MAKING IT EASIER TO DO BUSINESS IN ST. LUCIA
The Short to Medium-term Prospects

Feature Address

by

Dr. W[m.] Warren Smith

President

of the

Caribbean Development Bank

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I. INTRODUCTION

Good morning.

Thank you for inviting me to speak to the St. Lucia Chamber of Commerce Industry and Agriculture.

I feel honoured to be able to share in this Annual General Meeting. Congratulations on celebrating 129 years of operations.

Today, I will speak on the topic **"The Short to Medium-term Prospects for St. Lucia".** Against the backdrop of the Meeting's theme, **"*Making It Easier to Do Business in St. Lucia*"** I will endeavour to establish three separate but inter-related propositions in my presentation.

They are:

1. The economy has regained some momentum in 2013; but the short to medium-term prospects remain very challenging for St. Lucia.

2. To achieve broad-based prosperity, this island's economy needs to return to a solid growth path. This will require specific actions by the public and private sectors to improve international competitiveness.

3. The business sector must drive change in St. Lucia, with the public sector performing its traditional role of creating a supportive environment for private investment. A close partnership between the public and private sectors will enhance the likelihood of sustainable outcomes.

II. SHORT TO MEDIUM TERM OUTLOOK

The last six years have been extremely difficult for St. Lucia.

The period has been characterised by low or negative growth, a situation made worse by the prolonged global recession. The combination of high unemployment, weak fiscal balances, and unsustainable debt dynamics have compounded national concerns about rising poverty levels and declines in social and human development conditions.

The economy has regained some momentum in 2013; and St. Lucia is on course for marginal GDP growth of a mere 0.2% this year. Agriculture is rebounding from the effects of Hurricane Tomas in 2010 and Black Sigatoka infestation of the banana crop.

Construction activity is also picking up, reflecting the lagged effects of the Government's stimulus package and private investment in renovating and refurbishing hotel plant.

Although most observers are more sanguine about the medium term, growth in St. Lucia is expected to remain lacklustre and subject to significant downside risks.

This outlook is predicated on global recovery remaining weak. GDP growth averaged only 2.5% during the first half of 2013. Encouragingly, for the first time since the Great Recession, the growth impulse is being driven by the advanced economies - the United States (US), in particular.

US growth should continue into 2014, helped by some easing of fiscal consolidation; an accommodative monetary policy; an increase in the debt ceiling; and continuing efforts to spur job growth.

Meanwhile, in St. Lucia, much needed fiscal consolidation is underway, with the resulting cutbacks in Government expenditure. The overall fiscal deficit should decline to 7.5% of GDP by the end of 2013, from 10% of GDP in 2012. Nevertheless, public debt, estimated to reach 77% by year end, is projected to continue rising.

The weak growth prospects and tightening fiscal stance offer little scope for a reduction in unemployment in the near term, from over 21% at the end of 2012, compared with 16% in 2008.

III. COMPETITIVENESS AND ECONOMIC GROWTH

Underscoring the island's current economic challenges is the need to get onto a solid growth path, so that prosperity can become more widespread. Growing the economy is essential to enhancing living standards across St. Lucia. Without higher growth rates, improvement in key macro-economic fundamentals, including the fiscal balance, the debt ratio and employment is unlikely to be achieved.

There is a direct relationship between competitiveness, economic growth and prosperity. Therefore, an effective economic growth strategy for St. Lucia must include specific actions to advance external competitiveness. Various measures of competitiveness act as a good barometer for assessing St. Lucia's performance against its peers and against best practice. These comparisons also provide valuable insights into areas for possible change.

It is noteworthy that, in the World Bank's Doing Business reports from 2007 to 2013, St. Lucia consistently ranked first among Caribbean countries in providing a facilitative regulatory environment for business. St. Lucia also consistently ranked in the top 60 economies surveyed (top 30%).

This has led to notable successes in attracting non-traditional business ventures to the island.

One such business is a mass producer of cell phones, tablets and laptops - the first of its kind in the Region. The company, which has been in operation for just over a year, beat out regional competitors to win a grant from Compete Caribbean as a reward for its innovativeness.

The facilitatory business climate has also enabled a local agro-processing company to expand its operations beyond St. Lucia. The company has now spread its reach with plants established in Grenada and Trinidad and Tobago, and multi-nodal distribution arrangements, including warehousing capacity, in North America.

St. Lucia, according to "Doing Business," is a relatively good place for business. The accolades, notwithstanding, St. Lucia cannot rest on its laurels.

While striving to retain its leadership position in the Caribbean, St. Lucia must intensify efforts to improve its global standing. It is striking that of the 185 countries surveyed in 2013, St. Lucia ranked 53rd compared with a ranking of 27th out of 175 countries in 2007.

This change in the rank suggests that a relatively large number of countries are making bigger strides than St. Lucia in improving their competitiveness.

Many countries have reformed their regulatory frameworks to such an extent that the game plan has changed. Rwanda, a former conflict country, undertook eight business-oriented reforms in the last year, and is now ranked at 32 in the most recent *"Doing Business"* survey.

