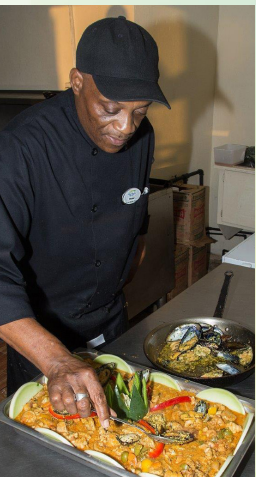




Eastern Caribbean Central Bank

STRATEGIC PLAN 2017-2021



Transforming the
Eastern Caribbean
Currency Union Together

Interpretation

In this document-

"The ECCB Agreement" means The Eastern Caribbean Central Bank Agreement, Act 1983

"The Banking Act" means Banking Act 2015

"Currency Union" means the Eastern Caribbean Currency Union (ECCU)

"Global financial crisis" means the global financial and economic crisis 2008-2009

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01

Message from the Governor

Why does socio-economic transformation matter?



Could you imagine a Currency Union where globally competitive businesses and industries predominate; young people are productively engaged and full of hope; and citizens are not merely striving but thriving?

This is our vision. This is what could be and should be in the Eastern Caribbean Currency Union (ECCU).

Against the backdrop of rapid global and technological change; relatively low growth and high unemployment, particularly among our youth, and the recent devastation of several member countries by Hurricanes Irma and Maria, nothing less than socio-economic transformation will do.

We must be resolute in building resilience as we commence the arduous task of reconstruction.

We must swiftly address the widening gap between the skills that companies need and those that workers have and what our education system delivers.

We must leverage financial technology to help address the issue of Derisking; transform the way we pay for goods and services; and harden our financial system against crime; while raising our region's growth trajectory.

Accordingly, transformation is the focus of ECCB's Strategic Plan 2017-2021.

Over the next five years, our Central Bank will endeavor to advance the good of the people of our region by maintaining a strong and stable Eastern Caribbean Dollar; strengthening and enhancing the financial sector; promoting fiscal and debt sustainability; and supporting economic development.

Fellow citizens of the Currency Union, this Plan is about you and for you. The ECCB cannot do it alone. Therefore, collaborative and collective action are critical.

The ECCB will work closely with Participating Governments, business community, labour unions, churches and other social partners, development partners and fully engaged citizens.

Together, let us go forth and build, for we have a high and urgent calling and the hope of our reward sweetens our labours.

Mr. Timothy N. J. Antoine
Governor



Students
ECCB Primary School Mentorship Programme

“ Partnering with key stakeholders to provide opportunities for our youth to help prepare them for life and work. ”

02

Building on the Past, Shaping the Future

Who we are, what we do

“Advancing the good of the people of the Currency Union by maintaining monetary and financial stability and promoting growth and development.”

MISSION STATEMENT

The Eastern Caribbean Central Bank (ECCB) is owned by six sovereign states: Antigua and Barbuda, The Commonwealth of Dominica, Grenada, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, and two overseas territories of the United Kingdom: Anguilla and Montserrat. As a collective, these countries are commonly referred to as the Eastern Caribbean Currency Union (ECCU). The ECCU has a total population of approximately 628,000, a combined Gross Domestic product (GDP) of EC\$18.4 billion (2016) and an average per capita income of EC\$29,372 (2016).

During the twentieth century, the member countries of the ECCU, guided by visionary leaders, took bold initiatives and leapt into the unknown to pioneer a path for our survival and success.

First in 1965, following the collapse of the West Indies Federation and the subsequent unification of the Leeward and Windward islands, along with Barbados¹, to forge ahead with a new currency and currency authority. The new Authority, East Caribbean Currency Authority (ECCA), was responsible for issuing and managing a common currency, the Eastern Caribbean Dollar (ECD), for Barbados, and the Leeward and Windward islands, with the exception of Grenada. Grenada became a member of ECCA in 1968.

While ECCA ensured sound management of the EC Dollar and the region's portfolio of assets, it had limited powers to significantly influence economic and financial affairs of the region. Consequently, another leap was required to move from a currency authority to a central bank with a mandate to further advance financial and economic development of the territories of the Participating Governments. The establishment of the ECCB in 1983 gave birth to a more robust institution, better positioned to assist member countries with their financial and economic development agenda.

¹ In 1974, Barbados withdrew its membership from the East Caribbean Currency Authority to establish its own central bank. The Headquarters for ECCA was subsequently moved from Barbados to St. Kitts.



Signing of ECCB Agreement
5 July 1983

To this end, unlike traditional central banks which focus almost exclusively on monetary and financial stability issues, the purposes of the ECCB articulated in Article 4 of The ECCB Agreement Act 1983, embody the concepts of stability, development and integration:

1. To regulate the availability of money and credit;
2. To promote and maintain monetary stability;
3. To promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the Participating Governments; and
4. To actively promote through means consistent with its other objectives the economic development of the territories of the Participating Governments.

Article 42 of The ECCB Agreement which identifies specific direct interventions that the Bank, with the approval of the Monetary Council, can make to advance the economic development of member countries, further expands on the Bank's financial and economic development mandate.

Integration, though not explicitly stated in The ECCB Agreement, is implied in the multi-state nature of the Bank. Integration is also reinforced as the ECCB is explicitly named in the Revised OECS Treaty of Basseterre of June 2010, establishing the ECCB as an institution of the OECS Economic Union.

Key achievements

Our achievements have come through ongoing collaboration and engagement with Participating Governments, the financial sector, private sector, non-governmental organisations, the general public and other domestic and external stakeholders.

Key accomplishments include:

1. The maintenance of a stable EC Dollar

which has been pegged to the US currency at EC\$2.70 to US\$1.00 since 1976. The EC currency serves as a source of stability for the people of the ECCU. The fixed exchange rate allows for confidence in the value of the EC currency. On the international level, the stability of the value of the currency allows ECCU's trading partners and external creditors to have confidence in the currency.

2. The maintenance of a stable financial sector

through the implementation of strategies to mitigate the impact of threats and challenges.

3. The strengthening of the financial system

through the development of key regional financial institutions and markets and the operationalisation of the Banking Act.

- Institutions and markets developed include the Eastern Caribbean Home Mortgage Bank (ECHMB), the Eastern Caribbean Institute of Banking and Financial Services (ECIB), the Eastern Caribbean Securities Exchange (ECSE), the Eastern Caribbean Securities Market (ECSM), the Eastern Caribbean Securities Regulatory Commission (ECSRC) and the Regional Government Securities Market (RGSM).
- The Banking Act addresses the need for effective risk-focused supervision of financial institutions to ensure the safety and soundness of the region's financial system.

4. The establishment of regional forums

for collaboration and networking with Participating Governments as well as public and private sector institutions to advance regional information sharing, training and developmental initiatives.

5. The provision of strong policy support

to all participating countries facing cyclical and

structural challenges and weaknesses due to economies which are small, open and vulnerable to external shocks.

6. Collaboration with participating governments

on the formulation and implementation of a comprehensive Eight Point Stabilisation and Growth Programme (See Appendix 4) to address, in a coordinated and strategic manner, the economic challenges faced by the participating countries as a result of the global financial and economic crisis 2008-2009.

Looking forward

While the stability, resilience and progress of the region are notable, the challenges of today and tomorrow require economic transformation to ensure that past gains are protected and economic progress and resilience are advanced and enhanced.

The ECCB Strategic Plan 2017-2021 reflects the Bank's recognition of the rapidly changing economic and financial landscape and the necessity for agility in the delivery of its financial stability and economic development mandates. It is a new vision for a new era.

The ECCB is cognisant that it cannot deliver economic transformation on its own. The fulfilment of a shared vision for economic transformation requires strong engagement and partnership with Participating Governments, financial institutions, regional institutions such as the OECS Commission and the Caribbean Development Bank, private sector institutions, social partners, development partners and other stakeholders.

To this end, our Strategic Plan is closely aligned with the OECS Growth and Development Strategy to ensure that there is adequate collaboration to facilitate the attainment of a higher and sustained trajectory of economic growth and development.

The Strategic Plan also ensures the alignment of the Bank's mission, values and strategic goals in support of the economic transformation required at this critical juncture of the Currency Union's development.

VISION STATEMENT

To be a model institution delivering exceptional service and influential policy advice to support the development of a thriving Currency Union

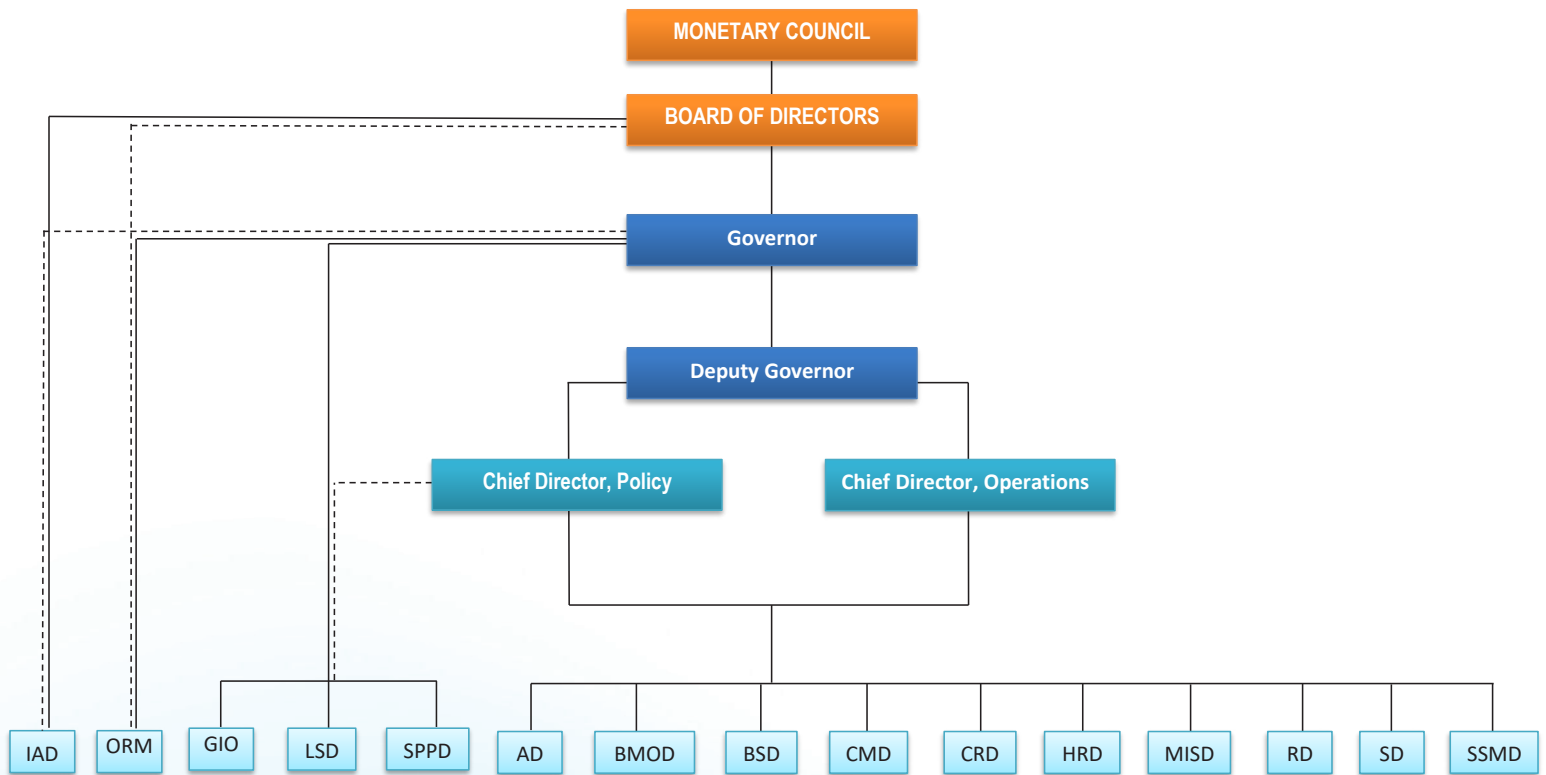
MISSION STATEMENT

Advancing the good of the people of the Currency Union by maintaining monetary and financial stability and promoting growth and development

