2nd Growth Dialogue with 
Social Partners 

2018
2nd Growth and Resilience Dialogue

Working Together to Raise Growth Levels and Build Resilience in the ECCU

Eastern Caribbean Central Bank Headquarters
St Kitts and Nevis
15 February 2018
Join us at the Second Growth and Resilience Dialogue with Social Partners
ECCB hosts the Second Growth and Resilience Dialogue with Social Partners
15 February 2018

The second Growth and Resilience Dialogue engages a broad set of social partners within the ECCU around the theme “Working Together to Raise Growth Levels and Build Resilience in the ECCU”.

Development gains over the past years have increased resilience, but the ECCU’s vulnerability to external factors, like natural disasters, market shocks and climate change remains high.

The Dialogue convenes social partners, government officials and representatives of financial institutions in a full-day event with experts leading discussions with participants, identifying challenges in the current economic climate. Through discussions and the exchange of best practices, participants share insights on building resilience to strengthen development investments and facilitate sustainable growth.
The first Growth Dialogue took place at the ECCB Headquarters in St Kitts in March 2017 and featured seven speakers from regional and international organisations. During the two panel discussions and one working group session, these executives shared their ideas on how to drive growth and investment across the ECCU with 115 attendees. At the conclusion of the day’s event, stakeholders agreed to four priority thematic areas for the articulation of an action plan:

1. **Institutions:** Their development or further strengthening to maximise the possible gains from an OECS Economic Union;

2. **Human Resources Development:** The development of the human resources capacity along the whole continuum of employees required to transform the region’s economies;

3. **Financial Markets Development:** To ensure the regions populace is educated and aware of the regulatory and technological framework in which all financial transactions are conducted;

4. **Infrastructure:** The land, air and sea infrastructure to ensure logistics and connectivity are conducive to individuals’ movement and trade, which was presented in a Growth Action Plan.
What to expect at the second Growth Dialogue?

The second Growth and Resilience Dialogue with Social Partners is being planned for 15 February 2018 at ECCB Headquarters in St Kitts under the theme “Working Together to Raise Growth Levels and Build Resilience in the ECCU” to (i) concretise the work done on the four principal thematic areas of the first Growth Dialogue; (ii) examine and forge consensus on mitigating vulnerability in the financial sector markets in the context of de-risking and the New Banking Act; (iii) revise policies and processes for the development of climate smart, sustainable, national and regional infrastructure; (iv) ensure impactful response mechanisms by building resilience in institutions and our human resources to ensure sustainability; and (v) continue with the implementation of the Growth Action Plan.

If you intend to participate in the Dialogue, you are requested to complete an online registration by 19 January 2018. The online registration can be accessed at https://www.eccb-centralbank.org/forms/growth-and-resilience-dialogue-with-social-partners
About ECCB

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

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

Core Values (STAR)
Service Excellence
Teamwork and Truth Telling
Accountability
Results

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www.eccb-centralbank.org
AGENDA
### Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Event</th>
</tr>
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<tbody>
<tr>
<td>8:30</td>
<td>Registration</td>
</tr>
<tr>
<td>9:00</td>
<td>Official Opening</td>
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<td></td>
<td><em>(Chairman, Monetary Council and Governor, ECCB)</em></td>
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<tr>
<td>9:20</td>
<td><strong>Session 1: Keynote speaker Professor Lino Briguglio</strong> - Lessons for the resilience of small states in the face of frequently occurring natural disasters and man-made phenomena</td>
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<tr>
<td>9:50</td>
<td>Discussions</td>
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<tr>
<td>10:30</td>
<td>Break</td>
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<tr>
<td>11:00</td>
<td><strong>Session 2: Working together to achieve resilience in the face of vulnerability across the OECS - Perspectives from the ECCB, OECS Commission, CDB on building resilience after Hurricanes Irma and Maria</strong></td>
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<tr>
<td>11:30</td>
<td>Discussions</td>
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<tr>
<td>12:30</td>
<td>Lunch</td>
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<td>2:00</td>
<td><strong>Working Groups</strong></td>
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<td></td>
<td>- Strengthening our institutions for growth and sustainability</td>
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<td></td>
<td>- Building resilience in our financial sector markets</td>
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<td>- Developing our human resources capacity for growth and sustainability</td>
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<td>- Building climate smart resilient infrastructure in the OECS</td>
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<tr>
<td>3:40</td>
<td>Reports from Working Groups <em>(7 mins each)</em></td>
</tr>
<tr>
<td>4:00</td>
<td>Summary of Key Takeaways and Conclusion</td>
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Growth and Resilience in the OECS

Prepared for the 2nd Growth and Resilience Dialogue with Social Partners

under the theme

“Working Together to Raise Growth and Build Resilience in the OECS”

EASTERN CARIBBEAN CENTRAL BANK
ST KITTS
15 February 2018
Table of Contents

**KEY MESSAGES** .............................................................................................................................................. i
**KEY RECOMMENDATIONS** ............................................................................................................................ ii
**EXECUTIVE SUMMARY** .............................................................................................................................. iii
1.0 INTRODUCTION ........................................................................................................................................ 1
2.0 RECENT ECONOMIC AND FINANCIAL SECTOR PERFORMANCE ............................................................ 2
   2.1 Recent Economic Performance .................................................................................................................. 2
   2.2 Recent Financial Sector Performance ....................................................................................................... 5
3.0 ECCU VULNERABILITIES AND CHALLENGES ......................................................................................... 8
   3.1 Vulnerabilities to Economic Shocks and Natural Disasters ....................................................................... 8
   3.2 Institutional and Socio-economic Challenges ........................................................................................... 14
   3.3 Vulnerabilities and Challenges in the Financial Sector ........................................................................... 18
4.0 BUILDING RESILIENCE IN THE ECCU .................................................................................................... 20
   4.1 Raising Growth Levels and Building Macro-economic and Institutional Resilience .............................. 20
   4.2 Creating a Climate Resilient Region ......................................................................................................... 25
   4.3 Building Resilience in the Financial Sector ............................................................................................. 29
5.0 CONCLUSION .............................................................................................................................................. 31

References .......................................................................................................................................................... 32
KEY MESSAGES

1. The ECCU is highly vulnerable to economic shocks and natural disasters. Partly due to these vulnerabilities the region has experienced low growth with its attendant social challenges.

2. The fiscal challenges, such as deficit positions and high debt levels, have limited the capacity of governments to respond to shocks and implement counter cyclical policies.

3. Meteorological disasters have intensified, yielding damages exceeding the size of some of the economies that have been impacted. These disasters have reversed years of gains made in infrastructure, economic and social advancement. Building resilience against these disasters is imperative for the continued progress of the region.

4. Engendering high levels of growth will require addressing the challenges related to infrastructure and logistics; human resource development; financial sector development and institutional strengthening.

5. To support growth, the education system must address the skills mismatch in the labor market. Furthermore, the hindrances to private sector development must be addressed.

6. The ECCB 2017-2021 Strategic Plan and the OECS Growth and Development Strategy identify the framework to overcome some of those critical challenges. These strategic documents are further supported by the ECCU Growth Action Plan which stemmed from the first Growth Dialogue with Social Partners.
7. Building resilience in the financial sector is progressing, as the ECCB continues to strengthen regulation and supervision under the new Banking Act 2015, among other efforts.

**KEY RECOMMENDATIONS**

1. Coordinate and implement recommendations to address the region’s challenges, as articulated in the 1st Growth Dialogue with Social Partners Action Plan, the ECCB 2017-2021 Strategic Plan and the OECS Growth and Development Strategy.

2. Strategically create a diversified economy based on knowledge intensity and facilitate greater economic integration among member states.

3. Improve the relevance and quality of education.

4. Create an enabling environment for private sector development and entrepreneurship.

5. Strengthen current institutional arrangements to support growth and achieve fiscal sustainability.

6. Explore appropriate technology development for renewable energy production and accelerate climate change adaptation and mitigation efforts.

7. Continue to strengthen the supervision and regulation of the financial sector to support growth and build resilience.
EXECUTIVE SUMMARY

The countries of the Eastern Caribbean Currency Union (ECCU) are part of the wider network of Small Island Developing States (SIDS) which are faced with specific social, economic and environmental vulnerabilities. According to Easterly and Kraay (2000), many of these vulnerabilities are closely associated with size or smallness and resonate through the lack of economies of scale due to a narrow resource base and small domestic markets; high costs for energy, infrastructure, transportation, communications and public services; limited opportunities for the private sector; greater reliance on the public sector; little resilience to natural disasters and high volatility of economic growth. To complicate matters even further, many small states including the ECCU are located in regions prone to hurricanes and volcanic activity. A stark reminder of this was the 2017 hurricane season with 17 named storms including two category 5 hurricanes (Hurricane Irma and Maria) which caused over $2.5b in damage and losses to Anguilla, Antigua and Barbuda, Dominica, and to a lesser extent St Kitts and Nevis. Hurricane Irma also inflicted Recovery and Development costs of US$721.0m for the British Virgin Islands. The 2018 season is expected to be another above average one, according to a forecast by Tropical Storm Risk, a consortium of experts in tropical forecasting and insurance and risk management. According to the projection, the season could see about 15 tropical storms, seven hurricanes and three major hurricanes, underscoring the need for immediate action to build resilience against vulnerabilities and to raise growth levels.

Over the last five years (2012 – 2016), the growth performance of the ECCU has been below the target of 5.0 per cent agreed to by the Monetary Council and alluded to in the Organisation of Eastern Caribbean States (OECS) Growth and Development Strategy. As a result of this subdued level of growth, unemployment and poverty levels are in the double digit range. Many factors have contributed to this low growth outturn, chief of which, is the vulnerability to external shocks and natural disasters. As indicated by a World Bank Study (2016), the ECCU economies, though unevenly, are highly interconnected with the business cycles of its main trading partners. Consequently, negative shocks that affect the growth trajectory in those trading partners will adversely impact the growth performance of the region. These economic shocks
are often further compounded by the occurrence of natural disasters which have decimated private and public infrastructure, reversing decades of advancement and in some instances led to the loss of lives. In providing support to its member countries impacted by the 2017 hurricanes, the Eastern Caribbean Central Bank (ECCB), for the first time in its history, donated grants totaling $3.25m to these member states. Furthermore, the Bank through its 2017-2021 Strategic Plan will continue to assist member states in their quest to transform into climate resilient countries.

The economic literature clearly highlights the importance of institutional arrangements, private sector development, education, and the financial sector to growth and development. At the institutional level the region has had remarkable accomplishments, however, there is still a need for serious rethinking and discussion on the institutional framework needed to lock in those achievements. In the education system, challenges relating to skills shortages and mismatches have persisted. Private sector development is hindered by the less than conducive doing business environment, in particular, the laboriousness in accessing finance by small and medium size enterprises. Additionally, while the financial sector is stable, it has been challenged by de-risking and high levels of non-performing loans. Through the implementation of the New Banking Act 2015, among other efforts, resilience is being forged in the financial sector.

While the vulnerabilities and challenges faced by the ECCU member states are vast, complex and diverse, they are not insurmountable. Resolutions to many of the issues highlighted in this document are contained in the ECCB 2017-2021 Strategic Plan, the OECS Growth and Development Strategy and the Growth Dialogue with Social Partners Action Plan, which emanated from the 1st Growth Dialogue with Social Partners on 1 March 2017. The first Dialogue which focused on inclusive growth, had seven key development pillars, extracted from the thematic areas of the Global Competitiveness Index. After much discussion and consideration, the binding constraints to the ECCU’s growth and development were chosen. Under these broad

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1Since the hosting of the 1st Growth Dialogue with Social Partners, national consultations were held in six (6) of the eight member countries of the ECCU, namely Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia and St Vincent and the Grenadines to get broad based buy-in and commitment to the implementation of the Action Plan 2017-2019. Delivery units were then established in these countries as the implementation arm of the plan of action.
thematic areas of Institutions; Human Resource Development; Financial Market Development; and Infrastructure, the ECCB along with member governments, will continue to forge a path for attaining inclusive growth and fiscal and debt sustainability, and assist in building a more resilient ECCU.
1.0 INTRODUCTION

The ECCU countries are among the most vulnerable in the world due to small size, insularity, remoteness and proneness to natural disasters (Briguglio, 1995). This attribute manifests itself in the volatility of growth associated with the business cycles in its main trading partners, primarily the USA and the UK, and the frequent occurrence of natural disasters. For instance, over the period 2009-2011, economic growth in the ECCU contracted on average by 2.7 per cent mainly on account of the adverse effects of the 2007/2008 global economic and financial crisis. Furthermore, in 2017 the islands of Anguilla, Antigua and Barbuda, the British Virgin Islands, Dominica and to a lesser extent St Kitts and Nevis were impacted by category 5 hurricanes which wreaked havoc to infrastructure, private dwellings and the loss of life (Barbuda, Dominica). While positive growth returned to the region in 2012, the occurrence of these natural disasters has the potential of wiping off the gains made. In addition to the impact on economic growth, these man-made and natural shocks to growth also have a human element especially for a region with high unemployment rates and poverty levels. The contraction in economic activity post disaster along with damaged housing and interruptions in the delivery of social services, plunges the most vulnerable or low income families into deeper poverty. Hence, improving the resilience to all forms of negative economic and natural shocks is imperative for the survivability of the region.

This document provides a brief review of the economic and financial sector performance of the ECCU and discusses some of the main vulnerabilities and challenges faced by the region. It also puts forward a framework to build the resilience of ECCU member countries. This resilience can be built by firstly: raising growth to levels that would lead to a reduction in the rates of unemployment, poverty, and crime while simultaneously achieving fiscal and debt sustainability. However, this would require changes to the business environment whereby the private sector would thrive and expand. Economic diversification and prudent management of fiscal resources are also important factors. To support growth, there must be investments in education and health that would engender a healthy population with the skills needed by the business sector. Secondly, mainstreaming climate change adaption and mitigation is critical to preserve infrastructure and lives, and by so doing protect decades of economic advancement. Investments
in renewable energy generation and reviewing the design and location of infrastructure and human settlements are some of the components of creating a climate resilient region. Thirdly, a robust financial sector is the backbone of a strong economy and the ECCB through a number of initiatives have strengthened the resilience of this sector. Some of initiatives include the implementation of the New Banking Act, 2015 and the soon to be launched Credit Bureau and Partial Credit Guarantee Scheme. While the vulnerabilities and challenges of the ECCU region threatens its economic viability, they are not insurmountable. There is hope as articulated in the ECCB 2017-2021 Strategic Plan, the OECS Growth and Development Strategy and several sector specific CARICOM Strategies.

