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## Statement

Dr. W<sup>m</sup> Warren Smith, CD  
President  
Caribbean Development Bank

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## **Introduction**

Mr. Chairman,

Today marks the beginning of the 48<sup>th</sup>. Annual Meeting of the Board of Governors of the Caribbean Development Bank (CDB).

I commend you, Chairman, for taking on, in the past twelve months, the triple challenge of chairing CDB's Board of Governors Meeting, the Conference of Heads of Government of the Caribbean Community (CARICOM), and the World Bank-hosted Small States Forum. Somewhere in the midst of all these activities, Sir, you found the time to run a government... and, resoundingly win an election.

From all indications, the people of Grenada have given you a mandate to continue implementation of the structural reforms started during your Government's first term. I can assure you of CDB's continuing support for your quest to make Grenada one of the Region's most prosperous and well-managed economies.

On behalf of the Board of Governors, the Board of Directors and the Management and Staff of the CDB, let me thank you for mobilising a highly committed team to work alongside CDB's staff throughout the planning and organising stages of this year's Annual Meeting. We have appreciated the warmth and friendliness extended to us since our arrival in Grenada. In between the long hours of meetings with Governors and other delegates of this important event, we plan to sample the Spice Isle experience in beautiful Grenada.

## ***“Perspectives on Caribbean Resilience”***

Chairman, this morning, my Statement to Governors is entitled ***“Perspectives on Caribbean Resilience”***.

The concept of resilience-building against shocks provides a useful construct for tackling the Caribbean’s vulnerability issues and for creating adequate safeguards against such shocks.

The mounting global interest in resilience-building reached its climax in 2016 with the historic signing of the Paris Agreement. That Agreement confirmed international consensus concerning the central role that climate action should occupy in any sustainable development programme. Importantly, the Agreement also committed all signatories, including all of CDB’s Borrowing Member Countries (BMCs), to make nationally determined contributions to the effort to reduce emissions.

***This was a proclamation that climate change is everybody’s business; and that climate action is everybody’s responsibility!***

### ***Lessons from Grenada***

There is no shortage of lessons on what is necessary to build resilience. Indeed, Chair, as our Region begins another phase of recovery and resilience-building, following the devastation caused by Hurricanes Irma and Maria in 2017, we can find inspiration right here in Grenada.

Recall 2004, when Hurricane Ivan left a trail of destruction behind in Grenada. With damage of about 200% of GDP, Ivan was described, at that time, as the worst hurricane to affect the Region in more than a decade. Hurricane Emily in 2005 and the onset of the global financial crisis a few years later compounded this country's development challenges.

In 2014, and with financing from CDB and other development partners, the Government of Grenada embarked on a comprehensive programme of structural reforms to restore fiscal sustainability; to strengthen the financial sector; and to set the stage for sustained growth.

Two ground-breaking initiatives in this “home-grown” programme deserve special mention.

**First**, and in accordance with its 2015 Financial Responsibility Act, Grenada now sets aside 40% of the proceeds from its Citizenship by Investment programme as contingency financing in the event of a natural disaster.

**Second**, in recent debt restructuring agreements, Grenada successfully negotiated the inclusion of a clause that allows for postponement of debt service payments following a qualifying natural disaster.

With safeguard initiatives like these, and with financial buffers in place, Grenada will be much better prepared, next time around, to cope with the difficulties of natural hazards.

Given the increasing frequency and intensity of natural hazard events in the Caribbean, it is imperative that Grenada and the rest of our Region embrace a comprehensive package of resilience-building measures. That includes macro-economic management and the creation of fiscal buffers; climate-proofing of our critical economic infrastructure; and the creation of a resilient, and reliable inter-island transportation network for the Eastern Caribbean archipelago.

Failure to respond comprehensively and expeditiously to these challenges will put paid to our vision of building prosperous societies and halving abject poverty by 2025.

As we reflect on the varied difficulties confronting our Region, three high-priority opportunities for achieving both climate and economic resilience come to mind.

**First**, it is now widely accepted that we need to accelerate the adoption of energy efficiency measures across each economy whilst incentivising an optimal shift away from imported fossil fuels to indigenous renewable energy sources.

How do we get this done in a climate resilient manner?

**Second**, we need to improve the degree of food security for our people in an economically feasible manner and create strong agricultural linkages to our tourism and other critical foreign exchange earning sectors.

What are the options for creating a resilient agriculture sector when most of our people live in small island states and in a climate-vulnerable neighborhood?