CORE VALUES (STAR)

Service Excellence
Teamwork and **T**ruth Telling
Accountability
Results

ORGANISATIONAL CHART



KEY:

IAD: Internal Audit Department
ORM: Office of Risk Management
GIO: Governor's Immediate Office
LSD: Legal Service Department
SPPD: Strategic Planning and Projects Department
AD: Accounting Department
BMOD: Banking and Monetary Operations Department

BSD: Bank Supervision Department
CMD: Currency Management Department
CRD: Corporate Relations Department
HRD: Human Resource Department
MISD: Management Information Systems Department
RD: Research Department
SD: Statistics Department
SSMD: Support Services Management Department



03

Environmental Context

As the Central Bank of a Currency Union of eight Participating Governments, we are cognisant of the importance of continuously monitoring and assessing developments in the wider region and the global economy. This assessment of the environmental context seeks to identify the external challenges and opportunities that impact the ECCU economy, and by extension, the operations of the ECCB. The appendices provide two detailed perspectives to complement this environmental context. The first perspective focuses on economic growth and development within the ECCU and the second on financial technology.

Geo-political trends

Following the global financial crisis, the global political landscape has become increasingly complex. The emergence of the G-20 has given large emerging economies more influence in the setting of global priorities for development and global financial stability. Small Island Development States (SIDS) continue to advocate for their circumstances to be understood and incorporated into the priorities and reforms of the G-7 and G-20. The SIDS are particularly concerned about international support for the Sustainable Development Goals (SDGs) and the fight against climate change.

Looking ahead, several external developments could have significant impact on the ECCU. For example, the evolving political landscapes in the United States (US) and the United Kingdom (UK) may have downstream impacts in the ECCU across trade, currency and regional security dimensions. In addition, other significant trading partners of the ECCU are undergoing political and economic changes that could adversely affect economic cooperation agreements that benefit the ECCU.

In the wider region, which includes the OECS and CARICOM, there are several key developments that will continue to alter the regional landscape. The signing of the Revised OECS Treaty of Basseterre in 2010, with renewed focus on economic integration, is facilitating the free movement of people and free circulation of goods, services and capital. The Revised Treaty establishes a single financial and economic space which is impacting how businesses operate. Additionally, Martinique's formal accession to the OECS in April 2016, provides the entire OECS with access to the European market. Martinique may be followed closely by its sister islands – Guadeloupe and Saint Martin. This would move the economic and financial space to approximately 1.5 million people and open up wider markets for trade. At the CARICOM level, the 15 member countries are also pursuing the development of a single market and economy and have pledged to examine issues that impact the region's growth, competitiveness and employment, and financial sector.

Economic trends

The ECCU realised average real economic growth of 3.8 per cent per annum over the period 2004-2008 (pre-global crisis); -0.9 per cent over the period 2009-2011 (global crisis); and 2.3 per cent per annum over the 2012-2016 period (post global crisis). Economic growth post-crisis was below rates seen before the international crisis reflecting the altered global economic and financial landscape, where the region's main trading partners also faced low growth trajectories. Economic growth in the ECCU was higher than some peer nations in the Caribbean but well below the growth rates of other SIDS, like Mauritius and The Seychelles and other countries in Latin America and the Caribbean.



Lower oil prices in 2015 and 2016 supported household demand and lowered business energy costs for member countries. Nonetheless, lower oil prices also created significant fiscal challenges for important ECCU trading partners such as Venezuela and Trinidad and Tobago. The effects of which will likely impact the ECCU during the upcoming years.

The widely anticipated tightening of US Federal Reserve monetary policy may negatively impact the capital preservation objective of the ECCB. This will occur as interest rate increases lead to declines in the prices of fixed income instruments and hence a decrease in the market value of the ECCB's investment portfolio.

However, if the US Federal Reserve increases interest rates gradually, the negative impact may be mitigated. At the same time, higher interest rates will increase net interest income for the ECCB, supporting its objective of returning to profitability.

Across the ECCU, unemployment rates are significantly high (estimated at around 23.0 per cent) with youth unemployment rates elevated at higher levels, estimated to be between 30.0 - 50.0 per cent in some member countries². Of particular concern is that productivity growth³ has been near stagnant for the past decade. When assessing the competitiveness of the ECCU to its regional peers several advantages stand out. These include:

- the relatively high provision of domestic credit to GDP;
- attractive tax rates;
- low perception of corruption and
- high enforcement level of contracts.

These are all essential competitive advantages which the ECCU can leverage to attract foreign investment and develop its economies. However, the ECCU still faces several competitive disadvantages that would need to be addressed in order to stimulate economic growth. Relative disadvantages compared with other countries in the Caribbean region include:

- high average wages;
- limited supply of high-skilled labour;
- difficulty for Micro, Small and Medium Enterprises (MSMEs) to access financial credit;
- high electricity costs;
- high regional transportation costs and

- obstacles in starting a new business.

The mid year 2017 ECCU economic forecast for continued real growth of 3.0 per cent per annum in the medium term would have to be revisited in light of the destruction caused by hurricanes Irma and Maria. While a 3.0 per cent growth would have measured positive impact on employment, fiscal accounts, and the financial sector, it would still be below the needed target growth rate of 5.0 per cent to achieve the necessary transformation in the ECCU.

Additionally, there is considerable global uncertainty, and member countries must be prepared for potential volatility that could result. A more detailed perspective on economic growth in the ECCU is presented in Appendix 2.

Global financial regulatory trends

Since the international crisis, the pace of financial regulatory changes has intensified globally leading to several trends in financial sector risk management.

First, regulators have focused intensively on rigorous stress testing and the maintenance of higher levels of capital within the financial system. Consequently, the required financial sector capital ratios have increased considerably.

Second, regulatory scrutiny has strengthened the foundations of bank risk management, leading to more robust risk identification and monitoring processes.

Third, there has been a heightened focus on the operational risk of banks globally. Legislation regarding conduct risk⁴, consumer protection and the manipulation of currencies has been introduced and significant fines issued to firms with regards to Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT).

Fourth, jurisdictions around the world are modernising their legal systems to keep pace with the dynamism of regional and international economic and financial markets. In the context of global competition for foreign direct investment, countries are modernising and harmonising legislative frameworks governing the financial sector. These include foreclosure, bankruptcy/insolvency, insurance and areas that support monetary

² Source – ECCB and ECCU Statistical Country Offices

³ Measured by the growth in real output per employee

⁴ Conduct risk refers to the threat of financial loss to an organisation caused by poor judgement of managers or employees.



policy, such as public finance management, fiscal responsibility and debt management.

This heightened global regulatory change is affecting the ECCU's financial system in various ways including: the increasing scrutiny on correspondent banking relationships, adherence to the Financial Action Task Force (FATF), Foreign Account Tax Compliance Act (FATCA) and The Common Standard on Reporting and Due Diligence for Financial Account Information (CRS). Further, in the context of a global focus on strengthening Anti-Money Laundering and Know Your Customer programmes, jurisdictions that offer Citizenship by Investment programmes have had to increase their due diligence in managing risks to the financial system.

Technology trends

Technological developments in the financial sector are impacting the traditional bank and non-bank financial sectors in several ways. Challenges regarding bank data security and privacy, cyber security risks and access to data are of primary concern to the financial sector.

Meanwhile, innovation in analytics, digitisation and automation are providing opportunities for financial service providers to enhance their operational efficiency and reduce their operational costs. Finally, Financial Technology (FinTech) start-ups are challenging incumbent financial service providers on both the back-end, such as credit underwriting and the front-end, such as payment systems and customer relationship management. These technological advancements pose considerable challenges for bank regulators

worldwide and the ECCB in particular, given the mandate to oversee the full financial sector including both banks and non-banks. Appendix 3 provides a more detailed perspective on Financial Technology.

Environmental trends

The ECCU is experiencing the impact of climate change and global warming, as the frequency and severity of natural disasters, rising sea levels and drought continue to increase. The losses from hurricanes, storms and even troughs, estimated at more than 100 per cent of GDP in some cases, are huge costs for these small islands.

The region is already investing in green energy solutions such as solar plants and the exploration of geothermal wells. The recent downward trend in oil prices should not halt these investments. The ECCU should continue to engage in the expansion of infrastructure that can provide clean energy sources to promote growth and develop a sustainable environment.

Numerous studies point to the interdependence of health and development. In addition to the proliferation of a number of pandemic diseases seen in the last decade, there is the rise in non-communicable diseases at younger ages. This has implications for the ECCU workforce and productivity.

The agricultural sector has also been affected by a number of environmental factors which threaten the region's food security and by extension its economic development.

04

Our pathway to socio-economic transformation

During the development of our Strategic Plan, we engaged a diverse range of stakeholders, including parliamentarians, representatives from non-governmental organisations, financial institutions, trade unions, the business community, community groups, civil society, and organs of OECS integration to discuss their vision for socio-economic transformation.

There was broad consensus that success in developing an economy that maximises opportunities for current and future generations must reflect a strong spirit of enterprise and innovation, job creation, good governance, robust institutional frameworks and competitive businesses and industries.





Students at SPISE

Student Program for Innovation in Science and
Engineering, Caribbean Science Foundation Program

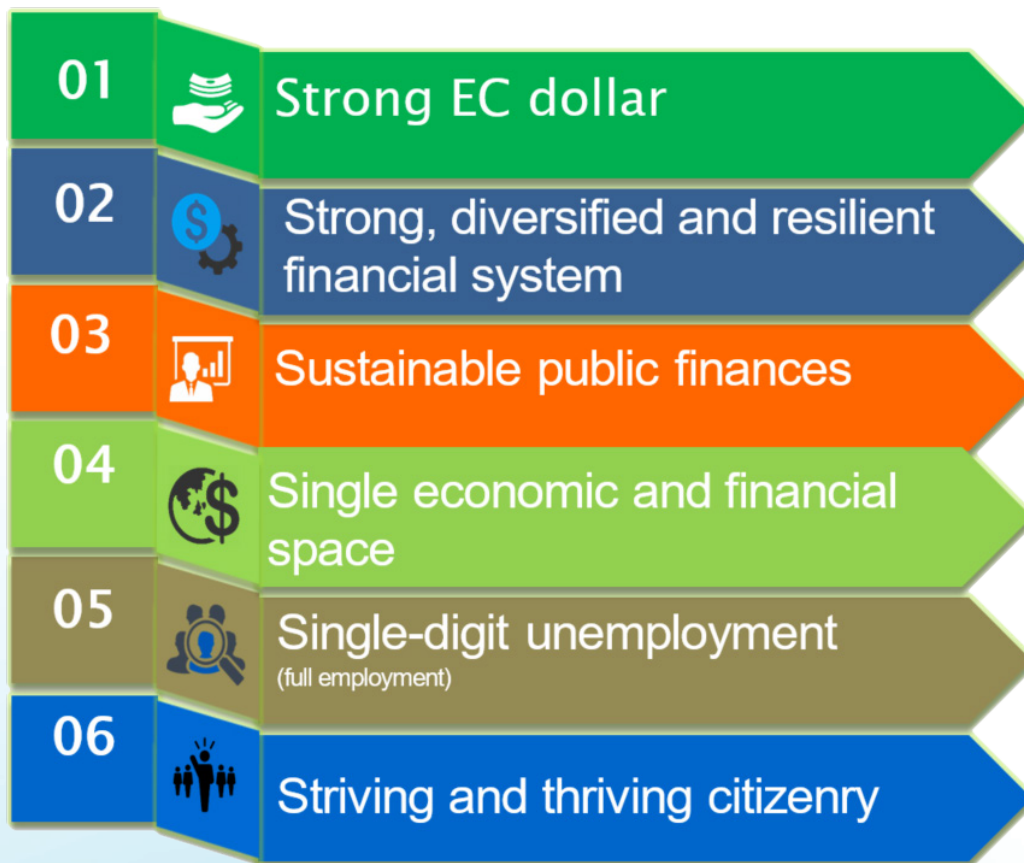
“Job creation fostered by knowledge
and innovation-driven entrepreneurship.”