2.0 RECENT ECONOMIC AND FINANCIAL SECTOR PERFORMANCE

2.1 Recent Economic Performance

Economic growth in the (Eastern Caribbean Currency Union) ECCU averaged 2.4\(^2\) per cent over the period 2012-2016, relative to the performance in the previous five years (2007-2011) when average GDP growth was flat at 0.0 per cent, (see figures 1a and 1b). This is an indication that the region has recovered from the 2007/2008 global economic and financial crisis. Growth was predominately driven by tourism and construction activity in several economies, namely Antigua and Barbuda, Grenada and St Kitts and Nevis, which all grew at an average rate of 3.5 per cent during the last five years. The ECCU’s average growth rate surpassed that of some SIDS including the Bahamas, Barbados, Belize, Jamaica, and Tonga and the advanced economies of Canada, the United Kingdom (UK) and the United States of America (USA). Alternatively, the ECCU pace of growth lagged behind that of the Dominican Republic, the Maldives, Singapore and Seychelles.

\(^2\) Real GDP at Market Prices
Nevertheless, the pace of recovery has been uneven among ECCU member countries as indicated by the index of real GDP growth in figure 2. The index illustrates that Anguilla has not yet rebounded to its pre-crisis level while St Kitts and Nevis has had the largest recovery of the eight member countries. However, despite the recovery, the pace of economic activity remained below the revised growth target of 5.0 per cent agreed to by the Monetary Council in 2015 and as articulated in the ECCB’s 2017-2021 Strategic Plan.

Figure 2: Real GDP Growth in the ECCU (Index)
As a consequence of low economic growth, the ECCU suffers from high unemployment and poverty levels. Kandil et al. (2014) noted that unemployment in the Caribbean has often fluctuated in line with real growth dynamics, resulting in severe job losses during contractions and limited job creation which are not commensurate with economic booms. These trends have resulted in high unemployment levels in the ECCU member countries, particularly among youth (see table 1 and figure 3). The unemployment rate ranged from 14.0 per cent in Antigua and Barbuda (2015) to as high as 25.1 per cent in St Vincent and the Grenadines (2015). Nevertheless, the data indicate that in 2017 there were declines in the unemployment rates in Grenada and St Lucia by 8.5 and 3.8 percentage points, respectively, when compared with those reported in 2008/2009. This improvement in the number of persons employed can be attributed to increasing growth and employment programmes in these countries. The high rates of unemployment are not without costs – as it may have implications for social and economic development through lost productivity, higher rates of crime, loss of skills, violence and drug use. With these troubling developments, regional policy-makers have an urgent need to develop effective policy responses to these labour market challenges.

<table>
<thead>
<tr>
<th>Country</th>
<th>Poverty Rate (%)</th>
<th>Unemployment Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>23.0 5.8</td>
<td>7.8 1.5 n/a</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>12.0 18.3</td>
<td>7.0 4.0 14.1</td>
</tr>
<tr>
<td>Dominica</td>
<td>40.0 28.8</td>
<td>13.9 14.0 23.0</td>
</tr>
<tr>
<td>Grenada</td>
<td>32.1 37.7</td>
<td>9.9 32.5 24.0</td>
</tr>
<tr>
<td>Montserrat</td>
<td>42.0 36.0</td>
<td>13.3 13.7 n/a</td>
</tr>
<tr>
<td>St Kitts and Nevis</td>
<td>31.3 21.8</td>
<td>4.0 5.1 n/a</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>25.1 28.8</td>
<td>18.9 20.6 16.8</td>
</tr>
<tr>
<td>St Vincent and the Grenadines</td>
<td>37.5 30.2</td>
<td>21.1 18.8 25.1</td>
</tr>
</tbody>
</table>

Sources: Country Poverty Assessments, Labour Force Surveys and Population and Housing Census
n/a: not available, Data for Grenada and Saint Lucia are based on the 2017 Labour Surveys.
Meanwhile, although dated, the high poverty levels are disheartening and highlight the need for inclusive growth that would lead to social transformation. The poverty rates were in excess of 30.0 per cent in Grenada, Montserrat and St Vincent and the Grenadines. In addition to the high levels of unemployment and poverty, other social challenges include rising crime levels, inefficient health services partly due to the lack of specialized health care workers and a somewhat stagnant education system.

### 2.2 Recent Financial Sector Performance

A robust financial system is an integral component to the efficient functioning of the economy since finance enables the fundamental functions of economic activity, including connecting borrowers with savers, facilitating investments, processing payments, and safekeeping of financial assets. Moreover, the financial services industry facilitates and finances goods and services for the wider economy, supporting broader economic growth.

The ECCU financial sector has been severely challenged, precipitated by the global financial and economic crisis\(^3\). The crisis revealed weaknesses in corporate governance, risk management practices and operational risk areas of financial institutions. With the contraction in economic

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\(^3\) Major financial sector developments since the crisis: failure of Colonial Life Insurance Company Ltd (CLICO) and its subsidiaries, particularly British American Insurance Company Ltd (BAICO). Thereafter, there were three bank failures.
activity, asset quality deteriorated as measured by the non-performing loans (NPL) ratio, which increased significantly reaching as high as 18.0 per cent of total loans in 2013. At the same time profitability as measured by the return on assets, was negatively impacted, however, capital adequacy and liquidity remained comfortably above minimum regulatory requirements⁴ (see figure 4).

Figure 4: Financial Sector Indicators

Source: ECCB

As at 30 September 2017, the ECCU’s key financial indicators improved slightly when compared to those as at 30 December 2016. Over the period, total assets increased by 3.6 per

⁴ Minimum Capital Adequacy Requirement (CAR) 8.0 per cent Liquidity prudential limit 20.0 – 25.0 per cent
cent ($1.0b) to $29,235.8m; loans and advances increased marginally by 0.1 per cent ($13.6m) to $12,239.9m and total deposits continued on an upward trajectory, increasing by 2.5 per cent ($512.8m) to $20,740.4m.

Non-performing loans (NPLs) increased over the period by 4.8 per cent ($65.1m) to $1,421.5 and accounted for 11.6 per cent of total loans as at 30 September 2017. The NPLs were concentrated mainly in the ‘Personal’ (45.5 per cent or $646.4m) and the ‘construction’ (19.5 per cent or $277.6m) sectors.

Over the last two years, the banking sector has stabilized, NPL’s are decreasing, profitability is recovering, and capital is rebuilding, but the credit intermediation process has yet to recover due to the lingering effects of the crisis (Figure 5). The slow recovery in credit intermediation is as a result of several factors, such as low economic growth, continued risk aversion of commercial banks and increased credit standards. The lack of credit extension has had a concomitant impact on economic recovery as many small and medium sized enterprises have had difficulties in accessing credit.

**Figure 5: ECCU Credit Growth**

![ECCU Credit Growth](source: ECCB)
3.0 ECCU VULNERABILITIES AND CHALLENGES

3.1 Vulnerabilities to Economic Shocks and Natural Disasters

The less-than targeted growth outturn has been influenced by a number of vulnerabilities and challenges. Chief among them is the vulnerability to external shocks and natural disasters. While the region has fairly withstood the loss of preferential access and the decline of official foreign assistance in the early 1990s, turbulence in the business cycles of its main trading partners and natural disasters are constant threats to growth. According to the World Bank (2016), the high synchronization of the region with the US business cycles means that the OECS remains vulnerable to exogenous shocks. By calculating the average correlation of the change in GDP per capita (in constant 2005 US$) between OECS countries and the USA as well as the rest of the world between two consecutive periods, 1980-1999 and 2000–2014, the World Bank found that with the exception of Dominica, all other OECS countries’ GDP per capita were highly correlated to the USA and world output. The most vulnerable country was Antigua and Barbuda with the correlation to the US output of 0.66 (see table 2). This means that adverse economic conditions in the main trading partners will negatively impact the growth performance of the region and vice versa. Accordingly, the transmission mechanism by which these external economic shocks manifested themselves in the ECCU were through export revenues, tourism receipts and foreign direct investment inflows.

Table 2: Correlation of ECCU Real GDP Per Capita Growth with the US and the Rest of the World

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</thead>
<tbody>
<tr>
<td></td>
<td>World</td>
<td>USA</td>
</tr>
<tr>
<td>Grenada</td>
<td>0.5</td>
<td>0.21</td>
</tr>
<tr>
<td>Dominica</td>
<td>0.1</td>
<td>0.11</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>0.24</td>
<td>0.15</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>0.45</td>
<td>0.46</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>0.64</td>
<td>0.49</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>0.38</td>
<td>0.44</td>
</tr>
</tbody>
</table>

Source: World Bank; staff calculations based on World Development Indicators.

5 Main Trading Partners: United States of America (USA) and the United Kingdom (UK)
Compounded with these economic shocks which filter through the economic systems in the ECCU, the region is defenseless against natural disasters due to geographic location, natural features, topography, size and capacity. The key natural hazards affecting the region include tropical storms and hurricanes; floods; landslides; earthquakes; and volcanoes. As can be seen from figure 6, natural disasters are quite prevalent in the ECCU, totaling 14 in this current decade, averaging 2 per year. Globally, in 2017 alone, 13 named storms were formed in the Atlantic basin, two (2) of which became category 5 storms which went on to impact several ECCU territories and inflict approximately $2.5 billion in damages. Furthermore, for the first time in the history of tracking hurricanes, there were simultaneously three category 5 (five) hurricanes in the Atlantic Basin in September 2017. Not only has the region seen an increase in the frequency of natural disasters during this decade, but the severity of these events has intensified, attributable to climate change, more specifically global warming.

Figure 6: The number of Natural Disasters impacting the ECCU, 1970-2017


Note: These events include floods, droughts, tropical storms and hurricanes

Substantiated by empirical research, the occurrence of natural disasters has had adverse effects on growth and debt in SIDS. According to Melecky and Raddatz (2011) natural disasters had a
negative impact on the fiscal stance of low and middle-income countries during the period 1975-2008 by decreasing output and increasing the deficit. Similarly, Acevedo (2014) who explored the effects of natural disaster occurrences on growth and debt in the Caribbean from 1970-2009, found that moderate floods and storms have a negative effect on growth and debt while severe disasters generated larger declines in output. Further research done by Lugay and James (2014) revealed that the occurrence of natural disasters led to the accumulation of public debt in the ECCU over the period 1993-2011. Their results indicated that a natural disaster which led to damages in excess of 2.0 per cent of GDP increased the debt to GDP ratio by 6.7 percentage points.

Nevertheless, the impact of these disasters on economic growth and debt are largely dependent on the extent of the damages they inflict. In some cases, the losses and damages have exceeded the size of the economies, such as hurricane Hugo (1989) - 376.8 per cent of GDP in Montserrat; hurricane Ivan (2004) – 200.0 per cent of GDP in Grenada; and most recently hurricane Maria (2017) – 241.2 per cent of GDP in Dominica (see figure 7). These natural disasters impede growth by disrupting activity in the productive sectors of the economy, namely tourism, agriculture and manufacturing along with causing destruction to public and private physical infrastructure, reversing decades of economic and social advancement.

**Figure 7: Estimated Damages from Meteorological Disasters, 1970-2017**

![Impact of Meteorological Disasters in the ECCU, 1970-2017](image_url)

**Sources:** EM-DAT: The Emergency Events Database - Université catholique de Louvain (UCL) - CRED, D. Guha-Sapir - [www.emdat.be](http://www.emdat.be), Brussels, Belgium; Dominica PDNA, World Bank 2017
The occurrence of natural disasters exacerbates an already challenged fiscal position by enlarging existing expenditure pressures, reallocating resources away from programmed long-term development plans and increasing indebtedness, thus inhibiting the ability to conduct counter-cyclical fiscal policy. As can be seen from figure 8, overall fiscal deficits feature prominently in most ECCU member countries with the exception of Anguilla (2011-2014), Montserrat (2009-2011, 2015) and St Kitts and Nevis (2011-2016), and most recently Dominica and Grenada in 2016. It must be noted that the fiscal position of Dominica, Antigua and Barbuda, and St Kitts and Nevis were highly influenced by the Citizenship by Investment Programmes while that of Grenada mirrored the gains from the economic reforms under the Home Grown Programme.

Figure 8: ECCU Fiscal Balances, 2007-2016

![ECCU Overall Fiscal Balance, 2007-2016](image)

Source: ECCB

As with other SIDS, ECCU countries also exhibit high levels of public debt relative to GDP largely due to consistent primary deficits, and to lesser extent low growth and interest rates (IMF 2011, and Leonce and Hope, 2013). Furthermore, as previously articulated, natural disasters led to an accumulation of debt in the ECCU as governments increased borrowing to rebuild infrastructure. The debt to GDP ratio in the ECCU amounted to 70.4 per cent at the end of September 2017, a welcomed downward trend from earlier years, but still exceeding the 60.0
per cent target agreed to by the Monetary Council (see figure 9). As a result of this high debt level, the ability to respond to external shocks and natural disasters is constrained.

**Figure 9: Public Debt in the ECCU, 2007-2017**

![ECCU Debt to GDP Ratio, 2007-2017](image)

*Source: ECCB*

In addition to the fiscal and debt pressures emanating from the occurrence of natural disasters, the destruction to infrastructure has been massive (see table 3). These are exorbitant costs for these small islands and the cost of rebuilding back better adds a further mark-up. Consequently, the OECS infrastructure faces three main challenges. First, there is the annual threat of destruction due to tropical weather patterns, most evident during the hurricane season. To a lesser extent, there is also a constant threat of geological disasters. The devastation caused to Anguilla, Antigua and Barbuda, the British Virgin Islands and Dominica during the 2017 hurricane season are constant reminders. Second, the OECS islands are separated by water, thus the issue of infrastructure becomes one of developing construction practices in the realities of climate change and solving the logistical issues which arise due to the geographical layout of the territories. Third, there is the high cost to invest in and replace infrastructure. As a result of these challenges, there is an urgent need to adapt new infrastructure.
to the changing environment through construction design and location. This adaptation should be enforced through the implementation of continuously reviewed building codes.