**Third**, in the Eastern Caribbean sub-region, an efficient, resilient and reliable regional aviation system that facilitates the movement of people and cargo is a critical underpinning of dynamic and resilient economies.

How do we accomplish this difficult, but necessary resolution of a challenge, which many now consider to be intractable?

I will speak to each of these opportunities separately.

### ***Energy Resilience***

Caribbean economies, for the most part, are small and open. These features make them vulnerable to external economic shocks.

Our energy security is compromised by over-reliance on imported high-cost fuel, price instability and the consequential high cost of satisfying our energy needs. This has implications for the stability of our economies, the efficient utilisation of foreign exchange earnings, and the maintenance of prudent debt levels. This situation also contributes to instability, uncompetitiveness and relatively poor economic performance, especially in those countries whose productive sectors are energy intensive.

Technological advances and price reductions in renewables, such as solar and wind, stabilised with battery storage, present cost effective options to substantially raise the contribution of renewables to the energy matrix in our countries, at lower and/or more stable generation costs for electricity. Taking advantage of these opportunities, as well as the wide-scale adoption of energy efficiency measures will help to lay the basis for economic resilience. This will occur through reducing public sector expenditure on energy; strengthening the fiscal balance; reducing Government's borrowing requirements; and as a consequence, reducing the pressure on the country's foreign reserves.

However, even as the potential for renewable energy development is well established, less than 15% of our Region's energy supply is produced using renewables. The ongoing reform of archaic legislation would, in many instances, help to speed up the slow pace of transformation, and accelerate the use of the Caribbean's abundant renewable energy supply. So, a strategy of promoting energy efficiency and shifting the energy mix to one incorporating more renewables, would facilitate the attainment of energy security and, thereby, economic resilience.

But, Chairman, in our environment, electricity systems, including renewable energy plants, are highly vulnerable to hurricanes, and other extreme weather events.

A compromised power system can bring a community, a region or a country to a standstill, threatening economic and social well-being, and constraining the pace of recovery after a disaster. We witnessed this in 2017 in Antigua and Barbuda, in the British Virgin Islands, in Dominica, and in the Turks and Caicos Islands.

Therefore, we must ask ourselves a number of questions.

What is the cost of building resilience into our energy systems?

How does this impact the cost of electricity to the public sector and other consumers?

Can we afford to do this? Can we afford **NOT** to do this?

When service is not available, how much are we willing to pay for one kilowatt of electricity?

Our supply of energy will not be affordable if we have to rebuild after each major weather event, during which availability and reliability are jeopardised. It is, therefore, imperative that we accelerate the assessment of climate vulnerability across the energy sector and design appropriate responses.

CDB is examining the economics of building resilience in solar PV plant construction. This involves considering the costs and benefits of higher design standards to withstand greater force winds. Even the costs and merits of initiatives like recent ones which involved dismantling and storing PV panels on receiving warnings of an impending event should be considered

Or is a transfer of risk through the purchase of insurance a feasible alternative?

This analysis will not only inform project design in future, but would be used to make the case to global funds for concessional financing of adaptation initiatives.



In closing this section, let me briefly recap CDB's contribution to resilience building in the energy sector.

Primarily through investment in climate mitigation projects, we, at CDB, are advancing efforts to transform the energy sector. The transformation will involve reducing heavy dependence on fossil fuel and shifting to a more sustainable energy mix that consists of renewables, battery storage and full exploitation of energy efficiency options.

We have accelerated our efforts to mobilise appropriately priced financing to assist CDB's BMCs to build resilient infrastructure. Through the Sustainable Energy for the Eastern Caribbean (SEEC) Programme, for example, we have been financing the conduct of energy audits of government buildings; energy efficiency upgrades and solar PV installation in public buildings; and energy efficient street lighting. This is a multi-partner loan and grant programme involving the European Union-Caribbean Investment Facility (EU-CIF) and the United Kingdom Department for International Development (DfID).

Under our Geo-Smart Initiative, and with assistance from the EU, DfID, Global Affairs Canada, and the Inter-American Development Bank, we are backing geothermal development in the Eastern Caribbean, with grants for investment and technical assistance, contingently recoverable grants, and concessional loans.

We have embarked on a number of energy-efficient street lighting initiatives, which allow for the retrofitting of high-pressure sodium and mercury vapour street lighting systems with the more efficient and cost effective LED lamps. The technology is evolving and is increasingly being used to provide smart solutions for managing energy consumption and addressing energy security issues. So far, we have assisted six BMCs and are encouraging others to come on board.

