3rd Growth and Resilience Dialogue with Social Partners

Theme: "Building Resilient Institutions and Infrastructure for Sustainable Growth"

EASTERN CARIBBEAN CENTRAL BANK

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Key Messages

1. The ECCU is highly vulnerable to economic shocks and natural disasters, which negatively impact its growth performance.

2. Persistent fiscal deficit positions and high debt levels have limited the capacity of governments to respond to shocks and address infrastructural gaps.

3. ECCU member countries have regressed in respect of their ease of doing business indicators.

4. Natural disasters have intensified, erasing decades of gains made in infrastructure, economic and social advancement.

5. Regional governments are constrained with respect to policy making and therefore structural reforms and supply side policies remain the best option to facilitate growth.

6. Building economic and social resilience is imperative for the continued progress of the region.

7. Improved regional transportation is necessary to operationalize the single economic space and enhance the productive capacity of the ECCU economies.

Key Recommendations

1. Coordinate and implement recommendations to address the region's challenges, as articulated in the Action Plan of the last two Growth Dialogues with Social Partners, the ECCB's 2017-2021 Strategic Plan and the OECS Growth and Development Strategy.
2. Adopt measures that would foster greater fiscal resilience. Design and implementation of fiscal accountability frameworks.
3. Implement measures to integrate disaster risk financing and climate resilient investments into the national planning and budgeting framework.
4. Implement structural and business reforms including key reforms aimed at resolving insolvency, secure transactions, improving access to credit and registering property.
5. Support the initiative aimed at the establishment of a regional fast ferry service through reforms aimed at enhancing customs clearance and port facilities.

1.0 INTRODUCTION

In 2017, the Eastern Caribbean Central Bank initiated the 'Growth and Resilience Dialogue' with a view to raising awareness among stakeholders on the issues confronting the ECCU and the development of strategies aimed at improving growth within the currency union. The forum brings together stakeholders from governments, regional and international organizations, trade unionists, opposition members, churches and non-government agencies.

Every year, the forum places emphasis on a few key challenges to growth and generates strategies to addressing them in country. During year one, the focus was on measures to attain inclusive growth, with emphasis on the seven key developmental pillars extracted from the thematic areas of the Global Competitiveness Index. In year two, the focus was refined to shed light on building resilience in the ECCU. This background document in support of the 'Third Growth and Resilience Dialogue' aims to provide the context for discussions and strategy formulation. Specifically, the issues of regional transport infrastructure gaps and market-based governance arrangements have been identified as the key areas for discussion at the 2019 edition of this event.

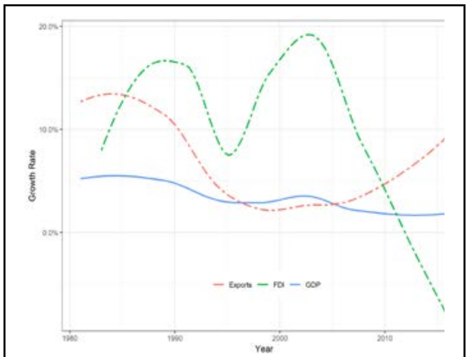
2.0 CHALLENGES AND CONTEXT TO GROWTH

The issues of growth and competitiveness have been the subject of discussion within policy circles in the Eastern Caribbean Currency Union (ECCU) since the mid 1990's. Growth outturns have been adversely impacted by changes in the global trading environment including removal of trade preferences, marked declines in official development assistance, deteriorating terms of trade and the impact of natural disasters.

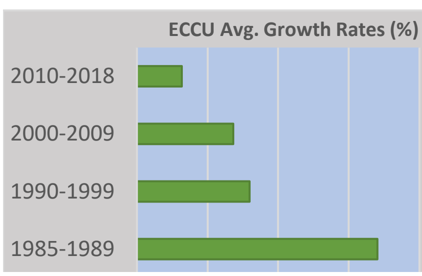
The past two decades have been marked by a secular decline in economic growth with concomitant high levels of unemployment. Thus, average growth for the ECCU declined from 6.8 per cent for the period 1985 to 1989 to 3.2 per cent for the period 1990 to 1999 and 1.3

per cent for the post 2010 period (**Figure 1**). The downward trend in growth was accompanied by falling growth in exports until around 2005 and drop in foreign direct investment in the post 2000 period (**Figure 1**). The vulnerability of the economies within the currency union is further compounded by the significant level of exposure to the tourism sector, with an average of 57.0 per cent of exports directly linked to the sector.[1]

Figure 1: GDP, FDI and Import Growth



Source: OECS Commission



While the growth performance among member countries of the ECCU has not been homogenous, the countries have broadly grappled with the same challenges. Growth in the region has been constrained by structural dynamics, which include relatively high energy and electricity costs, weaknesses in market-based governance systems, high transaction costs and restricted access to credit particularly for the micro and small enterprise sectors.