Table 3: Damage to Infrastructure and Private Housing, 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Damage (SEC, millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla (Hurricane Irma)</td>
<td>232.28</td>
</tr>
<tr>
<td>Antigua and Barbuda (Hurricane Irma)</td>
<td>149.19</td>
</tr>
<tr>
<td>British Virgin Islands (Hurricane Irma)</td>
<td>583.7</td>
</tr>
<tr>
<td>Dominica (Hurricane Maria)</td>
<td>826.2</td>
</tr>
<tr>
<td><strong>Private Housing</strong></td>
<td><strong>Infrastructure</strong></td>
</tr>
<tr>
<td></td>
<td>226.10</td>
</tr>
<tr>
<td></td>
<td>363.10</td>
</tr>
<tr>
<td></td>
<td>na</td>
</tr>
<tr>
<td></td>
<td>955.70</td>
</tr>
</tbody>
</table>


Infrastructure development in the ECCU also entails connecting the unconnected. As the ECCU seeks to develop further and encourage economic growth, the issue of connectivity and logistical support to member states arises. The ECCU member states are accessible by sea and air. However, the need for a more cost-efficient method of transportation is necessary. Airlines are at the behest of oil prices and sometimes provide inefficient service, while maritime shipping services in some member states have been reduced, limiting intra-regional export of goods. Cost-efficient logistical support is necessary for ensuring that ECCU businesses remain competitive. Improved logistical support requires solving existing challenges. Though logistical challenges are present and appear to be difficult, they are not unsolvable. The needs which ought to be filled include; increasing intra and extra-regional trade, improving marine transport, and reducing the cost of air travel and air cargo services. Solving these can mean establishing marine transport services through public private partnerships, continue reform of customs and immigration services – leading to a seamless travel experience, developing port facilities and other port services, and reducing the overall cost of shipping and travel through tax reform and harmonization.
3.2 Institutional and Socio-economic Challenges

At the institutional level, the region has had remarkable accomplishments, that have now become inextricably linked to its existence and to its economic and social development. These include the Organisation of Eastern Caribbean States (OECS), the Eastern Caribbean Supreme Court, the Eastern Caribbean Central Bank, Eastern Caribbean Civil Aviation Authority and the Eastern Caribbean Telecommunications Authority. Furthermore, on 18 June 2010 the OECS Economic Union was established and formally creates a basis for joint action in charting the collective social and economic future of Member States. The implementation of the Economic Union has made useful headway. For instance, all Protocol Member States currently have in effect the elements of free movement for OECS citizens which were agreed to in 2011. The citizens of the OECS now enjoy an unfettered right to move and live freely within the single space. Another key pillar of the OECS regional institutional arrangement which remains valuable for the social well-being of the ECCU residents is the OECS Pharmaceutical Procurement Service (OECS/PPS) which was established in 1986 as a pooled procurement agency to purchase tendered pharmaceuticals and other medical products for the OECS Member States.

However, despite these advancements, there is still a need for serious rethinking and discussion on the institutional framework needed to lock in the achievements and create and support the next steps for enhanced regional cooperation and integration. Missing from the existing arrangements is a rigorous regional and national framework of rules and policies to facilitate implementation at the national levels. Without a commitment to implementation at the national level, there can be limited advancement at the ECCU/OECS level and this may impede the integration process.

Skills shortages and skills mismatches are considered one of the critical challenges for the ECCU. For instance, there appears to be a mismatch between demand and supply, particularly, with a growth of service-oriented workforce at the expense of a decline in agriculture, while

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6 This has led to an estimated 20 per cent reduction on the unit cost of pharmaceuticals and other medical products resulting in annual aggregate cost saving of approximately $4 million.
high wages are not commensurate with productivity (Kandil et al, 2014). The draft OECS Growth and Development strategy noted that the region’s education reform over the last 25 years has yielded some positive results for the region, such as high access to basic education,\(^7\) strong social support systems to assist vulnerable and at-risk students, and significant financial contributions towards education.\(^8\) However, anecdotal evidence suggests that while increasing investment in education has expanded the pool of educated workers, these investments have not been converted into substantial gains, as the structure of the economy may not be conducive to generating employment for young persons (Regis, 2016).

Preliminary research by the ECCB suggests that the high share of low education workers in the labour force are related to a number of factors such as: skill gaps and deficits in specific sectors and occupations; lack of risk-taking by the private sector; low and uncompetitive wages relative to the public sector; and unattractive working conditions (Regis, 2016). With an improvement in educational investment by member governments,\(^9\) there has been an increase in secondary and tertiary-level graduates, which has placed additional pressure on the economy to provide more quality and skilled jobs (Regis, 2016). In St Vincent and the Grenadines, the country in which the study was conducted, a review of educational attainment at university levels (see figure 10) indicates that most students continue to focus on traditional subject areas, with only a small proportion of graduates specializing in applied sciences, IT and engineering, which may be in greater demand in the new global economy (Regis, 2016).

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\(^7\) Primary and secondary education enrolment rate is estimated at almost 100 per cent in most Member States

\(^8\) The report estimates that on average the equivalent of 5 per cent of GDP is spent on education, which compares favourably for the average of OECD countries

\(^9\) The original study focused on St Vincent and the Grenadines. For instance, many more nationals in St Vincent and the Grenadines have received scholarships and qualify for academic loans to pursue university and other tertiary level education.
The low contribution of labour to growth has been as a result of outward migration or what is more popularly termed “brain drain”. In fact, as many more nationals graduate from universities, they opt to remain in the United States or Europe given the poor job prospects in their home countries (see table 4). In fact, Mishra (2006) shows that although the region receives substantial remittances from developed countries amounting to 5.2 per cent of GDP, the loss of skilled workers constitutes almost twice this amount or approximately 10.3 per cent of GDP. Accordingly, these countries must find a way to retain as much skilled workers as possible and also develop an efficient framework to tap into those who remain in the diaspora.

**Table 4: Percentage of Caribbean Labour Force that has Migrated to OECD Member Countries by Level of Schooling 1965-2000**

<table>
<thead>
<tr>
<th>Country</th>
<th>Primary</th>
<th>Secondary</th>
<th>Tertiary</th>
<th>Migration Loss + Est Education Expenditure (% of GDP)</th>
<th>Remittances 2014 (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>9</td>
<td>64</td>
<td>67</td>
<td>13.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Dominica</td>
<td>19</td>
<td>67</td>
<td>64</td>
<td>11.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Grenada</td>
<td>25</td>
<td>71</td>
<td>85</td>
<td>11.0</td>
<td>3.4</td>
</tr>
<tr>
<td>St Kitts and Nevis</td>
<td>32</td>
<td>42</td>
<td>78</td>
<td>9.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>12</td>
<td>21</td>
<td>71</td>
<td>3.8</td>
<td>2.1</td>
</tr>
<tr>
<td>St Vincent and the Grenadines</td>
<td>18</td>
<td>33</td>
<td>85</td>
<td>10.7</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Using a growth accounting framework, the IMF finds that productivity was the main driver of historical growth episodes in the ECCU – particularly in the 1980s and prior to the global financial crisis. However, the study notes that total factor productivity (TFP) declined at the start of the crisis, thus limiting growth in recent years. The decline in TFP has been attributed to the shift from labour-intensive agriculture (Thacker et al, 2012) to the more capital-intensive tourism sector. However, these trends are being exacerbated by high wage growth (particularly in the public sector) which is not linked to productivity, and places pressure on wages in the private sector. These trends have resulted in high labour costs, and declining investment.

In addition, to falling total factor productivity, the business environment requires substantial improvement. According to the 2018 World Bank Doing Business Survey – an indicator of competitiveness, all ECCU member country rankings deteriorated in 2017 relative to 2015, with the exception of Saint Lucia (see figure 11). Overall, the ECCU rankings were lower than that of the non-ECCU comparator countries, signifying that the business environment is less competitive.

**Figure 11: ECCU and Non-ECCU Doing Business Ranking, 2015/2017**

*Source: 2016 and 2018 World Bank Doing Business Surveys*
Among the doing business indicators, the ECCU business environment remained challenged by difficulties in accessing credit, registering properties and resolving insolvency (see table 5). This has negative implications for growth.

Table 5: Selected Doing Business Indicators, 2017

<table>
<thead>
<tr>
<th></th>
<th>Antigua &amp; Barbuda</th>
<th>Dominica</th>
<th>Grenada</th>
<th>St Kitts &amp; Nevis</th>
<th>Saint Lucia</th>
<th>St Vincent &amp; the Grenadines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>126</td>
<td>67</td>
<td>82</td>
<td>91</td>
<td>69</td>
<td>85</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>144</td>
<td>77</td>
<td>141</td>
<td>124</td>
<td>74</td>
<td>101</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>159</td>
<td>142</td>
<td>142</td>
<td>159</td>
<td>159</td>
<td>159</td>
</tr>
<tr>
<td>Registering Property</td>
<td>118</td>
<td>164</td>
<td>141</td>
<td>184</td>
<td>105</td>
<td>166</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>101</td>
<td>81</td>
<td>131</td>
<td>66</td>
<td>82</td>
<td>93</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>128</td>
<td>132</td>
<td>168</td>
<td>168</td>
<td>127</td>
<td>168</td>
</tr>
</tbody>
</table>

Source: 2018 World Bank Doing Business Survey

3.3 Vulnerabilities and Challenges in the Financial Sector

Despite the stability of the banking sector a number of challenges remain. Amongst these are:

1. The impact of International Regulations: Loss of Correspondent Banking Relationships (see Box 1 for greater details).
2. Still very high levels of NPL - as at September 2017 the NPL ratio stood 11.6 per cent, 6.6 percentage points above the prudential benchmark of 5.0 per cent.
3. Structural issues such as small market size; limited geographic space; fragmented markets; narrow economic base, and largely undiversified economies; overbanked; and strong competition.
4. The occurrence of natural disasters which affect collateral values and the pace of economic activity which by extension impacts the financial sector.

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10 The fragmentation is along the lines of regulations and supervision, whereby there exist several different levels of regulations within and between countries. This makes it hard to identify risks in a timely fashion and difficult to undertake resolutions as aptly demonstrated in the last three resolution cases.
**Box 1: Impact of Correspondent Banking Relationship on the ECCU Region**

One of the consequences of the crisis has been more stringent requirements of international banking, which resulted in the loss of correspondent banking relationships in the region, or more commonly known as de-risking. The Financial Action Task Force (FATF) defines de-risking as “the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the FATF’s risk-based approach.”

De-risking is being driven by a number of factors related to compliance and business costs. Notably banks are required to strengthen their oversight and controls for combating financial crimes, or face harsh penalties from regulatory bodies.

Correspondent banking relationships are critical for enabling key financial and economic transactions, which contribute significantly to the region’s growth and development. A World Bank report issued in November 2015 revealed that the Caribbean seems to be the region most severely affected by the de-risking strategy. Over the period 2014 – 2017, eleven (11) international correspondent relationships were terminated with regional commercial banks. Bank of America terminated its relationship with four licensees in the ECCU, while other institutions lost correspondent banking relationships (CBR) with Deutsche Bank, Bank of Montreal, National Bank of Canada and Commerzbank. Termination of CBRs were based on low volume of transactions, cost of doing business with the institution and in some cases a reluctance to pay the increased fees. Fee increased by 525 per cent in some instances. In total eight local financial institutions were affected by loss of CBR’s. Attempts continue to establish new relationships through Crown Agents Bank in the United Kingdom and local US banks; however, timing differences have created delays in the processing of transactions and inconvenient cut-off times for same day transactions. Additionally, Crown Agents Bank is not on the US Federal clearing system, creating new challenges for those banks with card services.

In light of the de-risking challenges, the Eastern Caribbean Central Bank (ECCB) continues to participate in discussions with key stakeholders including licensed regional commercial banks, global correspondent banks, other regulatory bodies and ECCU member governments, as an advocate for the region. The ECCB also encourages regional banks to consider amalgamation towards increasing viability and transaction volumes so as to attract correspondent banks to maintain their relationships.

At the 85th meeting of the ECCB’s Monetary Council held in July 2016, it was decided that the ECCB will assume responsibility for AML/CFT regulation and supervision for institutions licensed under the Banking Act, 2015. The ECCB would have subsequently secured technical assistance towards augmenting the capacity of its supervision team in AML/CFT regulation and supervision. The CARICOM Ministers of Finance have also established a committee to address issues regarding developments in de-risking and correspondent banking in the Caribbean.
4.0 BUILDING RESILIENCE IN THE ECCU

4.1 Raising Growth Levels and Building Macro-economic and Institutional Resilience

The special characteristics of small island developing states such as those of the ECCU make the growth and development objective particularly challenging. As noted earlier, the ECCU countries are plagued with high debt levels, elevated unemployment rates, small domestic markets, limited product diversification, scale dis-economies in public service provision and in the private sector, and vulnerability to natural catastrophes. Solutions to many of these challenges have been articulated in the recently launched ECCB 2017-2021 Strategic Plan. The plan, which is consistent with the OECS Growth and Development Strategy\textsuperscript{11}, lays out the framework for achieving socio-economic transformation for the region as seen in figure 12. Notably, critical to the achievement of macro-economic stability and economic growth is the maintenance of a strong dollar\textsuperscript{12}, which is the foundation pillar of the Bank’s strategic framework and is intimately connected to the other strategic goals\textsuperscript{13} of the Bank.

\textsuperscript{11} The OECS 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.

\textsuperscript{12} The EC dollar has been pegged to the US currency at EC$2.70 to US$1.00 since 1976.

\textsuperscript{13} GOAL 1: Maintain a strong and stable EC Dollar; GOAL 2: Ensure a strong, diversified and resilient financial sector; GOAL 3: Be the advisor of choice to our Participating Governments in pursuit of fiscal and debt sustainability; GOAL 4: Actively promote the economic development of our member territories; and GOAL 5: Enhance organizational effectiveness to ensure responsiveness and service excellence.
Furthermore, in line with the goal of actively promoting economic growth, the ECCB is currently assessing whether a limited portion of its reserves can be utilized for developmental purposes. While the quantum and the use of funds are still being debated, the Bank is seriously contemplating several options such as infrastructural and other development projects through private-public partnerships or by other means. However, it is recognized that this strategy must be consistent with the maintenance of a strong and stable EC Dollar, which remains the Bank’s primary objective.

**Macroeconomic Stability:** Sustained economic growth is necessary for job creation. Accordingly, member governments should seek to strengthen economic growth to help create quality jobs. A sustainable macroeconomic framework, improvements to the investment climate, and investment in physical and human capital will therefore be important elements for growth. In short, member states have structural weakness that must be addressed through short-medium
term and long-term actions. A priority would be to strategically build a diversified economy based on knowledge intensity and facilitate greater economic integration among member states. Some specific solutions were identified in the first Growth Dialogue with Social Partners.

**Building Fiscal Buffers such as Resilience Funds**: A regional growth and resilience fund provides a path to development by generating growth and reducing economic volatility against the backdrop of high vulnerability to external economic shocks and natural disasters. Resilience funds can be financed from national budgets, citizenship by investment programmes and donor funding, and signals to the international community a commitment by regional governments to take ownership of their development path.

**Improving the Relevance and Quality of Education**: In reducing the skills mismatch and skills gap in the region, another priority is improving the quality, relevance and equitable access to education in accordance with the OECS Growth and Development Strategy and the CARICOM Human Resource Development Strategy. These documents outline several strategies for the OECS education sector which are consistent with the United Nations Sustainable Development Goals\(^{14}\). The OECS strategy for instance, has identified the need for the adoption of curriculum content that better reflects the knowledge and skills required for a dynamic and technologically-driven global work environment. It also seeks to create opportunities for the greater involvement of the private sector in curriculum development and education delivery, through effective private public partnerships.

**More Effective Apprenticeships**: Apprenticeships have often helped in improving youth skills and employability, and have been strongly recommended for countries in the region (IDB, 2016). While there are many such programmes in the ECCU in the form of short-medium term employment programmes\(^{15}\), these programmes could be better targeted to include more

\(^{14}\) Goal 4: Quality Education: This goal is to achieve inclusive and quality education for all and promote lifelong learning.

