also included a request for reimbursement of the approximately US\$500,000 that the bank says it paid for the establishment of the Offshore Finance Authority in 1996. These letters accused government officials of receiving loans from an offshore bank, an act that no Vincentian citizen is legally allowed to commit. The ministers denied the accusations, and then found themselves confronted with a date in court with the owners of New Bank Limited and their lawyers.

The [New Bank] controversy threatened political institutions and forced the government to reevaluate the role of offshore finance in the general diversification of the economy.

This unresolved controversy threatened political institutions and forced the government to reevaluate the role of offshore finance in the general diversification of the economy. It was not the first time that NDP government officials had been embroiled in a controversy surrounding the offshore financial sector. Two attorney generals in the prior eight years had left office following charges of corruption related to the sector. Mr. Carlyle Duggin was embroiled in a scandal involving a man who cashed a US\$1 million check at the government-operated National Commercial Bank (NCB) following a phone call to the bank by Mr. Duggin clearing him to do so. The bank found out later that this individual had withdrawn the funds from the corresponding accounts from which he wrote the check and that he promptly left the country, leaving the NCB \$1 million short. Another attorney general, Mr. P.R. Campbell was forced out after it was revealed that he had taken loans from Owens Bank, another of the Nanos' institutions, thus committing the same crime that the current ministers are accused of. These precedents made the New Bank situation that much more contentious.

The allegations set forth by the Nanos represented an indictment of the entire government, and implied that corruption had spread to the core of the NDP. The opposition United Labour Party (ULP) also had questions put to it regarding its connections with the Nanos. There have been many questions regarding the relationship which Ms. Rene Baptiste, a registered agent of the off-

shore sector and lawyer for the Nano family and now Minister of Tourism, had as the Nanos' lawyer and her intent to run for a parliamentary post as a member of the ULP. One local politician expressed the belief that Nano spent a lot of money on the ULP as well.

One registered agent of the offshore sector believes that for the Nanos, making gifts to both political parties is the equivalent of "tipping the baggage boy at the hotel."

The impact on the political institutions was extensive to say the least. Dr. Adrien Fraser of the University of the West Indies (UWI), is "sure that part of their [Nanos'] political agenda was to encircle the political parties." One registered agent of the offshore sector believes that for the Nanos, making gifts to both political parties is the equivalent of "tipping the baggage boy at the hotel." A local journalist confirmed that the Nanos genuinely compromised the NDP government. And, speaking of the resolution of this controversy, he saw the reputations of both parties at stake.

The case was not brought to justice before the March 2001 elections, but its influence was certainly felt in a number of issues surrounding the contest. The offshore/money laundering issues became part and parcel of a general backdrop of corruption and lack of transparency enveloping the entire elections. The government was tainted by suspicions regarding the degree to which contributions from shady individuals benefited both government officials and the finances of the ruling party itself. The opposition used this to their advantage, but it appeared to be in a position to benefit from the fall-out and doubts remained regarding whether it was not tainted by the scandal as well.

Since the 2001 elections, which the ULP won in overwhelming fashion, financial services have continued to make news in St. Vincent. The ULP campaigned against the "honorary citizenship program" through which foreign nationals could purchase citizenship in St. Vincent. Once elected, it scrapped the program, stating: "We are not selling our citizenship to vagabonds and rogues." Then, in June 2001, the much-anticipated follow-up to the June 2000 FATF report was published and St. Vincent remained on the list, but was commended for "having made progress in enacting legislation to address deficiencies." This

placement meant that St. Vincent avoided the threat of sanctions, but was not out of the FATF's sights. The June 2000 legislation therefore was a step in the right direction, but not yet sufficient to warrant an end to the financial advisories which accompanied the first listing, and the Nano case would not go away quietly.

The Nanos, who had been residing in Miami since their bank licenses had been revoked, returned to Saint Vincent after the ULP victory. Soon after, in June 2001, the Nano case finally was heard in court and the Nanos' licenses were reinstated. However, in November 2001, the FBI issued an arrest warrant for Thierry Nano, accusing him of having laundered \$256,000 and \$250,000 on separate occasions in 2001. Mr. Nano, who had been staying on the Grenadine island of Bequia, chartered a flight to Martinique and escaped arrest, and is believed to be residing in the south of France. Vincentian Prime Minister Gonsalves, who was away on a foreign trip at the time, could only explain, "It was only a small sum of money he is charged with laundering." Some have speculated that even if Nano had been arrested in Saint Vincent, he would not have been extraditable to the U.S. because money laundering was not an extraditable offense under Vincentian law at the time of his departure. (A law was passed in February 2002 making this offense extraditable.) These events pointed to continued faults in St. Vincent's anti-money laundering legislation that needed to be addressed before the country could be taken off the FATF list. Following further reform in the first half of 2003, it was the last Caribbean country to be removed from the blacklist in the FATF's latest review of NCCTs in June 2003.