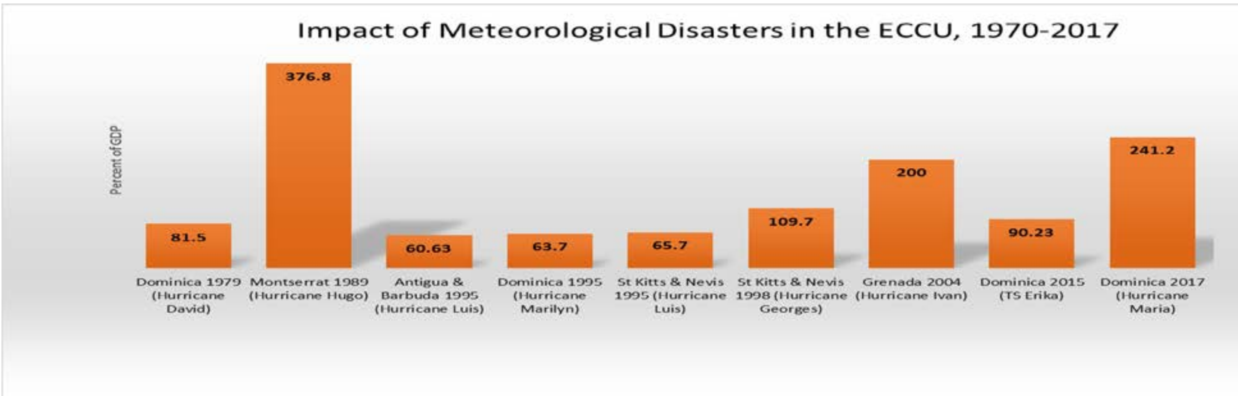
The vulnerability of Eastern Caribbean countries to natural disasters is evidenced by activity during the 2017 hurricane season. In 2017, thirteen named storms were formed in the Atlantic Basin, two (2) of which became category 5 storms. These storms impacted several ECCU territories resulting in damage of approximately EC$2.5 billion. More frequent and intense hydro-meteorological events have already caused extensive damage and loss, and severely impacted the growth prospects and fiscal outturns of member countries (**Figures 2**). The island of Dominica experienced three severe hydro-met event within two decades. In 1995, the damage and loss associated with hurricane Marilyn was approximately 63.7 per cent of GDP followed by the damage and loss associated with Tropical Storm Erica in 2015 (90.2 per cent of GDP) and Hurricane Maria in 2017 (241.2 per cent of GDP) (**Figure 2**).[2] These events lead to the

[1] See OECS Development Strategy 2019-2028

[2] Other member countries such as Antigua, Grenada, Montserrat, St. Kitts-Nevis and Saint Lucia have all been impacted by severe hydro-met events in recent times. Additionally, the region is also susceptible to volcanic events such as the case of Montserrat in 1997.

occurrence of severe infrastructural weaknesses and gaps, which require substantial investment by the state and consequent fiscal difficulties.

Figure 2: Estimated Damages from Meteorological Disasters, 1970-2017 (% of GDP)



Sources: EM-DAT: The Emergency Events Database - Université catholique de Louvain (UCL) - CRED, D. Guha-Sapir - www.emdat.be, Brussels, Belgium; Dominica PDNA, World Bank 2017

Consistent with deteriorating growth outturns and high fiscal outlays to repair weakened and damaged infrastructure, the ECCU has posted persistent fiscal deficits over the post 2000 period. This brings to the fore, the need for countries to implement measures aimed at improving adaptation, mitigation and resilience outcomes associated with climate change and disaster risks. Design of climate financing frameworks (**see Box 1**) are also critical to ensuring sustainable fiscal accounts.

