AS PREPARED FOR DELIVERY

ADDRESS TO CARIBBEAN DIASPORA IN TORONTO

by

Dr. Warren Smith

President

Caribbean Development Bank

August 21, 2014

INTRODUCTION

Ladies and gentlemen:

Thank you for giving me this opportunity to speak to you about the Caribbean Development Bank (CDB) and about the work we are doing for the development of Caribbean people.

Your adopted country, Canada, is a founding member of the Caribbean Development Bank. It has provided substantial financial and technical assistance to the Bank and to Caribbean people, working through our institution since we began our operations in 1970.

It has been a solid partnership of almost 45 years. And our relationship has evolved constructively, in accordance with the Region's changing needs.

My visit to Canada this week has been geared towards deepening and strengthening this productive relationship, and positioning the Region for the new challenges which will inevitably face us, in the years to come.

As I recall my nine years of study in the neighbouring United States of America, I can personally identify with your yearning for information about developments in your Region and, more specifically, in your country of origin.

Tonight, in the short time available to us, my presentation will speak to:

(a) The principal development challenges that we face in the Caribbean;

(b) The role that CDB is playing in helping its Caribbean member countries to overcome these challenges; and

(c) The opportunities for the Caribbean diaspora in Canada to assist with and benefit from the transformational initiatives unfolding in our Region.

CARIBBEAN FACING MAJOR CHALLENGES

So, what are the key challenges that our Region now faces?

The Caribbean has a serious problem of international competitiveness.

For an extended segment of the post-colonial era, Caribbean economies continued to enjoy preferential arrangements in important components of its international trade. Bananas in the Windward Islands, Jamaica and Belize; and sugar in the several of the larger Caribbean countries accounted for employment of large numbers of workers; sizeable levels of foreign exchange earnings; and meaningful standards of living.

However, and in spite of good progress in the development of internationally competitive industries, like tourism and offshore finance, our countries remained structured around a relatively narrow range of industries which could compete in the international marketplace. This narrow export base rendered many Caribbean economies vulnerable to vagaries of the external environment and, therefore, susceptible to volatility in their foreign exchange earnings.

In the post-preferences era, the dynamic growth and expansion of more competitive foreign exchange earning sectors was stymied by the failure to structurally transform our economies and to create a business-friendly environment.

Then, in an effort to maintain living standards, many governments pursued a strategy of deficit financing, with the resultant accumulation of sovereign debt. This situation was further exacerbated by two phenomena:

(1) **climate change**, which has had adverse impact on the Region's infrastructure. That is, we frequently need to replace recently-built public infrastructure in the wake of a flooding, landslides and other climate-related event ; and

(2) the **international financial crisis** and the **Great Recession**.

Arising from these two phenomena, therefore, we face two major challenges:

First, we must put our fiscal house "in order" and reduce our sovereign debt to manageable levels.

And, **second**, we need to undertake wide-ranging structural transformation so that our economies can be internationally-competitive, earn more foreign exchange, and become more self-sufficient.

Then, and only then, can we hope to satisfy the aspirations of our people.

WHAT IS THE CURRENT STATE OF PLAY?

Several Caribbean countries are already undertaking critical reforms to reverse fiscal deficits and are implementing appropriate strategies to reduce their indebtedness.

These adjustments necessitate the adoption of painful measures, which adversely impact the livelihoods of people. The most vulnerable in our society, many of whom live on the cusp of abject poverty, is at the greatest risk. Social safety nets must be provided in order to minimise the risk to this group and to help them ride out this difficult but necessary phase of adjustment.

ROLE OF CDB

How is CDB responding to the changing needs of our member countries?

First, because of small size, CDB forms smart partnerships with other multilaterals, friendly countries and the private sector.

Second, we also ensure that our efforts are focused on areas of greatest impact and in alignment with the Bank's core competencies.

And, **third**, we use our relationships to mobilise resources that are sufficiently long-dated and appropriately priced to accord with the requirements of the initiatives with which we are associated.

