

As Prepared for Delivery



STATEMENT

BY

DR. WILLIAM WARREN SMITH

PRESIDENT

CARIBBEAN DEVELOPMENT BANK

AT THE

FORTY-SIXTH ANNUAL MEETING OF THE BOARD OF GOVERNORS

MAY 18, 2016

MONTEGO BAY, JAMAICA

INTRODUCTION

Good Morning

Chairman, on behalf of the Board of Governors, the Board of Directors, and the Management and Staff of the Caribbean Development Bank (CDB), thank you for hosting this Forty-sixth Annual Meeting of our Board of Governors, here in Montego Bay.

This morning, I want to publicly congratulate you, the Most Honourable Andrew Holness, for successfully leading your Jamaica Labour Party to victory in the recent General Elections and for your appointment as Prime Minister. I assure you and the Jamaican people of the continued support of CDB to your Government as you strive to improve living standards in your country.

Let me also welcome Brazil, which became the newest regional non-borrowing member of CDB in December 2015, and is now attending its first Annual Meeting, in that capacity. Please join with me in recognising the presence of Mr. Rodrigo Carvalho, Alternate Governor for the Federal Republic of Brazil.

Montego Bay is an exciting Caribbean tourist destination. It is also a part of Jamaica whose history exemplifies the indomitable spirit and determination of our Caribbean people to achieve economic empowerment and freedom from oppression.

Samuel Sharpe, one of Jamaica's national heroes, and a former slave, led the Christmas Rebellion of 1831, which expedited the abolition decree that ended slavery a few years later. For his efforts, Sharpe paid the ultimate price when he was hanged at the square in Montego Bay, which now bears his name. So passionate was he in defense of freedom for all slaves, that he uttered the famous last words, "*I would rather die on yonder gallows than live as a slave.*"

I believe that the struggles for emancipation from slavery and for political independence across the Caribbean were inspired by the desire of our people for self-determination and economic empowerment.

Last year, as part of a global agenda for sustainable development, the

international community embraced a vision, for our world, of societies that are peaceful, just, inclusive, resilient and without abject poverty. The Caribbean made a commitment to be part of this global movement.

Ladies and gentlemen, this vision is one that would have resonated with Sam Sharpe and other Caribbean leaders who were at the forefront of the struggles for freedom and independence, through the years. It is also a vision which the majority of our people would readily embrace, today.

This morning, I have set myself three main objectives.

First, I will provide a brief inventory of where our countries are today, highlighting their progress and the challenges that have constrained their development.

Next, I will suggest the priority issues around which we need to concentrate our energies in order to achieve our vision for the Region.

Then, I will share with you some of the work that our Bank is doing in supporting the region's reform agenda.

WHERE ARE WE TODAY?

Where do Caribbean people find themselves in relation to this laudable vision? What is the reality of their circumstances?

In general, we can be justifiably proud of what our Region has achieved since independence. Prior to the beginning of the 21st century, the majority of our countries reached middle income status and ranked relatively high on the United Nations' Human Development Index *vis-à-vis* other developing countries. Good progress had been made in relation to the key development indicators, as most Caribbean countries moved towards full universal primary and secondary education. Life expectancy increased; child mortality rates fell; gender disparity in primary and secondary schools narrowed; and poverty, though still high, was on a definite downward trajectory.

By the start of the 21st century, however, the Caribbean had started to lose ground; and a trend decline in the Region's per capita growth rate had emerged. From 3.9% in the 1970s, the annual average per capita growth rate declined to 1.9% in the 1990s. As the global economy nose-dived into recession in 2008, the

slippage continued; and Caribbean economies remained weak, even after global recovery commenced.

High debt, rising unemployment, especially youth unemployment, and widening budget deficits became priority concerns for Caribbean policy-makers. Today, our countries continue to be ranked amongst some of the world's most highly indebted. At the end of 2015, four of our BMCs had debt in excess of 100% of GDP.

A comparison of CDB's borrowing member countries to other groupings suggests that non-Caribbean Small Island Developing States fared much better than we did during the global recession. Between 2006 and 2015, Caribbean growth rates averaged 1.5% compared with 3.4% for other small island states. Small size, then, does not appear to provide a robust explanation for the Caribbean's relatively low growth performance.

Arguably, as a region, we have made progress; but we have fallen substantially short of realising our true potential.

THE CARIBBEAN IN 2030 - AN AGENDA FOR PROGRESS

I have just described a Caribbean whose mettle is being seriously tested. The challenges, notwithstanding, we have joined with the rest of the world in embracing a vision of a Region that is peaceful, just, inclusive, resilient and without abject poverty.