All of these interventions by CDB are targeted, in the main, at bolstering the economic resilience of our BMCs through strengthened fiscal performance, building fiscal buffers, limiting foreign exchange outflows, and enhancing export competitiveness.

However, the experience of two back-to-back category 5 hurricanes in 2017 has reminded us that the issue of bolstering the resilience of our electricity supply infrastructure from major climate events will require further study and learning from the experience of other regions facing similar predicaments.

### ***Building Resilience in Agriculture***

I turn now to building resilience in agriculture.

Agriculture is the main contributor to economic activity. A large fraction of the population in several Caribbean countries depends on agriculture for their livelihood. The sector accounts for over 10% of output in Belize, Dominica and Suriname, and as much as 33% of output in Guyana. It is a source of food supply for local and overseas markets, and raw material for the agro-industrial sector. Also, the growing tourism sector, in most Caribbean countries, represents a potentially huge market for local farmers.

The secular decline in Caribbean agriculture is well known. With few exceptions, output has fallen consistently since the early 1990s. I cannot discount the role of weak market access and production inefficiencies in explaining this trend.

Nonetheless, recent climate change-induced natural hazard events and the need to adhere to modern food safety management systems have exposed the sector's vulnerability, threatened the livelihood of farming communities, and complicated efforts to expand production. Farmers are among the most vulnerable groups in our societies, often residing in poor rural communities, with access only to a narrow range of economic opportunities and with few coping strategies.

Climate change has greatly exacerbated the vulnerabilities faced by these communities and poses a major threat to the sustainability and viability of regional agriculture. The consequences of climate change are not only the increased frequency and intensity of hurricanes and floods but also the protracted periods of drought.

The impact of drought on the agriculture sector is considerable and often grossly underestimated. Our Region accounts for seven of the top 36 most water-stressed states globally. And since the 1980s, at least 10% of our land area has been affected annually by severe drought conditions.

The Caribbean is an integral part of the global economy. Over 70% of our agricultural exports are to developed countries which are progressively imposing more stringent food safety requirements on imports. Similar standards are also being adopted in our regional food retail industry.

Given the increasing climate vulnerabilities, the emphasis should be on agriculture becoming more competitive and maximising contributions to economic growth. Priority should also be given to increasing food security as well as growing the export market and creating stronger linkages with the tourism and other foreign exchange earning sectors.

If the Caribbean is to build resilience in agriculture, then sizeable investments in changing agricultural practices and adapting to climate change are required. Farmers need financing for upgrading irrigation systems, moisture conservation, water use efficiencies and drainage in flood prone areas to mitigate the risk and impact of droughts, flooding and soil erosion. And our research programmes should be expanded so that we can select crops and production methods that are more appropriate for dealing with climate vulnerabilities and for post-storm recovery efforts.

These are only two ways in which we can improve production reliability and, at the same time, respond to the food security challenge.

There are good opportunities for agriculture to become more economically viable. For example, if we can produce more hurricane-resistant crops; if stronger links can be developed between the agriculture, tourism and manufacturing sectors; and if we can promote intra-regional production sharing, then our agriculture sector would be transformed into one that is sustainable and commercially viable. Such efforts can, undoubtedly, also assist us in retaining a larger percentage of the tourist spend in our Region.

Challenging as it is, the work that is currently underway at CCRIF SPC to develop a suitable parametric or other type of insurance product must be accelerated so that financing will be available for the rapid recovery and rehabilitation of the sector following a natural disaster.

In a nutshell, a **resilient agriculture sector can be a vital pillar of national economic resilience.**

At CDB, we are pleased to provide financing for a number of new and innovative initiatives by our BMCs to build resilience in agriculture.

Right here in Grenada, we are funding the rehabilitation and climate proofing of rural roads and drainage systems. We are incorporating climate-resilient measures into off-farm irrigation systems. And we are training farmers to use new technologies and practices that can build resilience to climate change impacts.

Under the UK Caribbean Infrastructure Partnership Fund, we are also providing grant financing for the Essex Valley Agriculture Project in Jamaica. This comprehensive project comprises upgraded irrigation systems powered by renewable energy with battery storage; storage for crops; agricultural extension services to farmers; and assistance with marketing. It is expected that the project will reduce production costs and boost competitiveness. We anticipate that interventions like the one in Essex Valley will serve as a model for similar investments in other BMCs.

