

Destination Experience 2018 - Business Opportunities in Jamaica May 17th - 19th 2018

Panel #1 - Regional Economic Overview and Best Prospects

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The views expressed herein are those of Jerry C. Butler and do not represent the views of the Boards and owner countries of the IADB Group.

Context - Geography:

The Caribbean Region and Caribbean countries in most classifications are middle income small states

- Small open economies, lack of economies of scale, geographic dispersion
- high vulnerability to external debt; low growth; logistics challenges
- highly susceptible to natural disasters, while also having limited capacity to respond to and recover from such disasters.
- size, geography, and location contribute to physical and economic vulnerability.
- Economies do not generate fiscal space to allow governments to finance necessary reforms and projects; concentrated in Tourism and natural resources
- Multilaterals can play a significant role in leveraging donor resources, providing holistic approaches to reforming sectors, providing knowledge, promoting private investments; financing strategic sovereign and non-sovereign guaranteed projects.

Economic Overview Challenges:

- ▶ The region is annually affected by hurricanes, storms and flooding.
- ▶ Other recurrent common challenges include:
 - ▶ Unusually high levels of crime and violence
 - ▶ Chronic unemployment, underemployment, and brain drain
 - ▶ low capacity of Institutions and business climate; Lack of SME access to financing, innovations, and patents; firms do not grow
 - ▶ De-risking, black-listings and loss of correspondent banking
 - ▶ Need for technological modernization; block chain utilization
 - ▶ Fiscal consolidation, debt management, need for public savings programs
 - ▶ Natural disaster recovery, reconstruction, and resilience.

Current Economic Snapshot

- ▶ Bahamas - grew 1.6; est 2.5 (2018)/Bahamar; tourism slightly up; wage demands up; relax exchange control; unemployment slightly down 10%
- ▶ Barbados - down grew 1%; est 0.75% (2018) Elections; fiscal deficit pressure; reserves low \$205mil or 6 weeks imports
- ▶ Guyana - uneven sector growth; oil discovery; reserves up US \$616mil healthy 3.4 months imports
- ▶ Jamaica - poster economy ready for growth after IMF program
- ▶ Suriname - inflation down to 48%; VAT; returning to growth
- ▶ Trinidad and Tobago - in recovery from sharp decline in energy sector; down 6% (2016)/ down 3% (2017); expect 1.9% growth 2018; \$8.4 billion in reserves or 9.4 months import cover.

MACRO Structural Challenges

- ▶ Limited diversification
- ▶ Infrastructure gaps
- ▶ Inadequate Access to finance and innovation
- ▶ Governance challenges
- ▶ Vulnerability to Natural Hazards
- ▶ Fragile Social Investments

Opportunities for Sustained Intervention

- ▶ Close Infrastructure gaps
- ▶ Support Fiscal Consolidation
- ▶ Protect Social Investments
- ▶ Reduce Vulnerability to Natural Disasters
- ▶ Promote Private Sector Development including PPPs
- ▶ Foster Regional Integration

Economic Overview Risk Factors

- ▶ Fragile Economic Recovery is on the way at just under 2% for 2018
- ▶ Growth is insufficient to enhance income convergence
- ▶ Commodity Prices growing, but below historical averages
- ▶ Low Investment and Low Savings Rates
- ▶ Another set of Natural Disasters
- ▶ Deterioration in Macroeconomic Safeguards and ongoing Fiscal consolidation
- ▶ Natural Disasters
- ▶ New Government Elections
- ▶ Other Country Specific Variables

Best Prospects

- ▶ The Diaspora
- ▶ Creative Industries - music, film, fashion
- ▶ Retain Tourism but vertically integrate
- ▶ Entertainment linked to cruise ships and onshore tourism
- ▶ Find alternatives to Banking and Financial Services; Cryptocurrency
- ▶ Digital Economy; Big Data; Artificial intelligence; block chain for registry
- ▶ Business Process Outsourcing
- ▶ Blue Economy vast for marine aquaculture; biotechnology; seabed
- ▶ Coding and offshore app developed
- ▶ Medical research tourism and educational export

Working Theme - Resilience

- ▶ **Resilience** is the ability to recover from or adjust easily to misfortune or change
 - ▶ The ability of the Caribbean to recover from immediate short-term shocks from hurricanes, and cope with long term hazards such as sea level rise is key
- ▶ **Resilience** is a combination of physical protections and social safeguards to sustain a long-term defense mechanism for both people and the environment within a rapidly changing planet

