

Workshop on the Risks and Opportunities of Sustainable Development for the Caribbean Financial Sector

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Special address by **Dr. The Hon Esther Byer-Suckoo MP**, outgoing Minister of Family, Youth, Sports and the Environment

Mrs. Gabrielle Springer-Taylor, Deputy Permanent Secretary, Ministry of Family, Youth, Sports and the Environment; Mr. Robert Le Hunte, Vice President, the Barbados Bankers' Association; Members of the Barbados Sustainable Finance Taskforce; Mr. Christopher Wells, President Latin America Task Force, United Nations Environment Program-Finance Initiative; Mr. Lawrence Pratt, Associate Director of the Latin American Centre for Competitiveness and Sustainable Development at the INCAE Business School; invited regional and local participants; members of the media; ladies and gentlemen.

As the outgoing Minister with responsibility for the Environment, a portfolio that I held for the past 10 months, I am honoured to be able to present to you this morning. The overarching goal of the Ministry is to promote and facilitate the sustainable use of our resources by encouraging the involvement of all citizens and the integration of environmental considerations into all aspects of national sustainable development. Sustainable Development in our local context, as captured in the Barbados Sustainable Development Policy refers to ... "development which optimises the quality of life of every person without over-exploiting natural and environmental assets and services, or jeopardizing social and economic development."

To enable this national endeavour, the Ministry of Environment employs a plethora of administrative and regulatory mechanisms, educational tools, and facilitates various governance fora to address and resolve current and emerging issues of national concern. We have seen continued successful engagement of business interest groups such as the hoteliers, manufacturers, refrigeration and air conditioning technicians, distributors, and the financial services sector. Hence our involvement here today.

In recognising the global trend towards sustainable finance, the Ministry introduced that topic to a wide audience during a panel discussion on Corporate Social Responsibility and Socially Responsible Investment as part of the 8th annual trade and environment seminar held in June 2007. The theme was "The Green Economy-Benefits for the Barbadian Industry". Members of that panel made the point that financial institutions lend within the existing legal framework. As such, they added, government can institute specific regulatory requirements as part of the loan approval process. An example of this might be the instituting of Environmental Impact Assessments as a requirement prior to commencement of specific project types. Without the proper completion of that EIS, the loan approval process would halt; until parties satisfied that such as condition was

met. The panellists submitted that without legislation, such requirements are left to competitive forces.

Another point discussed was the fact that organisations rely on their own view of social consciousness and that there is freedom in determining how to “give back” to the community. In this regard, lending institutions can therefore make decisions as to whether projects are socially acceptable. One panelist pointed out, “it becomes a judgement call of the lending institution, if government has made no provisions.”

That 2007 forum led to the convening of a special dialogue in April this year among a group of sector stakeholders to further flesh out the issues. One of the outcomes was the decision to establish a local task force in sustainable finance, comprising representatives from the banking and insurance sectors, the University of the West Indies, Government and the Central Bank. The working mandate of the task force was the development of a programme to assess how the national principles of sustainable development can be incorporated into the core business of the financial sector. Those national principles are quality of life, conservation of resources, economic efficiency, equity and participation.

From the outset, the task force was provided with sound input in distilling the global issues and trends in charting its course to this event and beyond from the experts of the United Nations Environmental Programme Finance Initiative. I wish here to acknowledge and send our regards to Ms. Careen Abb who has been instrumental in this regard and who I am told is the proud new mother of a baby boy. I did have the pleasure of meeting Ms. Abb during a country visit in May this year.

UNEPA's experience with similar initiatives in Latin America has been invaluable to the task force and it is hoped that this partnership will continue to bear fruit in the form of future events of this nature in the coming year across the Caribbean sub-region. I note that a similar forum to that being held tomorrow will take place in Trinidad on Wednesday. Today's workshop and the high-level dialogue are the fruits of the work of the task force. I wish to commend the task force and UNEPA-FI for their efforts and offer the Ministry's commitment to continue our support.

Throughout the Caribbean, as indeed in the rest of the world, regulatory frameworks, client expectations and public opinion have evolved at an ever faster pace on sustainability issues, presenting both challenges and opportunities for the financial sector. Indeed, sustainability is moving to the very centre of our business models and may only be ignored at our own peril. To be competitive in this time therefore, adequate socio-environmental management policies and practices have become a must.

With respect to Barbados, the local financial services and the retail and commercial business sectors contributed over \$1 billion to GDP in 2007. Acknowledging the growing momentum of sustainability issues in the global financial services sector, not least in the context of the current economic and financial crisis, will be important if we are to buttress our local sector against any potentially negative effects. When one also considers that deposits in the local commercial banks increased from \$3.21 billion in 2007 to \$3.61 billion in 2008, an example of the continued upward trend in that sector, special attention must

be paid to strengthening and developing new approaches to investment protection.

Individually, the financial services sectors in the region are small and vulnerable to external shocks. Unified, however, the region stands a better chance of mitigating against these external shocks. In light of the rapidly globalising world economy and the loss of preferential treatment, the region's strength must lie in the delivery of services more so than products. Much of the region's success in this regard will depend largely on our ability to cooperate in core businesses such as tourism, international business and financial services.

