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## Statement

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## INTRODUCTION

More than nine years ago, I stood before this esteemed body to deliver my first statement to the Board of Governors as the fifth President of the Caribbean Development Bank (CDB). My emotions, in that awesome moment, as I looked out at the packed auditorium, were an amalgam of pride, anxiety, and determination to deliver credibly for my CDB team, for our Directors and Governors who had supported my candidacy, and of course, Anne-Marie Irvine, my wife, coach, critic, and indomitable supporter.

Early in that presentation, I suggested that ***CDB's biggest challenge.... is to reinvent itself so that it can be sufficiently nimble to cope with the new and different realities of its [Borrowing Member Countries] (BMCs) and to respond quickly to their changing needs and priorities.***

That reference to reinventing ourselves was informed by the impact of the International Financial Crisis of 2007 to 2008 and of the Great Recession of 2008, which even after it was officially over in the United States, persisted from 2010 to 2014 and beyond in several European and most Caribbean economies.

Needless to say, those developments - the impact on international financial markets and the economic fallout of the Great Recession - posed serious challenges for CDB and its Borrowing Members "***Business as usual***" was not going to be an option!

As one of the architects of the Strategic Plan 2010-2014, I readily accepted responsibility for championing CDB's leadership role in reducing poverty and inequality in our Region when I assumed the presidency. We felt, then, that ***the route to this goal was via the attainment of sustainable, inclusive, and equitable economic growth and building resilience to external shocks.***

Ladies and gentlemen, even as I embraced my new role, the enormity of the task was not lost. My colleagues and I undertook to lead the change that would make CDB more "***fit for purpose***", so that it could play a broader and more meaningful role in our Region's socio-economic development.

It was clear that economic growth would have to be more robust before the erosion of living standards could be redressed.

To compound the challenges of economic recovery and restoring social resilience, there was an uptick in the frequency and intensity of natural hazards due to climate change. In each of those areas, it was the poorer groups in our societies that were especially vulnerable, and at risk.

These were the frontline issues for CDB to address in our engagement with our borrowing member countries in 2011.

Nine years on, I will:

- (a) reflect upon the key components of CDB's assistance to our Borrowing Member Countries over my tenure;
- (b) highlight the most critical reforms being introduced to enable the Bank to reinvent itself; and
- (c) outline the case for urgently accelerating our transformation agenda in the era of COVID-19.

## **A MAJOR CHALLENGE TO CDB**

In 2012, CDB went through a difficult period, following our credit rating downgrade by the international rating agencies. This was, in large part, due to the decline in the credit quality of our loan portfolio. The deterioration derived from the challenges faced by our Borrowers as they struggled with the fall-out from the Great Recession. It was also exacerbated by the intensification of climate action, which worsened the fiscal and debt positions of several borrowers.

Although the downgrade was a major blow, it galvanised an immediate response by CDB to strengthen our risk management capacity. We established an independent Risk Management Office, headed by a Chief Risk Officer. The risk-related reforms introduced a broad, enterprise wide approach, with strong governance to the matter of identifying, measuring and mitigating risk. This made CDB much more resilient and attractive to its development partners and the international financial markets. The monitoring of concentration risk and the introduction of best-in-class capital adequacy metrics have positioned us to remain as a valued development partner in the Caribbean.

The subsequent two notch upgrade of CDB's rating to AA+ has allowed CDB greater access to the capital markets and to preferred investors, lower borrowing costs, and by extension, to provide reduced lending rates to our borrowers.

We adopted a comprehensive programme of other internal reforms that reinforced CDB's governance framework and improved its transparency and accountability. Those reforms strengthened the stewardship of the Bank, and overall Board and Management oversight. They include:

- (a) increased independence in the evaluation function, with a new policy framework and redefined reporting relationships;
- (b) a restructured and upgraded internal audit function;
- (c) creation of an office of Integrity, Compliance and Accountability and adoption of a Strategic Framework for Integrity and Accountability, which is aligned with international best practice; and

- (d) stronger accountability and results-focus with the mainstreaming of management for development results.

With the intensification and increased frequency of climate events, CDB restructured its Operations function by introducing new expertise to focus on mainstreaming social and climate resilience, renewable energy and energy efficiency, and gender equality in all of CDB's work.

We also enhanced our client engagement, first with the establishment of a satellite office in Haiti, bringing us closer to our clients and promoting stronger donor coordination in that country; and second, with the hiring of Resident Implementation Officers in other member countries.