Economic Impact of the Offshore Sector

While the political scene has witnessed first hand the impacts of the offshore financial sector, the purported benefits to the general economy have been less evident. The sector accounted for 3.5 percent of the total GDP of the country in 1999, with a large part of that figure coming in the form of license fees given directly to the government. In fact, government revenues from license fees accounted for about 1.5 percent of total revenues in 1999. The fact that the greatest benefits to the economy from the offshore finance sector comes in the form of fees paid to the government means that few of its effects are felt directly by the average Vincentian. Employment opportunities are minimal, as offshore entities are

simply required to employ a lawyer and a secretary in order to operate. Ms. Baptiste believes that the sector created only 100-150 jobs from 1997 to the end of 2000. Rental of office space has been minimal also, although the local branch manager of a foreign bank believes that many people had begun to invest in real estate in anticipation of further growth in the offshore industry before the Nano controversy occurred.

The offshore finance sector may not have had a recognizable impact on the local Vincentian economy, but it has certainly affected the country's entire onshore financial system. The NCB is specifically affected by the offshore finance industry because it is run by the government and is the only indigenous bank that has a correspondent in the U.S. As a result, the government is eager to promote its bank to possible offshore operators. The foreign bank manager points out that many offshore entities also prefer to do business with the NCB rather than the foreign-owned onshore banks because it imposes less restrictions. While this has provided the NCB with some additional business, it has also made it vulnerable to corruption.

A person active in the onshore banking sector in St. Vincent sees the lack of due diligence employed by the NCB as one major problem. He states that indigenous banks do not go through the long background checks that are required of foreign banks. Since local banks do not have to be as thorough by law, due diligence becomes a moral and ethical issue. A local accountant familiar with the offshore sector remarks that he also knows of instances where the NCB did not follow through with the proper safeguards. However, it is not just an issue of whether an institution wants to follow due diligence, it is also a question of whether it has the resources to do so. Industry insiders estimate that the average cost of due diligence is \$2,500 per client. While St. Vincent's association of registered agents operating in the offshore sector has created a code of conduct, there is no requirement to belong to the association or to adhere to the code of conduct. Furthermore, there is no monitoring of whether agents follow the code.

Reverberations in Society

The scandals surrounding the offshore sector have illuminated the canyon of misinformation and lack of communication and education that divides the government and the average Vincentian. Unanimously, every person the author spoke with while in St. Vincent expressed the view that the general population did not have a clear under-

standing of how the offshore finance industry functions. The sector's secretive manner has translated into government reticence to provide the general population with information. While the role of offshore activities the diversification of the economy has grown since 1996, there was no corresponding attempt to educate the people about the importance of the offshore sector for future development, until after the scandals broke out. Average Vincentians first heard about the sector in the context of controversy, giving it a negative connotation.

Members of the National Youth Council (NYC) pointed out that for young people of St. Vincent and the Grenadines, "the offshore financial sector is a dark, black, evil thing." One young man in particular recounted a time when he wanted to drop off an application for a job at an offshore bank. He rang the buzzer of the bank because the door was locked and was greeted by a person's voice that asked him to slip the application under the door. He did so, but never heard back from the bank. It is due to this secrecy and lack of transparency that many average Vincentians are suspicious of the sector. The aforementioned youth specifically said that now as he looks over job applications, he skips all the openings at offshore banks. Such an attitude certainly mitigates the impact that the offshore finance sector can have on reducing the high rate of youth unemployment in St. Vincent.

Many feel that it is the government's responsibility to educate the people, but since the government organized two working sessions directly following the expansion of the sector in 1996, no further educational workshops were made until after the scandals became national news. Mr. Linton Lewis, former director of the OFA, when asked about attempts to educate the people, responded that he had appeared on radio shows and written articles trying to educate the people, but he seemed exasperated by average Vincentians who he believes only pay attention to sensational newspaper headlines. One registered agent added that the problem is that few people outside of those who work in the sector understand it. A professional familiar with the sector felt that the government could start by publicizing the positive aspects of the sector such as the revenue from license fees, rental of office space and employment created.

