



REMARKS

by

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GROWTH, COMPETITIVENESS AND THE ENERGY REVOLUTION IN BELIZE

Introduction

Ladies and gentlemen

I am delighted to have been invited to speak to you tonight, in Belize and especially here, at the Bliss Centre for the Performing Arts.

This historic building stands as a monument to its benefactor, Baron Henry Edward Ernest Victor Bliss, who came to Belize in January 1926 and died in the Belize Harbour aboard his yacht the "Sea King" on March 9th that same year. In that short time, he had fallen in love with Belize, and amended his will to leave a considerable amount of his fortune to the people of Belize.

This is a love story that speaks volumes about the captivating beauty of a country that is home to the longest barrier reef in the Western Hemisphere, verdant forests, and exotic wildlife.

The original building, I understand, was also home for the National Library Service from 1955 to 1994 and the office for the Extramural Department, which would have been the gateway to the University of the West Indies for many Belizeans. Many of Belize's current leaders, including the President of the University of Belize, Alan Slusher, would have been spent countless hours here poring over the library books or attending one of the many classes.

Alan, thank you for facilitating my presence here tonight, and for your warm words of welcome.

The Context

The financial sector meltdown of 2007 and the ensuing global recession were, arguably, unlike any crisis that this Region had previously experienced, at least in my lifetime.

So far reaching were the consequences that, seven years later, we are still working hard at overcoming the reversals in economic and social progress, which were inevitable consequences of that challenging period.

The post-recession world is, in many respects, more complex than that which obtained before. We must now place a much greater focus on identifying and vigorously pursuing the new emerging opportunities, whilst devising strategies to mitigate the inevitable risks, which are part of our landscape.

As I have assessed your situation, here in Belize, it is difficult to escape the conclusion that you face the future with an amazingly bountiful endowment of natural and physical resources, upon which you can build a future of prosperity and security for all your people. It helps, too, that your amazingly diverse people are hard-working, talented and innovative.

So you start from a very good place.

Put simply, what will determine the quality of Belize's future will be whether this country can unify around a small number of key strategic initiatives and adopt policies which, consistently applied, will deliver the development results to which all Belizeans aspire.

Tonight, I want to speak to you on the topic *“Growth, Competitiveness and the Energy Revolution in Belize.”*

I will suggest a focus on an agenda of dynamic economic growth built around three pillars, which I will outline later. To this end, Belize must undergo a metamorphosis that will lead to stronger and more sustainable economic growth; offer better employment outcomes and higher living standards for its citizens; and create an economy that is much more resilient to future shocks.

I will conclude my remarks by speaking to specific interventions by the Caribbean Development Bank (CDB) over the years. These interventions are aligned to assisting this country to build the critical underpinnings for dynamic and sustainable growth.

Before I elaborate, let us briefly assess Belize's historical and recent performance in relation to growth, and try to draw some conclusions about the development challenges which still need to be addressed.

Where is Belize today?

Prior to the global recession, Belize's gross domestic product (GDP) grew at an average rate of 6% per annum between 1980 and 2008. This exceeded the world average of 3.6%; the rate of 4.5% for emerging economies; and that for the Caribbean region of 2.3%.

Since the recession, growth in Belize has been relatively unstable and low, averaging only 2% per annum between 2009 and 2014.

The social challenges remain daunting. The unemployment rate at September 2013 was 14.2%; and the Statistical Institute of Belize estimated that more than 22% of Belizean youth were unemployed, at that same time.

Poverty levels remained stubbornly high, at an estimated 41% of the population in 2010. This compares with 33% in 2002. Indigence also increased to 16% in 2010, from 11% in 2002. In the absence of more up-to-date information, one could safely say that these indicators have worsened in the last four years. The evidence would suggest that growth rates much higher than 2% will be required to increase incomes and generate sufficient resources to invest in the social and economic infrastructure necessary for inclusive development.

What Does Belize Need to Do to Achieve Sustainable Growth?

Belize needs to achieve sustainable growth built on the following three pillars:

1. Develop a resilient and diversified economy that is able to compete in the international markets and earn the foreign exchange necessary to meet its development needs;
2. Build resilience to natural hazards by climate-proofing key social and economic infrastructure, especially around industries such as agriculture, fisheries and tourism; and

3. Create a revolution in its energy sector, which focuses on optimising the development of indigenous renewable energy sources and, in the process, galvanising the emergence of a whole new economic sector centred on renewable energy.

Developing a Resilient and Diversified Economy

A resilient economy is one which is adaptable and can withstand shocks, whether they are economic, political or climate-related. This can best be achieved through diversifying industries with adequate capital buffers, and taking advantage of opportunities to create backward and forward linkages.

The private sector is the principal player in the development of this type of economy. Its composition will include both domestic and private investors who recognise an environment that is predictable and conducive to realising a reasonable rate of return on investment.

The role of Government, then, is to create that enabling environment. Caribbean governments are increasingly recognising that targeted efforts at addressing the constraints to doing business, captured in frameworks like the World Bank's Doing Business Index will, in time, pay dividends in the form of increased domestic and foreign investment.