The story is similar for many countries in Western Africa and Eastern Europe. In comparison, St. Lucia has undertaken only one reform since 2007.

The world is changing rapidly. Technology is providing potential investors with new vistas; and rapid reforms across the globe are opening up new opportunities. Investors are now less constrained by national boundaries; and international capital is becoming increasingly mobile.

To keep pace with the more intense global competition, St. Lucia must enhance its competitiveness.

What are some the factors on which your country could focus in order to boost its competitiveness? The World Economic Forum in its *'Global Competeveness Report'* identifies an array of factors that impact a country's competitiveness. I propose to look very quickly at only a subset of these factors.

First, priority areas for improving the business environment include lowering entry barriers and reducing costs. Some of the required actions are "low hanging fruit", including the reform of insolvency legislation; contract enforcement; increased access to credit; and expediting the clearance of goods from the ports.

Second, a key driver of economic growth is the quality and coverage of infrastructure. An extensive and high quality infrastructure network can encourage the integration of internal markets while facilitating cost-effective connection to external markets.

Access to technology, modern telecommunications systems and transportation services, and efficient energy supply are also important for lowering costs and improving business performance.

Third, a reduction in energy costs can lead to production efficiencies. The heavy reliance on imported high-cost fossil fuel has been an ongoing concern for businesses in St. Lucia. The offer of incentives for energy conservation and an appropriate framework for the exploitation of geothermal and other alternative/renewable energy sources could help to reduce energy costs.

My fourth point speaks to enhancing the quality of the labour force by strengthening education and training institutes. Countries which dedicate substantial effort towards deepening human capital tend to experience productivity and efficiency gains and achieve higher growth rates.

Finally, macro-economic stability helps to build investor confidence; and therefore, is an important pillar of growth and competitiveness. Weak fiscal balances, coupled with high levels of borrowing, are red flags to investors because they exert pressure on domestic interest rates and inflation; limit Government's capacity to respond to unanticipated shocks; and restrict the efficient provision of basic social services.

Government should reassure the business community by putting appropriate expenditure, revenue and debt management systems in place.

An effective expenditure management system will create an efficient link between public sector activities and their desired development impacts; seek to minimise costs and maximise returns; and set expenditure limits that are consistent with macro-economic stability and fiscal sustainability.

This must be suitably balanced by an efficient revenue system that is business friendly; generates sufficient resources for Government operations; and provides adequate protection for vulnerable groups.

Macro-economic stability also requires a debt management system that limits the costs and risks associated with borrowing. Empirical research suggests that public debt levels beyond 60% of GDP begin to weigh heavily on growth by diverting resources away from development expenditures into servicing debt and by creating fears of fiscal policy changes that could erode investment returns.

IV. PUBLIC AND PRIVATE SECTOR COLLABORATION

So far, I have spoken only about public sector-led actions. Policy makers are responsible for creating an environment that encourages the emergence of a dynamic and vibrant private sector.

But, the business community cannot be a passive player, standing on the sidelines, waiting for the Government to take action.

President Obama of the United States has reminded us that ***"Change will not come if we wait for some other person, or if we wait for some other time. We are the ones we've been waiting for. We are the change that we seek."***

The business sector must drive change in St. Lucia. This task is best fulfilled if done in close partnership with the public sector.

Recently, the National Competitiveness and Productivity Council was launched in your country. This is a major step in creating a platform for collaboration between the public and private sectors. Prime Minister, Hon. Dr. Kenny D. Anthony, described the Council as ***"an institutionalised forum for public-private-dialogue"*** that he expected would be ***"an effective way to achieve consensus on initiatives to stimulate business development, enhance competitiveness, and increase economic growth."***

For the Council to deliver on the Prime Minister's expectations, both the Government and the business community must commit time and resources to this initiative.

An added dimension to the Council's terms of reference should be responsibility for monitoring the performance of all fiscal, growth, debt and competitiveness-related reform targets and for providing periodic progress reports to the population at large.

V. CONCLUSION

CDB, as the Regional development institution with a primary focus on the OECS countries, has been involved in most initiatives to promote growth and enhance competitiveness in St. Lucia.

This has taken the form of financing improvements in economic and social infrastructure; supporting policy reforms that foster sustainable fiscal balance and debt dynamics; and building institutional strengthening capacity for effective economic and social protection.

I wish to make special mention of a new programme that CDB is currently developing in collaboration with one of our European shareholders. Through this initiative, the private sector will be able to use attractively-priced CDB resources, specifically to finance investment in projects that promote energy efficiency and renewable energy.

Ladies and gentlemen, in closing, let me thank you once again, for allowing me to participate in your anniversary celebration and to share my thoughts on the short to medium-term prospects for St. Lucia.

As I have tried to argue this morning, the prospects for your beautiful country are challenging but not hopeless. The sun will come out for you tomorrow if you heed the wise counsel of Abraham Lincoln and accept that ***"[t]he best way to predict your future is to create it."***

I thank you!