**SEIZING THE MOMENT; SEIZING THE TIME**

**STATEMENT**

by


DR. W[m.] WARREN SMITH

President

Caribbean Development Bank


at the

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of The Board of Governors

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# SEIZING THE MOMENT; SEIZING THE TIME

## 1. SALUTATION

Mr. Chairman, Honourable W. McKeeva Bush
Governor of the Cayman Islands, His Excellency, Mr. Duncan Taylor
Dr. the Honourable Kenny Anthony, Prime Minister of St. Lucia
The Honourable Orlando Smith, Premier of the British Virgin Islands
The Honourable Reuben Meade, Premier of Montserrat
The Honourable Hubert Hughes, Chief Minister of Anguilla
Speaker of the Legislative Assembly, the Honourable Mary J. Lawrence
Deputy Governor of the Cayman Islands, the Honourable Franz Manderson
Deputy Premier, the Honourable Juliana O'Connor - Conolly
Cabinet Ministers of the Cayman Islands
Distinguished Governors
Members of the Board of Directors of the Caribbean Development Bank
Members of the Diplomatic Corps
Observers
Guests
Vice-Presidents and other Members of Staff of the Caribbean Development Bank
Representatives of the Media
Ladies and Gentlemen:

## I. INTRODUCTION

I know that it sounds almost clichéd to say to you, Mr. Chairman that we are delighted to be here in the Cayman Islands for this Forty-Second Annual Meeting of the Caribbean Development Bank (CDB). Let me assure you, Sir, that even though we have been here only for a few days, we already understand why, in promoting your country, you make so bold to say "***Three islands. Endless possibilities***!"

We readily agree that your country, in so many ways, is simply idyllic, infectiously beautiful and delightfully peaceful. Just for the record, Sir, as it was on the two previous occasions that Cayman Islands hosted the CDB Annual Meeting, so it is once again - excellent organisation, incomparable hospitality and a most gracious welcome!

This particular meeting holds special significance for the CDB because it is occurring at a time when the Bank is in the midst of negotiations with Contributors for the seventh replenishment of the Special Development Fund. The second round of meetings took place right here in the Cayman Islands yesterday.

The centrality of the Special Development Fund in enabling the Bank to have a positive impact on the lives of the poorest and the most vulnerable groups in this Region cannot be overstated. Global economic and financial uncertainty is taking its toll on our small economies; and the challenges confronting our countries have grown in complexity.

Our discussions during these negotiations are framed by the reality of an extremely uncertain external economic environment. This reality threatens to engulf the world in yet another international financial and economic crisis.

This could mean an even more protracted period of low or no growth for most Caribbean economies. It could also portend increased risk of widening fiscal deficits, even greater accumulation of sovereign debt, and further erosion of social progress.

These are prospects, Mr. Chairman, which we, as a region, cannot afford to countenance.

It is against this back-drop, that we, in conjunction with the Contributors to the Special Development Fund, are crafting a programme of action which will enable our borrowing member countries to keep the achievement of the Caribbean-specific Millennium Development Goals in sight for 2015.

We look forward to a successful conclusion of these negotiations before year-end.

## II. HIGHLIGHTS OF CDB'S PERFORMANCE DURING 2011

Before I turn to the main theme of my statement this morning, I wish to briefly review the Bank's operations in 2011.

My inaugural statement to Governors in Trinidad and Tobago last year was inspired by John Kenneth Galbraith's well known aphorism that:

*"All of the great leaders have had one characteristic in common: it was the willingness to confront unequivocally the major anxiety of their people in their time. This and not much else is the essence of leadership."*

I argued in that statement, as we did in the Bank's Strategic Plan, 2010 to 2014, that the anxieties of the Caribbean people are underpinned by a growing sense of vulnerability to economic shocks, natural hazards and climate-related events as well as to a growing sense of personal insecurity because of unacceptably high levels of crime and violence.

The appropriate response to these insecurities is for our countries to pursue a series of initiatives and reforms which would build more resilient economies and stronger societies.

It was this context that informed much of the Bank's work programme and response to the needs of our borrowing member countries last year. Some examples of areas in which we provided assistance will serve to underscore the point.

In order to support macroeconomic transition and improve the growth outlook for St. Kitts and Nevis, CDB partnered with the International Monetary Fund (IMF), the Government of St. Kitts and Nevis and its external debt advisors in crafting a bold and decisive policy agenda. The wide-ranging reform programme that was developed also included the restructuring of domestic commercial and bilateral debts, which constitute a drag on the country's development.

CDB assisted the reforms through a package of exceptional financial assistance. A feature of the assistance was the provision of a partial, reinstatable guarantee worth up to USD12 million in support of a new bond issue.