This lack of education has translated into a feeling of misgivings about the sector. Ms. Baptiste summed up the general population's

outlook: "The offshore sector has a lot of money. It is run by professional elites and they are reaping the benefits from it." One interviewee noted that if someone were to mention the offshore sector to an average Vincentian, they would think you are talking about "fishing offshore." And this may point to another side of the problem, the government must incorporate a generally agricultural population into its plan of creating a diversified, service-oriented economy. This is a concern echoed by Mr. Wilberforce Emmanuel, Chairman of the WINFA. He asks, "How does the offshore sector help the rural poor? While it may help the people in the upper bracket of income, there is no development of the people."

The Future of Financial Services in St. Vincent

Despite the turmoil it has caused, the offshore finance sector has nonetheless provided some much-needed capital flows to Saint Vincent. Each offshore entity is required to make a deposit of US\$100,000 into an onshore bank, thus increasing liquidity in the country. The impressive growth of the offshore sector has also positively impacted other sectors of the economy. Mr. Keith Boyea, an entrepreneur who owns shipping and insurance businesses, has seen slight increases in both enterprises due to a rise in international clientele. It also seems to have an impact on the tourism industry, as it attracts the type of high-end tourists for which the Grenadines are tailored. While tourism on the main island has been less affected, one hotel manager estimates that guests doing business in the offshore sector account for 75 nights a year in his establishment.

St. Vincent and the Grenadines is now at a juncture which will determine what role the offshore finance sector will play in the development of the economy. While it has caused turmoil since 1996, one must question what other options such a small nation has. With the avenue of banana production slowly being closed to small producers such as those that operate in the Windward Islands, diversification is vital. Government officials and ministers as well as the average Vincentian feel that OECD and FATF reports that have appeared since June 2000 represent yet another manifestation of the bully tactics employed by developed countries in the era of globalization. Officials feel that while such reports targeted both money laundering and tax havens, the countries that make up these organizations are more worried about the erosion of their tax bases than money laundering. Furthermore, they

feel that this is an area where small nations had a comparative advantage and that it is St. Vincent and the Grenadines's right to exploit that advantage. However, some of those same officials admit that, when operating an offshore sector, there is the possibility of undesirable persons slipping through, and that this can corrupt an entire society if the proper safeguards are not in place.

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St. Vincent's experiment with financial services should serve as a caution for other countries that might want to develop such activities. Many interviewees felt that St. Vincent rushed into the sector and that it was now paying the price for its haste. According to several sources, the situation which arose following the revocation of the New Bank Limited's license was not only a reaction to the reports published in June 2000, but of direct pressure from intelligence agencies within developed countries to target the owners of the bank. When the government revoked the six licenses, many felt that the ensuing allegations made against the government constituted blackmail on the part of the owners of New Bank Limited. The events that unfolded in November 2001 seem to confirm that the U.S. and other developed countries had their eye on Thierry Nano for some time.

This conjures the question of whether it is possible for a country the size of St. Vincent and the Grenadines to protect itself at all against the threat of corruption. Dr. Fraser points out that it is a problem when the investor's worth is equal to the GDP of the country they are operating in. At the time of the author's research, St. Vincent was facing pressure from two opposite sides, the developing countries who wanted to crack down on money laundering activities all over the world and members of their offshore sector who felt they had been victimized.

The negative press from the OECD and FATF reports and the Nano controversy certainly slowed the sector's growth since the second half of 2000. Three years later, after having outlasted its Windward Island neighbors, Dominica and Grenada, Saint Vincent was finally removed from the FATF list of NCCTs. The FATF report stated that the country had "sufficiently addressed the deficiencies identified by the FATF through enactment and implementation of appropriate legal

reforms." In the wake of this victory, St. Vincent still must answer the question of how to diversify its economy and the jury is still out on whether financial services will play a major role in this national endeavor.