\(^{15}\) For example, the Skills Training Empowerment Programme (STEP) in St Kitts and Nevis, the National Employment Programme (NEP) in Dominica and Youth Empowerment Programme (YEP) and the Youth Agricultural Entrepreneurship Programme (YAEP) in Saint Lucia.
comprehensive needs assessments through employer engagement, and address skills mismatches through more advanced training.

Create an Enabling Environment for the Private Sector and Entrepreneurship: The region should create the enabling environment for the private sector and entrepreneurs to thrive. Useful strategies include:

- policies aimed at strengthening and diversifying the financial sector to provide credit to small businesses, as outlined in the ECCB Strategic Plan;
- providing more contracts to local and small entrepreneurs at hospitals, schools, hotels and other public sector agencies;
- Effectively target the Doing Business Indicators that are hindering the growth of the private sector such as access to credit, paying taxes among others.

Boosting the Role of Agriculture: Given the significance of food security and by extension, the agricultural sector, it may be useful to launch programmes aimed at improving working conditions of small farmers and agricultural workers including health and safety issues through the provision and access to social protection and health care. It may also be useful to revamp and redirect the education system towards agricultural and scientific research aimed at improving local plant and animal species. In addition, it will be beneficial to enhance participation in the agricultural sector by introducing policies to encourage farmers to add value to their produce while meeting the increasingly stringent standards demanded by regional and international consumers.

Strengthening the Financial System to support growth: Since the financial crisis, the ECCU has made strides in improving the regulatory and supervisory framework aimed at stabilizing the financial sector to improve confidence and enhance the credit intermediation process to propel economic growth. The successful resolutions of the ABI, CCB and NBA banks were major steps at stabilizing the financial sector. Other key features to support growth include:

1. The passage of the New Banking Act;
2. The establishment of the Eastern Caribbean Asset Management Company (ECAMC);
3. Establishment of the Eastern Caribbean Appraisal Institute;
4. The soon to be launched Credit Bureau and the Eastern Caribbean Partial Credit Guarantee Scheme.

**Strengthening Current Institutional Arrangements:** The ongoing challenges faced by the region cannot be confronted by relying on national institutions and national action alone—member states will also have to strengthen their cooperation and work more effectively together. While the current institutions and arrangements have served the region well, there is still significant strides in regionalism which are required across economic, social and environmental thematic areas. These can be achieved through the following:

- **Developing a framework to facilitate Implementation:** Going forward, Member States are expected to ensure efficient coordination between the objectives and instruments of regional integration and national economic policy-making, and ratify and implement decisions, agreed protocols and instruments in a timely manner. Such a rigorous implementation framework would have several advantages including decreasing duplication of functions in member countries; enhancing efforts to deal with common regional issues; while facilitating the sharing of regional resources and experience in activities such as research and training.

- **Strengthening Fiscal Institutional Arrangements through Fiscal Resilience Legislation:** While the commitment to achieve 60.0 per cent debt to GDP target by 2030 was recently renewed, the analysis of fiscal and debt developments suggests that adherence to a transparent, accountable, and credible fiscal legislative framework would be considered constructive. It is therefore advised that national fiscal resilience laws be instituted. Appropriately designed, these fiscal legislative frameworks would be supplemented with the accompanying arrangements for effective policy coordination and implementation to increase ownership by national governments.

- **Enhancing Private Sector Development through the OECS Economic Union:** One area where there has been limited coordination is in the area of private sector...
development. Within the prism of integration, businesses must seek to capitalize on the benefits of the Economic Union by investing and partnering with other firms beyond their domestic borders and exploring the possibilities in the wider economic and financial space. Despite the establishment of the OECS Business Council, firms have not been able to reach out to counterparts and establish new partnerships to generate more regional business opportunities, hence a more effective and coordinated framework must be established to enhance the role of the private sector in regional development. In achieving this, the current framework should seek to realize the remaining elements that will truly make the OECS a single, seamless economic and social space.

4.2 Creating a Climate Resilient Region

Climate change mitigation efforts have been in progress since the 1990s. These efforts include renewable energy generation, and reforestation among others, which are designed to reduce the carbon footprint of countries (see box 2). In the ECCU, some countries such as St Vincent and the Grenadines and Dominica have power generation capabilities such as hydro-electricity while development of geothermal energy is ongoing in Dominica and to a lesser extent in Nevis. Other territories such as Antigua and Barbuda and St Kitts and Nevis have initiated projects such as solar farms and encouraged the use of renewable energy technology in homes and businesses. Although member states have begun the process of using renewable technologies, full implementation of electric grids is still lacking. Consequently, countries continue to import a large volume of fossil fuels for electricity production annually. Exploring technology development for renewable energy production is necessary for achieving a green economy, and thereby reduces the cost of doing business and carbon emissions.

The design and location of infrastructure and housing is important for ensuring survivability during climatic events. Several countries within the ECCU have a mountainous topography while others are less mountainous. In mountainous countries, the flattest lands are closer to the coast line and in all instances there are flood plains within member countries. With limited space, sea level rise becomes an obvious issue for infrastructure location – with many roads and buildings being placed beside the sea. Furthermore, as global temperatures continue
to warm, it is expected that meteorological disasters will increase in duration and intensity. As a result of these effects of climate change and given the vulnerable nature of infrastructure and housing, there is a need to adapt new structures to the changing environment through design and location and invest in early warning systems along with increasing public education.
Climate change resilience speaks to the “capacity of a [state] to adapt when exposed to a hazard. This ability to adapt is done through transforming the [state] to achieve and maintain a level of functioning and structure such that the state can withstand shocks and rebuild itself when necessary (Prasad, et al. 2009).” As climate change occurs, developing states such as the ECCU ought to answer the question of climate resilience within the context of the region. Most recently, following hurricanes Irma and Maria, the Prime Minister of Dominica declared to the United Nations, the nation’s path to becoming the first climate resilient country in the world. Dominica expressed in a similar manner, the objectives of the Caribbean Community (CARICOM).

The CARICOM strategy for achieving advance climate adaptation and mitigation includes but is not limited to; “ensuring the periodic updating of the regional framework, the operationalization of the implementation plan and secure integration into national and regional agendas, prepare member states to be in a state of climate finance readiness, promote actions to derive benefits from the international response to climate change and support the development of projects of member states (CARICOM n.d.).” The ECCU in crafting its path to climate resilience will create an environment which fits into the strategy of CARICOM – within these changing circumstances.

Because of the continued impact by tropical cyclones, the ECCU ought to adopt a resilience framework which encompasses all sectors within the economy while ensuring that the built environment - housing, commercial buildings, bridges, roads, ports (sea and air) - -along with energy infrastructure, communications and domestic markets are resilient to climatic events. Climate change resilience may also be extended into sectors such as tourism and healthcare sectors, manufacturing, and agriculture.

Improving resilience in the built environment requires upgrading the physical infrastructure of member states. Transformation of the built environment requires a rethink of how buildings and logistical routes are constructed. Roads should be designed to be resilient in the face of prolonged rainfall. Buildings, in a similar manner, to be resilient in the face of hurricanes and high temperatures. Ports (sea and air) to withstand the storm surges and high winds of the coast line. Energy linked infrastructure can mitigate – through renewable energy generation – and adapt – by being constructed with vagaries of the weather in mind. Similarly, communication infrastructure ought to be constructed such that it can be restored or even maintained throughout climatic developments. Improvements in the physical infrastructure can act as support to sectoral developments.

The tourism sector is the largest foreign exchange earner in the ECCU. Although important, it relies on other sectors such as agriculture and construction to function. Thus, its effects are far reaching – as the construction of a hotel to the arrival of tourists can provide jobs for a significant segment of the population. Resilience in
the tourism sector can therefore be achieved by adapting quickly to the changing environment. Water management and electricity generation are two key facets which are likely to be affected due to changes in the environment over the long term. Thus, the resilience of the tourism sector to climate change should ensure that water management is sustainable and energy generation is cheap and efficient – if states are to reap the rewards during this new era.

A second area to target for climate resilient is the agricultural sector. A climate resilient agricultural sector is key to adaptability in the longer term. ECCU member states ought to prioritize the development of a climate resilient agricultural sector. As the average temperature warms over time, there are likely to arise new pests, more intense weather events, price volatility, and disease. These various risks are likely to affect food security, trade balances and productivity within the state. Over the long run, states ought to invest more in regional organizations such as the Caribbean Agricultural Research and Development Institute (CARDI) in achieving a climate resilient agricultural sector.

Achieving a climate resilient state requires the buy-in of all and not just a segment of society. As governments push towards a path of climate resilience, it is important that all segments of society understand the reason for these developments. Societal buy-in ensures that during periods of economic stress – where jobs may be lost or there are fiscal disruptions, the climate resilient agenda can be achieved. Societal buy-in also ensures that the climate agenda is on a whole advanced to the furtherance of the member state.

To facilitate the creation of a Climate Resilient Region a number of financial options are available. As of 2012, total climate finance provided by developed countries to the developing world was approximately US$28.9 billion, while the amount of fast-start reported by developed countries was approximately US$33.0 billion. Outside of these funds, “the Copenhagen Accord (2009) is expected to mobilize approximately US$100.0 billion to address the needs of developing countries by 2020 (Curran 2016).” Regionally, there are funding opportunities available from the Caribbean Development Bank such as the joint US$110.0m agreement with the European Investment Bank and potentially CARICOM. Further, funding has been provided by a number of donor countries and agencies for projects such as Caribbean Planning for Adaptation to Climate Change, Mainstreaming Adaptation to Climate Change and Enhancing Capacity for Adaptation to Climate Change.
4.3 Building Resilience in the Financial Sector

In response to the challenges faced in the banking sector the ECCB has embarked on a number of initiatives aimed at strengthening the resilience of the financial sector to negative shocks\textsuperscript{16}. These initiatives include but are not limited to the following:

1. **The full implementation of the new Banking Act 2015 with the following key aspects:**
   
   i. Expanding the resolution options for dealing with weak/problem banks;
   
   ii. Strengthening the corrective action tools and effective compliance tools to ensure banks’ adherence to legal requirements and corrective measures;
   
   iii. Centralization of the licensing authority to facilitate the creation of the single financial space which has become an imperative in response to the current global financial and economic crisis;
   
   iv. Strengthening the corporate structure framework of financial institutions, specifically as it relates to limitations on voting rights and the establishment of holding companies.

2. **Strengthening the supervision of financial institutions through:**

   i. Improved regulation and monitoring of commercial banks and other non-bank financial institutions;
   
   ii. Capacity building and implementation of adequately engineered regulatory programmes for non-bank financial institutions; credit unions, insurance companies;
   
   iii. Implementation of disclosure requirements for financial institutions, in an effort to reduce problems of asymmetric information (moral hazard, adverse selection);
   
   iv. Reform of the payments system, to reduce credit and liquidity risks.

\textsuperscript{16} Financial system resilience can be defined as follows: “The capacity of the financial system to adapt in response to both short-term shocks and long-term changes in economic, social, and ecological conditions while continuing to fulfil its functions in serving the real economy.”, New Economics Foundation (NEF)
3. Encouraging and Supporting the Consolidation of the Indigenous Commercial Banking Sector: With limited economies of scale and scope it is important to consolidate the indigenous banking sector to foster efficiency and stability of the sector. By combining resources this could possibly lower operating cost for these banks thus creating the opportunity to offer credit at better terms and increase the range of financial products to the consumer thereby facilitating economic growth.

4. Increasing Financial Inclusion and Reducing Transactions Costs through Financial Technology (Fin Tech)\(^\text{17}\). Fintech is a new and fast growing area of the global financial architecture which has revolutionized the financial landscape and holds the promise to increase access to financial services and products, and enhance economic growth through increasing financial sector efficiency and reducing financial friction. At the ECCU level, Fintech holds a panoply of benefits to the region but also poses challenges that must be addressed in order to reap the benefits of this new and emerging way of conducting financial transactions. Fintech has the ability to transform the social, economic and financial landscape of the ECCU through reducing financial frictions by increasing the efficiency and productivity of the economic and financial ecosystem while at the same time bolstering greater access to financial services and products. However much of the benefits from Fintech depends on how quickly the region adopts and spread the use of the technology. The ECCB has designated three key areas of Fintech which it intends to focus on over the medium term, these are:

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

\(^{17}\) Currently there is not a universally accepted definition of the term Fintech, however a common definition that seems to arise across the literature is companies or representatives of companies that use technology in delivering financial services and products to clients. Some of the more well-known areas of Fintech, are concepts like bitcoin and other types of digital currencies, stored value cards (metrocard in the USA), crowdfunding – “Go Fund me”, internet based banks and mortgage companies like quicken loans.
5.0 CONCLUSION

The ECCU region faces a unique set of vulnerabilities and challenges due to size and geographic location, among other attributes. These vulnerabilities include external economic shocks that filter through the productive and financial sectors disrupting the growth trajectory and natural disasters which extirpates decades of social, economic and infrastructural advancements. For instance, the 2007/2008 global economic and financial crisis led to negative growth in the ECCU in 2009 - 2011. Furthermore, the growth performance of Dominica in 2015; as well as Anguilla, Antigua and Barbuda, the British Virgin Islands and Dominica in 2017, was adversely impacted by hurricanes. Given these vulnerabilities, there is an urgent need to rethink the development agenda while increasing the resilience of the region to natural disasters. At the core of the development agenda is raising economic growth to levels that will set in motion reductions in unemployment and poverty rates and generally improve social conditions in the region. In addition, the development agenda must seek to make the region more resilient to natural disasters by incorporating climate adaptation and mitigation practices along with implementing early warning systems.

Through the ECCB 2017-2021 Strategic Plan and associated Growth and Resilience Dialogue with Social Partners Action Plan and the OECS Growth and Development Strategy, a roadmap for raising growth levels through socio-economic transformation and building resilience has been developed. The plan entails addressing the challenges to growth and financial sector stability; strengthening institutions and the private sector; revamping the education sector to better meet the needs of the labour market; and building resilience to natural disasters through climate change adaptation and mitigation efforts. Critical to the implementation and subsequent success of these strategies are sourcing financing; having a tenacious political will at the policy level; and having a citizenry that is cognizant and amenable.
References


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Riley, Garfield. (2014), Convergence and Macroeconomic Adjustment. (ECCB Draft)


Remarks

Mr. Kevin Hope
Caribbean Development Bank

The Second Growth and Resilience Dialogue with Social Partners
15 February 2018

Eastern Caribbean Central Bank, St Kitts and Nevis
I. INTRODUCTION

Distinguished Guests
Representatives of the Eastern Caribbean Social Partners
Members of the Media
Ladies and Gentlemen

Good Morning.

On behalf of the President of the Caribbean Development Bank (CDB) Dr. Warren Smith, let me first thank the Eastern Caribbean Central Bank (ECCB) and the OECS for extending the partnership once more to contribute to this important regional event, the 2ND Growth and Resilience Dialogue with Social Partners.