- ECCU Vision

05

ECCB 2017-2021 Strategic Framework

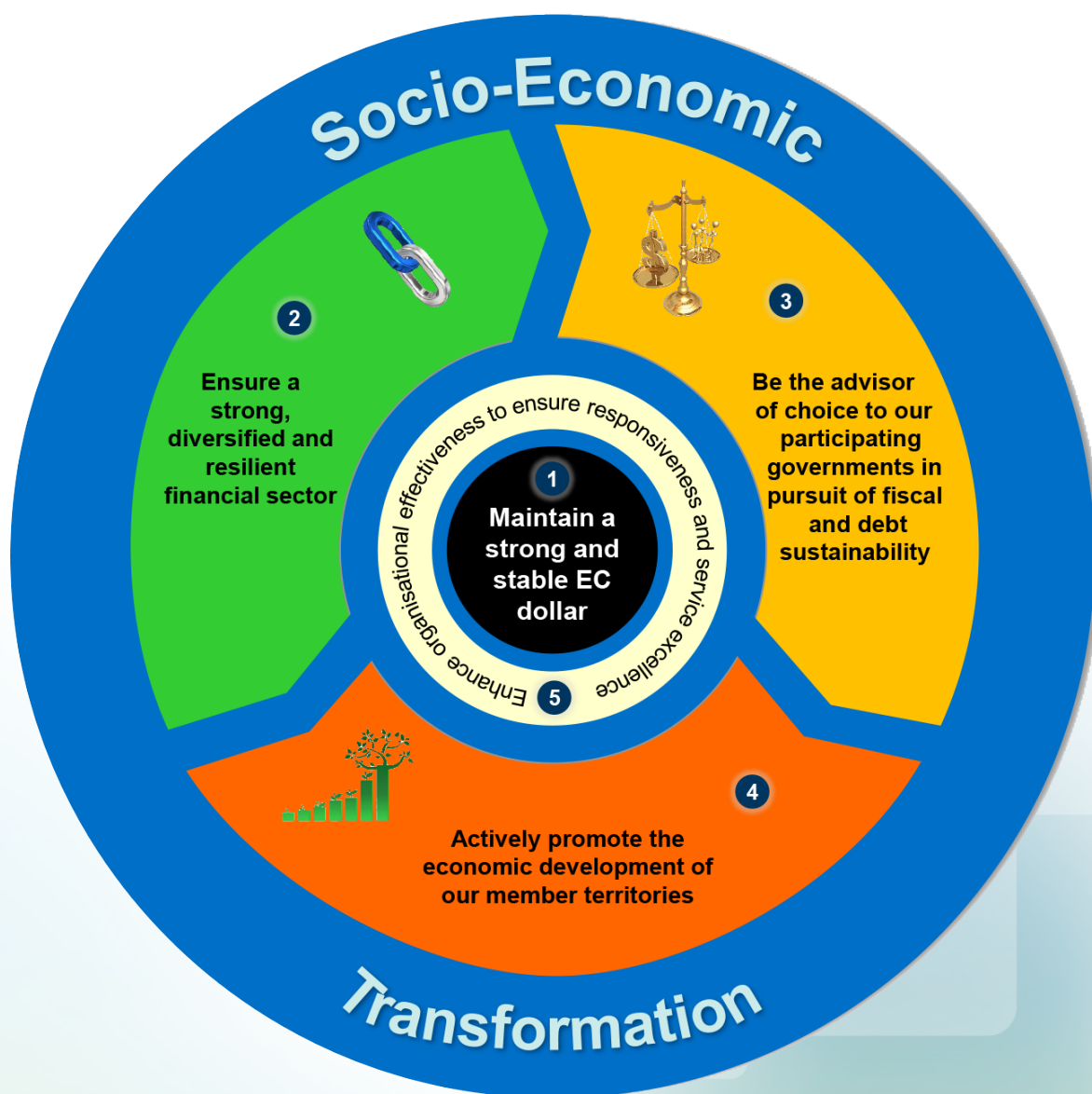
What does economic transformation mean to the ECCB?



ECCB Strategic Goals

Our first and principal goal is to maintain a strong and stable EC Dollar. This is the foundation pillar of our strategic framework and is intimately connected to success in the other three goals encompassing the ECCU financial sector, Participating Governments' fiscal and debt affairs and economic development. Our fifth goal relates to the internal capacity of the ECCB to excel in the delivery of its strategy.

These five goals are formulated to contribute to the socio-economic transformation of the ECCU by facilitating sustainable economic expansion in a balanced, inclusive, integrated and collaborative manner. Our 2017-2021 strategy actively seeks opportunities for strengthening this collaboration to transform the region's economy.



"Transforming the ECCU together" – ECCB Strategic Plan 2017-2021



Goal 1

Maintain a strong and stable EC Dollar

The maintenance of a strong and stable EC Dollar is at the heart of a stable ECCU economy and remains our primary objective as we seek to facilitate economic transformation. The Bank's first purpose, as articulated in Article 4(1) of The ECCB Agreement 1983 is "to regulate the availability of money and credit" while the second purpose, stated in Article 4(2), is "to promote and maintain monetary stability." In the context of the quasi-currency board arrangement of the ECCB, these two purposes taken together translate into the objective of maintaining confidence in the monetary system through a strong and stable EC Dollar.

The EC Dollar has been pegged at a fixed exchange rate to the US dollar (EC\$2.70 to US\$1.00) since 1976. This arrangement has protected the ECCU economy from large currency fluctuations. In order to maintain the EC Dollar, the Bank ensures that a sufficient level of foreign reserves is held to offset any external pressures on the currency.

Operational guidelines determine that this is accomplished when the EC Dollar is backed adequately by foreign reserves at a minimum of 80.0 per cent notwithstanding that by statute the ECCB must maintain foreign reserves of not less than 60.0 per cent of the Bank's demand liabilities. To maintain monetary stability, it is important that adequate reserves be maintained by generating foreign exchange, establishing fiscal buffers and maintaining a resilient financial sector.

The strong and stable EC Dollar functions as the backbone to the ECCU economy and will allow us to pursue the remaining goals that we have set to realise socio-economic transformation over the years 2017-2021.

Given the nexus between our monetary stability objectives and development objectives, we are adopting a more active stance on economic development, consistent with our capital preservation mandate. As such, we will pursue catalytic economic development initiatives financed by a limited portion of the region's foreign reserves.

// Fiscally responsible and agile member countries. //

-ECCU Vision

OBJECTIVES	INDICATORS
1. Maintain sufficient foreign reserves to support the EC Dollar	<ul style="list-style-type: none"> Minimum operational backing ratio of 80.0 per cent maintained over 2017-2021 period
2. Review and adoption of a revised reserve management framework	<ul style="list-style-type: none"> New investment policy and strategic asset allocation
3. Advise Monetary Council on monetary and credit conditions consistent with The ECCB Agreement	<ul style="list-style-type: none"> Research papers, forecasting and analyses of economic and financial developments to guide reports to the Monetary Council Forward looking monetary policy advice supported by robust and relevant data ECCU monetary policy objectives are maintained and protected Policy recommendations provided to influence the increase in foreign exchange inflows and the minimisation of foreign exchange outflows
4. Ensure parallel implementation of the initiatives across the other four core activities of the Strategic Plan to maintain a strong and stable EC Dollar	<ul style="list-style-type: none"> Progress of the Strategic Plan 2017-2021 assessed in the annual review

ONGOING INITIATIVES

- ECCB Statutory Meetings - Monetary Council and Board of Directors** - The Bank monitors developments in monetary and credit conditions in the ECCU. The Governor's report provides policy recommendations to the Monetary Council at least three times a year on monetary and credit conditions.
- Active reserve management** - Based on its risk profile, the Bank manages and monitors the foreign reserves position in keeping with its capital preservation mandate and reports to the Board of Directors.
- Reserves Advisory and Management Programme (RAMP)** - The Bank has availed itself of The World Bank treasury advisory services through its Reserves Advisory and Management Program (RAMP). The technical advisory engagements cover all areas relevant to reserves management including:
 - Governance
 - Strategic Asset Allocation (benchmarks)
 - Passive/Active Portfolio Management
 - Risk/Performance Reporting
 - Accounting, Audit and Operational Risk
 - Evaluation of External Asset Managers
 - Information Technology