GRENADA

Grenada was less damaged than its fellow Windward Island nations by the WTO-mandated erosion of trade preferences for Caribbean bananas. By 1993 the number of active banana growers had already shrunk to under a thousand, and that number had dropped to 150 in 1996, representing less than 1 percent of the labor force. More important was the erratic behavior of the tourist industry, which in the 1990s became the nation's leading earner of foreign exchange. Visitor expenditure as a percentage of GDP fell from almost 40 percent in 1986 to below 20 percent in 1996. Furthermore, Grenada's political leaders were concerned at the high dependence of government revenue on a regressive customs duty increasingly resented by the population. Therefore, the authorities were anxious to diversify the economy into other activities. In the words of one observer, the adoption of financial services was part of Grenada's strategy to "to use the attributes of sovereignty to survive" in the new globalized economy. In a November 2000 essay in the *Grenadian Voice* newspaper, offshore expert David Finzer wrote that "affluent North Americans pay so less affluent West Indians don't have to." Financial services also responded to the sentiment of many Grenadians summarized in the words of one Caribbean official, "We want our children to have a future other than as barmen and maids."

Background of the Financial Services Sector

Financial services legislation was passed in late 1996 and early 1997. At the time Prime Minister Keith Mitchell said, "We are convinced this is the way to go We are quite aware of the possibility for misuse and money laundering, but we—like many other countries—will do everything possible to get the business. Let's face it, bankers and people with lots of money want to diversify. They don't want to concentrate their investments in one particular area."

Ironically, one of the elements that caused Grenada to opt for financial services was related to the 1983 U.S. intervention. At that time most of the country's telecommunications infrastruc-

ture was of Eastern European origin. After the political situation shifted, spare parts became scarce, and therefore the entire infrastructure was replaced with modern equipment. Like Germany, whose industries have benefited from the fact that it had to replace its industrial plant after World War II, Grenada's 1983 problem turned into a 1997 advantage. State of the art telecommunications infrastructure provided the country with a significant competitive edge in the financial services field.

In 1996-1997, the government moved forward with great enthusiasm, quickly authorizing offshore banking, international trusts, international insurance, international betting, company management, International Business Companies (IBCs) and economic citizenship. Initially the sector was overseen by only two people. The principle regulator was a Grenadian of excellent repute who had worked for various Canadian government agencies while residing in that country, but who had no background in the financial services field. Within two years he and his colleague were responsible for regulating over 3,000 companies. The mismatch between the respective sizes of the staff and the task probably contributed to the difficulties described below.

Economic Impact

Initially the sector took off fairly smoothly. From August to December 1997 it provided EC\$7 million in direct government revenue, and by 1999 the contribution had more than doubled to EC\$15 million, representing an estimated 2 to 5 percent of total government revenue. In 1998 and 1999 the sector created at least 200 new jobs, a significant number of which required high skills. Ancillary sectors such as hotels, taxis and maid services also benefited. In December 2000, one firm that had only been incorporated for five months reported that it had "about a 10 percent impact" on its vendors' business. Grenadian sources well disposed to the financial services sector believe it increased GDP by 2 percent in the 1998 to 2000 period, and reduced the unemployment rate by two percentage points. The salaries paid by financial services firms, even for relatively low skilled clerical jobs, consistently compared very favorably with those offered by other employers. Such companies also proved willing to pay high rents and property prices, at times offering 50 percent over market prices. One firm estimates that from January to December 2000 it alone injected US\$250,000 into the economy in

rents, services, salaries and government fees. Another consistently paid wages that are 7 percent over the going rate, provided for education if any employee wished to develop his/her skills and offered a transportation allowance.

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While the number of Grenadians employed in the sector is relatively small, for some it has made a significant difference in lifestyle. Among the reports the author collected in December 2000 were:

- a receptionist who had the confidence to incur debt and purchase a new car;
- a female employee who was able to finance her husband's dream of establishing a photographic business;
- a group of mothers who collectively pooled a portion of their salaries to hire a ballet teacher for their children.

Because of the high number of clerical jobs the sector requires, anecdotal information suggests women may have benefited more from the employment-generating capacity of the sector than men.

Investors in the sector have also made considerable charitable contributions. One firm interviewed was donating one computer per month to a series of Grenadian schools, and hoped to accelerate this to one per week. Another gave US\$4,000 per month to charities, including a home for pregnant women and a children's theater project.

Financial services firms, predictably, make heavy use of telecommunications infrastructure. As the cost of installed facilities has been spread out among a growing number of users, the price of certain electronic communication services has declined by as much as 40 percent, directly benefiting Grenadian consumers.

