IDB-IIC ANNUAL MEETING OF THE BOARDS OF GOVERNORS

ASUNCION, PARAGUAY

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Statement by the Governor for Trinidad and Tobago on behalf of The Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago

Camille Robinson Regis

Greetings

On this occasion of the 58th Annual Meeting of the IDB and the 32nd meeting of the IIC, I have the esteemed privilege of speaking on behalf of the Caribbean Constituency countries of The Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago. First, permit me to extend warm greetings on behalf of the Caribbean Constituency to the Government and people of Paraguay, to our host city Asuncion, to the Governor and Minister of Finance, and to the Planning team for the warm welcome and hospitality we have received in your picturesque country. We commend you for the detailed and excellent organization in hosting this meeting. We also take the opportunity to express our deep appreciation for the ongoing support of the IDB and IIC in our respective Countries.

Introduction

Overall economic activity in Latin America and the Caribbean continued to slow, with a contraction of 0.6 percent in 2016. This is the first time since the early 1980s that the region experienced two consecutive years of negative growth. The fall in commodity prices, sluggish world trade, and persistent weakness in the advanced economies, combined with a series of negative shocks in some of the region's largest economies, have resulted in much lower growth. Globally, the outlook continues to be shaped by subdued recovery from the international financial crisis and weak trade. The relatively low keyed nature of global growth since then has led to the somber outlook that the new normal of lower growth will entail a markedly slower pace of economic progress that is likely to be protracted, and will last much longer than anticipated.

Performance and Challenges

The Caribbean region exists within an environment where the dynamics underpinning global economic performance are becoming more complex, and it is becoming increasingly difficult for our economies to navigate the headwinds of uncertainty. In 2016, average growth of the countries of the Constituency was 0.95 percent, a marginal improvement over 2015 of 0.71 percent. There was improved performance among the service based tourism dependent economies, while the main commodity-based producer economies suffered setbacks. This asymmetric performance could see the tourism dependent countries rebound as arrivals from the US grow, and energy and commodity input costs decline creating challenges for most of the commodity exporting countries like Trinidad and Tobago.

Tourism arrivals in The Bahamas, Barbados, and Jamaica all received boosts in 2016. These countries benefited from lower commodity prices due to the end of the global commodities super cycle and low-cost imports of oil, as well as higher remittances. Contrast this to another commodity exporting country, Guyana, where the economy was supported by low oil prices, plus rising commodity prices for gold, which global investors flocked to as a safe-haven in times of uncertainty.

On the other hand, Trinidad and Tobago as a commodity exporter of energy was negatively affected by the lower oil and gas prices, which had spillover effects on most of the non-petroleum sectors. Real GDP expanded, on average, by 7.7% per year between 1999 and 2008, and GDP per capita rose from US$5,400 to US$21,400. But, in recent years, the prosperity has turned into adversity with economic performance deteriorating to real GDP growth averages down to 0.2% per year in the period 2009-2015 and GDP per capita dropping to US$19,300.

The constituency members have also seen higher remittances helping to boost consumer spending. These factors have led to a marked improvement in the current accounts of The Bahamas, Barbados, and Jamaica (from an average of -8.9% of GDP in 2015 to -6.7% of GDP in 2016), in primary fiscal consolidation (average of 1.3% of GDP to 2.3% of GDP), and higher economic growth (average of 0.1% to 1.2%). Growth in Bahamas, Barbados, and Jamaica is expected to improve slightly, rising to an average of 1.6% in 2017.

The region continues to slowly reduce its large public debt, which is now arguably the most important macroeconomic threat to growth and stability, as manifested by the frequency and regularity of the sovereign debt ratings downgrades. From September to December of 2016 alone, the S and P ratings for The Bahamas fell from BBB- to BB+, and for Barbados, from B- to CCC+.

The economic outlook remains mixed, as low commodity prices are expected to benefit the tourism-based economies of the region. Lower energy costs have also helped to reduce external imbalances. Moreover, fiscal deficits in many countries are likely to improve slightly based on increased revenues from stronger growth and adjustment efforts. Commodity-based producers on the other hand are expected to face increased challenges as commodity prices soften.