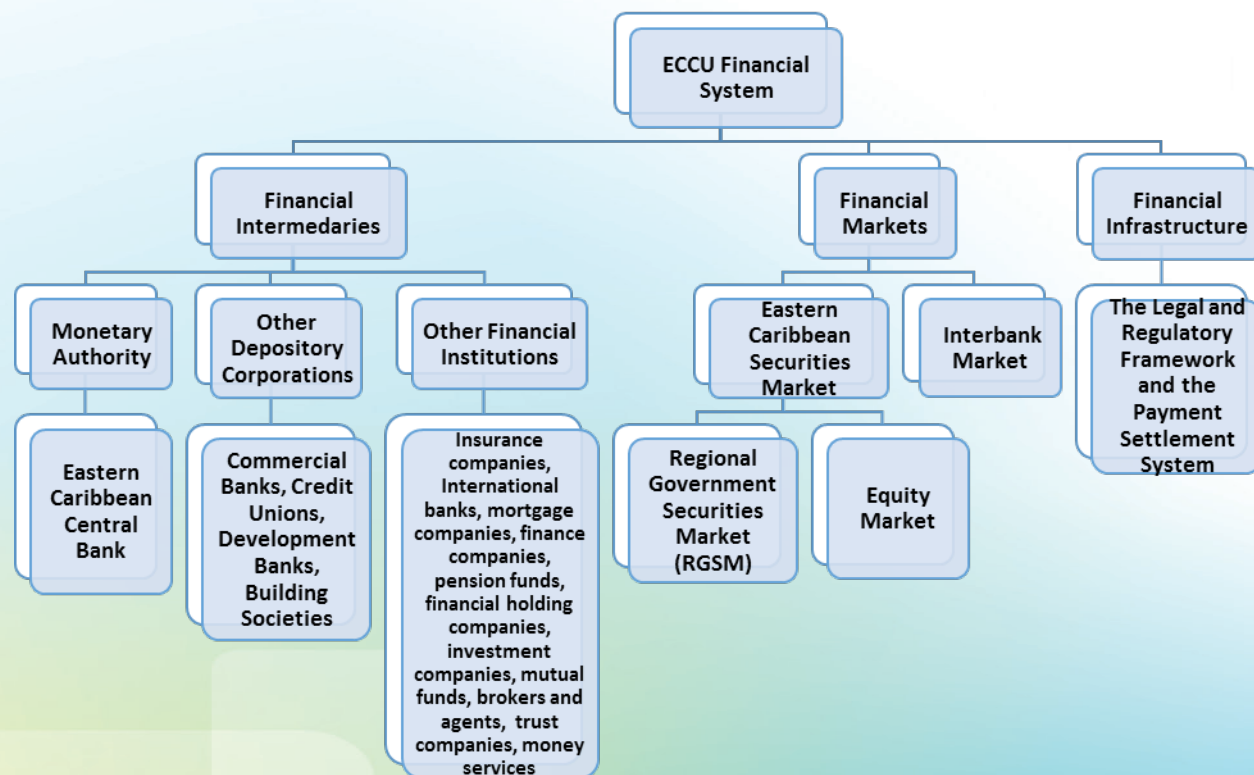
Goal 2

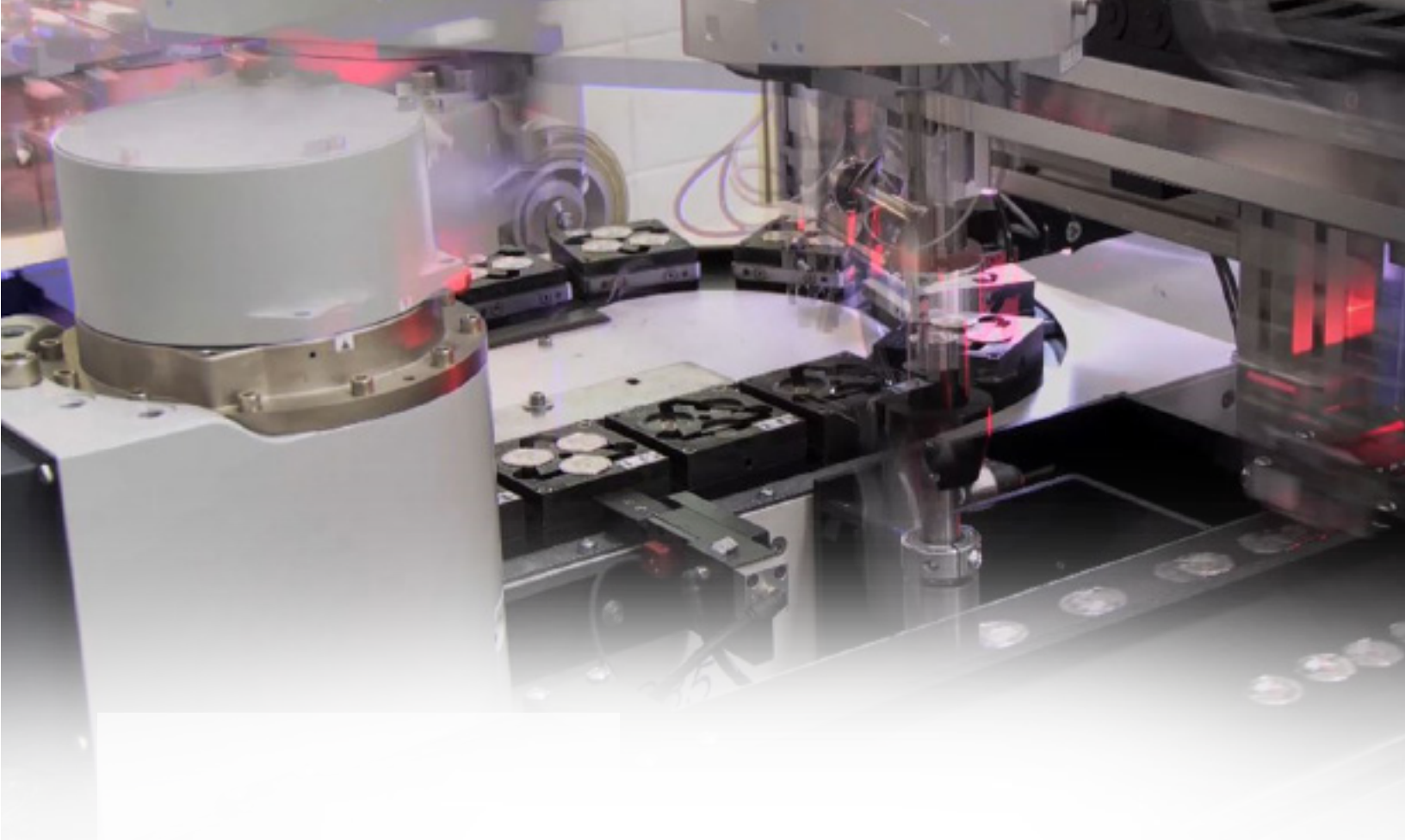
Ensure a strong, diversified and resilient financial sector

The ECCU financial system comprises several financial intermediaries namely the monetary authority – the ECCB, commercial banks, credit unions, development banks, building societies, insurance companies, offshore banks, mortgage and finance companies, pension funds, financial holding companies, investment companies, mutual funds, brokers and agents, trust companies, and money services businesses. The ECCU financial market incorporates the interbank market, the Regional Government Securities Market (RGSM) and the Eastern Caribbean Securities Exchange (ECSE). The financial infrastructure incorporates the payment settlement system and the legal and regulatory framework. Together these two facilitate the effective operation of financial intermediation (Figure 2).

In the ECCU, the banking sector remains the largest sector within the financial system and is the primary facilitator of financial intermediation. A strong and resilient banking sector is therefore a necessary requirement for the ECCB to regulate the availability of money and credit and an enabler for regional economic growth.

Article 4(3) of The ECCB's Agreement Act 1983 stipulates the need for the Bank "to promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the Participating Governments." We accomplish this mandate primarily by influencing the availability of credit, overseeing the uninterrupted movement of funds between financial institutions and across jurisdictions and ensuring that institutions licensed under The Banking Act can meet their obligations to their stakeholders.





Minting of EC commemorative coins

Besides our focus on the banking sector, we actively pursue the stability of the non-bank financial sector considering its interdependence with the banking sector and its critical role in financial sector stability and economic transformation.

The constant development and continued stability of the financial sector in the ECCU are imperatives for the ECCB. We continue to enhance our macro-prudential framework for financial stability. This framework encompasses the requisite macro-prudential policy tools; legislative powers; transmission, surveillance and coordination mechanisms; emergency liquidity facilities; and crisis planning, management and resolution procedures.

Given our direct responsibility for the regulation of banking business, we continue to enhance a risk based supervisory approach that balances the banking sector's competitiveness with general safety and soundness, toward a stronger and more resilient banking sector.

Furthermore, we will continue to safeguard financial sector stability through our ongoing promotion of good corporate governance. This is vital to maintain public confidence in the financial sector, and ensure that the interests of depositors and other stakeholders are protected.

Our efforts are based on the premise that the existence of a stable and well developed financial sector is a prerequisite for the wider economic transformation of the region and the maintenance of a strong and stable EC Dollar.

OBJECTIVES	INDICATORS
1. Enhance risk based supervisory and management framework	<ul style="list-style-type: none"> • Risk adjusted Capital Adequacy Ratio (minimum 8.0 per cent) maintained commensurate with the risk profile of commercial banks • Consolidated supervision framework supported by enhanced collaboration and cooperation with national, regional and international regulators, and external auditors • Banking Act 2015 operationalised and AML/CFT supervision of licensed institutions • Research undertaken on an appropriate regulatory framework that supports responsible innovation in financial technologies that contribute to the development of the financial sector • Regulatory technology adopted to enhance supervisory regime • Single regulator for the non-bank financial sector by 2021 • Quarterly policy meetings of the Regulatory Oversight Committee • Annual publication of ECCU Financial Stability Report
2. Develop a macro-prudential framework	<ul style="list-style-type: none"> • Macro-prudential strategy developed that focuses on systemic risk while including macro-economic policy and micro-prudential regulation of financial institutions. • Non-bank financial sector variables incorporated into the framework for macro prudential oversight.
3. Deliver new risk management infrastructure to support the ECCU financial sector	<ul style="list-style-type: none"> • Eastern Caribbean Currency Union Credit Bureau established • Eastern Caribbean Deposit Insurance Fund established • Eastern Caribbean Appraisal Institute established • Eastern Caribbean Asset Management Company established • Eastern Caribbean Financial Services Regulatory Commission established • Foreclosure legislation developed and enacted

OBJECTIVES	INDICATORS
4. Improve payments infrastructure to adapt to evolving market expectations	<ul style="list-style-type: none"> • Diagnostics conducted to inform opportunities to enhance and modernise the ECCU Payment System in accordance with international best practices. • modernisation of payment systems legislation, rules and procedures conducted • Increased communication with payment systems participants ensures adherence to SWIFT Cyber Security Policies and Guidelines. • Revitalisation of the Payments Council. • Ongoing research on Financial Technology undertaken in an effort to inform the Bank's position on adoption. • Procedures and processes developed that assist in the implementation of appropriate and protective controls that are consistent with leading practices in cyber resilience and risk mitigation and management.
5. Support the amalgamation of indigenous banks	<ul style="list-style-type: none"> • ECCU indigenous banks capitalised adequately and leveraging the advantages of scale and scope through consolidation.
6. Deepen money and capital markets	<ul style="list-style-type: none"> • Modernised capital market legal and regulatory framework • Increased participation of market participants on the Eastern Caribbean Securities Exchange • Research undertaken to identify the feasibility of the introduction of a Primary Dealer System (PDS) to improve the primary and secondary markets for Government securities in the ECCU
7. Promote the development of the financial sector to increase citizen access to credit and other financial services	<ul style="list-style-type: none"> • Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC) established to improve access to finance by MSMEs • Proposed legislative reforms toward enabling the use of movable assets as collateral to increase opportunities for access to finance • Solutions for the secure use of financial technology in the efficient processing of transactions and financial inclusion facilitated • Institutionalisation of a development type financial institution to catalyse broader access to financing by the private sector.

OBJECTIVES	INDICATORS
8. Advocate for the establishment of a single financial space	<ul style="list-style-type: none"> • An action plan for implementation of the single financial space across the Currency Union designed in collaboration with the OECS Commission which includes the removal of legal and administrative impediments to the achievement of the single financial space • Harmonised legislation in preparation for the single financial system

ONGOING INITIATIVES

Reform and modernisation of the ECCU Payment System

The ECCB has sought assistance from The World Bank to undertake a comprehensive assessment of the payment system in the ECCU, and to recommend the way forward given recent developments in the payment system environment. Some of the following initiatives are expected to be undertaken on the completion of the assessment:

1. The establishment of clearly defined payment and settlement systems objectives;
2. Payment and system oversight and the appropriate governance structure;
3. A fully operational payment and settlement system that adheres to the core principles for systemically important payment and settlement systems;
4. The establishment of legislation that would cover all forms of payment including financial technology payment applications.