### ***Building Resilience in Air Transportation Infrastructure***

The final area I wish to address this morning is the vexed issue of regional air transportation, and the role it can play in achieving economic resilience, particularly in the Eastern Caribbean island chain.

Air connectivity is essential to the economic integration and growth of these small island states which are, generally, heavily dependent on tourism, agriculture and financial services.

Yet, the aviation industry faces several major difficulties which stymie the movement of business and leisure travelers to different parts of the Eastern Caribbean sub-region. Between 2003 and 2016, the number of annual roundtrip journeys by Eastern Caribbean residents to the United States rose by more than 200% to 250,000. In the same period, Caribbean-originating roundtrips to the Eastern Caribbean fell by 30% to 420,000.

These statistics point to a worrisome shift in the pattern of travel as regional

air travelers demonstrate a growing preference for destinations in the United States over travel to the neighbouring islands.

How do we explain the dramatic shift in intra-regional visitors to the Eastern Caribbean?

A recent study funded by CDB concluded that:

1. The Eastern Caribbean's air transportation connectivity problems stem from operational inefficiencies within the principal air carrier and issues in the business environment within which that carrier operates;
2. High and regressive taxes and airport-related charges lead to an escalation in the cost of travel and a reduction in the number of passengers travelling between the islands;
3. Regulations relating to security, border control, and other issues militate against the seamless and expeditious movement of connecting passengers to out-bound flights; and
4. The arrangements for funding the principal air carrier, its governance framework and the industrial relations environment add to the difficulties.

In essence, Chairman, the combination of internal governance issues within the sub-region's principal air carrier and an insufficiently enabling external operating environment constrain the ease and cost of travel in the Region as well as the growth outlook for intra-Caribbean travel and tourism.

There is no sound justification for the regional airline industry remaining in this situation. Indeed, its survivability is under constant threat.

Encouragingly, in July 2017, the Heads of Government of CARICOM *“agreed that the incidence and impact of taxation on air transport in the region should be properly studied and proposals made on financially viable changes to taxation to make regional air travel more affordable without hurting government revenues.”*

At CDB, we are satisfied that resolution of the issue of high and regressive taxation on air travel within CARICOM without loss of revenue to regional governments is a vital part of the resolution of the regional aviation crisis in the Eastern Caribbean.

The CDB study confirms that air travel within the Eastern Caribbean is price elastic. It also concludes that reductions in both taxes and airport charges would lead to sizeable growth in arrivals in virtually all countries. The study estimates that, these measures would stimulate increases ranging from a low of 5% in Dominica to a high of 18% in St. Kitts and Nevis over a twenty year period. In the case of St. Kitts and Nevis, this expansion amounts to approximately 65,000 passengers or almost twice the population of this twin-island state.



The biggest beneficiaries, in absolute terms, would be Barbados and St. Lucia with 200,000 and 140,000 additional passengers, respectively.

It is estimated that lowering taxes, liberalising the regional market, and making changes to increase airport efficiency combined with a recapitalised and restructured regional airline industry, could lead to a 60% jump in intra-regional visitor numbers by 2023, relative to 2016.

Strengthening connectivity of the regional airlines and lowering fares via reduced taxes are two key options for a smart regional transportation sector. These measures promise improvements in the resilience and efficiency of the transportation network, with downstream enhancements in overall economic resilience.

CDB intends to continue working collaboratively with the shareholder governments, as well as the governments of other Eastern Caribbean countries which benefit from the services of the sub-regional air carrier. The aim is to accelerate implementation of the reforms that are needed to create a sustainable and resilient inter-island air transport system.

## ***CONCLUSION***

Chairman, the challenges and vulnerabilities of small developing states are very familiar.

Our Region has had to cope with countless natural disasters and other shocks throughout its history. And we have demonstrated repeatedly our ability to “bounce back” from such disastrous events. However, our responses have been largely reactionary; and the cost of responding has been rising steadily, undermining other efforts to get onto a sustainable development platform.

To be winners, we must plan to win, prepare to win and expect to win.<sup>1</sup>

The events of last year’s hurricane season led to the adoption of the slogan “***Build back better***”. It underscores the determination of the people of our Region to triumph over our vulnerabilities. We have a long and proud history of triumphing over adversity. We hail from small and relatively poor countries, yet we compete and perform with distinction, on the world stage, in varied fields of endeavour, be it business, sports, the creative arts or politics.

In short, we know how to win; and we **will** win!

Mr. Chairman, I thank you.

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<sup>1</sup> *Adapted from quotation by American author, Zig Ziglar*