



# **IMPERATIVES FOR SECURING OUR CARIBBEAN FUTURE**

by

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at the

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### **SALUTATIONS**

Mr. Chairman, Prime Minister of Saint Lucia, Honourable Dr. Kenny D. Anthony  
 Governor General of Saint Lucia, Her Excellency, Dame Pearlette Louisy  
 Prime Minister of Grenada, Right Honourable Dr. Keith Mitchell  
 Prime Minister of St. Vincent and the Grenadines, Dr. the Honourable Ralph Gonsalves  
 Premier of Montserrat, Honourable Reuben Meade  
 Chief Minister of Anguilla, Honourable Hubert Hughes  
 Cabinet Ministers of the Government of Saint Lucia  
 Distinguished Governors of the Caribbean Development Bank (CDB)  
 Members of the Board of Directors of CDB  
 Members of the Diplomatic Corps  
 Observers  
 Guests  
 Management and Staff of the CDB  
 Members of the Media  
 Ladies and Gentlemen

### **I. INTRODUCTION**

Mr. Chairman, thank you so much for inviting us, once again, to the Helen of the West Indies!

Like the legendary Helen of Troy, the magnificent beauty of this island helps us to understand why the British and the French fought so hard to retain ownership of this amazing piece of paradise! History tells us that those two great colonial powers fought for more than a hundred years for control of St. Lucia.

Those of us in the CDB family and the Region, as a whole, will be forever grateful for that outstanding son of St. Lucia and one of your two Nobel Laureates, Sir Arthur Lewis. This distinguished scholar played a pivotal role in establishing our Bank and served as its first President. Coming here for an Annual Meeting is always an opportunity to reflect on his great contribution to the field of Economics and his service to our Region. In his "Theory of Growth", which he penned in 1955, he reminded us that:

*"The advantage of economic growth is not that wealth increases happiness, but that it increases the range of human choice...The case for economic growth is that it gives man greater control over his environment, and thereby increases his freedom."*

Human beings and their happiness were always the primary focus of this outstanding Economist. At CDB, we continue to be inspired by his emphasis on people-centered development.

#### **Status of a Typical Caribbean Country**

Sir Arthur, no doubt, would be very concerned about the major challenges that Caribbean countries face today. In a typical borrowing member country (BMC):

- Economic growth is less than 3 percent (%) per annum;

- Losses due to natural hazards have increased from 0.9% of GDP per annum in the 1980s and 1990s to 1.3% of GDP, currently;
- More than 21% of the population lives below the poverty line;
- The overall fiscal deficit of almost 4% is unsustainable and the public debt, at 80% of gross domestic product (GDP), is a serious drag on economic growth; and
- Citizen security is under increasing threat, with the homicide rate in many countries far exceeding the average rate of 18 per 100,000 citizens for Latin America and the Caribbean, as a whole.

In spite of the economic and social progress that we have made, this is clearly, not the Region that Sir Arthur envisaged.

Mr. Chairman, if we are to create a future based on economic stability and prosperity for our people; if the range of human choices available is to be expanded; if Sir Arthur's vision of our people taking control of their environment is to become a reality; and if our people are to increase their freedom, then our most urgent task is to formulate a strategy for redressing the major difficulties that confront our BMCs.

I propose, this morning, to focus my attention on some of the imperatives for securing the future of our Caribbean.

But, Mr. Chairman, before I do so, I must digress, whilst I review the operations of CDB in 2012.

## **II. HIGHLIGHTS OF CDB'S PERFORMANCE IN 2012**

Last year was a challenging one for most of our BMCs. It was no less so for our regional development institution. Even as our lending activity slowed, we made great progress in strengthening the Bank so that we can remain a relevant and reliable partner for all of our shareholders.

Let me share some of our recent achievements with you:

- (a) We are far advanced in completing the reform of our risk management framework. I would like to acknowledge the generosity of the Government of Canada which, with great despatch, underwrote some of the substantial cost of the early work in this area;
- (b) We have changed the method of assessing our own credit-worthiness to align it more closely with that of the rating agencies;
- (c) We are in the process of strengthening our internal audit function;
- (d) We corrected the asset liability management position by extending the maturity structure of our debt;
- (e) We rectified the breach of our preferred creditor status by one of our BMCs;

- (f) We successfully completed the negotiations for SDF 8, concluding with a programme level of USD348 million; We recognise, with gratitude, the solidarity which all Contributors demonstrated by replenishing this vital facility in such difficult economic circumstances;
- (g) We recruited a Gender Equality Advisor, and can now accelerate the implementation of our Gender Equality Policy and Operational Strategy; and very importantly;
- (h) We have practically completed the recruitment of several new members of our senior Management team.

Today, I am confident that, emerging from the challenges of 2012 is a CDB that is stronger; a CDB that is more focused; and an institution that is better equipped to support its BMCs in these challenging times.

### **III. IMPERATIVES FOR SECURING OUR CARIBBEAN FUTURE**

What of the Region which we are mandated to serve? Are our countries positioning themselves to emerge stronger from the current economic crisis?