Having a vision is important for understanding where we want to be. But a vision is not the same thing as reality! Vance Havner reminds us that "*[t]he vision must be followed by the venture. It is not enough to stare up the steps - we must step up the stairs*".

Higher, More Predictable and Sustainable Rates of Economic Growth

The journey up the staircase to greater prosperity must begin with the pursuit of strategies that promote higher, more predictable and more sustainable rates of economic growth. Brazil, Chile, China, Panama, and Singapore are often cited as countries which have successfully transformed their economies, distinguished by, among other things, long, sustained periods of high GDP growth.

The facts inevitably lead us to the conclusion that we have not been growing fast enough, nor have we been able to sustain growth long enough. Our overall

growth performance has consistently lagged behind the rest of the world's. Our Region has grown by only 1.2% per year since 2009 compared with the global average of 3.7%.

It is estimated that Caribbean countries, principally the larger ones, will need to make the shift from current *incremental* rates of growth of 1.2% to *transformational* rates of at least 5-7% per annum in order to create the basis for ending abject poverty by 2030. Given the prevailing high levels of inequality, the more aggressive growth rates will also need to be:

- (a) accompanied by distributional policies that spread wealth more equitably;
- (b) reinforced by an enlightened and efficient social policy which targets the most vulnerable in society, mainly women and children.

Stable, Predictable, Resilient Macro-economic Environment

As is now more widely appreciated, a dynamic private sector driving economic growth is a distinguishing feature of economies which have been successfully transformed. Perhaps less well understood is that, in this paradigm, the state does not wither away. Rather it assumes, among other things, the role of enabler by:

- (a) investing in growth-inducing infrastructure which is climate-proofed; retrofitting, over time, older infrastructure to make it climate resilient;
- (b) achieving fiscal and debt sustainability in order to build private sector confidence; and
- (c) creating a streamlined governance and regulatory framework to facilitate business activity.

Although these are not new concepts, they warrant repetition. Once macro-economic stability is achieved it has to be sustained. And business reforms need to be relentlessly pursued, taking cognisance of emerging new technologies and the changing needs of business.

Competitiveness

Some well-known measures of competitiveness, including the Doing Business index, and the Global Competitiveness index still point to major weaknesses in the regulatory and governance frameworks that hinder entrepreneurship and undermine the Caribbean's competitiveness. For the most part, our exporters have difficulty competing globally, even in areas where there is distinct comparative advantage, unless they receive support from special regimes.

Jamaica was ranked #64 in the 2016 Doing Business index, the highest ranked Caribbean country for the second consecutive year. This country has introduced a number of structural benchmarks in an effort to improve overall competitiveness. Enhancements in the institutional and regulatory environment have led to a reduction in the processing time for some business transactions. A number of recent surveys point to growing domestic business confidence.

However, a world ranking of 64 for the highest placed Caribbean country, whilst showing commendable progress, also implies that there is plenty room for improvement. A concerted effort is needed by each borrowing member country to target those measures which will have the greatest incremental impact on business facilitation.

Mr. Chairman, a feature of investor confidence is its inherent fragility. Another Jamaican national hero, Norman Manley, spoke to the ephemeral nature of this aspect of human behavior, when he famously reminded his people that:

“Confidence is something that you must build up patiently in a skeptical and suspicious world and in atmospheres that are even hostile and doubtful. Confidence is something that you build up year after year. It takes fifty years to grow a tree, but a fool can cut it down in two hours.”

Ladies and gentlemen, these are words to the wise!

Highly Educated Workforce

I turn now to the composition of the human resource pool, which will enable the rapid and diversified development of our economies. A country's education system plays a central role in enhancing its competitiveness and supporting stronger economic growth. Successful economies tend to invest the most in their human resources. They are also most likely to have excellent education systems with very strong feedback loops between academic research institutions, industry and commerce.

According to the World Bank, *“between 60 and 90 per cent of the growth achieved in Japan and other East Asian industrialized countries is explained by human capital rather than financial means or natural resources”*.

The reform of the education system in the Caribbean, in support of robust and resilient economic growth, will have to achieve a closer alignment between the needs of the productive sector and the output of the education system. This is not dissimilar to what obtains in the fast growing countries of the world. The alignment will place greater emphasis on TVET and the STEM subjects, generally. It will be nimble and responsive to the changing labour market needs so that a continuous pipeline of appropriately skilled talent will be available for business expansion.

I stressed earlier the indispensable role of macro-economic stability and business-friendly governance reforms in creating business confidence, entrenching resilience and spurring economic growth. But sustainable, resilient economic growth requires more.

