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**TAKING A NEW GUARD:  
SHARPENING THE FOCUS ON IMPROVING PEOPLE'S LIVES**

**by**

**Dr. W<sup>m</sup>. Warren Smith**

**President**

**Caribbean Development Bank**

**at the**

Forty-Fifth Annual Meeting

of

The Board of Governors

St. Kitts and Nevis

## **TAKING A NEW GUARD: SHARPENING THE FOCUS ON IMPROVING PEOPLE'S LIVES**

### **INTRODUCTION**

Mr. Chairman, my first experience of the Eastern Caribbean was the beautiful island of St. Kitts!

It was the summer of 1968. I was a gangly 16-year old whose proud grandparents had generously awarded me a cruise on the Federal Palm, for good performance in the GCE "O" level exams. The Federal Palm was one of two ships donated to the short-lived Caribbean Federation by the Government and people of Canada.

After three days of what appeared to this inexperienced traveler to be endless sailing, the crowd on deck suddenly surged towards the bow of the ship. There before us, on the horizon, was this verdant land mass which, of course, was the beguilingly beautiful island of St. Kitts.

For me, this marked the beginning of a never-ending love affair with St Kitts and its sister isle of Nevis, two of the most enchanting spots in this picturesque Caribbean of ours.

Mr. Chairman, on behalf of the Management and Staff, let me thank you for hosting this Forty-Fifth Annual Meeting of the Board of Governors of the Caribbean Development Bank (CDB), and for making us feel so welcome, here. We have had good meetings since we arrived; but we have also taken full advantage of your hospitality and your kindness.

Four years ago, I delivered my inaugural address as CDB's fifth President. Given the nature and complexity of the development challenges that our borrowing member countries were facing, at that time, the new Management Team understood that it could no longer be "business as usual" for us at CDB. We fully appreciated that change was inevitable if this Bank was to remain relevant to its borrowing member countries in an increasingly more complicated external environment.

Chairman, I would be less than forthright, this morning, if I were to create the impression that we clearly foresaw all of the complexities, which would confront us, especially those arising from the international financial crisis.

As I stand before you today, I am grateful for the support and for the courage of my colleagues on the management team and for the loyalty and understanding of our staff at all levels of our organisation. I would like to pay special tribute to our Board of Directors, who generously extended advice, counsel and, in some instances, substantial financial assistance for kick-starting key reforms, like risk management.

The objective of the new change agenda was to make CDB stronger, and more resilient to external shocks. And, most importantly, we wanted CDB to become a more creative, responsive and reliable partner to our borrowing member countries. As a management team, therefore, a very high priority was to launch a wide-ranging set of internal governance reforms, which would fundamentally change the way in which we work. It would also impact our operational work, particularly in relation to the diversification of our lending portfolio.

Even as CDB's management set about addressing internal reform, we did not lose sight of the very *raison d'être* of this institution. Notwithstanding reduced demand for loan funds from the Ordinary Capital Resources (OCR) window in 2011 and 2012 as several borrowing member countries focused on fiscal consolidation, CDB continued to assist our countries. We provided technical advice on issues such as sovereign debt management, financial sector strengthening and direct poverty reduction initiatives through the Special Development Fund (SDF) and the Basic Needs Trust Fund (BNTF) programme.

In short, Chairman, even as we struggled with a difficult but inescapable internal reform agenda, we did not lose sight of our mandate to assist our borrowing member countries to accomplish their economic and social development objectives of transforming the lives of their people.

This morning, I propose to take a close-up look at what we regard as the "unfinished agenda". This agenda defines those preeminent matters to which we need to channel our energies and resources if the Caribbean is to realise the "profound structural transformation that will overcome the obstacles to sustained prosperity", which is envisaged both in the United Nations' Post - 2015 Agenda and in our Strategic Plan 2015 to 2019.

As always, our small size behooves us to work in partnership with a wide range of institutions and governments. It requires, also, that we forge new alliances in order to be truly effective in a rapidly changing world.