Bank Support

The Bank continued to be the main source of multilateral funding for the member countries of the Caribbean constituency, providing support in areas spanning health, agriculture, criminal justice, upskilling for employment, and renewable energy and energy efficiency. The sovereign guaranteed investment loans, policy based loans, and technical cooperation grants were the main tools. However, there is a real optimism about the potential and enthusiasm in the new IIC and private sector operations for diversifying flows into the region.

In 2016, overall (9) nine sovereign guaranteed loans were approved amounting to a total value of $264 million, a 22 percent decrease compared to 2015, where the value of approvals was $342 million. The approvals contributed to an overall constituency portfolio of $1.9 billion in 2016, a slight reduction of 8 percent from the 2015 portfolio, due to the lower levels of project approvals as well as the maturation and exit of several large projects in the Bahamas and Jamaica. Jamaica received 63 percent of total approvals for three operations, one of which included *Energy Management and Efficiency*.

The Bahamas and Barbados both had one investment loan each for *Skills for Current and Future Jobs*, and for the *Deployment of Cleaner Fuels and Renewable Energies*, respectively. Guyana was the recipient of four operations to support the areas of maternal and child health, agriculture, justice, and private sector enhancement for economic diversification and trade promotion. While Trinidad and Tobago had no loans approved in 2016, this period was used to refocus and realign the portfolio in line with execution capacity. Moving forward the indicative pipeline, as identified by the recently approved Trinidad and Tobago Country Strategy is more streamlined, focused and in keeping with the country's development agenda, as well as its prevailing fiscal and implementation capacity.

The member countries of the Constituency received total SG disbursements of $347 million in 2016. Net loan flows in 2016 from the Bank to the Constituency were positive, however significant challenges remain with respect to net flows to the Region, as although net flows were positive in 2016, Guyana, a vulnerable D country had a negative net flow of $10.3 million. This is certainly a cause for grave concern, as Guyana is the only Group D member of the constituency as well as FSO eligible country. We expect that both Management and the counterpart Guyana Agencies will make every effort to correct this unacceptable scenario.

The MIF continued to be the main source of NSG support to the constituency in 2016, with 8 project approvals totaling $5.775 million, promoting south-south learning, as well as testing and evaluating innovative, and often indigenous ideas that could subsequently be scaled-up by entities with greater financial resources.

We remain optimistic that at this meeting we can finalize the MIF III Agreement to replenish one of the most important sources of innovative financing for our Region. The Member Countries of the Caribbean Constituency recognizes the importance of the MIF and we support the GRULAC Pledge to maintain its sustainability with fresh replenishment resources.

As we look forward to the coming year of engagement and relations with the Bank, there are number of areas which continue to confront and challenge our development efforts

Vulnerability and Climate Change

Our countries are some of the most disaster-prone regions in the world, based on disasters per land area and population calculations. Over the last 60 years, the Region has been buffeted by 187 natural disasters, most of them hurricanes and floods. While the frequency of disasters among the countries varies significantly, we note that in our Constituency, Jamaica and the Bahamas have the highest probability of a hurricane striking in any given year. We are reminded of this vivid and stark reality when just last year in October 2016, a few short months after successfully hosting the Annual General Meeting in Nassau, The Bahamas was severely impacted by more than $400 million in damages from Hurricane Matthew, which also wrought catastrophic damage and suffering in Haiti. Exactly one year prior, Hurricane Joaquin inflicted over $100 million in damages, again to The Bahamas.

Climate change is believed to have increased the frequency and intensity of hurricanes, droughts and contribute to rising sea levels. The increasingly intense effects of climate change on these countries cause significant economic, social, and environmental implications. On average, the annual cost of disasters for small states (economies with a population of less than 1.5 million) is more than four times that for larger countries, in relation to GDP. A major priority therefore in addressing climate change is to formulate and implement strategies for adaptation to mitigate the both the social and environmental impacts.

In the Bahamas resolution last year, the Bank took a major step toward ensuring responsiveness to the needs of clients by consolidation of sustainable development functions, resources, and expertise into a single sector. We commend the Board of Executive Directors and Management for your efforts to date, and we anticipate that more assistance would be forthcoming to combat climate change as the IDB Group pursues the 2020 goal of allocating 30 percent of annually approved financing to mitigation, adaptation, and resilience measures.