The index has its flaws, major constraints being that it is not based on survey results; and it may not cover all of the critical factors that affect business decisions. However, the Doing Business Index does offer a gauge of how differences in the regulatory environment across 189 countries can influence investment decisions.

In the 2015 report, Belize is ranked 118 compared with Singapore (1st) and Jamaica, the highest ranked borrowing member country of CDB (58th). Some key elements that affect the rankings include the length of time for business start-up (148); enforcing contracts (170); getting credit (160); getting electricity (54); and paying taxes (61).

Clearly, there is significant room for improvement in several areas which help to determine the quality of the business environment. These need to be targeted and timeframes established for rapid advances up the scale.

Continuing with the theme, a stable macro-economic environment is important for creating a resilient and diversified economy.

The private sector also operates best in business environments that are relatively predictable. This is a part of the enabling environment that governments must provide.

The attainment of fiscal and debt sustainability is essential for creating a stable environment and has the added benefit of not burdening future generations with debt service payments. The Government of Belize must remain committed to fiscal consolidation; keep its fiscal programme under active review; put in place the required institutional support for improved public financial management; and avoid slippages in its revenue, expenditure and other key fiscal targets.

Debt must also be kept under control to avoid undermining the growth objective. This becomes a real risk, if the proceeds of new debt go towards funding recurrent rather than capital expenditure. The seven percentage point improvement in the debt ratio to 77% of GDP between 2009 and 2014 is noteworthy.

Going forward, with the inclusion of the provision of compensation to shareholders of the two nationalised utilities, debt service will increase and the overall debt will continue to rise unless the primary surplus is appropriately adjusted upward from its current levels.

Government may also want to examine the scope for adopting explicit fiscal rules. By imposing a long-lasting constraint on fiscal policy through limits on budgetary aggregates, fiscal rules can appreciably improve the likelihood of fiscal responsibility and debt sustainability.

Climate Proofing of Key Economic and Social Infrastructure, and Industry

Belize is vulnerable to the effects of climate change due to its geographical location. And it is vulnerable to the risk of rising sea levels and to tropical storms.

It is estimated that Belize has a 17% probability of being impacted by a major tropical cyclone each year. A number of Belize's key foreign exchange sectors, especially agriculture and tourism, are especially vulnerable to global warming. As a consequence, sustainable economic growth in this country must be built around a strategy of adaptation to the inevitable adverse consequences of this worldwide phenomenon.

A 2009 UNDP study entitled "Belize and Climate Change: The Cost of Inaction" attempted to estimate the cost of damage to several economic sectors, including agriculture, fisheries and tourism. With respect to tourism, the study drew attention to Belize's dependence on its coastal beaches, coral reefs, wildlife and forests in defining its competitive space in this industry. It also highlighted the risk to the sector from erosion, flooding, salinisation and the threat to physical property.

Recommended climate adaptation responses for the tourism sector include diversification of tourist revenues, development of resilient tourist attractions and promotion of tourist education and awareness of local vulnerability. There will also be the need to build appropriate sea defenses and other climate resilient infrastructure to render this and other industries less vulnerable to climate change.

The Government of Belize has promulgated a policy of adaptation to global climate change. It mandates the Agricultural Department of Government, for example, to undertake climate change vulnerability studies of all major crops in Belize. Among other things, the Department is mandated to prepare adaptation interventions to include crops varieties, which are more tolerant to changes in climatic conditions and to introduce new and better adapted agronomic practices.

The Coastal Zone Management Authority of Belize is required to prepare adaptation plans for the coastal zone to address the impact of climate change. Similar mandates are outlined for other key sectors and areas of Belizean society.

The existence of a comprehensive policy such as this is very encouraging; but the highest priority needs to be placed on its consistent implementation across political administrations. If this does not happen, then these growth sectors will be threatened and their capacity for expansion and contribution to more vigorous economic growth will be undermined.

Creating a Revolution in Belize's Energy Sector

Belize is one of a few CDB borrowing member countries (BMCs) with a diversified energy mix and the potential to shift the mix of renewable energy from an already high 65% of the electricity generation mix to even higher levels.

Most of the renewable energy used in Belize currently comes from hydropower and bioenergy using bagasse from the sugar industry. Near-term plans for major expansion of this industry hold out even greater prospects for a deeper penetration of renewable energy from this source.

So why is it so strategically important for Belize to push the frontiers of renewable energy and energy efficiency?

And what role does it play in fueling sustainable economic growth?

It is now well recognised that the volatility of the international fossil fuel markets represents a destabilising source of volatility of supply and pricing for economies which are heavily dependent on this source for this critical input to the production process. From a policy perspective, therefore, energy security is an objective which should rank high on any country's growth agenda.

Another aspect of Belize's energy situation is that, because of its geographical positioning, it is able to import electricity from its neighbour, Mexico. This helps to mitigate supply risks; but with the full development of its own renewable energy resources, Belize could itself become an energy exporter to neighbouring countries.