Let me look briefly at some examples of how CDB is translating the challenges of our BMCs into concrete and meaningful assistance.

Fiscal consolidation and debt restructuring provide good examples of CDB working in smart partnerships with other multilateral institutions.

St. Kitts and Nevis, for example, was experiencing large fiscal deficits and a debt/GDP ratio of almost180% for an extended period of time.

These two disequilibria were unsustainable and required urgent attention. Once the Government determined that it was ready to craft a strategy for stability and growth, CDB, working with the IMF, deployed a number of creative strategies to support the overall adjustment programme.

St. Kitts and Nevis' debt to GDP ratio has fallen some 80 percentage points to just under 100% within a few years; the fiscal deficit has been virtually eliminated; and economic growth now exceeds 3.5%.

What were some of the things that CDB did to assist member countries like St. Kitts and Nevis?

Given the magnitude of the debt, it would have been virtually impossible for the St. Kitts and Nevis economy to grow out of the debt overhang. As a consequence, a deal that was mutually beneficial to debtor and creditors was reached with external creditors.

To facilitate a successful outcome for the St. Kitts and Nevis' debt restructuring exercise, CDB used its small, though relatively strong balance sheet, to provide credit enhancement. This led to an orderly reduction of the debt in the context of haircuts on both principal and coupon. To further ease the debt service burden, CDB used funding from its soft window to swap CDB debt from its hard window on terms beneficial to St. Kitts and Nevis.

In the case of Jamaica, staff in the Economics Department conducted detailed analysis of the country's debt situation. This work was shared with the Government of Jamaica as well as with the other multilateral institutions. Ultimately, the exercise informed the restructuring of Jamaica's internal debt, which provided substantial debt relief and a window within which more fundamental reforms could be carried out.

All of this took place under the cover of an IMF agreement, which also led to the infusion of nearly USD1.2 billion. Included in this financing was USD100 million from CDB to be used to replace short-term maturing high-priced debt with lower cost long-term debt.

Unfortunately, this programme did not reach a successful conclusion, and was abandoned prematurely by the Government.

A new programme is currently under implementation. This progamme has also benefited from analytical work on debt by the CDB, and will be supported by soft loans from CDB to boost some key productive sector initiatives with considerable development prospects.

Grenada is another member of CDB in fiscal and debt distress. The Bank, working jointly with the World Bank and the IMF, and using soft resources provided under an arrangement with the Inter-American Development Bank, is also facilitating the implementation of Grenada's adjustment programme. Once again, CDB has deployed its balance sheet to underpin and facilitate the orderly restructuring of Grenada's debt. These negotiations are still underway; and we expect a positive outcome.

There are a number of lessons that we have learnt from the three cases I have just described. Some of the most important lessons are that:

1. Adjustment programmes must be underpinned by fiscal rules;

2. Successful adjustment process should, as much as is practicable, seek to share the burden off adjustment with all social classes; and

3. Creative mechanisms must be devised so that the most vulnerable in the society are adequately protected.

There is a raft of reforms that the Caribbean needs to undertake to create a business-friendly environment in which both foreign and local investment will spur export-led growth. Many of these reforms are captured in useful competitiveness indices like those computed for the World Bank's Doing Business survey. Such reforms are now an integral part of the framework of all IMF-funded adjustment programmes.

CDB has chosen to focus its attention on the cost of energy, especially electricity costs which represent a major impediment to competitiveness and growth in most Caribbean economies today. This new area of emphasis is a "natural fit" for CDB. The skills required for effective investment in the energy sector are close to the core competencies that CDB staff currently possesses; and, therefore, lend themselves to quick "scaling up" of CDB activities.

The Bank is convinced that the time is right for Caribbean countries to pursue realistic goals in the energy sector and to substantially reduce electricity cost by taking advantage of recent technological advances in the area of renewable energy and energy efficiency.

As I have said elsewhere, the Caribbean is not energy poor. Its vast resources of hydro, wind, and solar energy can be developed in a manner that substantially reduces the importation of fossil fuels, thereby reducing import expenditures. It is estimated that energy costs could be reduced by as much as 30% - 50%. Reductions in energy costs of this magnitude could lay the basis for the emergence of new and competitive economic activities across the Region.