A project to modernise the retail payment system commenced in 2009 with plans to establish an Automated Clearing House (ACH). The ACH has created a common retail infrastructure to facilitate all models of payment. Its development has resulted in improved efficiency in the clearance and settlement of cheques in the first phase, with the second phase assigned to the Electronic Funds Transfer (EFT).

The EFT phase will allow for electronic transfer and processing of financial transactions from the point of initiation to final settlement, thus resulting

in faster and more efficient transaction processing and settlement.

The Eastern Caribbean Asset Management Corporation (ECAMC), was established to manage the non-performing assets of Monetary Council approved financial institutions. The ECCB may also appoint the ECAMC as receiver under the Banking Act.

The Eastern Caribbean Appraisal Institute (ECAI), will be a regional institution or service that brings greater coherence and clarity in the structure and organisation of the ECCU appraisers' profession. It will facilitate the adoption of international standards in the methodology for the conduct of appraisals in the region. Its work is important in supporting the intermediary function of lending institutions. It is scheduled for commencement by December 2018.

The Eastern Caribbean Financial Services Commission (ECFSC)- Following the collapse of two major insurance affiliates in the aftermath of the international crisis, the ECCU governments commissioned the establishment of a single regional regulator for the non-bank financial sector. The Eastern Caribbean Financial Services Commission, which will administer the International Association of Insurance Supervisors (IAIS) benchmarked harmonised legislation, is expected to commence operation in 2018 with the regulation and supervision of the insurance and pension sectors, then expanding its scope to include other non-bank financial institutions.



Goal 3

Be the advisor of choice to our Participating Governments in pursuit of fiscal and debt sustainability

We support our Participating Governments in achieving fiscal and debt sustainability over the medium term measured by a Debt to GDP ratio of no more than 60.0 per cent as established by the Monetary Council. The work of the Bank in this area is geared towards advising the Participating Governments with respect to fiscal governance, fiscal reform and public sector reform.

The Bank also focuses on capacity building, functional cooperation and development of the Regional Government Securities Market (RGSM).

Achieving fiscal and debt sustainability will prove a necessity in maintaining a strong and stable EC Dollar and vital to facilitating long-term economic growth of the region.

“Transparency and
good governance.”

- ECCU Vision



OBJECTIVES	INDICATORS
1. Provide policy advice to Participating Governments and facilitate capacity building of member countries for effective debt management	<ul style="list-style-type: none"> • Technical assistance provided to the Debt Management Offices (DMOs) to support staff in undertaking the principal functions of debt management • Capacity building provided to the DMOs to prepare and publish debt portfolio reviews, fiscal and debt sustainability and management strategies • Publication of at least one (1) research paper and two (2) policy papers on an annual basis
2. Advocate for a high standard of fiscal governance and functional cooperation	<ul style="list-style-type: none"> • Advocacy for the wise use of CBI/CIP funds • Technical assistance provided to the Participating Governments in the drafting of Fiscal Responsibility Legislation. • Technical assistance provided to enable the authorities to establish a resilience fund to implement disaster mitigation measures and to quickly respond to the impact of natural disasters. This fund could be financed from non-tax revenue sources such as CBI/CIP and climate finance.
3. Track member countries performance related to fiscal and debt sustainability and share information with member countries and other stakeholders	<ul style="list-style-type: none"> • Provide capacity building to Participating Governments to maintain an up-to-date and accurate shared database created on central government operations based on government financial statistics and public debt guidelines. • The CS-DRMS software integrated with governments' financial management systems and at least a B score achieved in the CS-DRMS Data Quality tool • Access provided to data on all the member countries through the ECCB website. • Participating Governments assisted in the dissemination of market related information via a regional public debt website.
4. Improve the functioning of the market for government securities (RGSM)	<ul style="list-style-type: none"> • Participating Governments assisted in the implementation of their issuance plans consistent with their medium term debt strategy, including financing of the public sector investment programme. • Viable investment opportunity provided for residents of the ECCU through supporting the issuance of an array of government securities on the RGSM

OBJECTIVES	INDICATORS
5. Provide recommendations and shape regional consensus to facilitate the achievement of a primary surplus and improve the collective fiscal health of the ECCU	<ul style="list-style-type: none"> • Technical support provided to member countries in the identification of interim targets set for 2020 and 2025 and monitored to ensure Debt/GDP ratio on track for the agreed target of 60.0 per cent of GDP by 2030
6. Provide capacity building to Participating Governments for effective cash flow management and operational efficiencies	<ul style="list-style-type: none"> • Scheduled periodic teleconference and videoconference meetings to discuss and highlight areas for improvement in keeping with international best practices. • Provide documentation to assist with improvement of operational efficiencies.



ONGOING INITIATIVES

Debt Management Advisory Service (DMAS)

As part of the fiscal consolidation programme, the Bank provides technical support to member countries to strengthen their debt management capacity through the Debt Management Advisory Service (DMAS) Unit at the ECCB. The Unit is sponsored by The Government of Canada. Though the sponsorship of this project ends in 2018, the plan is to absorb the debt management advisory functions into the ECCB's formal organisational structure.

Adoption of Fiscal Responsibility Legislation (FRL)

The Bank is committed to assisting the Participating Governments in enhancing public financial management. To this end, research work on the experiences of FRL adoption including that of Anguilla, Grenada and Jamaica has been included in the Research Agenda. The provision of technical assistance to draft appropriate legislation has also been included in the Bank's work programme.

Regional Debt Coordinating Committee (RDCC)

The Monetary Council established the Regional Debt Coordinating Committee (RDCC) in October 1996 to provide oversight for the Regional Government Securities Market (RGSM). The RGSM integrates the individual markets for government securities across the Currency Union to raise funds for the respective governments; provide an investment opportunity for residents, and further the development of money and capital markets in the region. The RDCC comprises the financial secretaries from the respective ministries of finance and the Governor of the ECCB. The chairmanship rotates among the financial secretaries on an annual basis.

The functions of the RDCC include the reviewing and monitoring of the overall debt position of the Participating Governments and direct oversight for the development and operations of the RGSM. The RDCC focuses on strengthening the RGSM through promoting transparency in the market by ensuring that an adequate level of market information is provided. The ECCB also facilitates continuous dialogue between the RDCC and stakeholders and conducts research to guide the decision making process.



Goal 4

Actively promote the economic development of our member territories

The purposes of our institution go beyond the promotion of a sound financial system for the ECCU. Article 4(4) of The ECCB Agreement mandates the Bank “to actively promote through means consistent with its other objectives the economic development of the territories of the Participating Governments”. To do so, we must pursue an active advocacy agenda in collaboration with the OECS Commission and other stakeholders. Through economic advocacy, we work with participating governments, affiliated institutions of the Currency Union and partners to identify key drivers of economic growth and recommend programmes for enhancing the competitiveness of the economies.

The economic challenges facing the ECCU (see Appendix 2) highlight the increasing need for us to support member countries in leveraging opportunities to grow the regional and national economies. Only with sustained economic growth will the socio-economic transformation of the region become a reality. Therefore, we will partner with the OECS Commission in the continued refinement and implementation of the OECS Growth and Development Strategy (OGDS). This Growth and Development Strategy is an economic development plan that outlines sectoral growth strategies to address economic growth and targets among other issues, the enhancement of business competitiveness and reduction of youth unemployment in the region.

“Regional integration that propels
inclusive development
of member countries.”

- ECCU Vision



OBJECTIVES	INDICATORS
1. Support the OECS Commission in the continued refinement of the OGDS and implementation of an ECCU-wide economic development plan (including initiatives, targets and assigned responsibilities)	<ul style="list-style-type: none"> • Economic development plan for the ECCU implemented in collaboration with the OECS Commission (including regional sector strategies to reduce unemployment at national levels) • Delivery unit launched consisting of members from the ECCB, OECS Commission and all member countries tasked with the implementation of the economic development plan • Policy advice via research papers and annual growth forums provided to member countries on opportunities to increase employment and economic growth • Active pursuit of initiatives to spur economic growth financed by the use of a limited portion of the region's foreign reserves
2. Provide technical assistance, policy advice and consultations to ECCU member countries on how to expand existing and attract new sectors and improve regional competitiveness and ease of doing business	<ul style="list-style-type: none"> • Policy advice provided to member countries on methodologies to attain measurable progress towards achieving a rank among top 50 in The World Bank Annual Ease of Doing Business indicators • Quarterly consultations and provision of policy advice to member countries to aid reform processes for doing business in the ECCU • Support for the improvement in the business climate including the establishment of a modern land registry
3. Expand access to financing for the private sector (particularly MSME) wherever possible and consistent with the Bank's safety and soundness mandate	<ul style="list-style-type: none"> • Advocacy and technical support provided to member countries on recommendations for improving MSME access to finance and markets • Implementation of the project deliverables of the FIRST Initiative World Bank Project and the Savings Bank for International Cooperation (SBFIC) project • Strong collaborations established with the OECS Competitive Business Unit and the Branson Centre for Entrepreneurship
4. Provide a coordinating framework to mobilise private sector employers to improve workforce development and reduce unemployment	<ul style="list-style-type: none"> • Public-private sector partnership established to identify skills gaps and develop corresponding training programmes • Vocational training programmes provided aimed at reducing unemployment • Downward shift made towards achieving single-digit unemployment by 2025
5. Refocus research agenda to address growth	<ul style="list-style-type: none"> • Forward looking research addressing growth, competitiveness and employment • Quality and breadth of data provision on the ECCB website improved • Revised UN standards for System of National Accounts and IMF standards for Balance of Payments implemented • Press releases issued on Economic and Financial Reviews and GDP estimates

ONGOING INITIATIVES

Memorandum of Understanding (MOU) with OECS

- On 22 November 2016, the ECCB and the OECS Commission signed an MOU establishing a more effective framework for collaboration that will provide stronger coordination and partnership in order to increase effectiveness and development impact in the OECS. The collaboration covers the following areas: a) Macroeconomic Policies; b) Information and Communication Technologies (ICT); c) Economic Statistics; d) Financial Sector Development; e) Economic Union: Single Financial Space; f) Fiscal Policy; g) OECS Growth and Development Strategy; h) Trade Policies; i) Social Statistics; j) Communications; and k) Private Sector Development.

German Savings Banks Project - The German Savings Bank Foundation for International Cooperation (SBFIC), is implementing an ECCB endorsed project to support MSME's access to financial services and the strengthening of the financial sector.

The overall objectives are as follows:

- Improve MSME's access to financial services by strengthening the sustainability, know-how and the product range of selected financial institutions.
- Increase the business literacy of Micro and Small Enterprises by providing business and financial training and coaching

Annual ECCU Growth Forum - As part of the initiative to forge consensus on a plan of action for addressing growth, competitiveness and employment in the ECCU, an Annual Growth Forum with social partners has been institutionalised with the first forum taking place on 1 March 2017 at the ECCB Headquarters in St. Kitts. and Nevis. The forum seeks to identify:

a) A programme for addressing the constraints to growth, competitiveness and employment in the OECS; b) A framework and methodology for implementing the deliverables identifies in the Growth Action Plan for all countries of the ECCU; and c) A process for monitoring, evaluating and reporting on the implementation of the Growth Action Plan.

FIRST Initiative World Bank Project - The ECCB and the World Bank are collaborating on a project to further develop the financial system in the ECCU. The project, which is supported by FIRST Initiative, commenced in September 2015. The project seeks to support the diversification of the financial system by identifying the instruments, markets, and supporting institutional, legal and regulatory framework to ensure the efficient allocation of capital for facilitating the growth and development of the region's economies.