The event is timely and testimony to the application of SDG 17 on Sustainable development through global partnerships. It highlights the deepening of our long standing relationship around socio-economic co-operation with the ECCB and the OECS.

THE REGIONAL CHALLENGE

The Caribbean, and in particular the Eastern Caribbean, attained modest achievements in its socio-economic development over the past 50 years, supported by general improvements in living standards, life expectancy at birth; adult literacy and school enrolment. On the other hand, key socio-economic indicators such as one-fifth of the Region’s population living in poverty; high unemployment; a macro-economic environment often characterized by low growth and high debt, in addition to our predisposition to extreme vulnerabilities - suggest that we may be off-path towards reaching an acceptable threshold consistent with achieving the SDG by 2030.

The Region also face the challenge of integrating resilience-building at the individual, household, community, business and government level. How can the Region anticipate economic and natural shocks, and how can they be absorbed, in order to smooth their
debilitating effects on economic development? How does the Region build resilient economies that are also competitive, foster innovation and provide households with inclusive income opportunities?

**Implementation Capacity Stunts Regional Delivery**

“*In many instances, development plans (generally articulated in budget speeches, medium-term plans or vision plans), as well as key projects and initiatives, remain poorly executed or not implemented at all. There have been growing concerns about the Region’s ability to achieve business and economic development objectives and policy priorities*”¹. This is compounded by the Region’s vulnerability to natural disasters and the resulting events that have the potential to impede the development agenda.

While capital expenditure averages 6.0 per cent of GDP, our median PSIP implementation rate in the ECCU is 55.0 per cent.

Over the period 2012 – to date, at least USD$545mn of CDB resources are earmarked for ECCU in our country strategy programme for social and physical infrastructure, enhance governance and citizen security, increase inclusive growth and competitiveness reforms; and strengthen environmental sustainability and energy security.

We identified that weak institutional capacity and weak inter-agency coordination as some of the key contributing factors to late project start-up, slow disbursements and extended project implementation -resulting in delayed project outcomes. As a result, since 2016/17 to date, the CDB has committed resources to actively address these challenges, in part through country diagnostics, economic research and hosting of Caribbean Leadership and Transformation Forum to inform future country engagement and policy formulation.

**The Economic Growth Cycle – Conceptual Framework**

**Resources, ideas, and implementation** form a self-reinforcing growth cycle. Policy makers who are able to accurately pin down the interactions between the three could thus generate sustained growth, which in turn boosts a country’s resources, strengthens its institutions, and bolsters popular support for its leaders.

¹ CDB, Implementation: Delivering Results to Transform Caribbean Society, October 2017
RESOURCES - Natural endowment in terms of our region’s geographical positioning, natural resources, and our people; institutions of government, the political and legal systems. Resources accumulated from successful growth will feed into the next cycle [hence need for policy continuity in successive governments], whereas shocks [negative growth of major trading partners, disrupted change in government, or natural disasters] may deplete a country’s endowment.

Our initial endowment does not necessarily reflect our future development potential, we can make up for the shortfall in natural endowments through robust institutions and/or reforming our institutions.

IDEAS/DIAGNOSTICS - The idea/growth paradigms needs to be applied to its local context. A pragmatic assessment of the resources, constraints, and other structural challenges associated with the domestic economy is thus necessary for any practitioner as to what works and doesn’t work.

IMPLEMENTATION – Implementation and/or policy formulation and the effective execution of them. CDB leading initiatives in strengthening implementation and delivery mechanisms. Key questions we are attempting to address, how implementation and policy formulation could be improved, or more fundamentally whether one should rethink the growth paradigm in light of possible changes in our operating environment.

Caribbean Blueprint

It’s within this conceptual framework that we developed our Caribbean Policy Blueprint for BMCs, to transform low-growth, vulnerable economies into high-growth, sustainable and resilient economies.

Within this framework, the four pillars of resilience are inter-dependent, with the household/family at the centre. Macroeconomic resilience covers pillars 1 and 2, highlighting the importance of fiscal and debt management, institutional and governance arrangements and Productivity and competitiveness; Social Resilience with a deeper dive in human development, quality education, youth development and skills training; and equally important Environmental resilience. The blueprint is aligned with the CDB’s, OECS’ and ECCB’s strategic plans, to systematically reduce poverty through social and economic development, improve the quality of growth and job creation.
BUILDING MACROECONOMIC RESILIENCE

Macroeconomic resilience requires effective fiscal and debt management, such as using fiscal rules and fiscal responsibility legislation to create buffers that could absorb environmental and/or economic shocks. This also requires strengthening domestic revenue mobilisation and public expenditure frameworks; better service delivery in government; and state-owned enterprise reforms.

APPLICATION – The policy advice and outputs from ECCB’s Research Department and Debt Management Advisory Service are evidence of leadership in building fiscal resilience, awareness and technical skills in ECCU in fiscal and debt management. The adoption of Fiscal Responsibility Legislation (FRL), notably in Anguilla, Grenada and Jamaica. The CDB welcomes opportunities to collaborate with the ECCB, OECS and other development partners to scale the adoption of FRLs and technical assistance in fiscal and debt diagnostics.

BUILDING SOCIAL RESILIENCE

The Caribbean’s poor and marginalized are most severely affected by economic and natural shocks. To illustrate, Jamaica’s 2015 Survey of Living Conditions reported a rise in the national poverty rate (to 21.2% in 2015 from 20.0% in 2014), owing to a jump in rural poverty linked to weather events that disrupted agricultural production. The severe drought in 2014-15 impacted agricultural output, and caused employment to contract by 3%. Over the same time period, poverty rates fell in wealthier urban areas as business activity expanded and employment grew.

External shocks also affect the most vulnerable due to shrinking public budgets and reduced social services. Responding to these shocks will require a multi-dimensional approach to poverty reduction and building social resilience.

Application - Rural Development via our BNTF Seventh and Eighth Cycle (7 and 8) projects contributing to the provision of basic infrastructure and livelihood enhancement services. The Community Investment Project targeting improvement of infrastructure in health and transportation in selected rural communities.
In addition to providing assistance to the most vulnerable, it is vital to correct the skills mismatch in the Labour market. To assist with bringing down the unemployment rate for the general population, but more importantly for the Youth. Youth unemployment is as high as 40% in some jurisdictions. Targeted interventions to improve citizen security will also be necessary.

ENVIRONMENTAL RESILIENCE

CDB continue to mobilize resources to BMCs on how to embed resilience in national development. By mid-2018, we will publish a methodology [drawing from the research of Professor LINO] that will calculate the vulnerability and resilience of our BMCs. This index would allow for an assessment of the major sources of vulnerability for all BMCs and to provide feedback on how to build in greater resilience.

Over the next 5 years 700-800m dollars earmarked for disaster recovery and rehabilitation after the 2017 hurricane season. Mainstreaming Disaster Risk Management [DRM] and Resilience Financing are mainstreamed in our operations -

- Climate screening for projects
- Green Climate Fund Accreditation and Adaptation Fund
- Emergency Financing
  - Emergency Relief Grants
  - Immediate Response Loans
  - Reconstruction and Rehabilitation Loans

Partnerships with the EU and EIB [climate action line of credit] to incentivize the DRM through grant and blended-financing for disaster rehabilitation.

APPLICATION – CDB continue to augmenting the capital of CCRIF [14m], motivated by an awareness in the Caribbean of the frequency of adverse natural events, countries small size and the difficulty with recovery financing out of budgetary resources/reserves.

Continued advocacy on establishing sovereign wealth/saving funds in BMCs such that the reserves can smooth response to economic and natural shocks while complementing sound macroeconomic policy and social protection.
Necessary Conditions for Implementation

CDB also recognises that good policy is important, but it is not sufficient. **Effective implementation is critical, and requires strengthening in most BMCs.**

The three key elements of good leaders, robust institutions, and people consensus interact with each other and have critical roles to play at each stage of the development path, from the inception of ideas, to efficient use of resources, to formulation of growth policies and their implementation and review.

1. **Good leadership.** Devoted to national interests. Leaders contribute to successful policy implementation by their ability to envision the road ahead, to mobilize the people, and to build consensus for their policies.

2. **Robust institutions with a commitment to good governance.** Focus on public administration strengthening, responsible legislature, independent judiciary, a vibrant private sector, and a responsible press.

3. **People consensus.** Sustained growth often requires trading short-term pain for long-term gain. Consensus around a vision or direction for a country and support from broader coalitions help maintain momentum behind difficult reforms. Evidenced by the role of the social partners in the economic reform programmes of Grenada and Jamaica. Several enabling factors contributed to the success of their programmes such as country-wide consultations and broad ownership of the reforms, oversight committees\(^2\) to monitor and communicate on the delivery of government services and improved coordination between the ministries and agencies. The implementation systems were supported by extensive capacity building and technical assistance by development partners.

**CDB’S ROLE**

Today with your active involvement and commitment we can move the needle on sustainable development and resilience building in the Eastern Caribbean, through building leadership capabilities, learning by doing/purposeful policy experimentation with the people who are close to the problem taking the lead in finding solution; the strengthening our implementation

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\(^2\) The Economic Policy Oversight Committee (EPOC) in Jamaica, the Committee of Social Partners and the Home Grown Monitoring Committee in Grenada are notable cases of social partnerships in economic transformation.
and delivery mechanisms. We can, collectively contribute to the acceleration of development results and more sustainable institutions in the Caribbean.

From our country engagements across the Caribbean, we are confident that our public officials, private sector, civil society and academia recognize the role that prudent economic management, leadership and improved service delivery can play in accelerating economic growth and sustainable development.

Thank you.
NOTES

CDB GENDER EQUALITY POLICY

Goal: To be a leading catalyst promoting GE in the Region by working with borrowing members and other development partners in a responsive and collaborative manner to analyze the economic and social causes of gender inequality in order to reduce poverty and vulnerability and to assist all women and men to achieve their full potential.

Objectives:

- To reduce economic and social vulnerability by empowering women and men to build and protect their assets, including livelihoods and savings, as a means of building sustainable, equitable communities.
- To strengthen the capacity of all women and men, girls and boys, to acquire education, skills, and self-confidence in order to access economic opportunities, increase livelihood options and improve their quality of life in the changing global economy.
- To support governance processes in which women and men have equal access to power and authority in society, and effectively influence policies and advocate for their rights.
Perspectives on Growth & Resilience

Mr. Kevin Hope
Economist
15 February 2018
AGENDA

01 Regional Challenges

02 Caribbean Blueprint

03 Implementation and Delivery Mechanisms

04 Social and Development Partners Role
Regional Challenges

**Macroeconomic**
- Low growth: average 0.4% over a decade
- High debt: regional median 65% of GDP
- Low commodity prices and declining reserves

**Low Productivity & Competitiveness**
- Jamaica is the 70th country in the WB
- Ease of Doing Business – highest BMC
- Large infrastructure gaps
- Weak governance
- Inefficient and costly transport links and high energy costs

**Poor Human Development**
- High poverty (43.7%) and youth unemployment (18-47%)
- Poor education outcomes, skills mismatch and brain drain
- High crime and citizen insecurity

**Environmental Threats**
- High annual natural disaster costs on average ~2% of GDP
- Low insurance payouts
- Insufficient building codes
- Poor climate change adaptation tools
Implementation Capacity Stunts
Regional Delivery

Shared Regional and International Challenges

- Elaborate and promising development plans
- Weak Implementation Capacity
  - Insufficient training
  - Ineffective results accountability systems
  - Obsolete personnel management systems
  - Weak decision enforcement culture
  - Scarce financial resources

Delayed or ineffective project implementation
Observations from Development Partners

- Delays in loan effectiveness
- Large undistributed balances for projects under implementation
- Lengthy project implementation periods
The Economic Growth Cycle

Source: World Bank, 2010

Resources
- Natural Endowment - geography, natural resources, and people
- Inheritance - Institutions and Systems
- Accumulation - resources built up through sustained growth

Ideas
- Prevailing growth paradigms
- Application to local context, country peculiarities

Implementation
- Policy formulation
- Policy execution
- Performance measures for review process

Review Emerging Trends
“Doing It Better”

Identify Problem
“Getting It Right”

Desired End State
“Doing It Right”

Source: World Bank, 2010
OUR DESIRE FOR A MORE RESILIENT CARIBBEAN
Caribbean Blueprint: A strategy for sustainable development & resilient economies

Stepping back in order to jump better

Macroeconomic
- Economic growth and diversification
- Strong/resilient financial sector
- Fiscal rules, e.g., Debt-to-GDP limits

Productivity & Competitiveness
- Private sector-led growth
- Opening new trade markets
- Regional payments facility (Fintech)
- First class and cost-effective infrastructure

Human Development
- Good quality education for all
- Workforce skills training based on employers’ needs
- Conditional cash transfers to the most vulnerable

Environmental Preparedness
- Strict building code compliance
- CCRIF, indemnity insurance, resiliency funds
- Environmental tools
- Climate change adaptation tools
- Microcredit for recovery lending

Regional Integration

Gender Equality
Necessary conditions for BLUEPRINT Implementation

Robust Institutions
• Effective administration
• Independent judiciary
• Responsible press
• Vibrant private sector
• Effective civil service
• Responsible legislature
• Good governance

Good Leadership
• Selflessly devoted to national interests, not party/individual interests
• Visionary. Competent, and diligent
• Integrity, honesty, and incorruptibility
• Able to mobilize people
• Politics of convergence, not divergence
• Does not preempt a particular political system

People Consensus
• Common purpose and destiny
• Supportive of leadership and government
• Social cohesion among different groups
• Entrenched stake in country
Steps to Resilience:
We can leverage **IDMs** mechanisms to redesign and rebuild our institutions with greater resilience
What if we had:

01 Strong leadership commitment?

02 Clear mandates and implementation plans?

03 90% relentless implementation?