To make transformation a reality, appropriately-priced resources will have to be made available to cushion the high up-front capital cost and the uncertainty associated with some of renewable energy technologies.

Renewable energy and energy efficiency are also recognised as effective ways of reducing the world's carbon footprint and the level of emissions released into the environment. Success in reducing these emissions is inextricably linked to the climate change juggernaut. With the growing consciousness that the pace of global warming must be reduced, many countries in the developed **and** developing world are making available grant and or near grant financing for renewable energy and energy efficiency projects.

CDB, as a principal catalyst of resources to the Caribbean, has positioned itself to be an intermediary for these resources to our region. As an example, we recently signed a Memorandum of Cooperation with the Inter-American Development Bank and Japan International Cooperation Agency (JICA) to make available nearly USD100 million of extremely soft financing for the development of the geothermal industry in the OECS countries. Such financing will make possible the transformation of some economies, like Guyana, to become lower cost energy producers and others, like Dominica, to become energy exporters.

Because of their size, most renewable energy projects will have to be jointly financed with the private sector. Distributed generation will be the "order of the day", with power purchase agreements linking the privately-owned generating facilities to the existing electric utility companies. The mechanism of public private partnerships will, in all likelihood, be extensively utilised.

Finally, CDB, leveraging its historically strong skills in infrastructure financing across the Caribbean, is positioned to become a major player in the development of climate adaptation projects geared toward making our countries more climate resilient and less vulnerable to the ravages of the many climate events to which our countries are exposed. We have committed 80% of a climate action line of credit that was provided by the European Investment Bank. Our objective is to mobilise additional resources from sources such as the Green Climate Fund.

OPPORTUNITIES FOR THE DIASPORA

The creation of a business-friendly climate will only lead to robust and sustainable growth if the domestic **and** international private sectors take advantage of the vast new economic opportunities that are available in our Region.

Members of the Caribbean diaspora, with your knowledge of the business culture and your links to the Caribbean business community, you are well positioned to take advantage of these opportunities that are emerging in our rapidly changing environment. I applaud those of you who have already taken the plunge; and encourage others to come on board.

In 2012, the CDB experienced a downgrade from AAA to AA by both Moody's and Standard and Poor's. This was largely in response to the severe challenges being faced by the borrowing members to whom we are so heavily exposed. It was also a reaction to the level of concentration risk that we, as a multilateral financial institution, inevitably face because of a mandate to serve the most needy within our membership. The response from our shareholders and our management was to “pull in our horns” and protect ourselves.

That could never be a winning strategy.

Our mission now is to change direction; ramp up our engagement with our borrowing member countries; and devise strategies which directly support the current needs of the regional environment.

In an engagement with the private sector on a recent visit to Jamaica, I stressed the point that the IMF programme needed to become Jamaica’s programme. They and the rest of the country need to own it. The transformation of the economy requires more than the government’s adjustment of the fiscal and debt situation. It requires investment for the economy to grow; and that is the role of the private sector.

In short, the private sector cannot sit on the sidelines and watch as the government adjusts the fiscal and debt balances. That is a necessary but insufficient responses to the crisis.

Canadian businesses which are owned and operated by the Caribbean diaspora can benefit from winning contracts in all areas of activity by the CDB. Because of Canada’s membership in the Bank, **all** Canadian businesses are eligible to procure contracts from the CDB.

Ladies and gentlemen, I am optimistic about the Caribbean and the Caribbean’s development prospects. We will continue to do our part at the CDB to support our Region’s sustainable economic growth agenda. I encourage each of you to join us by investing or investing more in the Caribbean to bring about this transformation. I have shared with audiences elsewhere that our Region will require between USD20 - USD30 billion of new investment in the energy and other infrastructure sectors. That investment along with the other business-friendly reforms will help to transform the environment and position our Caribbean to truly take up its position “in the sun”.

Thank you.