Building Economic Resilience

The structure of our economies is one of our biggest challenges. Production is too heavily concentrated in a few economic sectors with insufficient linkages across them. A similar structure obtains in the wider regional market, with relatively few linkages amongst domestic businesses and those in other Caribbean territories. Consequently, not many Caribbean enterprises are engaged in meaningful exports of a scale that could alter existing trade imbalances. This skewed production structure undermines our resilience and renders our economies vulnerable to the vagaries of the natural environment and external economic shocks.

Non-traditional agriculture can play a key role in transforming Caribbean economies; spurring development; increasing food security; expanding export earnings; creating jobs; and improving livelihoods. Agriculture is the main employer in many Caribbean countries, accounting for approximately 16% of overall employment in the region. However, much of the non-traditional agriculture sector remains low value-adding, low-tech, low productivity, and inefficient.

Recent studies have confirmed that a restructured and modernised agriculture can be a driver of economic growth in many Caribbean countries. These include Belize, Guyana, Jamaica, Haiti, and Suriname, as well as some of the OECS countries. With the appropriate reorientation and investment, this sector can

increase employment; earn foreign exchange through export expansion; and save foreign exchange by strengthening linkages between the domestic agricultural supply chains and dynamic sectors such as tourism and manufacturing.

But the tourism and export-focused manufacturing sectors compete internationally and require products that meet international standards. Domestic agriculture, therefore, will need to be transformed to be competitive with the rest of the world on price **and** on quality!

For agriculture, that transformation means having access to affordable, irrigable water, preferably pumped by renewable energy. Its enabling infrastructure will include sustainably engineered feeder roads; appropriate packing and storage facilities; and access to credit. This transformation will also see the adoption of modern technology to improve productivity. This new agriculture, if holistically transformed and integrated into the dynamic growth sectors, can be a component of a more diversified and resilient domestic economy.

Energy Security

Chairman, energy costs have, for a long time, been a vexing issue for Caribbean economies, with the exception of Trinidad and Tobago. Not only have high and volatile petroleum prices adversely impacted competitiveness; but their volatility has posed real challenges for national economic management. Over the years, the competitiveness of the mining and tourism sectors, both of which are energy intensive, has been adversely affected by oil price volatility.

The shift to renewable energy and energy efficient technologies has been gathering momentum across the Region. Utility-scale generating plants using solar PV, wind, and hydro power are now emerging in several countries. Similarly, distributed generation, mostly with wind and solar PV, is being deployed in manufacturing plants, hotels and office complexes. This is having a noticeable impact on energy costs and is introducing much needed stability in the cost structure of these enterprises.

Encouragingly, the cost of these technologies is falling rapidly, making their adoption even more attractive. This is a classic case of transformation that can have a deep and long-term impact on our region. The Caribbean has, now unmistakably, begun a process of reaching for higher levels of energy independence, and building buffers against price volatility.

THE CASE OF RED STRIPE BEER

The story of the transformation now taking place at the iconic Red Stripe Beer enterprise here in Jamaica is a good one for pulling together the several strands of the case being made, this morning, for laying the basis for dynamic economic growth. The company has embarked on the replacement of up to 20% of imported barley with domestically produced cassava starch. This will require 48,000 tons of cassava per year, compared with current production of 17,000 tons in Jamaica, as a whole.

The shift to cassava, a raw material produced right here in Jamaica, will add 100 direct jobs on the company's cassava farms and provide employment for a further 3,000 workers for outsourced cassava production. The decision to produce beer for the US market in Jamaica rather than overseas also increases employment opportunities at its local facilities.

The change taking place at this local enterprise is the direct result of what Chairman of the Board of Directors, Richard Byles, describes as “a *more competitive country today on the world market than it was three years ago as a result of improvements in the macroeconomic and Doing Business environment.*” Equally important is the company's investment in a co-generation plant, which has reduced energy costs by 50% and cut water usage by 17%. On the agricultural side, investment in new varieties and production methods for cassava has dramatically increased yields and reduced the unit cost of the raw material.

This case study, Chairman, is an excellent example of how the growth drivers discussed this morning can be brought together to transform several critical economic sectors in one fell swoop. Its significance is that it is a model that can be replicated in many Caribbean countries.

CDB'S ROLE

The financing requirements for the economic transformation outlined this morning will be substantial. Much of it will be provided by an appropriately incentivised private sector. But the financing for some components of the transformation strategy can more cost effectively be sourced through multilateral institutions, like CDB. This is, in part, because a global framework for financing sustainable development has also accompanied the global agreement on a new sustainable development agenda.