04 Developed regulatory framework?

05 Cross Government and stakeholder ownership and partnership?

06 High levels of accountability and real-time data?

Adapted from Gold, 2017
CDB’s mission to strengthen IDM:

Complete:
- Presentation at the 38th CARICOM Heads of Government meeting – July 4-6, 2017
- Caribbean Leadership and Transformation Forum (CLTF) – September 18-19th, 2017
- Publication to develop CDB strategies for engagement with BMCs on Implementation and Delivery Units (DU)

Ongoing:
- Developed MOOC with partners UWI, SUNY, and PEMANDU on Leading Transformation to Achieve the SDGs.
- Soon to Launch Implementation and Delivery Mechanism (IDM) pilots with Barbados, Guyana, TCI, and TnT
- Cabinet retreats with all BMCs
Reducing vulnerability and strengthening resilience in the Caribbean

CDB’s support has taken many forms

- Projects/Funding
  - Street Lighting Initiative
  - Climate screening for projects
  - Green Climate Fund Accreditation and Adaptation Fund
  - Emergency Financing
    - Emergency Relief Grants
    - Immediate Response Loans
    - Reconstruction and Rehabilitation Loans

- Partnerships

- Research
  - Vulnerability and Resilience Index
At CDB, we are exploring the possibility of using the vulnerability and resilience index to improve BMCs access to concessional financing.
**Next Steps:**

**Feb 2018**
Complete revision of vulnerability and resilience index and analysis of results

**Pre-May 2018**
Engage in internal dialogue and review of initial findings

**May 2018**
Distribute paper at CDB's Board of Governors and publish findings publicly

**Dec 2018**
Integrate index into CDB's policy analysis

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**SCORE**

| Parameter             | Anguilla | Antigua and Barbuda | Bahamas | Barbados | Belize | British Virgin Islands | Cayman Islands | Dominica | Grenada | Guyana | Haiti | Jamaica | Montserrat | Saint Kitts and Nevis | Saint Lucia | Saint Vincent and the Grenadines | Suriname | Trinidad and Tobago | Turks and Caicos |
|-----------------------|----------|---------------------|---------|----------|--------|-----------------------|----------------|-----------|---------|--------|-------|--------|----------------|----------------|-------------------------|-------------|------------------|---------|
| EVI                   | 0.79     | 0.53                | 0.55    | 0.49     | 0.40   | 0.63                  | 0.63           | 0.46      | 0.48    | 0.47   | 0.51  | 0.56   | 0.50           | 0.42           | 0.66                    | 0.50        | 0.26              | 0.67    |
| E1                    | 1.00     | 0.35                | 0.90    | 0.33     | 0.00   | 0.64                  | 0.64           | 0.46      | 0.65    | 0.03   | 0.16  | 0.48   | 0.24           | 0.36           | 0.06                    | 0.24        | 0.01              | 0.67    |
| E3                    | 0.89     | 0.59                | 0.60    | 0.41     | 0.00   | 1.00                  | 1.00           | 0.59      | 0.52    | 0.38   | 0.59  | 0.45   | 0.55           | 0.64           | 0.90                    | 0.37        | 0.38              | 0.55    |
| Average               | 0.93     | 0.44                | 0.54    | 0.67     | 0.69   | 0.93                  | 0.93           | 0.48      | 0.48    | 0.75   | 0.00  | 0.38   | 0.56           | 0.40           | 0.56                    | 0.40        | 0.55              | 0.55    |

A score close to 1 indicates high vulnerability with respect to that variable.
We should not let the **urgent** stop us from thinking about the **important**. The linked challenges of climate and development will shape humanity’s future”.

- Martin Wolf, FT Columnist
WORKING TOGETHER TO ACHIEVE RESILIENCE IN THE FACE OF VULNERABILITY ACROSS THE OECS

Dr. Didacus Jules
Director General
Organization of Eastern Caribbean States
15th Feb. 2018
RESILIENCE

the answer to VULNERABILITY

- Geographic
- Environmental
- Economic
- Size and Scale
- Political
RESILIENCE

- Taking an INTEGRATED and MULTIFACETED approach
- An opportunity to create NEW ECONOMIES
- Incorporation of SUSTAINABLE DEVELOPMENT GOALS
- Optimizing REGIONAL INTEGRATION
THE OECS APPROACH

DISASTER HAZARD

SECURITY

ECONOMIC
AN INTEGRATED COMPREHENSIVE FRAMEWORK FOR BUILDING RESILIENCE

- DISASTER RISK
- CLIMATE CHANGE
- STRATEGIC INITIATIVES (Enabling Environment and Means of Implementation)

- RANGE OF HAZARDS
- TYPES OF VULNERABILITY
- DISASTER/HAZARD CONSEQUENCES with implications for planning
- CARIBBEAN CLIMATE SMART COALITION
- INSTITUTIONAL COORDINATION
- ACTION STEPS
CARIBBEAN SIDS RESILIENCE FRAMEWORK

1. PREPARATION
   - R: CDEMA, OECS-ESC, PAHO

2. EMERGENCY RESPONSE
   - R: CDEMA

3. POST DISASTER RECOVERY

4. RECONSTRUCTION
   - R: OECS-ESC, Member States

CLIMATE CHANGE

1. MITIGATION

2. ADAPTATION

3. LOSS and DAMAGE
   - Policy, Legal & Regulatory
   - Human Capacity Building
   - Insurance
   - Technology, Green & Blue Solutions
   - Communications Infrastructure
   - Awareness and Education
   - Climate Finance
   - Project portfolio

DISASTER RISK
Vulnerability is the birthplace of innovation, creativity and change.

- Mark Bryan
ECONOMIC VULNERABILITY AND ECONOMIC RESILIENCE OF SMALL ISLAND DEVELOPING STATES WITH A FOCUS ON THE ECCU

Lino Briguglio
University of Malta

Presentation prepared for the Second Growth and Resilience Dialogue
ECCB Headquarters, St Kitts and Nevis
1. Introduction
2. Salient data on the ECCU member states
3. Economic vulnerability
4. Economic resilience
5. The Vulnerability/Resilience framework
6. Practical application of the V&R framework
7. Important references to the V&R Framework
8. Implications of the V&R framework and concluding remarks
1. Introduction
The presentation shows that small island developing states (SIDS) tend to be highly exposed to external economic shocks because of their inherent characteristics, mostly associated with a high degree of trade openness. The small domestic market of SIDS forces them to rely heavily on exports and their limited natural resources endowments results in high dependence on imports. Some small island states are also highly prone to natural disasters, exacerbating their economic vulnerability.

SIDS face additional economic disadvantages associated with limited ability to enjoy the benefits of economies of scale. They also tend to face high international transport costs and uncertainties relating to the delivery of industrial supplies. In addition, a number of small island states are archipelagos, made up of dispersed islands, leading to administrative difficulties.
Summary of the presentation

However, these constraints and disadvantages should not be construed as an argument for complacency on the part of SIDS because policy options are open to them – options which could enable these states to build their economic resilience so as to minimise the negative effects of economic shocks.

The major messages of this presentation are that
(i) Due to the fact that SIDS are highly exposed to external shocks, they should assign major importance to resilience-building policies and should embed such policies into their national plans and strategies;
(ii) Economic resilience building is multifaceted, involving economic, social, political and environmental governance policies, requiring costly institutional set-ups; and
(iii) Donors should factor in a vulnerability criterion in aid schemes to support SIDS in their quest to strengthen resilience.
Location of SIDS, members of AOSIS

Most SIDS, members of the Alliance of Small Island States (AOSIS) are located in the Pacific Ocean, Indian Ocean and the Caribbean Sea.
2. Salient Data on the ECCU
The members of the ECCU are very small in terms of population and GDP. They are middle- or high-income countries and therefore not eligible for concessionary ODA.
Growth performance (2001-2016)

The rates of growth of ECCU members, where somewhat volatile. However on average the growth rates were lower post global recession, when compared to the period 2001-09, with the exception of Grenada.

<table>
<thead>
<tr>
<th>Average Annual growth rates (%)</th>
<th>2001-09</th>
<th>2010-16</th>
<th>2001-16</th>
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<tr>
<td>ANT</td>
<td>2.7</td>
<td>1.2</td>
<td>2.0</td>
</tr>
<tr>
<td>DOM</td>
<td>2.7</td>
<td>0.5</td>
<td>1.7</td>
</tr>
<tr>
<td>GRE</td>
<td>2.2</td>
<td>2.7</td>
<td>2.4</td>
</tr>
<tr>
<td>STK</td>
<td>2.3</td>
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<tr>
<td>STL</td>
<td>1.8</td>
<td>0.7</td>
<td>1.4</td>
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<tr>
<td>STV</td>
<td>3.3</td>
<td>0.5</td>
<td>2.1</td>
</tr>
<tr>
<td>ALL</td>
<td>2.5</td>
<td>1.3</td>
<td>2.0</td>
</tr>
</tbody>
</table>
The OECS member states are highly open economies, as measured by the average of exports and imports as a ratio of GDP.
Most ECCU member states are highly indebted countries although there was a tendency for debt to decrease as a ratio of GDP after 2009 for most countries.

### Gross Public Debt/GDP (2001-2016)

<table>
<thead>
<tr>
<th></th>
<th>2001-09</th>
<th>2010-16</th>
<th>2001-16</th>
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<td>98.5</td>
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<tr>
<td>DOM</td>
<td>81.7</td>
<td>74.5</td>
<td>78.5</td>
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<td>GRE</td>
<td>82.5</td>
<td>97.6</td>
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<td>STK</td>
<td>136.8</td>
<td>108.5</td>
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<tr>
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<td>52.5</td>
<td>64.9</td>
<td>57.9</td>
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<tr>
<td>STV</td>
<td>59.2</td>
<td>74.8</td>
<td>66.0</td>
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<tr>
<td>ALL</td>
<td>85.9</td>
<td>85.5</td>
<td>85.8</td>
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</table>
ALL ECCU member states registered current account deficits between 2001 and 2014, with the deficits tending to decrease post 2009.

**BoP Current Account Balances (2001-2016)**

<table>
<thead>
<tr>
<th></th>
<th>2001-09</th>
<th>2010-16</th>
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<tr>
<td>STL</td>
<td>-17.6</td>
<td>-6.5</td>
<td>-12.7</td>
</tr>
<tr>
<td>STV</td>
<td>-20.4</td>
<td>-25.0</td>
<td>-22.4</td>
</tr>
<tr>
<td>ALL</td>
<td>-19.7</td>
<td>-12.2</td>
<td>-16.4</td>
</tr>
</tbody>
</table>

2. Salient Data on the ECCU
Inflation rates of the ECCU member states tended to decrease post 2009.

<table>
<thead>
<tr>
<th></th>
<th>2001-09</th>
<th>2010-16</th>
<th>2001-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANT</td>
<td>2.1</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>DOM</td>
<td>2.2</td>
<td>0.7</td>
<td>1.5</td>
</tr>
<tr>
<td>GRE</td>
<td>2.9</td>
<td>1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>STK</td>
<td>3.6</td>
<td>0.9</td>
<td>2.4</td>
</tr>
<tr>
<td>STL</td>
<td>2.6</td>
<td>1.6</td>
<td>2.1</td>
</tr>
<tr>
<td>STV</td>
<td>3.2</td>
<td>0.8</td>
<td>2.2</td>
</tr>
<tr>
<td>ALL</td>
<td>2.8</td>
<td>1.2</td>
<td>2.1</td>
</tr>
</tbody>
</table>
Social development scores in the ECCU members states are generally high compared with other developing countries, with Grenada leading in terms of education and Dominica in terms of health. In all states, these indicators tended to show improvement in recent years.

*Measured by expected years of schooling and mean years of schooling of adults
Political governance in the ECCU generally received relatively high scores on the World Governance indicators database. However in some cases there seems to be a decline in good governance, always according to these indicators. The scores range from -2.5 to +2.5. Most scores in the ECCU members were positive scores.
Political Governance

2. Salient Data on the ECCU

- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Control of Corruption
The Eastern Caribbean States have been hit by natural disasters, mostly arising from tropical storms and hurricanes, but also droughts, floods and earthquakes.

<table>
<thead>
<tr>
<th>Country</th>
<th>Persons Dead</th>
<th>Persons Affected</th>
<th>Damage US$ ‘000</th>
<th>Damage/GDP 01/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANT</td>
<td>1</td>
<td>32200</td>
<td>12600</td>
<td>0.1%</td>
</tr>
<tr>
<td>DOM</td>
<td>59</td>
<td>107757</td>
<td>2502810</td>
<td>35.1%</td>
</tr>
<tr>
<td>GRE</td>
<td>39</td>
<td>60000</td>
<td>889000</td>
<td>7.3%</td>
</tr>
<tr>
<td>STK</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>STL</td>
<td>21</td>
<td>227984</td>
<td>41000</td>
<td>0.2%</td>
</tr>
<tr>
<td>STV</td>
<td>16</td>
<td>50331</td>
<td>149000</td>
<td>1.5%</td>
</tr>
</tbody>
</table>
3. Economic Vulnerability
Inherent Economic Vulnerability

The present author associates economic vulnerability with high exposure to economic shocks (Briguglio, 2016)*, due to:

- High degree of **trade openness** (dependence on exports and imports) rendering an economy highly exposed to shocks.

- High degree of **export concentration** (dependence on a few categories of exports) exacerbating exposure to shocks.

- High **dependence on strategic imports**, including food and fuel, exacerbating exposure to shocks. These imports are highly price and income inelastic.

- **Proneness to natural disasters**, leading to economic shocks and exacerbating the effects of external trade shocks.

Components of the Economic Vulnerability Index

The present author (Briguglio, 2016) constructed an economic vulnerability index composed of four components shown in this diagram.
The diagram on the right shows the Economic Vulnerability Index, re-scaled from 0 to 1 (as calculated by the present author) and its relation to country size.

Vulnerability indices of the type constructed by the present author generally conclude that small states, especially island ones, tend to be more economically vulnerable than other groups of countries.
4. Economic Resilience
Policy Measures that lead to Economic Resilience

The present author associates economic resilience with policy-induced measures that enable a country to withstand or cope with the effects of high exposure to economic shocks (Briguglio, 2014). These measures are conducive to:

- **Macroeconomic stability**, which allows policy manoeuvre following an external shocks.
- **Market flexibility** (without excessive financial riskiness) enabling the economy to adjust following external shocks.
- **Good political governance**, which is essential for an economic system to function properly.
- **Social development and cohesion**, which enable the economy to function without the hindrance of civil unrest.
- **Environmental management**, which generates stability through enforceable rules, economic instruments and moral suasion.
The present author (Briguglio, 2016) constructed an economic resilience index composed of five components shown in this diagram.
Economic Resilience is related to GDP per Capita

The diagram on the right shows the Economic Resilience Index rescaled from 0 to 1 (as calculated by the present author) and its relation to GDP per capita. It can be seen that economic resilience is highly related to GDP per capita.

The resilience scores are not related to country size, meaning that small as well as large countries can register high or low resilience scores.
5. The Vulnerability/Resilience Framework
Risk of being harmed by external shocks

The vulnerability/resilience framework proposed in Briguglio (2016) (shown in the next diagram) deals with the risk of an economy being harmed by external economic shocks.