While the average man on the street does not necessarily perceive the benefits of the financial services sector in his day to day life, the government initially hoped that this would change. Officials planned to use revenue from the sector to reduce the much-resented import duty. However, while some import related taxes have been reduced since 2000, it was not as a result of any contribution from the financial sector, which suffered a drop in revenue caused by the "First Bank" scandal. On balance, financial services have brought some modest but nonetheless significant revenue

and employment advantages to Grenadian society.

The "First Bank" Scandal

A major scandal involving First International Bank of Grenada began to brew in the spring of 1999, and in August 2000 the government took over the firm as it ran short of funds. The bank claimed to have assets of US\$62 billion, but at the time the government became involved it could not even pay its staff. The bank owed 6,000 depositors about US\$150 million and almost all of the 285 people it employed lost their jobs. Many employees and vendors were owed wages and fees by the bank. Much of the missing funds appear to have been transferred to Uganda in the names of three bank officers. While such a bank is supposed to deposit US\$2.33 million with the authorities as liquid capital to be tapped in just such a circumstance, when investigators looked for these funds they discovered First Bank had been permitted to deposit only US\$110,000. Exactly who authorized this apparent violation of regulations, and why, is not clear. Critics assert there were ample warning signs to alert regulators that First Bank was unreliable, but they were ignored.

Among the overlooked "red flags" were:

- 1) The main entrepreneur, Mr. Van Brink, had declared bankruptcy and had changed his name before establishing a business in Grenada.
- 2) Mr. Van Brink had no banking background.
- 3) The Bank offered depositors 300 percent interest.
- 4) A "red ruby" located abroad allegedly was the bank's main capital, and proof of ownership was unconvincing.

Further alarm signals appeared as the bank established its business. Among them:

- 1) The bank claimed that its capital grew from US \$11 million to \$14 billion in one year.
- 2) The bank requested the advice of its accountant on the logistics of how to receive "unlimited" amounts of funds from abroad.
- 3) The bank offered four times the market price for a recording studio in Trinidad and Tobago. (Offering well above market prices for a business is a hallmark of money laundering.)
- 4) The Bank's books did not balance.
- 5) Attempts to verify alleged assets were obstructed.

Much of this information was brought to the attention of Prime Minister Keith Mitchell by the chief whistle blower in the case, Mr. Lauriston Wilson, the Managing Partner of First Bank's Auditors. In a March 26, 1999, letter to the Prime

Minister, Wilson reported the above and more, and called for the “immediate revamping” of the entire offshore sector. However, nothing happened until over a year later.

Even after the government intervened in the bank, it still apparently tried to help the owners find a way out of their predicament. In October 2000, Grenada granted a license to the renamed “First International Bank of Grenada 2000” on the condition that depositors be reimbursed and proper record be kept. The government also declined to ask the FBI to investigate, despite calls by the political opposition to do so.

Extensive interviews with a variety of sources in Grenada point to the conclusion that First Bank was not primarily a money laundering scheme, though it may have been engaged in or preparing to engage in such activities. It was primarily a “ponzi scheme” in which old investors were paid off with the funds of new investors, until the new funds became insufficient to meet obligations and the scheme collapsed. Clear evidence of fraud was available over a year before the government acted. What caused the delay and then the ambivalent, half-hearted actions that followed? Answers to these questions are important not only to unravel this particular scandal, but also because they illustrate the vulnerabilities of small island societies to the machinations of experienced criminals.

Fallout From the Scandal

The consensus among experts in Grenada’s financial services sector is that Grenada’s regulators were understaffed, had insufficient experience in the field, and were overly trusting. Although the political opposition and the Managing Partner of First Bank’s Auditors believe the regulator himself was personally corrupt, that is not proven. There was, however, what could be termed collective corruption. First Bank paid wages, rents and property prices that were two to four times the market level. It also gave lavish gifts to a wide variety of officials and prominent Grenadians. Though these favors were perhaps not explicit quid pro quos for services rendered, the beneficiaries nonetheless came to depend upon the regular handouts and therefore were extremely slow to act against the bank when evidence of wrongdoing came to light. Once action became inevitable, investigation was slowed by the fact that a large number of people would “look bad” for having accepted First Bank’s largesse and therefore a major chunk of the Grenadian “establishment” had an interest in sweeping the matter under the rug.