To this point, we have only alluded, *en passant*, to energy efficiency. But this is an energy source which is truly "a gift which keeps on giving."

Investments in this area could also produce very high returns with short pay-back periods. Both government and the private sector can enhance their overall efficiency by investing in energy efficiency. The increased efficiency at the level of the firm enhances competitiveness and helps to spur growth.

The Government of Belize has promulgated a comprehensive renewable energy/energy efficiency strategy which covers all of the appropriate bases. In my view, its urgent implementation is an indispensable component of an aggressive growth strategy.

Ladies and gentlemen, I have argued that Belize needs to achieve much higher rates of growth in the medium term than has been the case since the beginning of the great Recession. Higher growth rates will enable the Government to better address many of the pressing social and economic issues facing its people. The principal actor in the drive for growth must be the private sector; but the Government of Belize must be a partner in this endeavor by creating the appropriate regulatory and macro-economic environment within which the private sector can thrive.

I have recommended that a more targeted approach to addressing the weaknesses in that environment could be successfully adopted and reap good benefits from increased private sector confidence.

I have also posited that Belize needs to give high priority to climate resilience in order to secure the dynamic sectors of agriculture, fisheries, tourism and others which are especially vulnerable to climate change. I have noted that good policy frameworks are in place; and that emphasis must now shift to focused and consistent implementation of the appropriate adaptation measures.

My final point is that Belize is very well-endowed with renewable energy resources and is, to some extent, insulated from the vagaries of the international petroleum markets. An accelerated drive to optimise the use of the renewable energy resources in this country could stimulate economic activity; reduce foreign exchange outflows; and be an additional driver of economic growth for Belize.

Vigorous promotion of energy efficiency will reduce cost in the public and private sectors and provide a further fillip to competitiveness and growth.

Role of the Caribbean Development Bank

In the remaining moments, I will speak briefly to the enduring relationship between Belize and CDB, and how the Bank's activities are closely aligned with the social and economic priorities of the Government and people of Belize.

CDB has been a committed partner of Belize since 1970 when we commenced operations. Approvals to Belize amounted to USD349 million (almost 9% of total approvals) in 1970-2013, including USD115 million from the Bank's concessionary window.

In the past three years alone, the Bank approved loans totaling almost USD72 million. The approvals were heavily weighted towards infrastructure upgrade, expansion and maintenance in the transportation, water and energy sectors; and education reform. This emphasis is very consistent with the thrust to enhance the environment for private sector development, growth expansion, and job creation in Belize.

I wish to single out for special mention three projects which CDB financed recently. They are all groundbreaking, and in many respects, also reflect the Bank's ongoing focus on becoming more flexible, and remaining relevant to the needs of its borrowers.

The first project is a Road Safety Project which is benefitting users and residents along the Belize City - Hattieville - Belmopan corridor. The project is expected to significantly improve road safety in Belize, which has one of the highest fatality rates among CDB's BMCs. This is disturbing from the perspective of the likely increase in the cost of providing health care; and it can also cause disruption to family life and increase the risk of families falling into poverty due to the loss of a significant wage earner.

Similarly, we are financing a Youth Transformation Project that is expected to reduce the vulnerability of young people to crime and gang membership in urban communities by providing services that will improve literacy and adaptive life skills, and support conflict mediation. The overall impact of the project will be improved citizen and community security in Belize City.

The third project is a line of credit to the Development Finance Corporation. The line of credit includes its traditional support for mortgages, student loans, and small business development. A pilot programme to promote energy efficiency and the adoption of renewable energy technologies amongst small businesses has also been built into the line of credit. All components of this line of credit are designed to stimulate growth. The renewable energy/energy efficiency component has the added advantage of making businesses more competitive and also helping Belize to become more energy secure.

Recognising the critical role of energy in economic activity, CDB has long been involved in the sector in Belize, and indeed, in most of its BMCs.

More recently, the focus of that interest has shifted towards helping the countries to fully exploit their abundant renewable energy resources. Earlier this year, the Bank set up a Unit dedicated to articulating the Bank's strategy in the area of renewable energy and energy efficiency; identifying suitable projects for financing; and identifying financing partners with similar interests in fostering renewable energy/energy efficiency.

Belize's thrust towards a significantly enlarged role for renewable energy in its energy balance is consistent with CDB's own efforts to promote energy security across the Region. This is an area for added support from CDB in the near and medium term.

For CDB to be a full partner with Belize and our other BMCs in addressing renewable energy and climate adaptation, we need to have access to appropriately priced resources which will induce governments to move in this direction. I am pleased to say that good progress is being made in positioning the Bank to become a financial intermediary for institutions like the Green Climate Fund.

Belize has the potential to grow much faster than it has been since the Great Recession. With faster growth will come the kinds of improvement in the social indicators that are needed for meaningful reductions in poverty levels. At CDB, we remain committed to continue working with Belize to achieve this goal.

Thank you.