### **CDB'S ASSISTANCE, 2011-2020 – THE VALUE PROPOSITION**

In responding to the frontline issues, CDB had to ensure that it had onboard the necessary human and financial resources. The capacity to effectively respond to the changing needs of our borrowers is aligned to CDB's value proposition. This is built upon a cadre of staff and leaders who possess in-depth knowledge and understanding of the challenges and possibilities facing our borrowing member countries. CDB's position in the Region also makes it an attractive partner through which other development agencies can intermediate funds.

The financing needs of our borrowing members are large, and beyond CDB's capacity to respond on its own. We determined, however, that the Bank was well-positioned to be a focal point for extended partnerships to secure improved access to concessionary funds on behalf of its Borrowing Member Countries.

As part of our resource mobilisation strategy, therefore, we began an aggressive programme to deepen strategic partnerships and expand our resource reach, with a strong focus on attracting funding for climate adaptation and renewable energy/energy efficiency projects.

In the area of climate resilience:

- (a) we partnered with the European Investment Bank to bring a new instrument to our borrowers. The climate action line of credit is an innovative product, incorporating technical assistance and concessionary financing where effective climate-responsive actions could be demonstrated;
- (b) we were accredited by the Green Climate Fund and the Adaptation Fund, thereby opening new gateways to much needed low-cost financing for climate resilience building in our Borrowing Member Countries. The German development agency, Deutsche Gesellschaft für Internationale Zusammenarbeit, has provided funding to help Eastern Caribbean

countries prepare projects for consideration by the Green Climate Fund and the Adaptation Fund;

- (c) we accessed, funding from Agence Française de Développement to support sustainable infrastructure projects;
- (d) with contributions by the Government of Canada, and the United Kingdom Government to the Community Disaster Risk Reduction Fund, CDB was able to finance disaster risk and climate change adaptation initiatives at the community level across the Borrowing Member Countries;
- (e) with funds received from the European Union under the **ACP-EU Natural Disaster Risk Management in CARIFORUM Member Countries Programme**, CDB was able to strengthen regional, national, sector and community level capacities for mitigation, preparedness, management and coordinated response to natural hazards and the effects of climate change in its borrowing members;
- (f) with resources provided by the Government of Mexico, through CDB, the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC) is now able to increase its insurance cover against tropical cyclone, earthquake, and excess rainfall risks for Borrowing Member Countries; and
- (g) CDB entered into an arrangement with the Government of Canada with respect to the establishment and administration of the CARICOM-Canada Climate Adaptation Fund. The Fund supports enhanced initial post-disaster response in nine countries and the design of at least one gender-sensitive innovative financing instrument for climate resilience building.

With regard to improving energy security, some notable partnerships were forged.

**One**, the Inter-American Development Bank's **Sustainable Energy Facility for the Eastern Caribbean programme** includes a package of resources from the Clean Technology Fund, *Global Environment Facility* the Government of Italy, and the Green Climate Fund. The resources are for geothermal energy development, and for strengthening regulatory frameworks and capacity building.

**Two**, the Government of Canada provided resources to establish the **Canadian Support to the Energy Sector in the Caribbean Fund** to strengthen regulatory frameworks and capacity, and for project preparation.

**Three**, the European Union's Caribbean Investment Facility provided funding for the **Sustainable Energy for the Eastern Caribbean Programme**. Under the Programme, funding is to be used for, among other things, the preparation of energy audits; the introduction of renewable energy and energy efficiency measures in government facilities, and streetlight retrofitting projects, as well as geothermal

energy test drilling. The United Kingdom's Department for International Development also contributed to geothermal exploratory drilling under this Programme; and

**Four**, the Government of Germany, as part of its **Renewable Energy and Energy Efficiency Technical Assistance Programme**, and the Government of New Zealand provided funding for capacity strengthening of CDB and selected countries in the Eastern Caribbean and for geothermal energy development, respectively.

The decision by the Government of the United Kingdom in 2015 to create the **Caribbean Infrastructure Fund** to finance vital new infrastructure in our Region was a strong signal of confidence in CDB's capacity to intermediate large sources of funding in a range of different Caribbean countries. This was a defining moment for the Bank and the nine Borrowing Member Countries that are recipients of these grant resources.

The Government of Mexico also reached an agreement with CDB to act as a financial intermediary for its **Infrastructure Fund for the Countries of Mesoamerica and the Caribbean** (FIMCA), which provides grants for infrastructure development.

