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KEYNOTE ADDRESS

RE-IMAGINING DEVELOPMENT FOR SMALL ISLAND DEVELOPMENT STATES

POST-PANDEMIC TRANSFORMATION

By

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Setting the Context

I am honoured to have this opportunity to deliver the keynote address to this 22nd Annual Conference of the Sir Arthur Lewis Institute of Social and Economic Studies (SALISES) on the theme **Re-imagining Development for Small Island Development States (SIDS): Post-Pandemic Transformation**. In this regard, I want to commend the organisers of this conference for truly partnering with our regional academicians, policy makers, the private sector, and the United Nations Economic Commission for Latin America and the Caribbean (UNECLAC) to brainstorm about how our SIDS could re-imagine and re-engineer their development priorities to enhance the welfare of the peoples of our region.

Some 70 years ago, our own Caribbean Nobel Laureate, Sir Arthur Lewis, imagined a world in which developing countries could rapidly transform from traditional agrarian to modern industrial societies by raising productivity and embracing modern technology and, thereby, accelerating economic growth and transformation. Sir Arthur's motivation for this radical shift in thinking came from his own experiences of the devastating socio-economic and environmental impact of the two world wars and the ensuing global economic depression.

Today, we are in the midst of a perfect storm. This confluence of several whirlwinds includes our inability, after several decades, to overcome deep-rooted structural weaknesses; the deep socio-economic impact of the ongoing COVID-19 pandemic; and the looming effects of climate change. All of these continue to wreak economic, social, and environmental havoc on our development path; and our time for a radical rethink is now! **Our Region's very survival will hinge on how quickly we find and embrace innovative solutions to mitigate these "typhonic threats" and steer our economies to the safe harbour of sustainable and holistic development.**

To set the context, let me share with you two quotations that have strongly influenced my thinking about **"unbounded imagination" as the seed for transformational change**. The first is from Eleanor Roosevelt who said that *"the future is literally in our hands to mold as we like. But we cannot wait until tomorrow. Tomorrow is now"*. The second quote, by Alan Kay, states that *"the best way to predict the future is to invent it"*. It is this creation from unbounded imagination that opens the doors to innovation and transformation.

My message today is that by re-imagining, rebalancing, and reinventing the future, small island economies, like those in the Caribbean, can re-position their development trajectories to attain long-term sustainable development and transformation.

In today's remarks, I will

- (a) discuss how the COVID-19 pandemic has impacted SIDS in our region;
- (b) outline a holistic framework around which we could galvanise our thoughts and actions to bring about much-needed change; and
- (c) propose some key actions that we need to pursue steadfastly to re-invent our future and alter our development trajectory.

Impact of COVID-19 on Caribbean SIDS

Even prior to the onset of the 2008 global financial crisis and the COVID-19 pandemic, SIDS in our Caribbean Region were grappling with economic, social and institutional challenges that were constraining their capability to effect real and meaningful transformation of their economies. Limited fiscal space and high debt ratios; poverty; high labour informality and inflexible labour markets; citizen insecurity, vulnerability to external shocks, including natural disasters and climate change; limited access to concessional financing, gender and income inequalities; implementation capacity deficits, weak social protection systems, fragmented institutions, rising gender-based violence and low levels of productivity and export competitiveness are a mere subset of the myriad of difficult challenges confronting Caribbean SIDS.

While the global financial crisis inflicted deep-seated economic and financial wounds, the COVID-19 pandemic has gone even farther, and pried open health and social sores that now threaten the very existence of our small societies. Indeed, SIDS are experiencing a **“triple threat”** involving the devastation of people, the economy, and the environment. The pandemic has also laid bare the fragility of health systems, which are so essential to our well-being and productivity.

A careful perusal of recent statistics underscores the seriousness of the challenges facing SIDS. The 2021 SIDS Forum estimates that real Gross Domestic Product (GDP) for this group of countries contracted by 6.1 percent in 2020 compared with a 1.8 percent contraction for all emerging markets and developing economies in the same period. The International Monetary Fund projections, which take account of the

protracted nature of the pandemic and the slow pace of vaccination, indicate that the GDP of SIDS fell by 9 percent in 2020 compared with a 3.3 percent decline in other developing countries.