Examples of Resilience Working themes

- ▶ Develop a Sustainable Islands Platform - a realistic future development plan
 - ▶ Population of 21 million (60%) live less than 100 miles from the Coast - shift or abandon commercial and residential living patterns
 - ▶ Advance analytical work and geospatial studies to bring greater clarity to the socio economic and environmental implications of changing climate patterns
 - ▶ Update and enforce Building Codes and hardened infrastructure
- ▶ Build Caribbean Coastal Resilience
 - ▶ strengthen natural defenses;
 - ▶ \$2 billion in coral reefs for Tourism, Fisheries, and Shoreline protection services
- ▶ Leverage additional US\$ 1 billion of SG financing with Contingent Credit Lines (CCLS) for Governments that do NOT affect critical debt-to-GDP calculations
- ▶ Support domestic private sector insurance markets
 - ▶ intra-regional domestic pooling and risk management (CCRIF enhancement)
- ▶ Explore the provision of new Climate Risk Insurance and Resiliency Instruments
 - ▶ Cat Bonds with Lloyds and Asian risk swaps
- ▶ Support and finance the Caribbean Climate-Smart Accelerator Example.

Collaboration on Climate Smart Accelerator (CC-SA)

- ▶ 2017 resulted in tremendous devastation of infrastructure and disruption of livelihoods
- ▶ Bold new vision for a climate smart future
 - ▶ 12 Caribbean government leaders and over 30 private and public-sector partners meet during French President's "One Planet" Summit in Paris, December 2017
- ▶ CC-SA funded and resourced from the IADB, WB and the CDB;
 - ▶ estimated budget of US\$6 - \$10 million for a three-year period;
 - ▶ aim to break through the systemic obstacles that stop finance flowing to climate-smart investments
 - ▶ help unleash the means to further catalyze billions of public and private resources to bring greater energy and infrastructure resilience to 3.2 million Caribbean households.
- ▶ Caribbean islands will eliminate costly dependency on fossil fuels; meet close to 100% of energy needs from renewables; and embed resilience into communities and livelihoods.

CC-SA four main priorities:

1. Scale renewable energy as rapidly as possible to lower impact of imported fossil fuels and vulnerability of centralized distribution systems
2. Build low-carbon and resilient infrastructure to withstand future extreme weather events.
3. Create innovative financing models:
 - ▶ debt-for-resilience swap initiatives in exchange for demonstrated progress on policy reforms
 - ▶ investments that will enhance resilience.
4. Build platforms to facilitate the large public and private investments required.

Energy Observations and opportunities

1. High dependence on volatile, expensive oil imports impacts government expenditure management and economic competitiveness
2. Weak institutions and regulatory frameworks
3. Regulatory frameworks unfit for the introduction of distributed generation using renewable energy (RE)
 - ▶ particularly solar photovoltaic (PV) panels and energy storage with lithium batteries
4. Low uptake of energy efficiency (EE)
 - ▶ Increased use of energy efficiency is required to reduce public expenditure and optimize power supply
5. High electricity tariffs which present barriers to tourism, and the expansion of the manufacturing sector, and does not attract businesses; inadequate tariff structure and subsidies (cross subsidization); Energy cost and security doesn't allow for small business and industrial development, competitiveness

Targeted Energy opportunities

1. Electricity companies in need of increased financial and operational improvements
 - ▶ in some cases with high deficits
2. Current generation with heavy fuel oil and diesel uses outdated and inefficient technology
 - ▶ There is a need of new base load generation using newer more efficient technology
3. Energy matrix not diversified and not resilient to climate change
 - ▶ e.g., to severe wind and flooding
4. Need for upgrades of the transmission infrastructure and reduce technical and non-technical losses
5. Need for introduction of smart grids and electric mobility. Grids need much more resiliency
 - ▶ e.g., transmission and distribution lines placed underground, transformers protected, PV panels better anchored, etc.

Recommended Energy initiatives

The Caribbean should pursue sustainability and climate-resilient investments through more innovative approaches in the Energy sector with proposed actions to address these challenges:.

1. Strengthen productive institutions of the sector and improve and update the regulatory frameworks.
2. Improve the security and resiliency of critical energy infrastructure in individual countries.
3. Reduce the dependency on fossil fuels imports, and the associated environmental impacts, together with reduction in the public expenditure burden.
4. Diversify the electricity matrix with RE, EE and natural gas (NG).
5. Increase the involvement of the private sector, especially in EE, solar PV and NG, among other technologies.
6. Adopt sound regulatory policies and legislation to facilitate and catalyze on these new investments.

Combine smart energy technologies and an enabling regulatory environment can help create fiscal space, green energy jobs, and export skills and knowledge in smart energy technology throughout the region.

THANK YOU!
QUESTIONS?
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Follow-up POINTS?

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