We signed agreements with the European Union for CDB to manage two Standby facilities aimed at encouraging beneficiary countries to take advantage of the European Partnership Agreement and the CARICOM Single Market and Economy by improving their competitiveness.

Over two contribution cycles to the Special Development Fund, we raised over \$600 million. The resources supported interventions that promote inclusive and sustainable growth in eligible Borrowing Member Countries. Priority areas of intervention include poverty reduction; education; citizen security; environmental sustainability and climate change; regional cooperation and integration, and the application of the managing for development results framework.

So how has CDB financing assisted our Borrowing Member Countries?

Total approvals amounted to \$2.5 billion between 2011 and 2019. The bulk of the resources were approved for projects in the areas of transportation; Social Infrastructure; Environment, Sea Defenses, Disaster Management and Reconstruction; and Energy and Power. We allocated 13% of our financing for policy-based lending in support of macroeconomic policy and institutional reforms.

Over the same period, we disbursed an estimated \$1.8 billion. Barbados, Belize, Jamaica, the Virgin Islands, and the member countries of the Organisation of Eastern Caribbean States collectively were among the top beneficiaries.

Despite the setbacks caused by COVID-19, we are anticipating total approvals in 2020 to reach \$470 million, and disbursements to be around \$367 million.

We reached several milestones in the past ten years. For example, we set up our

first fund dedicated to supporting community-based interventions for disaster risk reduction. We introduced climate resilience into the design of all infrastructure projects. We provided grant funding for the derisking of the exploratory phase of geothermal energy production. We mainstreamed gender across our entire lending portfolio. We redesigned the Basic Needs Trust Fund Programme to make it more efficient. And, for the first time, we made funds available for psychosocial support in the aftermath of a natural disaster.

During the ten-year period, CDB financed almost 2,400 kilometres of roads. In addition to helping to narrow the infrastructure deficit in the Region, and improve access to social and economic services, we also ensured that the roads were built to more client resilient standards.

Sixty communities benefitted from interventions in disaster risk management. These interventions are designed to reduce vulnerability and strengthen the capacity of residents to cope during and after hazard events.

We improved learning conditions by building human capital through investments in over 1,600 classrooms and training some 13,000 teachers. These initiatives have benefitted 469, 000 students across our Region.

We enabled 62,700 households to access improved water and sanitation services. This was made possible by the installation or upgrading of over 800 kilometres of water supply lines in several countries.

## **ACCELERATING THE TRANSFORMATION AGENDA IN THE ERA OF COVID-19**

The robustness of CDB's value proposition to its clients is not absolute. Appreciating this reality, our Management Team recognised the urgency of further transforming the institution. The new phase of the initiative commenced with restructuring and refocusing our information technology infrastructure. It was undertaken in consonance with an examination of the efficiency of our most critical business processes. The objective is to deploy new technologies, which will enable CDB to be more responsive to its clients; to eliminate waste; and to reduce administrative expenses.

With access to some of the new technologies, we have been able to conduct business with minimal disruption during COVID-19. While disbursements will come under some pressure, staff have been able to maintain contact with our clients via use of the technology.

But, ladies and gentlemen, an indispensable element of a successful transformation is aligning the business culture to the change. This has begun in CDB with the roll-out of a Change Management programme which will embrace all staff. One expected outcome will be a more client-focused CDB Team, well positioned to adapt to the future, and to deliver an enhanced experience to our borrowers and development partners in fulfilment of the Bank's development mandate.

The new phase of the Transformation Programme is well underway and will be completed by 2022.

## **THE LESSONS**

Governors, before I close, let me share with you a few of the lessons from my CDB experience, and some of the imperatives that the Region and our institution will face in the upcoming decade. Bear in mind, that despite the ongoing challenges posed by the pandemic, the 2030 Sustainable Development Goals remain our next goalpost.

First, I am even more convinced that the business of development is complex. It requires many players, including CDB, joining forces in an orchestrated manner to create the environment best suited for advancing living standards in our Region. In performing its role, CDB, must strike that delicate balance between supplying relatively low-cost resources to its Borrowers and keeping the organisation viable. Without securing our financial sustainability, we cannot support the Region's development efforts.

Second, we must find a way to get the private sector to assume its place as the ultimate generator of jobs, incomes, and exports in our economies. This will only happen when the public sector pays much more attention to creating an appropriate and facilitative ecosystem. That ecosystem will include climate-friendly infrastructure, a healthy and skilled labour force, enabling legislative and regulatory frameworks, enabling culture, and access to appropriate types of finance.