In brief: \[ \text{RISK OF HARM} = \text{+ VULNERABILITY} - \text{RESILIENCE} \]

- **Increased risk** (vulnerability): This is associated with inherent conditions that expose a country to shocks, including trade openness, dependence on strategic imports, export concentration.
- **Reduced risk** (resilience): This is associated with policy-induced measures leading to economic stability, market flexibility, social development, and good political governance.
The V&R Framework

Risk = Risk of an economy being harmed by an external economic shocks

Vulnerability (adds to risk)

EXPOSURE
Inherent features of an economy rendering it exposed to external shocks

Inherent Features
- Trade openness
- Export Concentration
- Dependence on strategic imports
- Proneness to natural disasters

- Resilience (reduces risk)

COPING ABILITY
Policy-induced measures that enable an economy to withstand external shocks

Policy Measures
- Macroeconomic Stability
- Market flexibility (adjusted for financial riskiness)
- Good governance
- Social development
- Environmental management

5. The Vulnerability/Resilience Framework
Four country scenarios

- **High vulnerability & Low resilience scores**
  - Includes SIDS with weak economic governance

- **Low vulnerability & Low resilience scores**
  - Includes mostly large developing countries

- **High vulnerability & High resilience scores**
  - Includes economically successful SIDS

- **Low vulnerability & High resilience scores**
  - Includes mostly large developed countries
Some results from the 2016 study

5. The Vulnerability/Resilience Framework
### Overall tendencies relating to the V&R framework

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Low vulnerability scores</th>
<th>High resilience scores</th>
<th>Includes mostly large developed countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best-case scenario</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-made scenario</td>
<td></td>
<td></td>
<td>Includes a number of small island states (such as Malta, Mauritius, Barbados, Singapore)</td>
</tr>
<tr>
<td>Prodigal-son scenario</td>
<td></td>
<td></td>
<td>Includes mostly large developing countries</td>
</tr>
<tr>
<td>Worst-case scenario</td>
<td></td>
<td></td>
<td>Includes small island states with weak economic governance</td>
</tr>
</tbody>
</table>
According to Briguglio (2016) the six members of the ECCU were all in the “self-made” segment, indicating that they are highly economically vulnerable but their resilience scores are relative to other developing countries, on the high side, although they can be improved.
6. Practical application of the V&R Framework
The V&R framework proposed by the present author, in collaboration with other researchers at the University of Malta, was utilised by the Commonwealth Secretariat to conduct vulnerability and resilience profiling.

The Commonwealth Secretariat in collaboration with the University of Malta, also developed a manual for the practical implementation of a vulnerability/resilience profiling of SIDS.

http://publications.thecommonwealth.org/Uploaded/Products/ProductInfoPDF/Profiling%20Economic%20Vulnerability%20and%20Resilience.pdf
Three profiling exercises

- On the basis of this practical approach three profiling exercise were carried out in St Lucia in April 2008, in the Seychelles in June 2008, and Vanuatu in March 2009.

- These profiling exercises were fully supported by the governments of these three small island states and considerable qualitative information, not generally available in international databases, was obtained from public officials and from civil society in these three countries.

- The results of these profiling exercises were published in a 2010 book by the Commonwealth Secretariat “Profiling Economic Vulnerability and Resilience: A Manual for Small States”
The practical profiling exercises were based on three pillars:

- **Assessment of the causes of economic vulnerability.** This facet of the profile relates to the underlying causes of vulnerability and is aimed at identifying inherent fundamental conditions which render a country exposed to external shocks.

- **Assessment of the sources of economic resilience.** This facet of the profile aims to highlight the strengths and weaknesses within the policy formulation milieu of a country, leading to economic resilience building.

- **Assessment of the juxtaposition of vulnerability and resilience.** This facet relates to the manifestation of vulnerability and resilience taken together, so as to determine whether a country is able to withstand or counteract the harm arising from external shocks.
7. Important references to the V&R Framework
There were various references and citations relating to the V&R framework developed by the present author and his research associates at the University of Malta. Apart from a large number of academic references, there were also important mentions by international organisations, including the following:


UNDESA, in preparation for the Third International Conference on SIDS in Samoa in 2014, embarked on developing a vulnerability-resilience framework, similar to the approach pioneered by Briguglio et al. (2009).


The IMF, in its various publications on small states refers to the work by Briguglio et al. (2009) on the resilience of SIDS... e.g. “Macroeconomic issues in small states and implications for fund engagement,” available at:


The Commonwealth Secretariat, adopted the V&R framework as one of its flagship remits.

http://thecommonwealth.org/agv/building-resilience-vulnerability
ECLAC, UNDP, WHO

- **Vulnerability and Resilience of Caribbean Small Island Developing States.** This is a study published by the Economic Commission for Latin America and the Caribbean. [https://www.cepal.org/publicaciones/xml/4/45364/LCARL.354.pdf](https://www.cepal.org/publicaciones/xml/4/45364/LCARL.354.pdf)

- **Macroeconomic vulnerability in developing countries: approaches and issues.** This is a study published by the UNDP. [http://www.ipc-undp.org/pub/IPCWorkingPaper94.pdf](http://www.ipc-undp.org/pub/IPCWorkingPaper94.pdf)

- **Strengthening resilience,** published by the World Health Organisation. The WHO is developing an interest in small states, emphasising the vulnerability and resilience nexus in health matters, and designated the Islands and Small States Institute as a WHO collaborating centre for health policies in small states. [http://www.euro.who.int/__data/assets/pdf_file/0005/351284/resilience-report-20171004-h1635.pdf?ua=1](http://www.euro.who.int/__data/assets/pdf_file/0005/351284/resilience-report-20171004-h1635.pdf?ua=1)

7. Important references to the V&R Framework
8. Implications of the V&R framework and Concluding Remarks
Main message of this presentation

• The main message of this presentation is that the fact that SIDS tend to be highly economically vulnerable should not be construed as an argument for complacency on the part of SIDS because a number of policy options are available to these states, possibly enabling them to minimise the harmful effects of external economic shocks.

• The economic vulnerability of small island states is mostly associated with their high degree of trade openness and proneness to natural disasters.

• Trade related vulnerability in a number of SIDS is exacerbated by proneness to natural disasters, which has short-term cost (particularly for recovery of housing and transport and energy systems) and long-term effects, particularly due major infrastructure damage, which is very costly per capita due to the relatively high overhead costs involved.

8. Implications of the V&R framework and Concluding remarks
Natural disasters proneness poses special problems

- Due to the fact that SIDS are highly exposed to external shocks, they should assign major importance to resilience-building policies and should embed such policies into their national plans and strategies.

- In the case of natural disasters, the integration of risks into financial planning, not only to cover short-term recovery but also longer-term investment in disaster mitigation measures, including, building disaster resilient structures, and enhancing disaster preparedness.

- Disaster insurance has proved to be a tricky issue and the donor community should be more supportive in this matter than they currently are. A regional approach in disaster insurance might also render insurance possibilities more feasible.

8. Implications of the V&R framework and Concluding remarks
The need for appropriate institutions

• It is being emphasised here that resilience building requires appropriate policy frameworks which in their totality are conducive to good economic governance.

• In turn, suitable policy frameworks require institutional set-ups, which in small states, involve considerable expertise and high overhead costs, and therefore likely to be highly costly per capita for SIDS. This is due to the fact that overhead costs are not normally downscaled in proportion to the population (the so-called indivisibility problem).

• Many small island developing states are middle-income or high-income countries, leading to their exclusion from concessionary financing, even though they remain highly exposed to external shocks and experiencing, as a result, a high degree of growth volatility.

8. Implications of the V&R framework and Concluding remarks
Small states, in particular, need to be resilient

- The international donor community, in supporting the economic development of SIDS, should take cognizance of these states’ high degree of economic vulnerability and assign major importance to reinforcing resilience building, so as to enable these states to strengthen their ability to withstand and cope with economic shocks.

- All countries face external economic shocks and therefore need to be economically resilient, but, as argued above, SIDS are disproportional exposed to such shocks, and therefore economic-resilience building is especially important for these states.

8. Implications of the V&R framework and Concluding remarks
The end
Thank you for your attention
PROCEEDINGS FROM THE 2ND GROWTH AND RESILIENCE DIALOGUE
WITH SOCIAL PARTNERS

FEBRUARY 15 2018
The Growth and Resilience Plan for the Eastern Caribbean Currency Union (ECCU)  
2018 – 2020

1. RECOMMENDATIONS
   a. The Social Partners should engage ECCU governments in social compacts which are conducive to long term growth and sustainability.
   b. An integrated comprehensive framework for building resilience to disaster and other climactic factors is considered an urgent and critical imperative.
   c. Regional institutions such as the Caribbean Development Bank (CDB), the OECS Commission and the Eastern Caribbean Central Bank (ECCB) should continue to play critical roles in the Growth and Resilience.
   d. Governments’ strategic development plans need to be effectively designed, implemented, monitored and evaluated.
   e. When concessionary aid is received or new debt is contracted, some portion must be set aside for building resilience.
   f. Small Island Development States (SIDS) should use their collective votes for influencing the decisions of the United Nations.
   g. Resilience funds and a robust supporting framework should be institutionalised.

2. KEY MESSAGES
   1. The ECCU’s growth is premised on significantly reducing or removing its four major challenges namely:
      a. Inadequate macroeconomic management;
      b. Low Productivity and Non-competitiveness;
      c. Poor Human Development;
      d. Environmental Threats.
   2. Economic resilience is achievable through the following areas: -
      a. Macroeconomic stability;
      b. Market flexibility;
      c. Good political governance;
d. Social development and cohesion; and  
e. Environmental management.
3. There is a need for basic social and community systems, at the national and regional  
   levels, for resilience in the events of disasters.
4. There is the need for institutionalisation of an Integrated Comprehensive Framework for  
   Building Resilience.
5. The multidimensional methodology developed by the OECS Commission should be the  
   template for application region-wide.

3. KEY COMPONENTS OF THE ECCU GROWTH AND RESILIENCE ACTION PLAN

I. **Strengthening our institutions for growth and sustainability**  
   a. Establish framework for access to the widest public (open data policy)  
   b. Institute a social partnership dialogue platform (at national levels similar  
      to the regional construct)  
   c. Establish oversight entities (Delivery Units) for implementation  
   d. Undertake diagnostic evaluation of governance structure

II. **Building resilience in our financial sector markets**  
   a. Create an ecosystem for savers to become equity investors  
   b. Increase compliance with international best practices to reduce derisking  
      threat to the Banking Sector  
   c. Build capacity in government and banking sector as it relates to standards  
      of governance.

III. **Developing our human resources capacity for growth and sustainability**  
   a. Review and develop an upgraded and outlined Growth Road Map;  
   b. Conduct a skills assessment and audit on human resources capacity at the  
      national level;  
   c. The national Ministry of Education to ensure that secondary schools  
      integrate the vocational studies in the curriculum e.g CVQ;  
   d. Establish a national comprehensive apprenticeship program that  
      encapsulates personal development and training.
IV. Building climate smart resilient infrastructure in the OECS

a. Develop, where absent, and enforce land use policy where they already exist across the region

b. Harmonized building codes across the region based on best practices for resilience

c. Undertake capacity building on the use of appropriate technology, materials and techniques

d. Support the establishment of a Regional Resilience Fund

Synopsis of the 2nd Growth and Resilience Dialogue with Social Partners
1.0 EXECUTIVE SUMMARY

The inaugural Growth Dialogue with Social Partners from across the Eastern Caribbean Currency Union and pursuant to the region’s imperative to facilitate growth in the nation’s economies was convened at the ECCB Headquarters on 1 March 2017. The Second Growth and Resilience Dialogue with Social Partners was convened at the ECCB Headquarters on 15 February 2018.

The passage of two category 5 hurricanes, Irma and Maria in September 2017 refocused the attention of the Small Island Developing States (SIDS) of the ECCU on the paramountcy of becoming resilient to the existential threat of frequently occurring natural disasters. To this end the 2nd Growth and Resilience Dialogue among Social Partners was convened with an urgency to discuss and recommend resilient frameworks, policies and deliverables that will result in higher growth levels that are sustainable.

The recommendation to the planners of the dialogue was to get the social partners to focus on the lessons learned from the first dialogue and the subsequent in-country consultations. This required that efforts be directed to methodologies which provide answers to the main challenges of the region namely:

i. **Macroeconomic management** to modernise the public service to provide the requisite leadership and governance to best utilise the scarce resources of member states.

ii. **Low Productivity and Non-competitiveness** be brought to an end; that technologies, tools, equipment and techniques be used to respond to the efficiency requirements of the resource scare member states.

iii. **Poor Human Development** be frontally assessed; “new normal” be envisioned and implemented in an incremental manner to respond to the mismatch between the skills resources available to those needed to ensure the new trajectory of growth is attainable and sustainable.

iv. **Environmental Threats** be seen in a holistic manner with personnel, financial and other resources be incorporated in a planning, executing and disaster response and recovery frameworks.
Consistent with the core principles of Inclusive Growth and Development, the attendees of the 2nd Growth and Resilience Dialogue were asked to interrogate the submissions of the experts from the various Small Island Developing States with a view to improving the resilience to all forms of negative economic and natural shocks. The four thematic areas recommended and discussed in working groups were:

a. Strengthening our institutions for growth and sustainability;
b. Building resilience in our financial sector markets;
c. Developing our human resources capacity for growth and sustainability; and
d. Building climate smart resilient infrastructure in the OECS

2.0 OFFICIAL OPENING

Mr. Timothy N.J Antoine, Governor of the ECCB, welcomed the participants. He presented on the theme “Working Together to Raise Growth Levels and Build Resilience in the ECCU.”

His opening remarks highlighted the following:

- Climate resilience in the Caribbean was noted as the capacity of the region to withstand, adapt and rapidly recover from increasing frequent and extreme weather events happening;

- The aim of the Growth and Resilience Dialogue was to give voice and visibility to the issue of resilience and the region’s intent to develop and adapt in this regard;

- ECCB stood ready to play its role in the Caribbean Community (CARICOM’s) stated ambition of becoming the first climate resilient zone in the world with Dominica leading the way to become the first climate resilient country;

- The ECCU’s growth rate, prior to the hurricanes, was on track to record the fastest growth in a decade of 3.0 per cent but ended the year 2017 at a growth rate of 2.3 per cent;
Against the backdrop of the hurricanes and a stable global economy, the ECCU must accelerate the pace of reform to elevate the trajectory of growth and job creation and build resilience; and

The ECCU’s competitiveness as reflected by its average ranking of 117th in the World Bank’s 2017 ‘Doing Business Report’ required improvement. The ECCU’s target is to be ranked in the top 50.

3.0 SESSION 1: LESSONS FOR THE RESILIENCE OF SMALL STATES IN THE FACE OF FREQUENTLY OCCURRING NATURAL DISASTERS AND MANMADE PHENOMENA

3.1 Presentation by Professor Lino Briguglio

Professor Briguglio’s presentation ‘Economic Vulnerability and Economic Resilience of Small Island Developing States with a focus on the ECCU’ was centered around issues related to small states. He highlighted the following:

1. Every country was exposed to shocks regardless of size. However, small states were more vulnerable to external shocks and needed to build resilience;
2. Small island states were disproportionately affected by external shocks. As such, building resilience was of utmost importance;
3. Resilience building means to take action through fiscal, social, environmental, governance and physical resilience
4. Donors often focus on vulnerability criteria to address the need for small states to build resilience by having good institutions;
5. Fiscal resilience requires good institutions but the establishment and maintenance of these institutions can be extremely costly;
6. ECCU members were characterized as SIDS for the very fact that their GDP and population were small in relation to other countries. However, GDP per capita was high in comparison to other developing countries and therefore these countries were
disadvantaged because they succeeded in improving their per capita income. Many of
the ECCU territories were classified as middle or high status and as such were
disqualified from concessionary aid;
7. ECCU member states are highly open economies and are therefore prone to major shocks
in the international markets. Their having small markets sizes and very little exports
further exacerbates this problem;
8. Import and export facilitation requires a significant amount of economic effort;
9. Public debt was generally high in ECCU territories and although it has decreased
recently, it is still over 60.0 per cent;
10. Social development indicators like education and health scored well when compared with
other developing countries;
11. Political governance was the base of resilience because it was essential for a properly
functioning government structure. The political performance of the ECCU members
were comparatively high; and
12. In an effort to measure economic vulnerability; exposure to external shocks could be
attributed to:
   - Trade openness,
   - Export concentration - The three most important exports represented a
     high percentage of total exports,
   - Dependence on strategic imports –highly inelastic imports such as fuel and
     food, and
   - Proneness to natural disasters.