The main deliverable of the project is a strategy and action plan for a more diversified financial system which identifies five key areas of priority for implementation: (i) the creation of a partial credit guarantee scheme (PCGS) for the ECCU member countries to provide third-party credit risk mitigation to lenders in order to increase access to credit for SMEs; (ii) operationalisation of the regional credit bureau; (iii) harmonisation of legal reforms to support access to finance; (iv) enhancement of the legislative framework to support the establishment of collective investment schemes; and (v) evaluation of a re-launch of the ECSE's Entry Level Tier Market as an SME Market.



Goal 5

Enhance organisational effectiveness to ensure responsiveness and service excellence

As we seek to enhance our effectiveness in serving the region, we are focusing on strengthening our reputational capital as a well-respected institution in delivering our mandate.

To this end, we will foster a paradigm shift in mindset, culture, operations and structure and develop an IT architecture that provides us with business intelligence systems for informed decision making, strategy formulation and proactive policy advice.

OBJECTIVES	INDICATORS
1. Return the Bank to profitability through operational cost efficiencies	<ul style="list-style-type: none"> • Cost reduction efforts focusing on efficient procurement and operational processes implemented and sustained (such as lower utility cost and the greening of the ECCB campus) • Loss making coins eliminated
2. Transform citizen engagement and stakeholders' relations management built on transparency, accountability and knowledge sharing	<ul style="list-style-type: none"> • ECCB communication strategy enhanced (including public education, crisis communications and social media strategy) • Regular research published and data provided on status, trends and forecasting of key financial and economic sector indicators • ECCB communication outreach and financial education programmes expanded • Continued delivery of targeted financial and entrepreneurship education programmes • Key stakeholders (including social partners and the international community) engaged on strategic ECCU issues
3. Revamping the Human Resource strategy to support talent development and management	<ul style="list-style-type: none"> • ECCB human resource capabilities strengthened in core central bank competencies • Improved talent attraction and retention strategy (including review of the appraisal system and promotions and increments policy)
4. Foster a culture of continuous learning and professional development	<ul style="list-style-type: none"> • Capacity building programme for the ECCB introduced and linked to strategic priorities • Bank-wide leadership and relationship management training programme instituted

OBJECTIVES	INDICATORS
5. Utilise technology to inform data-driven decision making	<ul style="list-style-type: none"> • Institution-wide training in information systems and business intelligence conducted • Utilisation of business intelligence solutions across the Bank expanded • Collaboration with the OECS Geographical Information Strategy (GIS) Regional Statistical Unit • Data sharing with the OECS Commission for better informed decision making in member countries
6. Develop a holistic internal risk management framework	<ul style="list-style-type: none"> • Risk management framework expanded and annual vulnerability assessment introduced across core activities of the Bank • Vulnerability and penetration testing introduced, in line with international standards on cyber security • Business continuity and disaster recovery plan enhanced including fully functional cloud-based replication of IT system
7. Continue to transform the ECCB along STAR values	<ul style="list-style-type: none"> • Cross functional teams institutionalised to leverage the intellectual capital in the Bank and create an environment for collaborative sharing of ideas and perspectives • Innovative work practices and staff empowerment introduced • Solutions approach model adopted and embedded in work culture • Survey results that reflect an increase in the Bank's adoption of a culture based on STAR. Values - Service Excellence, Teamwork and Truth Telling, Accountability and Results
8. Strengthen the forward looking and robust research agenda	<ul style="list-style-type: none"> • Robust and relevant research agenda developed and joint research conducted in collaboration with member countries and IFIs to address growth • Research fellows programme launched
9. Reformulate organisational structure to support the strategy	<ul style="list-style-type: none"> • Organisational structure that is aligned with the Bank's strategy and facilitates the attainment of the goals



“ Regulation and support
systems for businesses. ”

- ECCU Vision

ONGOING INITIATIVES

Country Engagements by the Governor - The Bank commenced its country outreach initiative in keeping with the new Citizen Engagement and Stakeholders Relations Strategy as outlined in the new vision for the Bank.

During his first year, the Governor visited the eight ECCB member countries and engaged in discussions with:

- Members of Cabinet;
- Ministers of Finance;
- Leaders of the Opposition;
- Bankers' Associations;
- Social Partners (businesses, labour unions, civil society and churches); and
- The Media

ECCB Connects

ECCB Connects, published on our You Tube channel and our website, is one of our video outreach initiatives designed to help our public understand who we are, what we do and how we serve their interests.

Office of Risk Management

The ECCB has established an Office of Risk Management and appointed a Chief Risk Officer to lead the implementation of an Enterprise Risk Management framework. The objective is to evolve our risk management practices to meet international standards and fulfil the requirements of rapidly changing conditions.

Leadership Training

In our thrust to enhance organisational effectiveness through the development of leadership capacity within the Bank, we embarked on an initiative to bridge the gap in the leadership and supervisory skills of management/supervisory staff across the Bank.

Effective management/supervision of staff is critical in enforcing the principles of our S.T.A.R. culture to support our quest for excellence and to avoid performance gaps in the area of supervision and management.

STAR Awards

On his first day in office, 1 February 2016, the Governor declared his desire to forge a new culture within the Bank, based on some core values and critical behaviours and presented to the management and staff.

The S.T.A.R. logo is the backdrop on every computer at the Bank, and is a constant and clarion call to all management and staff to live the S.T.A.R. mantra. In 2016 December the STAR awards were launched to acknowledge staff who reflect the STAR values.

06

Appendix 1

Overview of objectives per goal

GOAL 1

MAINTAIN A STRONG
AND STABLE EC DOLLAR

- Maintain sufficient foreign reserves to support the EC Dollar
- Review and adoption of a revised investment policy framework
- Advise Monetary Council on monetary and credit conditions consistent with The ECCB Agreement
- Ensure parallel implementation of the initiatives across the other four core activities of the Strategic Plan to maintain a strong and stable EC Dollar

GOAL 2

ENSURE A STRONG,
DIVERSIFIED AND
RESILIENT FINANCIAL
SECTOR

- Enhance risk based supervisory and management framework
- Develop a macro-prudential framework
- Deliver new risk management infrastructure to support the ECCU financial sector
- Improve payments infrastructure to adapt to evolving market expectations
- Support the amalgamation of indigenous banks
- Deepen money and capital markets
- Promote the development of financial sector to increase citizens access to credit and other financial services
- Advocate for the establishment of a single financial space

GOAL 3

BE THE ADVISOR
OF CHOICE TO OUR
PARTICIPATING
GOVERNMENTS IN
PURSUIT OF FISCAL AND
DEBT SUSTAINABILITY

- Provide policy advice to Participating Governments and facilitate capacity building of member countries for effective debt management
- Advocate for a high standard of fiscal governance and functional cooperation
- Track member countries performance related to fiscal and debt sustainability and share information through a centralized database with member countries and other stakeholders
- Improve the functioning of the market for government securities (RGSM)
- Provide recommendations and shape regional consensus to facilitate the achievement of a primary surplus and improve the collective fiscal health of the ECCU
- Provide capacity building to Participating Governments for effective cash flow management and operational efficiencies

GOAL 4

ACTIVELY PROMOTE
THE ECONOMIC
DEVELOPMENT OF OUR
MEMBER TERRITORIES

- Support the OECS Commission in continued refinement of the OGDS and implementation of an ECCU-wide economic development plan (including initiatives, targets and assigned responsibilities)
- Provide technical assistance, policy advice and consultations to ECCU member countries on how to expand existing and attract new sectors, and improve regional competitiveness and ease of doing business
- Expand access to financing for the private sector (particularly MSMEs) wherever possible and consistent with the Bank's safety and soundness mandate
- Provide a coordinating framework to mobilise private sector employers to improve workforce development and reduce unemployment
- Refocus research agenda to address growth, competitiveness and unemployment

GOAL 5

ENHANCE
ORGANISATIONAL
EFFECTIVENESS
TO ENSURE
RESPONSIVENESS AND
SERVICE EXCELLENCE

- Return the Bank to profitability through operational cost efficiencies
- Transform citizen engagement and stakeholders' relations management built on transparency, accountability and knowledge sharing
- Revamp the human resource strategy to support talent development and management
- Foster a culture of continuous learning and professional development
- Utilise technology to inform data-driven decision making
- Develop a holistic internal risk management framework
- Continue to transform the ECCB along STAR values
- Strengthen the forward looking and robust research agenda
- Reformulate organisational structure to support the strategy



Appendix 2

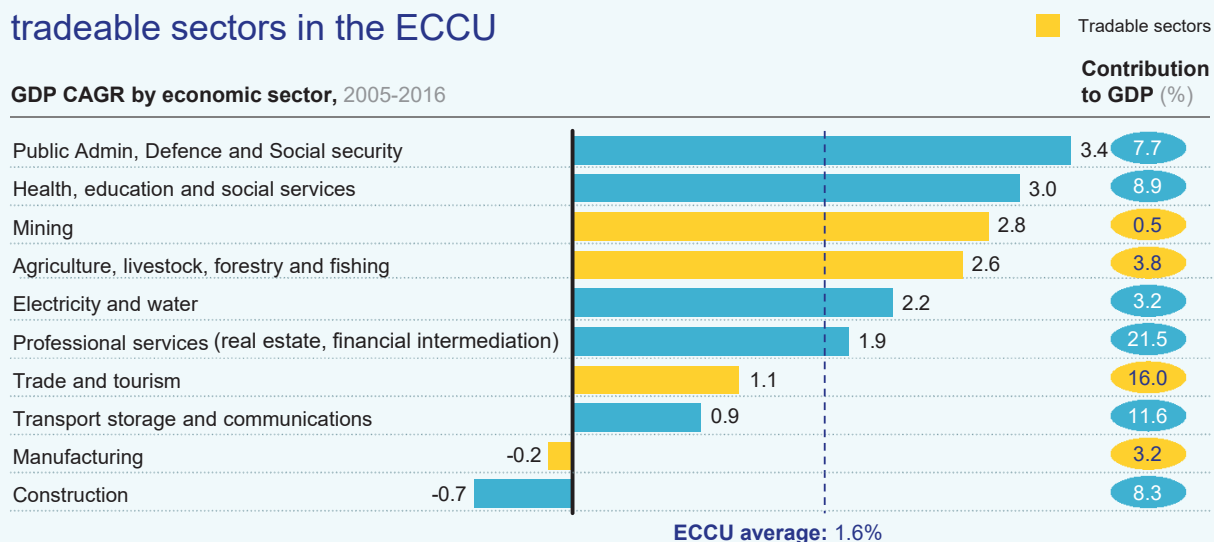
Perspective on economic growth in the ECCU

This section presents a perspective on the ECCU's economic growth in the 21st century and a macro-economic snapshot of the current economy. The considerations raised here were instrumental to developing the objectives for economic growth outlined in Goal 4 of our strategy. The context for growth is comprised of four primary elements: GDP, Jobs, Fiscal Health and Competitiveness.

1. GDP

The ECCU has experienced real economic growth of 1.9 per cent per annum between 2000 and 2016. Similar to economies globally, the ECCU economy suffered severely from the global financial crisis. The three consecutive years of negative growth, the first in the history of the ECCU, exposed the structural vulnerabilities of the member countries that had been masked by the relatively high per capita income, which led to the graduation of some countries to high income from middle income countries.