Let me say a few words about CDB's own role, in this regard.

We will continue to provide assistance in traditional areas of social and economic infrastructure. At the same time, we have been seeking out new and innovative financing mechanisms that can increase our responsiveness to our countries' needs, specifically in the areas of building resilience to climate change and reducing the over-reliance on high priced fossil fuel.

Technical assistance from the German Government to develop our internal capacity in renewable energy is already beginning to pay dividends for us and for our BMCs.

Last year, we reached agreement with the UK's Department for International Development and the European Union's Caribbean Investment Facility to fund the Sustainable Energy for the Eastern Caribbean programme. We also concluded an agreement with the Inter-American Development Bank for the Sustainable Energy Facility for the Eastern Caribbean, with a focus on geothermal energy. These are just two examples of initiatives to foster energy security; diversify the energy matrix; and improve the competitiveness of beneficiary countries in the Eastern Caribbean. In March, we were accredited to the Adaptation Fund; and expect that accreditation to the Green Climate Fund will follow, shortly. These developments will unlock resources for investment in climate-resilient infrastructure and sustainable energy.

The establishment of the UK-Caribbean Infrastructure Fund is worthy of mention. Infrastructure investment provides a solid platform for economic growth. This £300 million fund of grant resources for nine eligible Caribbean countries will help to address deficiencies in vital infrastructure such as roads, bridges and water supply, with CDB as the Executing Agency.

By seeking to partner with CDB on these initiatives, our development partners are signaling their confidence in the Bank to be an effective channel for delivering development assistance to the borrowing member countries.

In keeping with our focus on climate resilience, our Board of Directors approved two projects of special note at its meeting earlier this week. One project will finance the installation of LED street lamps in St. Lucia, which will reduce energy consumption; and the total quantity of oil imports as well as lower the street lighting electricity bill by almost 60%.

The second approval is for an exploratory drilling project for geothermal

energy in St. Vincent and the Grenadines. This is the first of what we expect will be a number of other developments in the geo-thermal energy sector as the OECS countries move aggressively to develop this abundant indigenous energy resource.

CONCLUSION

Mr. Chairman, in closing, I have appealed to pragmatism. I have sought to make the case that our people can realise the vision of a Caribbean that is peaceful, just, inclusive, resilient and without abject poverty. I have argued that we can make this vision a reality by creating the foundations of a competitive and resilient private sector- driven economy through:

- (a) adoption of an appropriate suite of macro-economic and business-friendly reforms;
- (b) closer alignment of our education system to the needs of the productive sector;
- (c) climate-proofing critical social and economic infrastructure against natural hazards;
- (d) diversifying our economies by developing new sectors such as renewable energy and energy efficiency; and modernising traditional ones such as agriculture; and last, but not least,
- (e) building efficient and targeted social safety nets for the most vulnerable in our societies.

Is this a realistic vision? Is it achievable? Or is it simply the proverbial “impossible dream”?

Mr. Chairman, I am satisfied that the success of other countries within our own hemisphere can be a reliable beacon for us. We can also find hope in the efforts of small countries, like Grenada and St. Kitts and Nevis, which after being ravaged by natural disasters, and the resulting accumulation of large sovereign debts, have taken the bitter medicine; pursued the right policies; and are now experiencing better outcomes. We can also take encouragement from the green shoots now beginning to appear, right here in Jamaica. After more than 40 years of disappointing economic and social development; and after so many years of failing to capitalise on its vast endowment of natural and human capacity, there appears to be good

reason to begin to exhale.

Ladies and gentlemen, this country endured four years of punishing, but impressive economic and structural reforms, requiring huge sacrifices by its people. Today, Jamaica appears to be wrestling to the ground the twin monsters of sovereign indebtedness and fiscal unsustainability that have bedeviled it for much of its years as a sovereign nation. Many of the reforms described earlier for improving the business climate have been introduced; and many more are underway. Private investment is now beginning to increase, nowhere more evident than in the vital tourism and renewable energy sectors, but encouragingly also, in business process outsourcing and the local manufacturing sectors.

Perhaps more encouraging for me as a Caribbean person in the emerging Jamaica story is the evidence of a maturing democracy. After a hard-fought national election, eschewing the traditional triumphalism, the new government appears to have embraced what was good in the previous dispensation and set about further galvanising the nation around the task of realising aggressive, transformational economic growth. The ultimate success of the Jamaica project can only serve as a symbol of hope and encouragement for the rest of our region that the vision which we held out this morning is anything but the impossible dream!

Mr. Chairman, I thank you.