And, Chairman, it bestows upon us the responsibility to consistently raise the level of our capacity to deliver so that we continue to be the intermediary of choice in the Caribbean for channeling development resources to our people.

Before I turn to “the unfinished agenda”, I wish to quickly summarise CDB’s operational performance, whilst cataloguing the more far-reaching internal reforms, which we have undertaken over the past four years.

## **OPERATIONAL PERFORMANCE**

The international financial crisis of 2008, and the subsequent Great Recession which quickly followed in 2009 were both destined to have significant implications for economic growth and poverty levels across the globe. Our region, particularly the service-dependent countries, experienced a protracted period of economic downturn and are just, this year, beginning to demonstrate signs of recovery.

During the last four years we have worked hard to maintain a strong presence in our BMCs, even as the difficult economic environment brought new challenges for maintaining the upward trajectory of our OCR portfolio. Approvals grew by USD770 million, lower than had been anticipated. This was mainly attributable to our inability to engage in policy-based lending because we had reached our lending limit for this product.

Despite these challenges, we exceeded target approvals of USD320 million for the concessionary window by some USD28 million. This is a testament to our BMCs’ resolve to maintain their social programmes and to provide adequate social safety nets to the most disadvantaged groups in the society.

OCR approvals and disbursements recovered strongly in 2013 and 2014, following the upward revision in the limits for policy-based operations, and more aggressive and focused engagement with borrowing member countries in strategic areas, such as technical vocational education and training, climate resilience, and renewable energy. Our Management successfully made the case that CDB could

engage more effectively with its borrowing member countries in encouraging them to adopt growth-inducing policy reforms if we had the leverage of policy-based operations available to us.

This product also enabled CDB to assist its borrowing member countries in pursuing reforms to reduce fiscal deficits and to improve debt dynamics. The expansion of our borrowing membership, with Suriname's entry into CDB, also facilitated portfolio growth and diversification. The combined effect of these developments meant that OCR approvals of USD110 million in 2011 - 2012 surged to USD283 million, in the following two years.

## **INTERNAL REFORM**

I now turn to the Bank's reform agenda.

As indicated earlier, CDB's management appreciated very early that we had to make wide-ranging internal reforms across several fronts to build internal capacity; to strengthen its internal systems and external operations; to bring our policies and procedures in line with global best practice; and to enhance development effectiveness. These reforms will enable CDB to maintain its relevance and credibility as the corner-stone of development assistance to its borrowing member countries.

Modernisation and strengthening of the governance framework were key areas for reform.

The Internal Audit and Evaluation functions were upgraded.

A new comprehensive risk management office and an Enterprise Risk Committee, both headed by a Chief Risk Officer, were established to oversee and manage Bank-wide risks.

On Monday, the Board of Directors approved key strategic enhancements to safeguard CDB's reputation from integrity risks, and to provide accountability for persons who may be affected by environmental and social harm from the projects we finance.

A new office to operationalise the Strategic Framework for Integrity, Compliance and Accountability is being established.

Such institutional arrangements are already a pre-condition for access to certain types of financing, notably climate financing, and are likely to become a standard pre-condition for access to all development financing.

Should this prove to be the case, CDB will be in a very favourable position.

When it is fully in effect, CDB's internal governance framework will fully assure the Board that risk is being effectively managed; and that the integrity of the financial reporting process and financial statements is being safeguarded. The Board will also be assured that the effectiveness of our interventions can be assessed; and that fraud and corruption can be prevented and detected.

When completed, Mr. Chairman, this undertaking could prove to be of monumental importance in enabling CDB to deepen its role as a relevant and reliable partner to our borrowing member countries in the development of growth-focused and sustainable economies. We can showcase to our financing partners, an institution whose internal governance framework has been shifted ever so closely to the stature of "best in class" as a fiduciary!

I am extremely proud of the progress made in these areas. Most of all, I am encouraged by the plaudits received from Donor partners on our progress, to this point.