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The January 1999 elections may have played a role also. According to U.S. scholar Douglas Payne, the Prime Minister’s New National Party (NNP) received an estimated US\$3 million in campaign donations, an unprecedented level in Grenadian history which represented about US\$31 per capita. (In the U.S., campaign donations amount to about US\$4 per capita.) The origin of these funds was shrouded in mystery, but the Prime Minister conceded, “We did get support and funding from the international sector.” Donations allegedly came both from First Bank itself and from some of its depositors. In a March 1999 “file note,” the Managing Partner of First Bank’s Auditors recorded that he had warned the Prime Minister against accepting such donations, since they “tend to make Offshore Bankers feel that they can do as they please, and hold the Prime Minister and the Country to ransom.”

While First Bank attracted the most attention, several other less publicized problems also arose in the financial services sector in the 1998 to 2000 period. Rival banks allegedly threatened each other with the Russian mafia in a bank-to-bank dispute. A bank with “Russian links” was allegedly allowed to set up in Grenada after its assets had been frozen by Antigua. Officials from Antigua visited Grenada in September 2000 to investigate one of the offshore banks that relocated from the former to the latter island. In 1998 and again in 2000 controversies arose over allegations that Prime Minister Mitchell signed documents authorizing “questionable” institutions to raise money.

The social and economic impact of the various controversies has been grave. Even before the scandals the offshore sector had already generated some bad will. It had pushed up wages for computer experts beyond the level some local companies could afford, and similarly inflated rents and property prices. After the scandals broke, conventional onshore banks, long suspicious of the newcomers, refused to have any transactions whatsoever with the offshore sector. Employees of an Internet gaming enterprise found Grenada’s banks unwilling to open bank accounts for them and landlords reluctant to rent. The

obtaining of mortgages by financial services employees, difficult even before the scandals, became impossible. The entire offshore sector became tainted and employment in it “politically incorrect”. Workers leaving the sector found it hard to obtain alternative jobs. A Grenadian lawyer who served a number of offshore clients decided to severely cut back on that portion of his business, because association with the sector was eroding his reputation and ability to maintain the other legal work traditional to his multi-generation family firm.

The number of new investors in the sector dropped considerably, though curiously applications for economic citizenship did not slacken. About a quarter of all Grenada’s IBC registrations had been conducted through First Bank, so that enterprise’s paralysis seriously hurt the IBC sector. Accusations of corruption flew back and forth in the country’s newspapers every day, and people’s faith in government was shaken. As one Grenadian commented, “People feel that the politicians responsible for granting licenses allowed this to happen, and they want to know what those politicians got in return.”

Another result of the First Bank scandal, and the strong U.S. and European pressure on Grenada to clean up the offshore sector, was a bitter backlash against developed countries.

Another result of the First Bank scandal, and the strong U.S. and European pressure on Grenada to clean up the offshore sector, was a bitter backlash against developed countries. A large number of Grenadians interviewed for this study, including many who vehemently oppose the current government and criticize its handling of the First Bank scandal, felt that most money laundering actually takes place before the funds reach Grenada. One observer commented,

There is a fundamental difference in the definition of money laundering. They [developed countries] define it as the proceeds of an illegal act, wherever those proceeds flow. We think that most money is laundered in the metropole, and then transferred to us by wire. Because we don’t accept cash, by our definition everything that comes to us is already laundered. We are thinking of introducing legislation that says that anyone who sends us dirty money is guilty of a crime. Since we have an extradition treaty with the

U.S., we could extradite those bankers who send us tainted funds for trial in Grenada.

Another source remarked, “Grenadians are tired of hearing from white guys in \$2,000 suits why black guys should not get rich like they did. It’s a neocolonial attitude.”

The Future of Financial Services in Grenada

At the same time that the scandal was damaging Grenada’s image, some of the very characteristics that had made it attractive to financial services investors began to shift. All of the financial services executives interviewed for this paper said that if they had known conditions were going to change in the way they did, they would not have come to the country in the first place. The efficiency of telecommunications links has seriously deteriorated. License approval now entails long delays, in contrast with the swift pace of the previous era. Some investors have concluded that the regulatory regime, despite recent enhancements described below, is simply not up to the task and a presence in Grenada can inadvertently give a legitimate enterprise a “dirty” reputation.