**Recommendations**

Professor Lino presented the following five (5) measures that have been shown to lead to
economic resilience:

- **Macroeconomic stability** allowed policy manoeuvre following an external shock.
  Market stability was of utmost importance for shock absorption and shock counteraction;
- **Market flexibility** (without excessive financial riskiness) enabled the economy to adjust
  following external shocks;
- **Good political governance** was essential for an economic system to function properly;
- **Social development and cohesion** enabled the economy to function without the hindrance of civil unrest; and
- **Environmental management** generated stability through enforceable laws/rules, economic instruments and moral suasion.

**Vulnerability/Resilience Framework**

This construct which was developed by Professor Briguglio as the resilience framework was summarized as follows:

- Risk of Harm by Shock = +Vulnerability - Resilience. Risk increased as country became vulnerable and decreased as the country became more resilient;
- Small Island Developing States (SIDS) were very vulnerable but that should not be the basis to become complacent;
- Trade openness was a major factor associated with vulnerability; and
- Natural disasters, for some countries, created a major issue and require proper institution.

**3.2 DISCUSSION POINTS**

The following were key points from the discussion on the topic presented:

1. OECD has only classified countries based on per capita to GDP and unfortunately, SIDS were unable to qualify for aid based on this criterion as they have graduated to middle or high income countries;
2. Concessionary aid should be based on the need for building resilience;
3. It was noted that there was a need for access to special funding for SIDS as a means to have immediate funding access through the existing means;
4. Protocol on access to funds were long and bureaucratic and require to be changed. There was a need for a sense of urgency and flexibility on drawdown of funds;
5. Treatment of new debt to build resilience - Small states need to look at how they treat new debt. It was suggested that funds for resilience building should be considered as a gift or amortized over a longer period of years;
6. SIDS needed to consider how to utilise votes at UN to effect fundamental change;
7. Institutions and frameworks were expensive and ongoing. As such, government needed to build on the current institutions and framework;
8. Governments to establish a resilience fund through a resilience levy on foreigners;
9. There was a high reliance on the government. Therefore, people needed to understand and take responsibility in the resilience effort. Unions, employers and government should work together to encourage savings or contribution to a special fund to help in times of disasters or times of need;
10. There was a need for basic social and community systems for resilience in the events of disasters not only on a national level but sub-regional level;
11. Climate resilience and resilience development – Small islands have had a low carbon climate resilient strategy since 2012. Focus should be on issue of food security through agriculture and fisheries, comprehensive risk management, sustainable human settlement and ecosystem. An assessment needed to be done to help the rest of the region to understand how to deal with climate resilience;
12. Government should build resilience by encouraging competition in the private sectors. In the Caribbean, the private sector is weak and governments are too big;
13. High level of income is generated through the Citizenship by Investment Programs but was not sustainable and funds were not always used appropriately; and
14. Education was critical as a catalyst for change in the region.
4.0 SESSION 2: WORKING TOGETHER TO ACHIEVE RESILIENCE IN THE FACE OF VULNERABILITY ACROSS THE OECS - Perspectives on building resilience after Hurricanes Irma and Maria

4.1 Presentation by His Excellency Dr. Didacus Jules, Director General, OECS Commission

Dr. Jules indicated that he was presenting a practical synthesis from hurricanes Irma and Maria working with regional and international partners. He highlighted the following:

- The countries were at the center of vulnerability; resilience was the answer. There was opportunity in conducting disaster preparedness at the OECS level, where the closest functioning islands were to serve as the first response to the island where the disaster may have occurred;
- Vulnerability was noted as being:
  - Geographic
  - Environmental
  - Economic
  - Size and Scale
  - Political
- Resilience
  - The ECCU was to address resilience as a holistic approach and take an integrated multifaceted approach;
  - Resilience was the opportunity to create new economies such as using pumas from the volcano in Montserrat as sand;
  - Opportunity to develop and incorporate sustainable goals; and
  - Optimizing regional integration.
- There needed to be a focus in strengthening capacity on a national level
- The OECS approach includes but is not limited to:
  - Disaster Hazard - Partner with regional agencies;
  - Security - Create a network of institutions to support joint disaster exercise and seamless response throughout the OECS;
  - Economic Impact Evaluation - Rapid assessment;
Management Effectiveness - Effective coordination;

Human Capacity – Availability of qualified laborers to do the various jobs; and

Reinvention of qualification to take in the new standard required.

- ECCB and CDB has critical roles to play in resilience building;
- Climate smart coalition brought private sector persons together to provide support in this initiative;
- Develop an Integrated Comprehensive Framework for Building Resilience
  - Disaster risk:
    - Strengthen meteorological system - Early warning system
    - Hydro meteorological facility for early detection of flood etc.
  - Climate Change:
    - Mitigation – renewable energy, energy efficiency, transportation
    - Adaptation – food security, ocean and coastal ecosystems
    - Loss and Damages – conservation and mitigation techniques and tools
- Specialized relief institution retrofitted to withstand disasters;
- Building code needed to be upgraded across the region; and
- Centralized procurement of critical imports (zinc metal sheets, cement etc) should be considered.

4.2 Presentation by Mr. Kevin Hope, Economist, Caribbean Development Bank

Mr. Hopes presented on “Perspectives on Growth and Resilience.” He highlighted the following:

- Caribbean attained modest achievement in socio economic development over the last 50 years;
- CDB is currently considering debt refinancing for borrowing members and assisting islands in acquiring cheaper loans;
- Avenues for local resident’s ideas/solutions to be harnessed should be facilitated;
- The four main regional challenges were identified as :
  - Macroeconomic – low growth and high debts
Low Productivity and Competitiveness
Poor Human Development
Environmental Threats

- Government’s strategic development plans needs to be more fully executed or implemented;
- Condition for implementation of the Strategic Development Plan:
  - Good leadership
  - Clear mandates

4.3 DISCUSSION POINTS
1. All countries represented have been impacted by climate events over the past decade;
2. OECS/ECCU countries are vulnerable because they are small. There is a need to think about integration as a resilience mechanism and structure it in such a way to leverage the size to increase resilience;
3. Resilience should be built in the tourism sector although this is part of the private sector. There is need to protect such investments already made;
4. Local knowledge of the inhabitants should be considered when physical/environmental plans are being conceptualize, eg historic river paths;
5. A stronger nexus should be established between the private and public sectors such that the private sector profit seeking objective is not at odds with government plans. For example, government may reduce VAT on certain commodities with the hope of making it cheaper for consumers but the business retains the higher price;
6. Borrowed money should be spent on investments in resilience;
7. Government policy should be continuous and not subject to disregard every time a government changes;
8. Psycho-social support should be permanent and not only during post disaster periods;
9. Priority should be given to ensuring the basic necessities of food and water are available. Debriefing should be secondary;
10. Region needs a coalition of counselors;
11. The individual islands are too small to benefit from economies of scale, as such key services should be centralized: health, education and national security;
12. Though countries have identified their vulnerabilities and adaptation strategies, it’s the action that is often lacking as the plans are seldom reflected in the budgets; and
13. Inclusiveness is key to ensure everyone buys in.
### 5.0 REPORTS FROM WORKING GROUPS

**SUMMARIES OF BREAKOUT GROUPS FROM THE 2ND GROWTH AND RESILIENCE DIALOGUE WITH SOCIAL PARTNERS**

Group #1: Strengthening our Institutions for Growth and Sustainability

<table>
<thead>
<tr>
<th>Actions/Interventions/Deliverables</th>
<th>Expected Outcome</th>
<th>Key Performance Indicators</th>
<th>Collaborating Partners</th>
<th>Target Start date</th>
<th>Target Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action 1: Establish open data policy</td>
<td>Strengthen evidence based policy formulation</td>
<td>1. greater access to data for analysis</td>
<td>1. ECCB, CDB, OECS NSO IDB</td>
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</tr>
<tr>
<td>Action 2: Instituting a social partnership dialogue platform</td>
<td>strengthening of ecosystem for continuity of policy</td>
<td>1. The number of meetings of social partnership structure</td>
<td>1. Public, CBO, Business Service Organisations (BSO), Trade Unions</td>
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</tr>
<tr>
<td>Action 3: Establish Oversight Committee for implementation</td>
<td>Follow thru on key policy decisions</td>
<td>1. start of Implementation of key policy improved by one quarter</td>
<td>1. Central Government ministries, Other public sector,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Action 4: Diagnostic evaluation of Governance Structure</td>
<td>A fit for purpose governance system aimed at strengthen systems for efficiency</td>
<td>1. Proposal for further improving efficiency</td>
<td>1. Public, regional organization, private sector</td>
<td></td>
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</tr>
<tr>
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</tbody>
</table>
| **Action 1:** Create an ecosystem for savers to become equity investors. | Increased access to finance propelling greater economic and financial management to facilitate growth. | 1. Increase in equity investors amongst users of funds.  
2. Reduction of NPLs  
3. Improved responsiveness by Commercial Banks | 1. ECCB  
2. Local banking organisations  
3. Social Partners  
4. Credit unions | Target Completion Date: 2-year time |
| **Action 2:** Increasing Compliance to reduce Derisking threat to the Banking sector. | A more resilience and compliant financial sector which has lower risk profile. | 1. Reducing the risk factors as reported by CFATF  
2. Reduction in migration  
3. Reduction in the informal sector | 1. Social partners  
2. IFIs  
3. Regulatory institutions  
4. | |
| **Action 3:** Building capacity in government and banking sector as it relates to standards of governance | Better administration and management of Public finances and less dependence on the Banks and other financial organisations to meet the financial needs. | 1. Improving Debt to GDP ratios  
2. Better Macro performance indicators  
3. Improvement in fiscal space to undertake development | 1. Social partners  
2. Governments  
3. International Financial Institutions | |
<table>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Action 1:</strong> A reviewed and upgraded outlined growth road map</td>
<td>There is an identifiable strategic framework</td>
<td>1. Strategy and action plans completed</td>
<td>1. Social Partners 2. Ministries and Departments of Education 3. OECS Commission 4. ECCB</td>
<td></td>
<td>2-year time</td>
</tr>
<tr>
<td><strong>Action 2:</strong> Conduct a skills assessment and audit on a national level in a regional framework</td>
<td>Identify the skills gaps</td>
<td>1. An assessment and audit report with recommendations</td>
<td>1. Social partners 2. IFIs 3. Regulatory institutions 4.</td>
<td></td>
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<tr>
<td><strong>Action 3:</strong> The Ministry of education ensures that secondary schools integrate the vocational studies in the curriculum. CVQ</td>
<td>A labour force equipped to meet the demands of the labour market</td>
<td>1. An increased in the percentage of technical oriented grandaunts</td>
<td>1. Social partners 2. Governments 3. International Financial Institutions</td>
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</tr>
<tr>
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<tr>
<td>Action 2: Harmonized building codes across the region.</td>
<td>Improved/resilience infrastructure that can withstand the effects of climate change</td>
<td>1. Institutional buildings conforms to codes 2. Codes passed into law</td>
<td>1. Social Partners 2. Ministries and Departments of Education 3. OECS Commission 4. ECCB</td>
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<tr>
<td>Action 3: Capacity building with the use of appropriate technology</td>
<td>Communities has the ability to better respond to the effects of climate change</td>
<td>1. Reducing unemployment among at risk youths 2. The establishment of a certified apprentice system</td>
<td>1. Social Partners 2. Ministries and Departments of Education 3. OECS Commission 4. ECCB</td>
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<tr>
<td>Action 4: The establishment of a Regional Resilience Fund</td>
<td>The ability of the region to respond more effectively in the short-term</td>
<td>1. Commitment of member states to contribute up to .5% of GDP 2. Establish criteria for allocation of the fund</td>
<td>1. Social Partners 2. Ministries and Departments of Education 3. OECS Commission 4. ECCB</td>
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6.0 SUMMARY OF KEY TAKEAWAYS AND CONCLUSION
The Deputy Governor thanked the participants for contributing to the session’s success.

The key takeaways focused on:

1. A new modality of response and outreach where the closest functioning country is utilised as the first responder. This worked well after hurricanes Irma and Maria.
2. The focus on resilience offers opportunities for a new and sustainable economic and integration paradigm.
3. The fact that each country in the OECS/ECCU is exposed to shocks and is more vulnerable to external shocks therefore building resilience is a necessary prerogative.
4. Small island states must institutionalise a four pronged approach to building resilience namely:
   i. Fiscal
   ii. Social
   iii. Environmental and
   iv. Physical
5. Donors interact with vulnerable SIDS through their institutions but establishment and sustainability of these institutions are costly.
6. There is the paradox of ECCU countries being labelled high income and hence these high debt SIDS are excluded from most concessional aid.
7. Building a Climate Smart resilient infrastructure in the OECS must be multi-dimensional to include:
   i. Appropriate policies and supporting building codes;
   ii. A knowledgeable and skillful human resource using available technologies; and
   iii. The backing of a Regional Resilience Fund which is maintained to facilitate responses to national disasters.
8. Climate resilience is the new frontier of development on the national and regional agenda.
9. The ECCU must accelerate the pace of reforms to elevate the trajectory of growth and job creation.
10. There needs to be a coordinated approach amongst regulators and financial institution to develop modalities for mitigating the imminent threat of derisking through compliance with the highest standards of governance.
11. The response to the ECCU human resources capacity needs for its growth and sustainability must be evidence based. It must comprise of:
   a. The conducting of educational skills and capacity audits at the national level;
   b. The establishment or strengthening of national and regional initiatives for Ministries and Departments of Education to integrate the vocational studies in the curriculum e.g. CVQ or Dual Vet System of Germany; and
c. The establishment of national comprehensive apprenticeship programs that encapsulates personal development and training.

12. The business ecosystem needs to be strengthened through financial awareness, entrepreneurship and investment training.

13. There is the need to further develop the Growth Dialogue among Social Partners Framework.

14. The Delivery Units must be institutionalised to ensure continuity and that performance is maintained on all aspects of the Growth Action Plan.