The limited fiscal space of ECCU member countries means that governments are unable to pursue counter cyclical fiscal measures to stimulate growth.[3] Moreover, as a currency union, member countries have no autonomy over monetary policy. Thus, governments' main policy lever relates to addressing supply side bottlenecks within the economy. This relates to addressing issues of competitiveness, market governance and labour markets.

[3] This should not be interpreted as advocacy in support of counter cyclical fiscal measures, as research has shown that these measures are not necessarily effective in small open economies.

Box 1: A Framework for Climate Change Financing

According to the United Nations Development Programme (UNDP), Climate Change Financing Frameworks (CCFFs) provide a structured response to climate change by establishing a framework for managing climate finance and gauging the adequacy and effectiveness of climate-related expenditures. Such a framework entails a review of options and strategies for financing and delivering climate change policy as well as the institutional arrangements needed to integrate climate change effectively in planning and budgeting systems. Additionally, systematic tracking and public reporting of climate spending is a critical component of such a framework as it promotes transparency of risks (UNDP, A Stock Take of Climate Change Financing Frameworks in Asia-Pacific).

While there is no blueprint for climate change financing frameworks and each would depend on the unique circumstances and stage of development of each country, some of the salient features of such a framework include the following:

1. Building integrated climate governance, especially fostering greater inter-ministerial coordination to ensure policy objectives are met;
2. Instituting measures and instruments to ensure accountability over the use of climate finance. These would include legislative and budgetary tools, public information access and media education;
3. Identifying the relevant institutional entry points to scrutinize and prioritize climate finance within the context of the national budget;
4. Defining what constitutes climate change related activities in a manner that is robust, nationally-determined and agreed by all stakeholders;
5. Producing a costing of planned climate change response actions in the medium and long term;
6. Assessing the scope of current financial flows and estimating the resources available to address climate change mitigation and/or adaptation goals;

Importantly, climate change financing frameworks can serve as an important policy pillar to bridge the needs of the future with the resources available today. The myriad challenges associated with climate change can also present growth opportunities for ECCU member countries if climate adaptation and mitigation finance efforts are effectively managed. Essentially, in realigning development goals, promoting the green economy, and fostering more sustainable growth, positive externalities such as more stable and sustained growth, alleviation of poverty and overall improved fiscal management are likely to accrue to member countries

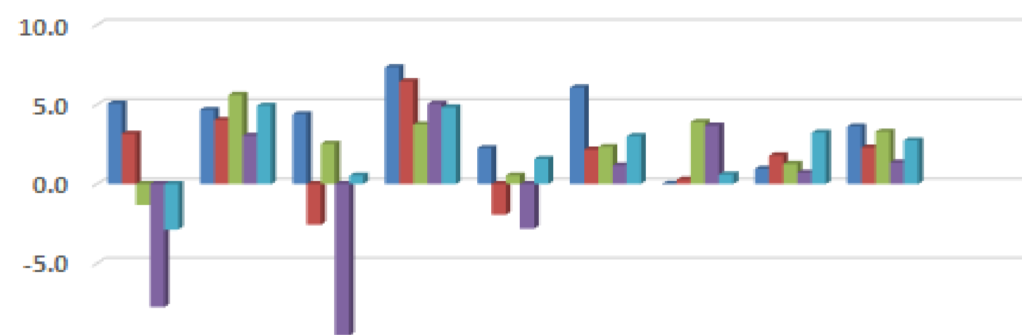
According to Mami Mizutori of the United Nations International Strategy for Disaster Reduction (UNISDR), “if development and economic growth are not risk informed, they are not sustainable and can undermine efforts to build resilience” (Economic Losses, Poverty and Disasters 1998-2017).

3.0 RECENT MACROECONOMIC DEVELOPMENTS

3.1 Recent Economic Performance

Economic activity for the Eastern Caribbean Currency Union (ECCU) has begun to show signs of recovery; however, the main challenges will be to boost long-run growth by the implementation of institutional and structural reforms. The output for the ECCU expanded by 2.7 per cent in 2018 compared with growth of 1.4 per cent in 2017 and 2.3 per cent[4] in 2016 (Figure 3). This expansion can be attributed to developments in key sectors such as hotels and restaurants, construction, manufacturing and wholesale and retail. The main contributors to this performance are Antigua and Barbuda, Grenada, St Kitts and Nevis and St. Vincent and the Grenadines. On average for the period 2014 to 2018, the ECCU economy grew by 2.7 per cent.