Non-tradable sectors have grown faster than tradeable sectors in the ECCU



Tradable sectors are essential for long-term economic growth as non-tradeable sector growth is constrained by the size of the local economy

1 Professional services is not considered tradable although some types of outsourceable services are included in this economic sector
SOURCE: ECCB

These vulnerabilities are yet to be resolved, almost a decade after the onset of the global financial crisis. Although ECCU GDP per capita is in line with the Caribbean region, real GDP growth is estimated to be only 2.6 per cent in 2016. This is well below our target range of 3.4 to 5.0 per cent and the 2016 estimated GDP growth rates of other Small Island Developing States such as Mauritius (3.5 per cent) and the Seychelles (5.9 per cent); and certain other countries in Latin America and the Caribbean such as Costa Rica (4.8 per cent) and the Dominican Republic (5.9 per cent).

The top sectors that contributed the most to ECCU economic growth over the past decade were personal and social services, utilities and agriculture; sectors that typically operate under relatively low profit margins. With the exception of agriculture and mining, contributions to growth have been mainly from the non-tradeable sectors. This is problematic since the tradeable sectors, such as tourism and manufacturing, safeguard the inflow of foreign exchange to replenish foreign reserves and maintain the stable EC Dollar. Furthermore, the growth of non-tradeable sectors is constrained by activities in the local economy whereas tradeable sectors benefit from economic growth occurring outside the region in other nations.

2. JOBS

Economic growth can be considered as the combination of productivity growth and employment growth. Between 2000 and 2015, 91.0 per cent of the ECCU's economic growth was contributed by an increasing population and only 9.0 per cent by productivity growth. Productivity in the ECCU has been near stagnant for the past 15 years at an average annual growth rate of 0.2 per cent⁵. Despite a decade of unparalleled technological innovation and increasing global trade, the economic output per employee has not increased. In comparison, average annual productivity growth was 1.1 per cent in Barbados, 2.5 per cent in the Dominican Republic and 3.3 per cent in Mauritius over the same period.

Due to low economic growth, the ECCU unemployment rate is at an unprecedented average level of 23.0 per cent. Especially worrisome are significantly high youth unemployment rates estimated to be between 30.0 and 50.0 per cent depending on the member state. Addressing youth unemployment is paramount to our economy as it will become increasingly difficult for youth with no or little work experience and who have been unemployed for extended periods of time to find meaningful jobs. Furthermore, marginalised, unemployed youth more easily succumb to patterns of criminality.

The ECCU has been able to fuel its economic growth through a growing labour force. However, the end of this demographic bonus is in sight as the dependency ratio (population under 15- or over 65-years) is set to increase rapidly after 2020. If productivity growth remains constant, employment-led growth will revert.

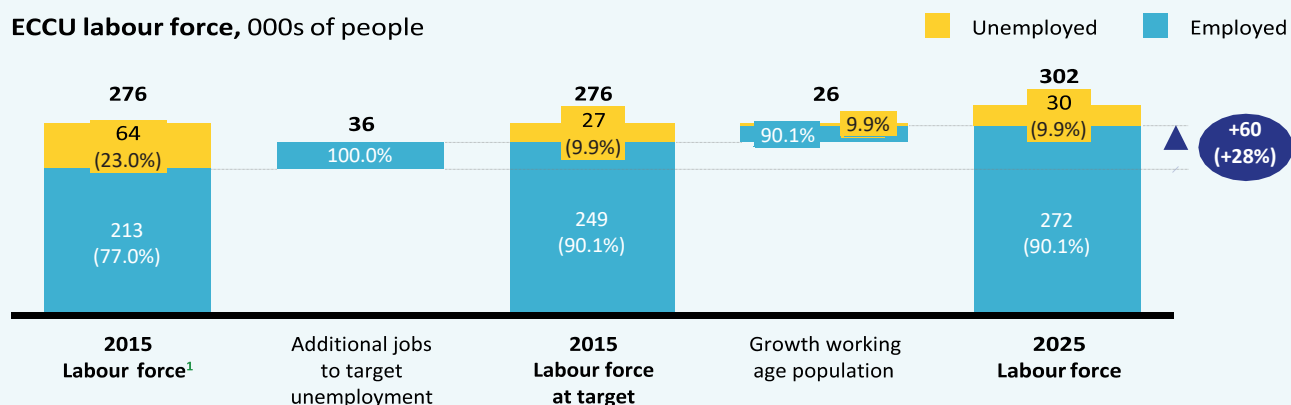
Given the nexus between stability and growth, we have set ourselves the target of supporting member countries to achieve a single digit unemployment rate by 2025. Taking the inflow of workers to the labour force into consideration, this translates to the creation of 60,000 jobs, or a 28.0 per cent increase in the employment base, over the next eight years. This outcome would be the equivalent of tripling the employment in the Accommodation and Food services in the ECCU.⁶

⁵ SOURCE: International Monetary Fund, World Economic Outlook Database, October 2016

⁶ Assuming that the 14.0 per cent employment contribution of the Food and Accommodation services sector in Saint. Lucia is representative of the region.

In order to achieve the aspired single digit unemployment rate, 60,000 additional jobs would need to be created in the ECCU by 2025

ECCU labour force, 000s of people



Job growth at this scale would be equivalent to tripling employment in Accommodation and Food services in the ECCU²

¹ ECCU labour force estimated based on labour force participation rates in Anguilla, Grenada, Saint Lucia and St. Vincent & the Grenadines
² Assuming that per cent of all employees working in Accommodation and Food services in the ECCU is similar to St. Lucia (14 %)

3. FISCAL HEALTH

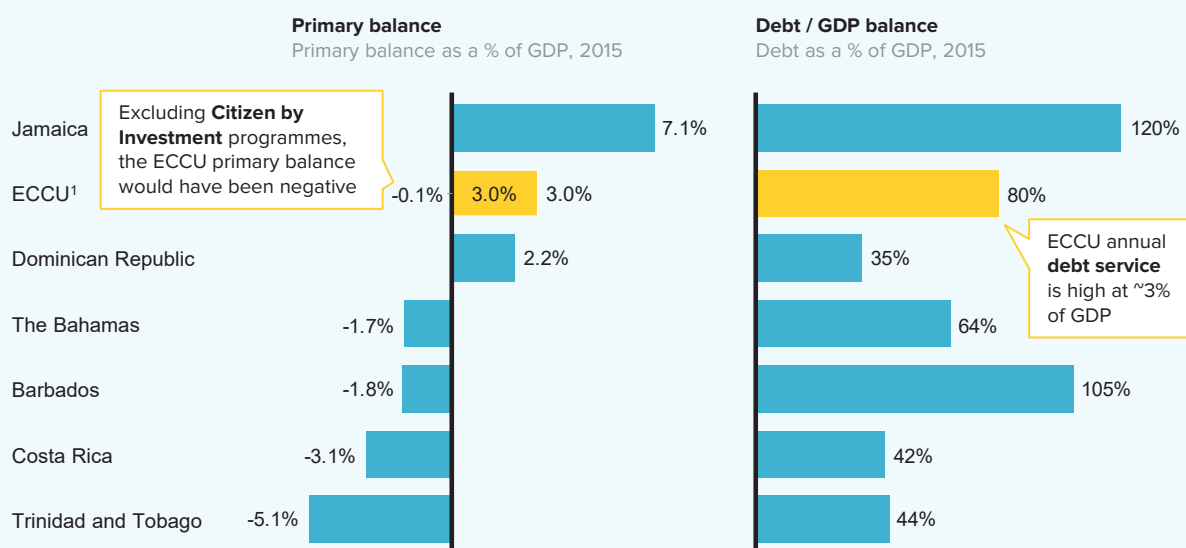
The absence of growth following the global financial crisis contributed to the weak performance of the banking sector and the deterioration in the fiscal position of all Participating Governments. This led to an accumulation of public debt that left countries with limited fiscal space to provide countercyclical support to the economies and exacerbated the unemployment situation, particularly among youths.

Although primary balances of member countries have improved, the ECCU still faces considerable fiscal pressures. Most governments continue to rely on Citizenship-By-Investment (CBI) programmes to fund their budgets. Without these incomes, the combined regional primary balance would have been significantly lower. This is of concern as member countries' CBI revenues face increased competition from both within and outside the ECCU. Additionally, global migration pressures and increasing security concerns may cause countries to reconsider the visa free travel of citizens from CBI countries. We urge member countries to utilise CBI revenues to fund initiatives to improve long-term productivity, such as infrastructure and renewable energies, reduce public debt and establish a Growth/Resiliency/Vulnerability Fund rather than finance recurrent budgetary operations.

4. COMPETITIVENESS

In order for the ECCU to reinvigorate its economic growth, it will be essential to improve the competitiveness of the economy. As an institution, we have committed to support member countries to achieve a top fifty (50) ranking on The World Bank's Doing Business Index.

Although there is capacity to invest for growth, ECCU member states will need to closely monitor key debt indicators



We have benchmarked the ECCU to other countries in the Caribbean along several factors of economic competitiveness that closely resemble the World Bank indicators. This analysis highlights that the ECCU is highly competitive compared to its peers in the following areas:

- Relatively low lending interest rates;
- Attractive tax rates; and
- Low perception of corruption and high enforcement of contracts.

However, while the aforementioned are essential competitive advantages that our region can leverage to attract more investments, the region is at a competitive disadvantage to peers in more categories, evidenced by:

- Relatively high average wages;
- Limited supply of high-skilled labour;
- Difficulty for SMEs to access financial credit (majority of credit provision goes to larger firms);
- World's highest electricity costs;
- High transportation costs (in time and money);
- Difficulty to start a business; and
- Limited investments in innovation.

Each of these disadvantages would need to be urgently addressed to facilitate the attraction of foreign investment into the region.

PATH FORWARD

There is an urgent imperative for the ECCU to increase its productivity and create high-quality jobs. To reach its single digit unemployment target the ECCU needs to create 60,000 new jobs by 2025 (equal to a 28.0 per cent increase of the employment base). In the short term this should be addressed by taking a regional perspective to growth. Sectors should be targeted where the ECCU has a unique advantage to attract foreign investment and trade; and by addressing the competitive disadvantages discussed above.

The linkages between the sectors, such as agriculture and tourism, should be strengthened in each member state, to boost growth. For example, Grenada has been making progress with linking agriculture and tourism. The Grenada Marketing Board is facilitating the linking of the farmers to markets through direct purchase from farms. The hotels and restaurants in Grenada are also purchasing directly from farmers and using more local produce in food preparation. Model farms and agro-processing plants, particularly cocoa, are being used as part of educational tours for tourists. Given the role that tourism plays in these economies and the need for leveraging the industry for further economic development, understanding the linkages and opportunities for enhancing these is an imperative for other territories. The type of linkage demonstrated in Grenada, can be emulated in other countries, since the tourism industry is becoming increasingly important to the overall Gross Domestic Product of this region.

In Saint Lucia, supermarkets, restaurants and hotels are increasing their purchase from local farmers. Agricultural linkages with the manufacturing sector are also being strengthened through agro-processing and the availability of these products in local supermarkets. The other islands with a strong agricultural base should look to strengthen linkages with tourism, education and manufacturing and explore the possibility of funding some small businesses in these areas. The hotel room stock in St Vincent and the Grenadines needs to be strengthened to cater for increased arrivals as a result of the new Argyle International Airport. Therefore, investments in tourism plants would have to be a priority for the government. Participating Governments are also encouraged to diversify within the major sectors, for instance, to develop different tourism market niches and organic farming. Furthermore, they should ensure that the inflows from the Citizenship by Investment Programmes are used for productive sectors or areas other than tourism, like agro-processing and alternative energy.