We also worked alongside the Eastern Caribbean Central Bank, the IMF and the World Bank as members of a Task Force to bring about urgent reforms needed to underpin the soundness and integrity of the financial system in the Eastern Caribbean Currency Union.

In addition, in collaboration with the Canadian International Development Agency (CIDA), the Department for International Development (DFID) and the Inter-American Development Bank (IDB), CDB is supporting the development of competitive micro, small and medium-sized enterprises through the Compete Caribbean initiatives in 15 Caribbean countries. In its role as a financial agent, CDB is facilitating access for six islands of the Organisation of Eastern Caribbean States, which are not members of the IDB.

The Bank facilitated access of Haitian micro-enterprises to catastrophic risk insurance using parametric triggers. Funding for this undertaking is provided through a CDB-administered trust fund, with DFID providing the initial resources. The trust fund supports the establishment and operations of the Micro Insurance Catastrophe Risk Organisation, also known as 'MiCRO'. If successful, this model could be replicated in other borrowing member countries.

In partnership with DFID, CDB has commenced work on the development of an index-based weather insurance solution for the agriculture sector across the Caribbean, in an effort to mitigate the risk of crop losses due to natural hazards.

CDB is also collaborating with the World Bank, IDB, DFID and CIDA to establish the Caribbean Growth Forum. This Forum is intended to serve as a platform for promoting dialogue amongst key economic and social actors within Caribbean countries.

The Growth Forum offers considerable promise for harnessing innovation and entrepreneurship to promote private sector-led growth. A Memorandum of Understanding between the collaborating institutions will be signed later this week, right here in the Cayman Islands.

In relation to climate change, Mr. Chairman, the Bank has been fully engaged. We have undertaken a number of initiatives to help the borrowing member countries become more climate resilient in the face of irrefutable evidence of the Region's extreme vulnerability to climate events.

More specifically, and as a follow-up to the undertakings set out at last year's annual meeting, CDB is actively seeking access to concessional funding for adaptation and mitigation projects. The recent signing of a Euro €50 million Agreement with the European Investment Bank for a Climate Action Line of Credit represented a notable milestone in this regard.

Equally noteworthy was the signing of a Canadian $20 million grant agreement with CIDA for community-based disaster risk reduction projects. These resources will enable CDB to address an important gap in the effort to build Caribbean resilience against natural hazards.

Work continued during this period to assist the borrowing member countries to recover from natural hazard events. Two Emergency Relief Grants, five Immediate Response Loans (IRLs) and five Rehabilitation and Reconstruction Loans were approved during the year. As disaster risk reduction becomes more fully integrated into the Bank's work, projects that involve the rebuilding of damaged infrastructure are now being designed to incorporate elements of increased resilience to more severe climate events.

DFID will be providing two climate change Advisors to CDB as part of a broader effort to improve climate mainstreaming within the Bank; to increase the impetus to the drive to garner additional climate finance resources; and to build a credible pipeline of adaptation and mitigation projects.

In respect of lending operations, the backdrop to CDB's performance in 2011 was a tepid global economic recovery characterised by heightened uncertainties and incipient signs of growth in 12 of our 18 borrowing member countries.

The Region stepped up efforts to contain the widening of fiscal deficits and burgeoning debt as economic growth stagnated. This resulted in a steep reduction in CDB's approval and disbursement levels. Approvals, including grants, totaled a modest USD167 million in 2011, down from USD300 million in 2010. Disbursements followed a similar pattern, declining by an estimated 48% to USD168 million in 2011.

Therefore, the net transfer of resources (that is, disbursements of grants and loans less repayments of principal, interest and charges) between CDB and its borrowing member countries amounted to only USD15 million in 2011, considerably below net resource transfers of USD180 million in 2010.

Moody's Investors Service has just concluded a routine examination of CDB. We are disappointed at the decision to reduce our credit rating by one notch from Aaa to Aa1. Nevertheless, we accept that, in today's heightened environment of uncertainty, our risk management practices need to be strengthened. To that end, we are undertaking an indepth examination of our risk management framework and we will implement appropriate recommendations as we build resilience to the more dangerous world which we now occupy.

## III. SEIZING THE MOMENT; SEIZING THE TIME

It is worthy of note that Moody's also concluded that a financially strong CDB is very much a function of the degree of financial and economic resilience which obtains in <u>all</u> of its shareholder countries, both borrowing and non-borrowing. Therefore, at the same time that CDB is strengthening its internal systems, so too must our member countries move to rapidly implement structural and other reforms which lead to improved macro-economic fundamentals.

Mr. Chairman, this brings me to the main theme of my statement which is the absolute imperative of our borrowing member countries seizing this moment in time to address key challenges and implement critical reforms.

Enough high quality analysis addressing the current fiscal and debt problems facing the Region has been presented elsewhere by others. In the short time available this morning, therefore, I will simply summarise what, I believe, represents a broad consensus around the main challenges and the reforms which need to be pursued.