Figure 3: ECCU Growth Rates (2014 - 2018)



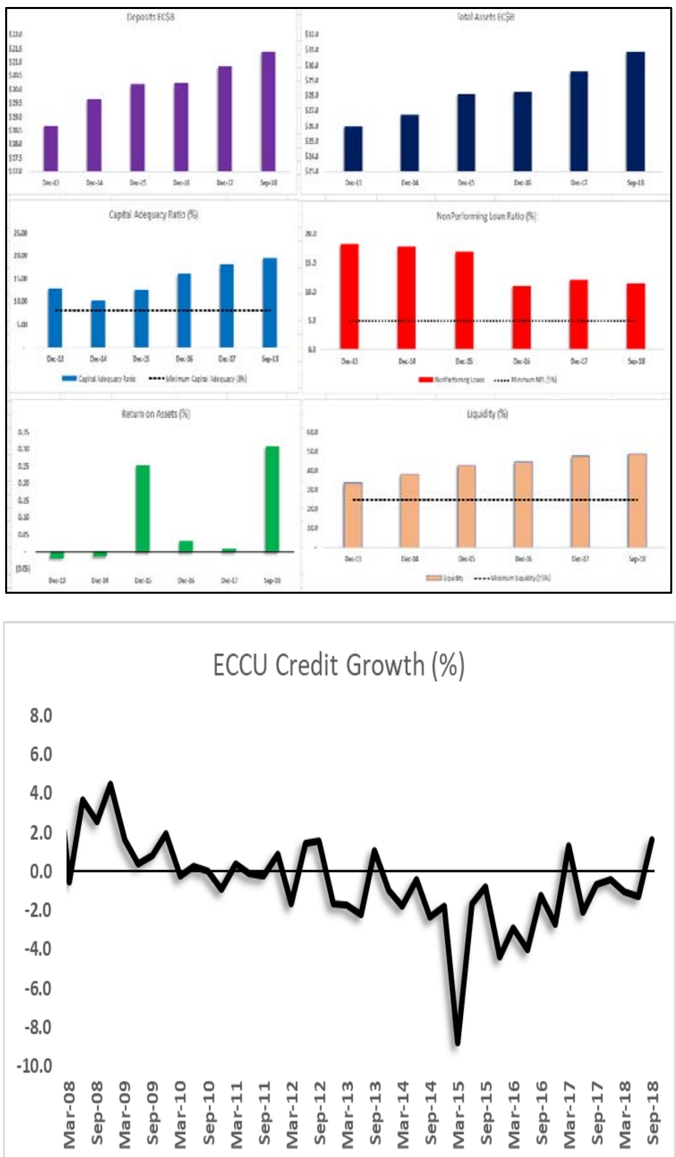
	AXA	ANU	DOM	GDA	MON	SKN	SLU	SVG	ECCU
2014	5.07	4.66	4.39	7.34	2.24	6.06	0.00	0.96	3.61
2015	3.15	4.03	-2.55	6.45	-1.93	2.15	0.27	1.79	2.28
2016	-1.34	5.59	2.52	3.74	0.53	2.32	3.89	1.27	3.28
2017	-7.74	3.03	-9.53	5.06	-2.81	1.17	3.67	0.71	1.35
2018 (proj.)	-2.86	4.93	0.53	4.83	1.59	3.00	0.60	3.23	2.73

2014 2015 2016 2017 2018 (proj.)

[4] Real GDP at Market Prices

3.2 Recent Financial Sector Performance

Figure 4: Recent Financial and Fiscal Indicators for the ECCU



Source: ECCB

As at 30 September 2018, the ECCU's key financial indicators improved slightly when compared to those as at 30 December 2017. Over the period, total assets increased by 4.4 per cent (EC$1.3 billion) to EC$30.9 billion and total deposits continued to exhibit robust growth, increasing by 2.6 per cent (EC$550.8m) to $21.4 billion. In respect of asset quality, the non-performing loans (NPL) ratio declined by 0.6 of a percentage point from 12.2 per cent to 11.5 per cent over the review period.