We look forward to sharing our work on internal governance reforms with Governors in a round-table discussion tomorrow morning.

## **INFORMATION DISCLOSURE**

Mr. Chairman, increased access to information is a corner-stone of good governance. As a result, our Information Disclosure Policy evidences our strong commitment to transparency, accountability and development effectiveness. Robust structural mechanisms are in place to fully operationalise our information disclosure policy, and more than 80 documents have been recently posted on our corporate website.

## **RESULTS-FOCUSED BANK**

We are now a more results-focused bank.

The Development Effectiveness Report has emerged as our principal tool for measuring performance relative to agreed targets; and for gauging our contribution to economic growth and the sustainable development of our borrowing member countries. The annual publication of this report, now in its fourth year, has also become institutionalised, in keeping with our commitment to strengthen corporate governance and improve accountability and transparency.

The positive impact of wide-ranging changes to the way in which we do business is evident in the two “outlook” upgrades we secured from credit rating agencies in the past 18 months. These upgrades are more significant given the high level of concentration risk inherent in the loan portfolio, and the acute economic challenges that several large borrowers who are also implementing very difficult economic adjustment programmes face.

## **ADJUSTMENT, ADAPTATION, AND RENEWAL**

These last four years, therefore, represented, a period of adjustment, adaptation and renewal.

We are convinced that our efforts have created a solid platform from which we launched, earlier this year, our Strategic Plan for 2015 - 2019 and from which we will tackle the “unfinished agenda”.

Mr. Chairman, the work that has to be accomplished in the post-2015 period on a global scale has been eloquently articulated in a report prepared by the United Nation’s high-level panel of eminent persons. This report is entitled “A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development”.

This document resonated inside CDB which, at the time of the publication, was finalising its own Strategic Plan. Our strategy embraces the five transformative shifts that are outlined in this Report and that are based on the Rio principles.

I will speak now to some of the specific operational changes required if our work is to influence transformation of our borrowing member countries, as envisaged by Agenda post-2015.

Prior to the international financial crisis and the Great Recession, many Caribbean countries were making good progress in reducing poverty levels, especially extreme poverty.

In spite of strong recovery in North America, Caribbean economies have been emerging slowly from the crisis, in part because of their vulnerabilities to climate impacts; the continued sluggishness of the European economies; and the lack of resilience in the fiscal and debt frameworks.

Our principal instrument for directly targeting the poorest in our borrowing member countries is the Special Development Fund and, more specifically, our community-based programme, the Basic Needs Trust Fund.

Our goal is to change the lives of as many people as possible in our poorest communities. We are now into the 35th year of the Basic Needs Trust Fund programme; and we are proud of our track record in responding to the needs of the poor through this programme. Despite several recent changes and improvements in commitment levels, the speed at which beneficiaries continue to be directly impacted remains somewhat disappointing.

A recent mid-term review of performance suggests that the administration of the Special Development Fund and the BNTF programmes needs to be radically reformed so that disbursement rates can be improved and more poor people can be assisted. Several proposals for faster project implementation and disbursement of BNTF funds have been tabled.

Perhaps, though, the time is right for a paradigm shift, so that the BNTF's outreach can become more effective.

The Public-Private Partnership (PPP) model of collaboration between the state and the private sector to finance productive infrastructure investments is gaining popularity worldwide. We will launch our own PPP facility later today.

Rather than seeking to move social and economic infrastructure investments off their balance sheets, governments and government agencies in many developed

countries are now deploying the PPP model with the explicit objective of getting greater “value for money”.

At the same time, many large private enterprises in the Caribbean are recognising the value of corporate social responsibility. They are increasingly using their own foundations to channel social services to the poor.

This mechanism of public/private collaboration is one which CDB might well consider.

## **IMPROVING EFFICIENCY AND SPEED OF EXECUTION**

If the PPP modality could similarly be used to improve the efficiency and speed of execution of BNTF projects, then more people could be reached and the distribution of benefits could be done more expeditiously.

A pilot project would certainly help to verify the efficacy of such an approach.