**Key Challenges**

So what are the challenges with which most borrowing member countries must contend today?

Most of us would agree that the list is long; but here are some of the more salient ones.

The real sector is underperforming and economic growth prospects are bleak.

The macroeconomic indicators are generally weak, leading (in some instances) to unsustainable debt dynamics.

There are worrisome increases in non-performing loans in sections of the regional financial space.

Also, expenditure on programmes directly benefiting poor and vulnerable groups is being curtailed.

Finally, anti-social behavior, especially by our youth, has been increasing and concern for citizen security is growing.

Even in the most favourable circumstances, this list would represent formidable challenges for most countries. For small island states, demonstrating all the characteristics of vulnerability, the associated risks are magnified.

**The Reform Agenda**

The good news is that, for the most part, the appropriate responses, the solutions if you will, are known and, increasingly, the resources are being made available to address some of these challenges.

And so, what is the reform agenda to which the borrowing member countries need to commit themselves?

Let us briefly recap some of the fundamental elements which, like the challenges earlier, already represent a broadly accepted programme of action for most Caribbean countries.

A major imperative for Caribbean economies is the need to enhance the environment for the production of internationally competitive goods and services. This is no easy task; but it lies at the core of developing a more resilient Caribbean economy. It necessitates introducing a raft of structural changes which address constraints to the emergence and the growth of new industries.

To facilitate these changes, we must be proactive in introducing reforms which improve the business climate. One useful tool for continuously measuring progress, in this regard, is the systematic application and monitoring of the results of the World Bank's "Doing Business" survey.

Mr. Chairman, we will also need to make real progress towards reducing the cost of electricity. For the larger Caribbean economies, this will require fuel- switching investments. The smaller countries will have no choice but to inter-connect to existing and newly emerging low-cost energy production sites in neighbouring countries. Close collaboration between the producing and consuming countries is a prerequisite for making this a reality.

All of our countries must accord high priority to energy efficiency, particularly in the area of conservation, which remains the most efficacious means of reducing energy costs. At the same time, they must incentivise the shift towards increasingly cost-effective renewables, like solar energy.

We also need to continue to prioritise the wide-scale introduction of broad-band internet to drive down the cost of communications, especially for business and for education.

Meanwhile, the product offerings of traditionally competitive industries, like tourism, need to be revamped. They must reflect changes in tastes and preferences in the marketplace and expand the skill sets in these industries.

Similarly, we should be paying special attention to creating opportunities which unleash the natural talents of our youth in fields such as music, dance, sports and agriculture based on modern technology. This will create the basis for launching dynamic new industries, which can grow and prosper alongside the more traditional ones like tourism.

Far reaching tax reform must be introduced to encourage the emergence of new industries and also to improve the efficiency of tax collection. The reform of the tax structure must be part of the effort to rationalise the targeting of subsidies to the intended beneficiaries.

**Trends in International Trade and Business**

Success in carrying out the required structural changes will position Caribbean economies to take advantage of exciting new trends in international trade and business.

**One** such trend to which we must pay close attention is the imminent commissioning of the expanded Panama Canal in 2014.

This expansion will facilitate the transit of megaships from the dynamically expanding economies in the Eastern countries into the Caribbean. It will create opportunities for ports in our Region to develop large trans-shipment facilities for vessels serving smaller ports in North and South America.

It also holds out the promise of these islands becoming logistic centres and industrial assembly nodes for far eastern businesses accessing South American ports and the nearby eastern seaboard of the United States. The job creation possibilities for our countries are enormous.

The **second** trend, Mr. Chairman, is the emergence of Panama as a major hub for air traffic coming out of South America. This air transport hub can become, for the Caribbean, the 'Miami' of Latin America, providing a gateway from this fast-growing region for visitors to Caribbean vacation markets.

The **third** trend is the emergence of fast growing new markets for commodities and other goods and services in South America and the Far East. Increased access to these markets would represent much needed diversification for Caribbean economies. The reduced concentration on the slow-growing or recession-beleaguered Western industrialised countries would also help to build resilience.

**Building Resilience**

But progress towards the achievement of a more diversified and internationally competitive economy will be stymied if macro-economic stability and sustainable debt dynamics are not vigorously pursued.

Successful and sustainable macro-economic adjustment is also unlikely to be achieved if appropriate mitigation and adaptation responses to the destabilising effects of natural hazards are not in place.

Another pillar of economic resilience is a financial sector rooted in robust and sound regulation. Financial systems that are sound are better able to withstand the disruptions created by global crises.

The evidence of the devastation of regulatory failure in the financial system in Jamaica in the late 1990s was a poignant lesson from which Caribbean policymakers can learn. Important sections of our economic space still need to implement appropriate financial regulatory reforms to build resilience against economic shocks originating from inside and outside of their economies.