It can be argued that some BMCs mis-diagnosed the severity and duration of the international recession, and consequently, moved too slowly to begin their fiscal and structural adjustment. What is much more important, however, is the recognition that a number of these countries have begun to adopt appropriate reforms to reverse macro-economic imbalances and improve international competitiveness.

Even as we acknowledge and applaud the political courage demonstrated by some of our regional governments to fix that which is within their control, we should not lose sight of the important lessons for a successful adjustment. Let me enumerate some of them:

- (a) There will be little sympathy or support from the development community for countries which stubbornly defy the inescapable logic of balancing our fiscal accounts;
- (b) A sustainable fiscal adjustment, in our democratic political culture, must consider the interests of the main social classes. If an enduring agreement is to be reached, burden sharing and buy-in from a broad cross-section of our people are non-negotiable; and
- (c) Doing nothing is not an option once the level of sovereign indebtedness has become unsustainable.

These are three important requirements for a successful adjustment. In our context, there are a few more which we ignore to our peril:

- (a) Debt restructuring, if necessary, should be tailored to the specific realities of the country. One size does not fit all;
- (b) As much as possible, a restructuring should also meet the “sufficiency test,” since frequent restructuring damages a country’s credibility and its reputation in financial markets. However, a restructuring which creates a crisis in another economic area, such as the financial sector, does not represent a solution;

- (c) Unless accompanied by economic growth, fiscal and debt adjustment, are simply examples of “kicking the can down the road”. Economic growth is the only guarantor of fiscal sustainability and a distributable surplus; and finally
- (d) A growth strategy, in the context of our Caribbean reality, will be found wanting if it does not address resilience in all of its manifestations. I preach to the converted when I reiterate that a comprehensive strategy for building Caribbean resilience ought to cover, at least, two key areas - adaptation to climate impacts, and the creation of a more competitive economy.

### **International Compact of Co-operation**

As I have contemplated the path of our BMCs out of the most deep-seated social and economic crisis since political independence, I am convinced that a safe and successful navigation of this process will require a broad-based **Compact of Co-Operation** between Caribbean countries and the wider international community. We cannot do it alone.

I am further convinced that, if this Compact of Co-operation is to be ultimately beneficial to our BMCs, both parties will have to understand the other’s constraints and be prepared to address the issues which could hinder real progress.

### **Commitments Required of Caribbean Countries**

What are some of the things which Caribbean countries need to do to make a compact of co-operation yield the desired results?

Our borrowing members should accord the highest priority to transparency in governance. We owe it to our people to ensure that goods and services procured with public funds follow a process, which conforms to international best practice.

Ladies and gentlemen, our procurement systems should, also, inspire confidence in the international community that it is, indeed, getting “value for money”.

In addition, our leaders will be required to demonstrate, in a timely fashion, a penchant for taking tough decisions that promote sustainable fiscal outcomes and international competitiveness. At the same time, they must vigorously engage our international partners in providing financing for mitigants to the consequential social and financial sector fall-out associated with the stringent fiscal measures.

With regard to this last point, we should never forget the lessons of adjustment programmes of the 1970s and 1980s. Some of these were so fixated on solving the fiscal problem that they laid waste critical social sectors like education and health, with devastating long-term consequences. Those lessons need to inform our current approach.

## **Support from the International Community**

What could be the contribution of the international community to a compact of co-operation?

### **(a) Social Safety Nets**

Stringent fiscal adjustment programmes, such as those required to stabilise several Caribbean countries, are likely to have a discernible impact on the most vulnerable segments of our societies. For the adjustment to be sustainable and for social stability to be maintained, adequate social safety nets, appropriately targeted, need to be in place. These can be financed with Donor funds during the adjustment period and progressively assumed by the recipient country as greater fiscal space is created.

### **(b) Building Resilience for Economic Growth**

There is broad acceptance in the BMCs, and in the Donor community, that fiscal and debt adjustment are not sustainable without robust economic growth. What is now well understood, however, is that the Caribbean is the most vulnerable region in the world to natural hazards. There is also consensus that these have been increasing in intensity and adversely impacting the Region's economic growth.

A recent International Monetary Fund (IMF) report concluded that "Over the last 60 years...Caribbean countries have suffered from 187 natural disasters, most of them cyclones" with a 10 to 24% probability of being hit each year. That report further estimates the annual economic cost of damage from natural hazards at 1% of GDP, representing a considerable drag on economic growth and a central factor in debt accumulation.

In the face of these daunting statistics, the IMF has suggested that small island developing states in the Caribbean should be seen as frontline states for climate change funding. We, at the CDB, fully endorse this position. We are persuaded that growth prospects for our most vulnerable countries will be enhanced if resources for climate resilience can be front-loaded as part of a more comprehensive adjustment package. In particular, climate adaptation interventions should be fast-tracked and targeted at the most vulnerable economic sectors, primarily tourism and agriculture.

We know from bitter experience that even the most carefully crafted fiscal adjustment programme can be quickly derailed by a major climate event. Buying adequate insurance cover offers an efficient way of transferring some of this risk. The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is an excellent vehicle for this purpose. The problem is that a BMC, going through acute fiscal adjustment, is unlikely to be purchasing adequate insurance cover.