Because many SIDS rely heavily on tourism, the sudden halt in activities in the sector owing to lockdowns and travel restrictions has led to a collapse of around 35 to 84 percent in international arrivals. Furthermore, a recent UNECLAC COVID-19 Caribbean Impact Report identifies the Caribbean as the most vulnerable of all SIDS regions, based on the frequency and severity of natural hazards. Climate change costs the region an estimated 3 billion United States dollars annually; tropical storms occur each year; and since the pandemic, there has been another destructive earthquake in Haiti, flooding in Belize, Guyana, Jamaica, and Trinidad and Tobago, and a volcanic eruption in St. Vincent and the Grenadines.

Besides its negative impact on the economic, financial, and business environment, COVID-19 has also significantly affected mental health and educational and social systems. Until we understand fully the relationship between COVID 19 and the increase in gender-based violence or the impact of the interruption in the learning and life cycle of our nation's children, we will not have an accurate estimate of the long-term costs and consequences of the pandemic for our society.

Holistic Framework: Galvanising Thoughts for Action

I have deliberately listed these challenges to underscore the enormity of the effort that will be required to surmount these difficulties. Just as Lewis re-imagined a different future for our societies following the challenges wrought by the Great Depression, we need a bold and transformative approach to rebalance and reposition our societies, to ensure an enduring legacy for future generations.

The big question confronting us today is what should be the critical elements of this new sustainable model of development and how do we implement it?

First, it is worth restating that sustainable development is not an atomistical and uni-dimensional concept. Rather, it is holistic and multi-dimensional, and embodies the idea of advancing an ecosystem capable of self-perpetuation. For a system to self-perpetuate, it has to be stable. Self-perpetuation itself is founded on resilience, which has been defined as *“the capacity of a system, be it an individual, a forest, a city, or an economy, to deal with change and continue to develop”*.

Sustainable development requires a resilient ecosystem. Consequently, resilience needs to be interpreted broadly to include resilience in social development (health, education, cultural mindset); in institutional capacity; in productive capacity; in access and availability of financing; in nature (disasters/hazards); in overcoming external shocks (trade, spillovers); and by extension, in the integration of all of these on socio-economic outcomes.

Resilience, in turn, requires innovation — the ability to utilise limited resources to expand production possibility frontiers. This innovation must be founded on evidence-based decision creation and facilitated by strong governance processes. Further, in our region, where natural hazards and external economic headwinds occur regularly and with increasing frequency and magnitude of impact, it is important to distinguish resilience based on the distinction among pre-hazard event vulnerability, magnitude of impact, and post-hazard event persistence or duration of impact.

The distinct effects of each, illustrated well by our experiences with repeated natural hazard events and, indeed, the COVID-19 pandemic, raise the question of how do we achieve that very delicate balance between financing recovery, promoting long-term growth potential, containing debt accumulation, and achieving debt sustainability. A reasonable answer must acknowledge that the policy responses necessary for long-term transformative repositioning may be at odds with the policies that can jumpstart short-term recovery. Consequently, it is vital that policies implemented for short-term recovery effort be consonant with the policies required for a transformative long-term vision.

I see a post-COVID Caribbean region that is driven by knowledge and innovation, that which leverages diagnostics obtained from **knowledge accumulation**, and transforms **knowledge diagnostics** into **strategies** for economic diversification of products and markets — what I have labeled the “KIDS” process. We can label this the “industrialisation of knowledge”, creating viable economic opportunities across all segments of the knowledge-creating value chain. These innovations will be most effective if anchored on resilient ecosystems and the notion that regional integration can be both a conduit and a driver.

As an illustration, which I have used before, let us recall our parents/elders regaling us with stories about the wonders of herbal medicines. Applying unbounded imagination, what if we were to compile this local anecdotal data, but go further and archive all available information about tropical plants with medicinal properties? This knowledge management can spawn, search, scan, classification, and archiving technologies and products. What if we could partner with tertiary institutions (regional and

external) to foster discovery (innovation diagnostics) — for example, assessing the scientific basis of medicinal anecdotes and the potential for combining and grafting of plants? Could we not exploit a potential role for centres of excellence in chemistry and use this as a lever for knowledge tourism? How far a leap would we need to create strategies (for patents, products, services) in pharmaceuticals — essentially, generating viable business propositions in all three stages that can be implemented at home, regionally, or globally?