I cannot stress sufficiently that in small economies with no reserve currencies, sustainable advances in standards of living must be driven by export expansion. In our Region, economic growth, over the last two decades, has been volatile, and well below the average for small states. This performance reflects structural weaknesses that lead to high export concentration which exposes countries to external shocks.

The evidence suggests that successful small countries, and not-so-small countries, do share some common features. A diversified production structure helps to build economic resilience, making economies less susceptible to price and output fluctuations. Such a diversified structure also leads to low cost, productive and competitive economies.

The lesson, then, is that we will be enhancing competitiveness when, Caribbean economies become more diversified, and when the private sector, as the engine of growth and the public sector as the enabler, work in partnership to create competitive economies. We will also need to upgrade our infrastructure and institutions to allow factors of production to become more productive and the cost of operating in our countries to fall.

It is clear that we have not exploited the true potential of the regional integration project. Our domestic markets are generally too small to allow firms to benefit from economies of scale. CARICOM was established in 1973 to address the limits on growth

and development imposed by small size; to benefit from cooperation with respect to some services; and to combine bargaining power in international fora. A key aim was to allow regional firms access to a larger protected market in which they could grow, and which would serve as a launching pad to the global market. In 2001, the Treaty of Chaguaramas was revised to set up a roadmap for establishing a single market and economy in light of the changing global landscape. Unfortunately, 57% of the required actions remain outstanding, with most of the progress made, being with respect to trading in goods, and in promoting a common market in services and skilled labour.

I believe that the full potential of the integration movement has been limited by significant non-tariff barriers to trade; a lack of harmonised investment codes, tax incentives, and macroeconomic policies; and restrictions on capital mobility.

I share the view of the Bruce Golding-led Commission that “***the value of regional integration, notwithstanding the current wave of economic nationalism in various parts of the world, is as relevant and useful, and perhaps more urgent today than it was at the inception.....***”.

The last ten years have reinforced my conviction we must address all facets of resilience; and we encourage all of our borrowing member countries to do so.

## CONCLUSION

In the next seven months, I will be completing my second and final term as CDB President. What a journey this has been!!!

Soon, I will be closing this chapter and moving on to my next career – retirement.

As I prepare to turn that corner, I can honestly say that today I speak to you, not dissatisfied or even disappointed that the work we started remains unfinished. We had a vision; but there was no illusion that this would be fully realised in my first term or even my second term.

I speak not to bemoan the slow progress with the regional agenda and that CARICOM leaders have yet to deliver on the dream of the CARICOM Single Market and Economy.

I speak not in frustration that in my final year, COVID-19 has heightened fears of another global recession, undermining the hard-won gains that several countries in the Region were realising by adopting growth-oriented macroeconomic reforms, and placing in jeopardy the attainability of the Sustainable Development Goals within the agreed timeframe.

Instead, I speak with pride about the progress made and the Bank’s achievements over the past ten years.

Governors, as CDB celebrates 50 years of Transforming Lives across the Caribbean, I speak with hope, even when it seems that the demands and needs of development keep growing. I see hope for a renewed interest in multilateralism and recognition of the specialised role that multilateral development banks, like CDB, play in co-ordinating development assistance after events like COVID-19 and in planning the recovery in a much more systematic and sympathetic way.

I speak with unapologetic optimism and join with those borrowing member countries that are undeterred in their quest towards the 2030 deadline for the achievement of the Sustainable Development Goals and of developed country status within the next two decades. We had already begun to see glimmers of success taking shape in those countries that had embraced tough but necessary reforms to create conditions of sustainability at all levels.

Behind the dark cloud of COVID-19, there is always room for us to do better. The pace of innovation is accelerating. I see in the fourth industrial revolution the promise of an increasingly borderless world, and the opportunities for creativity and innovation more widely available and more easily accessible, especially to the young and the disadvantaged people of our Region.

I speak with confidence that our ongoing transformation programme is creating a solid framework for the adoption of best practices and for increased operational excellence by CDB.

And I speak with conviction that my amazing CDB family will support the new leadership, and pledge to work as a team unified behind common goals and objectives. Mutual trust and respect will arm you with the courage needed to maintain the momentum of the Transformation Programme, taking CDB to a much higher level of strength, modernity, and agility.

Thank you.