De-risking

De-risking in the Caribbean, continues to be a major concern for the region, in its many forms as either withdrawal of, or restriction of correspondent banking services, thereby limiting access by entities and countries conducting business across borders. The main drivers from the developed countries financial institutions' perspective are the issues of profitability, compliance risks, compliance costs, and costs of monitoring. Correspondent banking is of significant importance to the economic, financial and social stability of the Caribbean, where our countries, are small and open economies dependent upon global financial transactions. De-risking can have a destabilizing impact - increasing costs of international payment arrangements for foreign trade, and potentially depressing trade and adversely affecting foreign currency earnings. It could also cause a reduction of remittance inflows which are economically significant contributors to foreign exchange, household income, poverty alleviation, stable livelihoods and social inclusion.

The need for dialogue amongst the key stakeholders is ever more imperative in order to craft a cogent policy response that would move us along toward the goal of sustainable and inclusive banking, including exploring ways in which compliance standards could be improved as well as the creation of resilient supervisory administration systems. We commend the IDB and our partners for bringing focus to this challenge, however more action is required, and practical urgent solutions must be implemented to restore participation of all stakeholders in our financial sector activities.

Private Sector Productivity, diversification, competitiveness

For much of our history, our economies have depended on a very narrow source of one or a few commodity products for foreign exchange earnings. Over the longer term, our countries need to work to diversify our export and foreign exchange earnings bases. While the Governments must play their part in terms of developing and maintaining macro-economic framework, regulatory and institutional capacity, and fostering trade, the innovation and diversification of our economies must also be led by private sector transformation.

We are pleased that in 2016 the new IIC focused on improving customer care and creating a new pipeline of operations more heavily weighted in the infrastructure and corporate sectors. Also the IIC plans to ensure that by 2025, 40 percent of its development assets are allocated to Group C and D countries, including those in the Caribbean Constituency. This includes the expressed goal of working to increase total loans to Caribbean countries and other countries that in the past have not benefited as much from non-sovereign guaranteed operations, and to design an internal strategy for interventions in the Caribbean, and those countries that have benefited less from private sector activities. Trinidad and Tobago is looking forward to the establishment of the IIC regional hub at the Trinidad & Tobago Country Office.

We forecast tremendous private sector opportunities in Public Private Partnerships *PPP* to correct the significant infrastructure needs and gaps in the region. *PPPs* are a tool, a delivery model, that can help overcome some traditional problems associated with public provision and reduce the existing gap in infrastructure. We look forward to assistance from the bank in the (i) preparation of feasibility studies; (ii) developing and structuring projects and (iii) preparation of contracts.

The energy sector, particularly green renewable sources of energy, as well as cleaner natural gas will also provide tremendous private sector opportunities. Technology transfers in energy conservation, energy efficiency, and energy transformation will help the Region reduce its carbon footprint, meet its Paris obligations, reduce its costs for dirty fossil fuels, and save on its foreign currency oil import bill. We are hopeful that the $75 million in private sector operations in 2016 will see four times the amount in 2017.

Crime and Violence

While our countries have made progress on many socio-economic fronts, in terms of education, health, and overall human development, the behemoth of crime stalks and threatens to derail the progress made to date. Crime in the region has taken a devastating human toll, and is one of the leading threats to public safety. The Bank produced a serious of innovative studies and publications on the cost of Crime and Violence in the Caribbean. The dialogue, the awareness, and the search for best practices and tried and tested evidence based solutions is progressing. These works confirm the relevance and need for our countries to embrace the bank as a useful partner.

Conclusion

The Caribbean Constituency looks forward to the Bank continuing to be a reliable, accountable and responsive development partner and essential facilitator to help improve our economies. We urge the Bank to maintain a special provision and focus on the small and vulnerable countries. We expect that with the increased presence of the IIC in the region, every effort will be made to intensify private sector interventions in all of our member countries, and that we will see an increase in private sector NSG operations. We appreciate the insights and access to knowledge and research that the Bank provides to help us survive the global climate of turbulent and rapid change. We therefore look forward to the Bank's continued support as we strive to attain both our Country's and the Region's growth and development goals to reduce poverty and inequality in our citizenry.