The pricing of our concessionary resources is also one which merits in-depth analysis and discussion with Contributors to the Special Development Fund. The current discrepancy between our lending terms and those of the larger international financial institutions needs to be addressed urgently, especially in an international environment of very low interest rates. Indeed, the terms and conditions for each of our lending instruments are now undergoing rigorous examination as we look for new ways to improve our competitiveness.

Chairman, directly targeted poverty reduction mechanisms are an indispensable part of the arsenal of responses to redressing stubbornly high and seemingly intractable levels of poverty. The development community also understands that these social safety nets are necessary but hardly sufficient answers to the poverty challenge.

There is now a broad consensus that rapid, sustained and equitable economic growth is crucial for ending extreme poverty. Much of our economic work and the policy conditionalities of our policy-based operations are focused on creating environments suitable for increased local and foreign investments in our borrowing member countries.

We believe firmly that governments must set aggressive timelines for implementing reforms that create more “business-friendly” environments.

We want fiscal management to become more predictable in our borrowing member countries. Fiscal rules, backed by tough legislation, must become the norm rather than the exception. And, building fiscal buffers must also become an integral component of every national sustainability strategy.

It is widely known that we live in one of the regions of the world that is most susceptible to climate change. Already, we have begun to experience the damaging effects and associated economic losses of rising sea levels and an increase in the number and severity of natural hazards.

To participate effectively in climate change adaptation and mitigation, including exploiting the region’s vast renewable energy resources, CDB must be able to access climate finance from the various windows, which are emerging worldwide.

These institutions, understandably, have set the access bar extremely high.

Our recent reforms, including the Integrity and Accountability Framework, Information Disclosure Policy, and Enterprise-wide Risk Management represent a sub-set of the governance arrangements now in place and which will position this institution to gain access to climate resources.

I am pleased to say that, by the end of this year, we expect to be accredited to both the Adaptation Fund and the Green Climate Fund.

At a recent meeting of Caribbean Foreign Ministers in Berlin, I proposed the immediate establishment of a “Project Preparation Facility” for Caribbean countries.

This Facility, to be managed by CDB, would enable our borrowing member countries to develop a pipeline of “bankable” projects that would be eligible for climate financing. These projects would climate-proof roads and other critical infrastructure. They would also address the vulnerability of our islands and coastal zones in order to protect vital industries, such as tourism, agriculture and fisheries.

This Project Preparation Facility would lend itself readily to being managed through a multi-donor trust fund.

I encourage development partners to join us in expediting the creation of such a facility. This region should not be found in the invidious position of having access to funding but lacking bankable climate change projects!

Whilst making preparation to access large-scale climate financing, we were also developing an Energy Sector Policy and Strategy which, among other things, mandates our staff to mainstream renewable energy/energy efficiency in all project work.

In the OECS, we have entered into an agreement with the European Union – Caribbean Investment Facility (EU-CIF); DfID; and the Inter-American Development Bank to finance the Sustainable Energy for the Eastern Caribbean (SEEC) programme, which will address renewable energy/energy efficiency initiatives in the public sector, thereby lowering the government's costs whilst reducing fossil fuel imports.

Good progress is also being made in securing appropriate financing to develop the vast geothermal potential of the OECS sub-region. We are working to ensure that these resources are developed in an optimal manner, with inter-connectivity across the OECS and neighbouring territories.

The expected lowering of electricity prices; reduction in fossil fuel imports; and rise in export earnings from the sale of electricity to neighbouring countries will, in turn, lead to faster economic growth, job creation and poverty reduction.

With access to appropriately-priced financing, CDB, along with its development partners, will set aggressive goals to substantially convert all government facilities to renewables for electricity, irrigation and the pumping of water by the end of 2019. The SEEC programme will kick-start the process in the OECS, this year.

Financing modalities will be required to enable the poor to access electricity for their households from renewable sources.