An economic development plan would allow for a focused approach identifying territories that would benefit from targeting particular sectors, while safeguarding the overall regional economic development and specifically looking for opportunities to reduce youth unemployment. In parallel, the spend efficiency of public sector organisations should be benchmarked and cost saving opportunities identified. In the long term the focus should shift towards the creation of enablers that allow for inclusive and sustainable growth in the ECCU.

The implementation of this economic development plan should be safeguarded by a project team consisting of senior members from the OECS Commission the ECCB and each of the member countries. This project team would provide technical implementation support to member countries and public sector organisations and monitor the progress made along the economic development plan. The fourth goal of our Strategic Plan 2017-2021, “actively promote the economic development of our member territories”, presents the above opportunity. We must fully capitalise on this opportunity to do more to improve our relevance while meeting the expectations of our stakeholders.

Appendix 3

Perspective on Financial Technology

The global financial sector is undergoing rapid technological innovation as Financial Technology (commonly referred to as FinTech) firms challenge established practices and disrupt/transform traditional service offerings. Most notable is the introduction of new products and services allowing customers alternative options to manage their money more efficiently and less costly. The Bank of England describes four categories of innovation in payment technologies:⁷

- Digital wallets (or “Wrapper” services) improve the user interface and accessibility of the existing payment systems architecture. These services are linked to existing banking products like debit and credit cards, and pose an alternative to cash. Examples include Apple Pay and Google Money.
- Mobile money services introduce new payment schemes where money is linked to existing national currencies and stored as credit on a system-provider’s books. They provide an alternative to the traditional banking infrastructure in areas where these services would otherwise have been limited or where incumbent services charge high margins. A famous example is Kenya’s M-Pesa programme where financial services are linked to a user’s mobile phone.

⁷ Ali, R., Barrdear, J., Clews, R., Southgate, J., Bank of England. 2014, “Innovations in payment technologies and the emergence of digital currencies”, Quarterly Bulletin 2014 Q3



- Credits introduce an alternative currency for use on a specific platform such as the online gaming industry. Here, private sector companies accept money in exchange for an alternative unit of account and medium of exchange within existing payment systems.
- Digital currencies combine both a new payment system with new currencies not issued by a central bank. In the most well-known example, Bitcoin, tokenized transfers are made directly between payer and payee, effectively eliminating the credit and liquidity risk inherent in the fiat system. Other examples include Ripple and Litecoin.

Besides innovation in payment technologies, FinTech innovation is transforming traditional operations within the global financial system. Banks and insurance companies alike are increasing their focus on data security and privacy (including the mitigation of cyber security risks); enhancing their analytical capabilities; and digitising and automating operational processes. For example, banks are digitising their risk assessments such as Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance processes to increase processing speeds and the ability to handle an increasing amount of data from internal and external sources. In transaction monitoring, banks are improving their heuristic processes by adopting sophisticated analytical models such as machine learning allowing them to more accurately identify and assess bad transactions. Finally, banks are improving their credit modelling capabilities in multiple ways, such as by analysing the behavioural activity of customer deposit flows and external sources such as social media to target underserved customer segments. The opportunities of FinTech innovation hold true for regulators as well. Regulators world-wide are adopting advanced analytics to monitor vastly increasing amounts of data. Furthermore, by digitising previously manual processes the speed and quality of their regulatory supervision are enhanced.

Above all, the most promising among technological innovations for both financial sector firms and regulators is the introduction of blockchain technology (the system underpinning digital currencies). A blockchain is an encoded digital ledger that stores data records, or “blocks”, on multiple computers in a public or private network. Once these blocks are collected in a chain, they cannot be changed or deleted by a single actor; instead, they are verified and managed using automation and shared governance protocols. This allows for increased security, reliability and speed of financial transactions in addition to reduced associated costs and lower counterparty settlement and fraud risk. In the medium term, blockchain technology poses a means for bank and non-bank financial institutions to consolidate shareable processes.

CHALLENGES FOR REGULATORS

Despite its many benefits, FinTech innovation poses considerable challenges to regulators. The rapid entrance of FinTech start-ups is expanding the number of service providers to be overseen by financial sector regulators. Moreover, financial service providers are increasingly teaming up with FinTech and nonfinancial sector technology firms. This blurs the lines of what falls under regulatory purview and places increasing strains on the resource capacity of regulators to oversee the full spectrum of financial services.

Advancements in automation and analytics are rapidly increasing the processing speed and complexity of financial sector operations. Additionally, financial service providers will increasingly digitise their operational processes in an attempt to lower middle and back office costs or even outsource these operations completely. Consequently, regulators will have to be able to oversee larger amounts of data and new processes in order to continue to accurately fulfil their responsibilities.

Over the past decades, banks have developed highly sophisticated and advanced underwriting practices to minimise their credit risk exposure. As FinTech providers enter the financial sector, there is an inherent risk regarding the soundness of the new practices they introduce. Regulators will have to update their risk management frameworks accordingly and develop capabilities to accurately assess the associated risks of these innovative offerings.

POSITIONS OF CENTRAL BANKS GLOBALLY

Globally, regulators are taking different stances when it comes to regulating FinTech innovation. For example, US regulators will be offering FinTech companies the option to apply for a new type of nation-wide banking license that will allow them to expand more quickly across the country, bypassing certain US state level regulations. In Europe, the Payments-System Directives (PSD2) requires banks to open up their application programming interfaces to third parties. The Central Bank of Brazil has introduced regulation regarding peer-to-peer lending and central banks throughout Asia have tightened regulations. Notably, the Bank of Canada is at the forefront of regulatory responses to FinTech innovation. Among others, it is utilising FinTech solutions to update its Large Value Transfer System and Automated Clearing Settlement System by expanding transaction data collection and making it interoperable with other Bank databases to avoid the manual entry of information. Furthermore, it is cooperating with international groups such as the Basel Committee on Banking Supervision and the International Organization of Securities Commissions to develop a solid analytical framework in response to FinTech developments.

The latest wave of FinTech innovation has led several pioneering central banks and government institutions to pilot blockchain technology. The Central Bank of Canada in collaboration with the country's biggest banks is developing a digital version of the Canadian Dollar. However, it emphasises that these efforts are for experimentation purposes only and there are no concrete plans to start issuing e-money to the general public. Furthermore, an incubator team at the Monetary Authority of Singapore invited blockchain start-ups to present their offerings and capabilities and a handful of applications were selected for pilot testing. Simultaneously, the central banks of France, the Netherlands and South Africa have also announced plans to pilot blockchain technology. Despite these initiatives, at the time of writing, no central bank has introduced the large scale application of blockchain technology.

In the Caribbean, BITT, a Barbados-based tech company founded in 2013, is leading the FinTech ecosystem revolution. In addition to its mobile wallet services, Bitt, in 2016, launched a blockchain-based version of the Barbadian Dollar. However, like the FinTech companies in the developed world, its activities are experimental and nothing definitive as it relates to the formal execution of its services have been undertaken.

OUR POSITION

The rapid development of financial technologies (FinTech) presents opportunities and challenges.

We acknowledge that FinTech will eventually transform the ECCU financial system and by extension its regulatory construct. Furthermore, we accept that the ECCB has a responsibility to influence the adoption speed and disruption extent of FinTech innovation in the ECCU.

In relation to opportunities, digital wallets and mobile money services could present ECCU citizens and residents with a more efficient and secure alternative to traditional cash transactions, while increasing their access to financial services throughout the region. In addition, the increased adoption of electronic payments would allow for the reduction in the demand for physical EC Dollar bills and coins thereby allowing for savings on production and distribution.

ECCU businesses can reposition their business models to benefit from potential upside gains from the use of FinTech. Adopting block chain technology in the ECCU could facilitate the consolidation of the banking sector and expand the reach and service offerings of non-bank financial services to ECCU citizens. The key benefit to the ECCU economy would be a rise in GDP due to reductions in real interest rates, distortionary taxes and money transaction costs. This benefit could boost the export sector of the ECCU and the region could become more attractive for Foreign Direct Investment.

The challenge of regulating a transforming ECCU financial system will necessitate a paradigm shift which will include the increased use and reliance on regulatory technology to enable “a real time regulatory regime that identifies and addresses risks, while also facilitating far more efficient regulatory compliance”⁸ as well as more strategic alliances among and between regulators financial institutions, and FinTech companies.

In strengthening our risk management framework, we are prioritising KYC, Anti-money-laundering/Countering the financing of terrorism (AML/CFT) and Cybersecurity. In short, minimising money laundering, terrorist financing, cyber and fraud risks will be key considerations as we assess the entrance of new financial service providers and products.

We acknowledge that there are considerable legal and regulatory implications of blockchain technology and digital currencies and that there is currently no international standard setting body for blockchain and distributed ledger technologies. This is likely to change.

At the ECCB, we intend to leverage FinTech developments to propel economic growth and transformation in the ECCU. We will support the deployment of all applications but are particularly interested, at this time, in FinTech opportunities for:

- KYC Utilities (to help prevent loss of correspondent banking relations)
- Payments and Transfers; and
- Issuance of a Digital Currency

In respect of issuance of a digital currency, the ECCB is actively considering a pilot in the ECCU. This pilot would explore the development of a digital Eastern Caribbean Dollar using distributed ledger technology with a blockchain platform specifically designed for a safe and secure digital financial ecosystem. Essentially, would be a proof of concept, designed to demonstrate the viability and functionality of the ECCB issuing Digital Eastern Caribbean Dollars (DECD).

Like all technology adopted by ECCB over its 34-year history, this blockchain platform will be subjected to rigorous testing to determine its suitability for broad-based implementation.

In the immediate term, the ECCB will continue to participate in and promote regional conversation and cooperation on this emerging issue of FinTech.

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Appendix 4

ECCU Eight Point Stabilisation and Growth Programme

Recognising the likely negative impact of the international crisis, the Participating Governments of the Eastern Caribbean Currency Union (ECCU) in 2009 articulated a set of consistent policies and approaches, which were presented in the form of a comprehensive plan of action, referred to as the ECCU Eight Point Stabilisation and Growth Programme. The objective of the programme was to stabilise and transform these small and vulnerable island states; with the stabilisation and adjustment period identified as 2010 – 2014; and a transformation period from 2015 – 2020. The ECCU Eight Point Stabilisation and Growth Programme was approved by the Monetary Council in April 2009 and signed by the Participating Governments on 29 December 2009. The Monetary Council agreed that the Eight Point Stabilisation and Growth Programme would be implemented in the context of the following strategy:

- Components 1, 2 and 3, (The Stabilisation Package) which are Financial Programmes, Fiscal Reform and Debt Management, will be the first sequence of reforms which the region views as critical in establishing credibility through the achievement of macroeconomic stability.
- Concurrent with this, financial sector stability will be addressed through points 6, 7 and 8, (Structural Package) which addresses financial safety net programmes, amalgamation of indigenous commercial banks and rationalisation, development and regulation of the insurance sector.
- While components 4 (Public Sector Investment Programme) and 5 (Social Safety Nets) (The Stimulus Package) are essential prerequisites for sustaining growth and socio economic development. These are required to improve poverty and human development indices and transform the region's economies.

The ECCB continues to work with Participating Governments on the implementation of the different components.



07

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