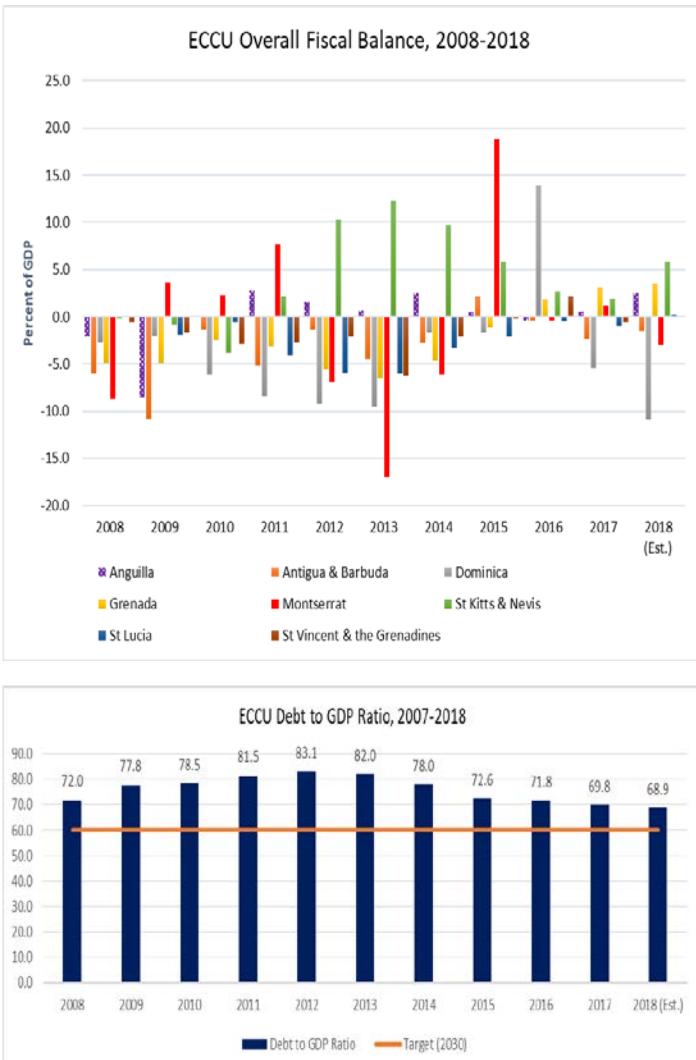
Over the last two years, the banking sector has stabilized, NPL's have decreased, profitability has recovered somewhat, and capital positions have strengthened. However, the credit intermediation process has yet to recover due to the lingering effects of the crisis (**Figure 4**). The slow recovery in credit intermediation is attributable to several factors, such as low economic growth, continued risk aversion of commercial banks and more stringent 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.

3.3 Recent Fiscal and Debt Developments

ECCU countries also exhibit high levels of public debt relative to GDP, largely due to persistent primary deficits, low growth and high interest rates. Higher outlays on rehabilitation and reconstruction post hurricane also contribute to debt accumulation (**Figure 5**).

The debt to GDP ratio in the ECCU is estimated to have declined to 68.9 per cent at the end of 2018 from 69.8 per cent at the end of 2017. While the downward movement is welcomed, the region still exceeds the 60.0 per cent target agreed to by the Monetary Council (**Figure 5**). Additionally, the debt ratio is in excess of 80.0 per cent for at least two member countries. Due to this high debt level, the ability to respond to external shocks and natural disasters is constrained, owing to the allocation of critical funds to higher debt servicing obligations.