We will work through public and privately-owned financial institutions to design appropriate mechanisms, including partial guarantee schemes and lines of credit. The BNTF programme could also be instrumental in making these technologies available to the poorest communities.

Mr. Chairman, the renewables revolution in the Caribbean must begin very shortly, to incorporate the new technologies for electricity storage being pioneered by innovators like Elon Musk of Tesla fame. This emerging companion technology will create the basis for intermittent electricity sources, like solar and wind, to realise their full potential.

For this reason, battery technology must also be eligible for climate financing. Its deployment for the benefit of the poor will be hugely liberating.

I now turn to the most far-reaching of the transformative shifts proposed by the “eminent persons” - The forging of a new Global Partnership!

The concept of the Global Partnership “starts with a shared, common vision, one that allows different solutions for different contexts but is uniformly ambitious.” If the shared vision is the eradication of extreme poverty, then the Caribbean context must be objectively examined. And “uniformly ambitious”, rather than piecemeal solutions, need to be embraced.

Today, I wish to return to my own appeal in 2013 at our 43rd Annual Meeting in Castries, St. Lucia.

At that meeting, I called for a broad-based “Compact of Co-Operation” between Caribbean countries and the wider international community to deal with the issue of sovereign indebtedness in our region. I asked for us to revisit the strongly-held view that middle-income countries, like ours, do not qualify for debt relief.

In 2014, I raised the issue of debt again in Jamaica at a High Level Caribbean Forum sponsored by the International Monetary Fund (IMF). In that forum, I challenged the large multilateral institutions to use their balance sheets creatively, as CDB had done in St. Kitts and Nevis in 2011, to address this country’s debt problem.

Borrowing member countries that adhere strictly to adjustment programmes supported by the IMF and other financial institutions would be ideal candidates for such support.

Mr. Chairman, I make bold to place the debt issue on the table, once again! I humbly submit that the sentiments expressed in St. Lucia and in Jamaica remain just as relevant today, and are in urgent need of a solution.

This is not an intractable problem if we heed the UN Panel's injunction to be "uniformly ambitious".

Mr. Chairman, I am confident that, in the not too distant future, we will begin to see encouraging developments on this initiative. Let us address this problem without further delay!

## **CONCLUSION**

In closing, Chairman, indulge me for a few minutes longer as I turn inward again, and reflect on CDB's readiness to deliver on its promise of transforming this Region.

A vital part of the process of creating a results-focused institution is the building of teams that are reflective of the diversity of its membership, and that subscribe to a robust culture of change and accountability. This process is still very much a work in progress.

A conscious human resource strategy of change, renewal and diversity is being pursued. It is capitalising on the large number of vacancies which arose across the organisation, due to a bunching of retirements over the last three years.

We are seeking to attract a new cadre of staff who can blend seamlessly with the institutional knowledge and expertise of those who have built this proud organisation into what it is today. The objective is to create a workforce whose culture, skills and work styles are aligned with our new priorities, and who can confidently address the challenges.

As I observe the inevitable clashes that unfold when two cultures contend in order to arrive at a new and better synthesis, I am reminded of that section of Lord Tennyson's famous poem "Idylls of the King", which deals with the "Knights of the Roundtable" and the passing of King Arthur.

In this epic poem, even the most courageous of the Knights, Sir Bedivere, was overcome with angst as he observed the dying King Arthur in the funeral barge.

He shouted out:

*"Ah! my Lord Arthur, whither shall I go? Where shall I hide my forehead and my eyes? For now I see the true old times are dead....The whole Round Table is dissolved which was an image of the mighty world."*

The sage old King Arthur replied:

*"The old order changeth, yielding place to new, and God fulfils himself in many ways, lest one good custom should corrupt the world."*

Mr. Chairman, as the management and staff of CDB move to build a new and more perfect order, and a more modern and dynamic business culture, we recognise that change is tough, but it is inevitable.

We commit to sequencing those reforms appropriately, so that even as we build something new and better, we "will **not** throw out the proverbial baby with the bath water".

Mr. Chairman, I thank you!