

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

25 November 2008, The Hilton Barbados

Special address by **William Layne** Permanent Secretary Ministry of Finance

Distinguished ladies and gentlemen, good morning.

I interpret sustainable development in its widest context to mean development that is eco-friendly and financially feasible. In Barbados our major industry tourism is dependent on investment in an environment that will encourage persons to visit the country. Which does seem to indicate that the sustainability of one depends on the other. However, unregulated development can destroy the very industry that we want so much to sustain. The attractiveness of the environment is what in my view will, along with the quality of service, continue to attract visitors to our shores.

I am told that sustainable development is increasingly seen as a business opportunity by the financial sector of developed countries with institutions, such as HSBC, seizing the potential of this line of business.

In May this year, HSBC's UK Headquarters invested in solar power, creating the tallest corporate headquarters building in Europe to feature solar panels; it is also the largest installation of photovoltaic panels on a corporate office in London. This latest energy-saving measure is part of HSBC's Global Environmental Efficiency Programme, launched last year.

Banks, insurers, asset managers and other financial sector participants do play a pivotal role in ensuring sustainable and long term economic growth.

In the Caribbean sustainable development cannot take place without the support of the financial sector. The banking sector of course has to provide the finance for projects which sustain the environment. Bankers are by nature conservative people (they are like accountants, creative accountants usually go to prison), which is not a bad trait as they are investing shareholders and depositors funds.

However, good risk analysis should serve to separate the good from the bad and thus allow funds to flow to the feasible projects. In order to perform this role properly the banks in the Caribbean must be willing to move outside of the traditional areas of lending and broaden the range of skills they employ in order to perform the necessary analysis on the new technology products.

The preceding comments would also apply to the non-bank financial sector as credit unions and insurance companies also play a role in financing development.

It is however necessary to assist financial institutions in identifying environmental business opportunities and better understand how to manage environmental and social issues associated with their lending and investment operations. I understand that the workshop yesterday was aimed at starting that process.

The Latin American country of Peru has an institution MIBANCO, which provides commercial banking services to the Small and Micro-Enterprise (SME) sector. It serves the Peruvian society by empowering small entrepreneurs and reducing their exposure to the risks associated with an informal economy such as crime, poverty and poor environmental quality. There has been continued growth in its loan portfolio and profits through the period 1998 to 2005.

Sustainability management is at the core of MIBANCO's operations. The bank's credit and risk assessment includes sustainability criteria rarely seen in traditional microfinance credit assessment. As customers realize that sustainability management creates value for their company and helps to prevent problems with local authorities, they appreciate the training and support provided.

The application of social and environmental standards has led to the rejection of some credit applications that do not meet sustainability criteria, and the bank at times foregoes the business opportunities. At the same time, it is clear that the introduction of a sustainability management system has enabled the bank's staff to attain a high level of risk assessments skills in micro finance decision making, reducing the bank's overall exposure. MIBANCO is regarded as having the best credit performance amongst all financial institutions in Peru.

MIBANCO case can be examined to see what lessons can be learnt.

Ladies and gentlemen, government remains committed to partnering with the private sector to promote sound macro socio-economic development. In its role as facilitator and enabler, Government is proceeding with the development of a list of Green Economy Indicators as part of the national economic plan. Government's commitment is further demonstrated as the Ministry with responsibility for Environment seeks to re-launch the National Commission on Sustainable Development as recently requested at the CARICOM Environment Ministers' meeting. In moving forward, we would wish a strong presence and voice by the financial sector on that body.

Once again, I congratulate you on this initiative. Ladies and gentlemen, I thank you."