All of these arise from a single seed thought. I invite you to imagine how wide and far we can push this concept! Indeed, the infinite supply of knowledge that can be tapped is only limited by our imagination. Conversely, our goal is to realise the potential of our unbounded imagination.

Our real challenge in our region is knowledge accumulation—the gathering, organising, refining and disseminating of information—and the transforming of that knowledge into intellectual assets. It is no secret that the rapid expansion in knowledge and the advances in information technology, robotics, and automation have already increased the dependence of our economic and social processes on intellectual capital and skills rather than on the traditional production process. Although the region has been building a repository of explicit and tacit knowledge, we are yet to fully exploit this knowledge to create a competitive and comparative advantage, to foster capital accumulation, attract global capital, and effectively restructure our economic systems.

Then, there is the innovation that is driven by such knowledge. In economic terms, innovation describes the development and application of knowledge (ideas and technologies) to improve goods and services or make their production more efficient. It is also important to look beyond this traditional science and technology-based conception of innovation to embrace typologies that emphasise experiential learning through doing, using, and interacting. In this way innovation depends, not only on inventors, but equally on the creativity of the users to find new ways to put existing concepts and ideas to productive use. In this way innovation is also an essential driver of economic progress that benefits consumers, business, and the overall economy.

It is this construct and the interaction of knowledge and innovation that constitute the foundation on which the multidimensional resilience must be built. Knowledge combined with innovation increases our chances to react to changes—positive and negative—and to discover new opportunities. This becomes the basis through which we can create products, markets, and industries that can drive nimbleness

and agility, promote opportunities for economic diversification, and leverage our lack of comparative disadvantage in knowledge creation—in essence, promoting the industrialisation of knowledge.

Key Actions to Alter the Region's Development Trajectory

Let us turn our attention to some urgent steps needed to alter the region's development trajectory. Primary among these are:

- (a) strengthening social resilience, in particular through the education system;
- (b) creating an active knowledge hub to promote innovation, production resilience, and economic diversification;
- (c) leveraging the benefits of digital transformation; and
- (d) marshalling financial resources to build resilience.

Strengthening the Education System

Starting with the education system—encompassing early childhood to university and beyond—let it be the think-tank and the conduit for new research and the driver of innovation. Here, I see our academic institutions bridging the gap between technology and activity, being that source of imagination and the enabler of transformation. Then, as solutions emerge, the private sector and the international development partners can provide the financing and technicalities to take products to market. The emerging system, which will reward ideas, encourage risk, and promote diversification needs to be supported by an enabling environment.

We are all aware that education is the bedrock of any innovative society. The region needs to refocus its education system away from pure certification to one that embraces and rewards enquiry-based innovative thinking, discovery, and problem solving. To thrive in the current dynamic and constantly evolving global environment, our region requires greater proficiency in a range of different skills and competencies than was necessary a couple of decades ago. Besides mastery of a professional skill, the reform of our education system must emphasise critical competencies such as adaptive thinking, emotional intelligence, networking and collaboration, cross-cultural communication and greater facility with the use of information technology. Also, pivoting to life-long learning and creative thinking is indispensable to our survival in this fast-paced global environment.

Importantly, there is a need to embrace creative disruption in cultivating a growth mindset. Recognising that cultural heritage and practices are embedded in the socio-economic well-being of communities, it will be important to harness the cultural capital—local knowledge, indigenous practices, and storylines—of our people to create place-specific ideas and pathways for generating resilience and innovation. Further, it may be necessary to build a culture of rational experimentation (and acceptance of failure) to imagine and practice development differently.

A Regional Knowledge Hub

Ready access to up-to-date and accurate information is a prerequisite for evidenced-based and effective decision creation. However, the Region’s knowledge and information management processes are still quite fragmented; and this has limited our ability to initiate and sustain important policy reforms. Going forward, we need to eliminate this fragmentation by building a common platform to accumulate, analyse, transform, and share knowledge in the economic, social, and environmental dimensions. The transformation dimension can spawn a variety of innovations for product diversification.