To illustrate this point, the CCRIF estimates that, based on current levels of coverage purchased by Antigua and Barbuda, Jamaica, and St. Kitts and Nevis, the CCRIF payouts for hurricanes Georges and Gilbert, would have been a mere 1 to 2% of total national losses.

The prevailing view in sections of the Donor community is that countries in fiscal and debt distress should front-load their reforms. This notion should be broadened to include the front-loading of climate resilience support.

The CCRIF is ideally placed to provide two practical forms of such support to Caribbean countries pursuing broad-based reforms. Firstly, for the duration of the period of fiscal adjustment, say four years, Donor assistance could be provided to these countries to increase the level of their catastrophic insurance cover to a more acceptable level. Secondly, the recent request by the CCRIF for a new

injection of Donor funds to enhance the affordability of its new flood insurance product would open up yet another window for transferring some of the risk associated with flooding, which is now an almost annual event in the Caribbean.

**(c) Debt Relief for Middle-Income Caribbean SIDs**

The strongly-held and frequently-articulated view that middle-income countries do not qualify for debt relief needs to be revisited. I go further, Mr. Chairman, and assert that the concept of debt relief for middle-income Caribbean countries is one whose time has surely come.

The exclusion of highly-indebted Caribbean small island developing states from Donor-assisted debt relief because of their middle-income status has raised serious questions about equity and fairness. Authorities in the European Union have come to accept that their own members cannot grow out of their problems, when faced with Debt to GDP ratios and average effective interest rates that, incidentally, are substantially lower than those faced by most heavily-indebted Caribbean countries.

What does this imply for the conduct of relations between states? What are the lessons to be learnt?

This tells me that, if a segment of the international community deems its interests to be under threat from the collapse of a strategic partner, then creative solutions will be found. The recent European experience teaches us that these solutions can include debt relief, in one form or the other.

Could it be that middle-income Caribbean small island developing states are not favoured for debt relief because they are not considered to be of sufficient strategic importance? As in Europe and elsewhere in the world, why can't Donors and beneficiaries agree on performance criteria, which would render debt relief a legitimate component of a comprehensive economic recovery package?

The Region and the Donor community, at large, should do the cost/benefit analysis. Whose interest is served when we stubbornly eschew debt relief even though credible research suggests that sovereign indebtedness beyond a particular threshold is unsustainable?

Disorderly adjustments are in nobody's interest. There are enough examples of failed states in our world, which, regardless of size, represent a destabilising threat to immediate neighbours, and even to countries much further afield. The implications are simply too dire for us to ignore.

**IV. CONCLUSION**

Mr. Chairman, let us briefly recap some of the main points, so far:

- (a) Our BMCs need to address their fiscal and debt issues; but a narrow adjustment programme will be unsustainable;
- (b) An optimal adjustment strategy cannot ignore the principal casualties of fiscal tightening. It ought to include mechanisms to cushion the impact on the most vulnerable, and provide practical pathways to their economic and social empowerment;
- (c) The ultimate route out of the fiscal and debt trap is robust economic growth. This will require appropriate domestic policy reforms, underpinned by front-loaded climate and economic resiliency measures; and

- (d) Debt relief for highly-indebted middle-income Caribbean countries is now impatient of debate. Its legitimacy should be the outcome of broad-based discussions between Donors and BMCs and could be executed through the multilateral financial institutions, such as CDB.

Mr. Chairman, a few months ago, I had the privilege of attending a meeting of our development partners in Washington. We met to discuss solutions to the difficulties facing our Caribbean Region. As I listened to my colleagues, I began to detect a sense of frustration and fatigue at our Region's slow pace of reform.

Today, ladies and gentlemen, I stand before you and declare my absolute confidence that our Caribbean, like the South America of my youth, whose prospects looked so dim, whose problems seemed so intractable, like our South American neighbours, we too will rise to realise our true potential.

My call is for a strategic compact between the Caribbean, our neighbours in North and South America and with friendly countries in other parts of the world. This call is based on my confidence that our Region is poised to build on our already considerable achievements in tourism, culture and financial services. The great trading nations of the world now acknowledge our strategic positioning as a major cross-roads for international trade. We can expect the transformation of our Region's economic fortunes to begin in the medium term as expansion of the Panama Canal becomes a reality.

This is only one manifestation of the myriad opportunities that will emerge as we begin to exploit the vast natural resources of our Caribbean Sea, a zone of activity now being referred to as our new frontier - the "Blue" economy.

We call, therefore, not for a compact based on mendicancy, but rather, a compact built on vision and mutual benefit.

Mr. Chairman, our challenge in the Caribbean, today, is a difficult "row to hoe". We need to have the assurance that, with hard-work and with the support of friends, our Region will prevail.

I frequently find my courage and my will to persevere in the immortal injunction of the great Martin Luther King, who urged us to focus not on the "isness" of now, but rather on the "oughtness" of tomorrow. The challenges we face today should represent for us mere stepping stones to a new and more wholesome tomorrow for all of our people.

Mr. Chairman, I thank you!