Ladies and gentlemen, sustainable finance is becoming an increasingly mainstreamed term, and refers to the implementation of policies and practices that enable financial institutions around the globe to do business in line with the concept of sustainable development.

As such, the core vocabulary of the financial sector has been changing to incorporate a wide array of concerns not previously recognized as part of the industry's agenda, but actually more reflective of a sustainability agenda. Issues vary broadly, from climate change and conservation, to human rights and sustainable community economic development. In response we are seeing the emergence of varying practical policy responses. These include, among others: Environmental and Social Governance, Sustainability Management Reporting, Socially Responsible Investment, and, the focus of today's workshop, Environmental and Social Risk Management.

A few years ago during a low-cost housing project in one Latin American jurisdiction, the site selected once housed a textile processing plant. As part of that facility's operations toxic chemicals were used. In this instance the associated residues polluted soils in the area, where they remained. Residents of the housing development became ill and eventually had to be relocated. The developer was required to ship the soil to a European country for ex-situ remediation at significant expense to that developer, who eventually defaulted on his loan leaving the contaminated land among the assets of the bank. This ladies and gentlemen is by no means an isolated case, but one that occurs throughout the world.

In January of last year, a survey published by Calvert and Ceres in their Climate Risk Disclosure by the S&P 500, showed that 40% of the top fifth, or largest companies in the United States reported significant, and in some cases material losses as a result of the hurricane season of 2005 alone. We are soberly reminded of the devastation caused to our neighbouring island of Grenada. Additionally, a February 2007 report by a US financial services firm highlighted that the sectors facing the greatest physical risk include utilities, integrated oil and gas companies, insurance, real estate and building and construction. With respect to the financial sector, rapid and unexpected changes in fuel and commodity prices resulting from storms and typhoons can pose risk in financial portfolios; prolonged impairment of infrastructure can impair customers' access to banking and financial services and timely transactions.

Credit and investment analysts in the CARICOM region need to be aware of potential environmental and social risks and work with their clients to avoid them. Of course, that means extra due diligence but it is above all another critical

service that more and more clients are demanding. Emerging trends in risk management tend to focus on risk avoidance as much as possible. It is noted that there is still great diversity in how environmental and social risk management tools are implemented and it is acknowledged that we are in a never ending learning process, hence the timeliness of this workshop.

As sector leaders and practitioners your role in the short term is therefore to re-look, in more detail, your evaluation processes, agitate for improved regulations and standards to support the region's sustainability agenda, fast track information sharing systems, and design capacity building schemes in the various layers of your respective organisations. In addition to enhancing our ability to assess and manage risks, such moves can also serve to heighten the competitiveness of this region in the medium and long run with respect to the evolving international trade, finance and investment regimen. Of note are the opportunities for local financial service companies to assist in facilitating economic activity with the European Union, or, simply, to enable the movement of multinational business to emerging and developing markets.

I will admit there is still a slight trend of seeing environmental and social risk management as "optional" and we still see some firms doing the basics just to "surf" the green wave. But, in this current financial climate of turmoil and uncertainty which requires a heightened need for prudence, transparency and accountability, I expect that this attitude will be "wiped out" sooner rather than later.

Ladies and gentlemen, Cathy Duvall, the Sierra Club's political director, the Sierra Club being the oldest and largest grassroots environmental organisation in the United States said recently in an interview:

"For the first time, candidates and voters in the US are really connecting the dots between energy, the environment and the economy."

Her comments came against the back drop of the recent US elections where investing in cleaner energy is viewed as a top priority in plans for economic recovery. There is a strong possibility that this may be a much needed boost to the momentum built in recent times for environmental sustainability in the economy, particularly in the financial and insurance sectors.

The global financial crisis is expected to continue into next year and may not begin to abate until 2010. Therefore, Barbados and the other Small Island Developing States in the region have limited time to put measures in place to lessen the impact of the crisis on the region and prepare a sound foundation for taking our financial sector into a post-crisis economy that can no longer operate using the "business-as-usual" model.

I wish to note, as a global response to the financial and economic crisis, the United Nations Environment Programme in partnership with the G8+5 recently launched its Green Economy initiative. The initiative signalled the call by the UN and leading economists to seize the opportunity to bring about tomorrow's economy today. The initiative is aimed at helping governments make better decisions and send the right market signals to investors, entrepreneurs and consumers. The initiative has three pillars: valuing and mainstreaming nature's services into national and international accounts; employment generation through green jobs; and instruments and market signals able to accelerate a transition to a green economy.



We as constituents of Small Island Developing States, must evaluate the relevance of this initiative and where opportunities are presented take hold of them. I further encourage you to consider your current operational models and how they can be enhanced to contribute to the sustainability agenda of your financial institution and various stakeholder communities, both at the country level and as a region.

I hope that your deliberations today will be robust and useful and I look forward to hearing of the outcomes of this initiative as it builds momentum across the region, fuelled by the efforts of everyone here today.

Again congratulations on this laudable initiative. Ladies and gentlemen, I thank you.