In summary, the global debate about the efficacy of austerity versus economic stimulus may have negligible application in our Caribbean economies with very high levels of debt and limited fiscal space. Rather, the strategy for most of our governments will require:

- **One**, pursuing very stringent fiscal adjustment with appropriately targeted social safety nets;

- **Two**, instituting best practice regulatory frameworks for the domestic and regional financial sector; and

- T**hree**, vigorously laying the foundation for a strong domestic and foreign private investment response.

The implementation of these measures should, in time, position the economies of the borrowing member countries to approximate the poverty-reducing rates of growth, which are being achieved in the rapidly expanding economies of South America and Asia.

**The Road Already Travelled**

To a great extent, the challenges that now require urgent action have been shaped by the recent economic history of the Caribbean. This is a history defined, in the main, by slow response and inadequate commitment to the reforms needed to render our economies and societies more resilient following major economic shocks.

The oil crisis of 1973 ushered in an era of extreme volatility in the price of this critical source of energy for most Caribbean economies. The effect has been pervasive. In mining, for example, the competitive advantage enjoyed by Caribbean countries in bauxite and alumina was rapidly eroded and new capacity was created in countries which had access to cheaper sources of energy.

The region's incipient manufacturing sector and services like tourism were also adversely impacted by oil price volatility. Consequently, major structural weaknesses were exposed in net oil importing countries.

However, the Region, in general, failed to implement, with conviction, the structural reforms that would have mitigated the impact of future increases in oil prices on the domestic economies.

Almost 40 years later, despite sufficient evidence that 1973 would not have been an isolated event, Barbados was the only borrowing member country to have adopted policies which led to the wide-scale use of solar technology to partially satisfy household and commercial energy requirements.

Indeed, the policies of some governments had the impact of reinforcing rather than adjusting energy consumption behaviours. In some instances, across-the-board subsidies rather than those targeted at vulnerable groups were applied with predictably perverse results.

Also, because a sizeable proportion of the Region's exports benefited from access to highly protected export markets and enjoyed preferential pricing, there was a reduced incentive to switch the mix of inputs to reflect the volatility of petroleum prices.

In similar vein, several Caribbean countries failed to take the necessary steps to diversify their production base. Because of continued protected access to the European market for sugar and bananas, the borrowing member countries were able to delay the restructuring of these industries to make them more competitive or, failing this, to exit them completely. The consequence was, in some cases, the accumulation of substantial government debt due to losses from these industries.

**The Way Forward**

As we contemplate our current situation, are there lessons that can inform the way forward?

We can be confident that, despite the gravity of our circumstances, there is a viable path to a future of prosperity for our people.

We can aspire to a future based on vigorous economic growth and social justice.

We can create conditions where the most vulnerable groups among the men, women, boys and girls of our region are not left behind, but would have access to adequate social safety nets.

As we seek to turn the current crisis into an opportunity, a number of realities should be at the forefront of our minds.

**First**, the programme of economic reforms which I have just outlined, or variations thereof, must be implemented with the utmost urgency and resolve. An important take away from previous crises is that there will be a painful price to pay for failure to act decisively and with dispatch. Just examine the outcomes of the many financial sector failures around the world, and especially those in our own region. Inevitably, the real victims of a failure to respond in a timely manner, in these circumstances, are the poor.

**Second**, successful implementation of far-reaching reform necessitates the participation of the broadest coalition of social partners. There has to be a broad-based understanding and acceptance in all sectors of Caribbean society that inaction is not an option.

**Third**, the globalised, joined-up world in which we now find ourselves presents opportunities for our economies and for our people which did not exist before globalisation. But it has also created a much more complicated world in which we have to navigate. The reality is that this complex, inter-connected world is here to stay; it will become even more complicated; and we have to learn to deal with it.

**Fourth**, as leaders we need to imbibe the self-confidence of our young people who are embracing the international marketplace, including social media, to ply their trade, and who are sending the message that they are ready, they are willing and they are capable of competing in this new world with fewer real borders.

I am satisfied, Mr. Chairman, that for those of our borrowing member countries which move courageously to embrace far-reaching reforms, there will be a substantial dividend in the shape of more robust and resilient economic growth and greater capacity to address the curse of poverty and deprivation in our countries.

I am confident also, Mr. Chairman, that CDB and its partners in the Donor community would be willing and ready to provide financial and other forms of support for this type of reform agenda.

In closing, I leave you with the words of the great German writer, *Johann Wolfgang von Goethe:*

> *"Then indecision brings its own delays,*
> *And days are lost lamenting o'er lost days.*
> *Are you in earnest? Seize this very minute;*
> *What you can do, or dream, you can begin*
> *Boldness has genius, power and magic in it."*

Mr. Chairman, I thank you!