While the government of Grenada moved slowly, at the time of the author’s research in December 2000, it had taken some steps to rectify the situation. The government implemented whistle blower Wilson’s March 1999 recommendation to the Prime Minister that a Supervisory Board be established to oversee the sector. The Grenada International Financial Services Authority (GIFSA) was established in 1999, governed by seven directors appointed by the Minister of Finance. It employed 12 staff. However, the same regulator accused of mishandling affairs previously was made Executive Director of the entity. While the Executive Director has now changed, GIFSA’s mandate remained somewhat contradictory, as it was responsible for both regulating and “promoting” the offshore sector. Through subsequent amendment this contradiction was corrected by removing GIFSA’s promotion responsibility. GIFSA also has some problems obtaining sufficiently skilled staff. One source close to the institution commented, “They just don’t have the money to hire the horse to pull GIFSA.” The salaries required to employ world class financial services experts are simply beyond Grenada’s budget. Some of the individuals hired to oversee specific activities have no background in the specialty. This has caused many observers to doubt GIFSA’s abilities.

The government has made a notable effort to develop institutional defenses against money laundering and to heighten public awareness of the dangers of the practice. In September 2000 a national committee was established to make recommendations to strengthen legislation to combat drug crime and money laundering. Three months later GIFSA, in collaboration with the Caribbean Anti-Money Laundering Program, sponsored a region-wide anti-money laundering seminar to which a wide variety of Grenadian and regional businesses were invited.

On March 9, 2001, the government moved even more decisively and revoked the licenses of seventeen offshore banks linked to First Bank. However, the U.S. State Department's March 2001 annual evaluation of worldwide money laundering and drug trafficking said that GIFSA "has largely been ineffective to date" and "serious questions remain...as to Grenada's will and ability to perform due diligence on applicants and otherwise properly regulate this sector." This concern was confirmed by Grenada's addition to the FATF's NCCT list in September 2001. In response, the Grenadian government has continued to make regulatory progress at the expense of the sector's health. The bank revocations have continued through 2003, and now number over thirty. Whereas forty-eight banks operated in the sector prior to the First Bank scandal, now only four do and of those four, one is under Special Examination, one is under controllership by GIFSA and two are to be liquidated. These painful reforms have enabled Grenada to meet the FATF requirements and paved the way for its removal from the NCCT list in February 2003.

To date, Grenada's venture into financial services has produced mixed results. Employment generation has been modest though worth noting. While revenues grew rapidly at first, they have declined significantly since the First bank scandal and the FATF blacklisting. Some customs duties have been reduced since late 2000, however this was accomplished without any contribution from the financial services sector, and therefore the benefits of the sector are still not generally felt by the people at large. Telecommunications fees have declined, in part because the cost of installed infrastructure is now spread over a larger number of users. However, the government now spends large sums cleaning up the sector. The country's overall image has been tainted, and the domestic political climate was poisoned by accusations and counter accusations of corruption.

It seems that Grenada's financial services sector may have turned a corner in establishing itself as a transparent industry more acceptable to the FATF. The government of Grenada is now proposing to establish an umbrella organization named the Grenada Authority for the Regulation of Financial Institutions (GARFIN) which would regulate domestic banks, offshore banks and all financial institutions and replace GIFSA by October 2003. One can certainly understand why a small, geographically isolated country with limited resources would want to exploit its comparative advantage in the financial services field as it struggles to cope with globalization pressures. It is indeed hard to answer the question posed by one Grenadian: "If the offshore sector dies, what other development options do we have?"

CONCLUSION

The drive to diversify has not been abandoned by Windward Island countries that see no alternative in their quest for economic survival. As a result, the financial services sector will continue to be a main area of growth for small Caribbean nations despite the existence of threatening external factors and negative social effects. The reforms undertaken to adhere to FATF recommendations, while economically painful in the short term, have had a purging effect on the sector that may allow it to grow healthily in the long run. Furthermore, the problems encountered by St. Vincent and Grenada will provide an important road map for avoiding mistakes in the future. Careful management of financial activities will be essential. The aforementioned scandals came at a great cost to the society of each country by eroding the peoples' confidence in their governments. Greater communication between governments and their constituents should help to lift the shroud of secrecy surrounding the financial services sector. Finally, while the economic benefits of financial services may be difficult to detect by the man on the street, they are nonetheless essential to the survival of small Caribbean states in the era of globalization. The economic success of neighbors such as the Bahamas and the Cayman Islands demonstrate that, if done right, financial services can indeed help to alleviate some of the economic pain caused by the decline in agricultural prices or tourist arrivals.

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