There are several important initiatives that we can take, in the first instance, through cooperative arrangements with our regional university, central banks, the Caribbean Community and Organisation of Eastern Caribbean States Secretariats, Caribbean Regional Technical Assistance Centre and other multilateral partners to develop communities of practice and knowledge hub that would be the focal point of information and knowledge on activity in our region. We should also be looking at opportunities for collaboration and information sharing with non-regional multilateral development banks and other nonregional and international institutions that mine data. This hub could:

- include a tracker for the region’s progress;
- be a platform for policy options and design based on the Sustainable Development Goals (SDGs);
- become a database with comparable social and environmental statistics; and
- provide a fertile ground for cultivating an innovation lab.

The Caribbean Development Bank (CDB) already has cooperative agreements with key regional institutions, and is looking to strengthen these arrangements and to establish strategic partnerships that could facilitate this initiative.

Leveraging Digital Transformation

The high degree of interconnectivity and rapid advances in information and telecommunication technologies have already been changing the way in which we communicate and conduct business in international markets. It has given a significant boost to how web-based technologies are deployed to conduct business in financial, tourism and cultural services which are of significance to SIDs. The Caribbean region has initiated a digital transformation agenda that involves both digitisation¹ and digitalisation². Such an agenda has the potential to revolutionise economic and social life in the region. I suggest embracing this digital transformation agenda through a deliberate and **joint-responsibility action plan**, at both national and regional levels and across private and public sectors, to achieve the common purpose of a **regional digital grid** that is free of all digital divides by 2035.

According to a study conducted by CDB, several countries in our region are not sufficiently well-positioned to be competitive in a digital future world, and would require investing in cutting-edge infrastructure, comprehensive regulatory and security protocols, and a workforce with sophisticated digital skills. Digital transformation has the potential to touch every aspect of our lives, importantly transforming traditional, low-tech activities.

Marshalling Adequate Financial Resources to Embed Resilience

Repositioning the region's development trajectory to address vulnerability and build resilient and sustainable economies will need significant financial investment. CDB estimates indicate that halving poverty alone by 2030 will take more than a 100% increase in investment expenditure, while achieving the other 16 SDGs will likely require similar significant increases in expenditure. A major question confronting regional policy makers is how to go about raising affordable finance, including through deploying the optimal mix of instruments, to implement this necessary development agenda without compromising debt sustainability and macroeconomic stability objectives. The options available to the region are to finance this agenda using a combination of resources from government, donor partners, and/or private capital markets.

¹ The conversion of specific products/information to digital format.

² The adoption of digital technology when changing processes in a business.

A holistic approach will be needed that encompasses traditional forms of development finance as well as a range of alternative and innovative financing instruments. Already, some progress has emerged in deploying innovative financing such as Catastrophe bonds in Jamaica and insurance risk coverage through the Caribbean Catastrophe Risk Insurance Facility in several countries. Consideration may also have to be given to the use of resilience bonds, climate-for-debt swaps, and regional bond issues.

The private sector has an important role to play in financing the region's development needs; and there is need for more active engagement and partnering with governments to provide financing for resilient infrastructure, climate action, and renewable energy. Here, there might be need to develop contingent financing instruments that allow the private sector to price reforms and provide risk-premia-reducing incentives conditional on governments' implementation of risk-mitigating reforms.

Conclusion

Ladies and gentlemen, we are at an important crossroad in Caribbean economic development. We need to take bold and innovative steps to help us surmount the significant development challenges that have been amplified by the ongoing COVID-19 pandemic and, more importantly, to shift us to a new development trajectory. Our development challenge is not merely to recover lost ground and close the distance to achieving the SDGs, but to fundamentally alter the development path so that our societies can be placed on a higher and more sustainable welfare path in the future. This is the legacy that we need to leave for future generations! The Sir Arthur Lewis Institute of Social and Economic Studies is well placed to help us build the necessary collaborative partnerships that would be required to ignite this new development paradigm for the region. Let us boldly take this step and move forward together.