Figure 5: Fiscal Balances and Public Debt in the ECCU 2008-2018



Source: ECCB

4.0 INSTITUTIONAL DEVELOPMENT

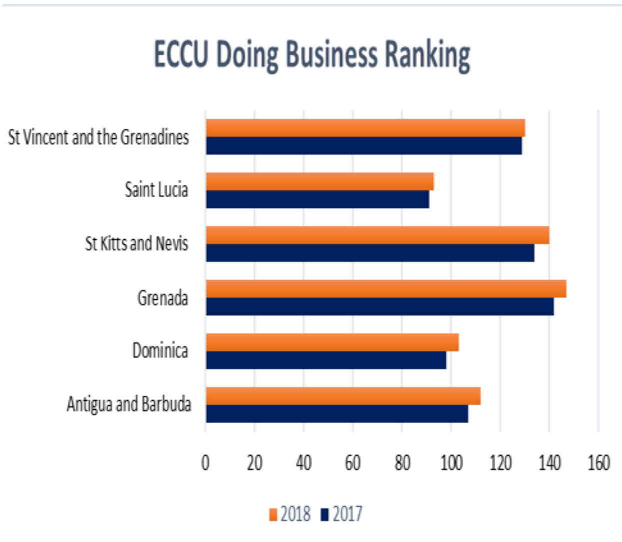
4.1 A Cursory Look at the Doing Business Indicators

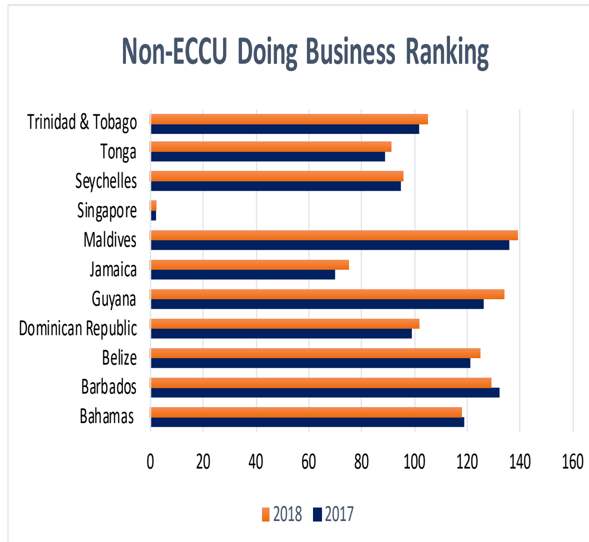
One of the key metrics used by the World Bank in its assessment of the quality of the governance architecture for the business environment in countries worldwide is the Doing Business Survey. As a measure of competitiveness, the survey gathers detailed data on regulations affecting 11 areas of the life of a business, namely: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labour market regulation. The quantitative indicators produced by the survey assist governments in identifying areas of administrative and regulatory strengths and weaknesses, and present countries with an opportunity to implement structural reforms to improve their level of competitiveness. The World Bank conducts the survey annually across 190 countries, from Afghanistan to Zimbabwe. Figure 6 presents the indicators for the ECCU member countries. Importantly, the survey suggests that the ECCU countries are losing ground with respect to their rankings.

Importantly, the World Bank Group (WBG) has conducted simulations showing the potential impact of reforms in key areas on the ease of doing business rankings of ECCU member countries. Their analysis suggests that reforms in respect of insolvency and secured transactions frameworks (legal rights for creditors) and credit information systems (credit registry) are likely to have the largest impact on the ranking of ECCU member countries, potentially emerging into the top 50 to 75 countries in the world. The report further indicates that, current initiatives in the region form a good basis for reforms in the areas highlighted. Two of these initiatives include the ratification of the Credit Reporting Act by the ECCB Monetary Council, which is awaiting passage at the national level and the formulation of a draft framework for insolvency and a secure transactions reform in Saint Lucia.

Figure 6: Doing Business Indicators 2017-2018

The 2018 World Bank Doing Business Survey reveals that all ECCU member countries regressed on their ease of doing business ranking relative to that of 2017. Overall, the ECCU rankings were lower than that of most of the non-ECCU comparator countries.





Selected Doing Business Indicators 2017-2018

	Antigua & Barbuda		Dominica		Grenada		St Kitts & Nevis		Saint Lucia		St Vincent & the Grenadines	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Starting a Business	126	131	67	69	82	85	91	95	69	70	85	88
Paying Taxes	144	144	77	75	141	142	124	124	74	73	101	103
Getting Credit	159	161	142	144	142	144	159	161	159	161	159	161
Registering Property	118	120	164	168	141	146	184	185	105	104	166	171
Trading Across Borders	101	108	81	89	131	135	66	68	82	90	93	81
Resolving Insolvency	128	132	132	134	168	168	168	168	127	130	168	168

Among the doing business indicators, the ECCU business environment remained most challenged by difficulties in accessing credit, registering properties and resolving insolvency.

Source: World Bank Doing Business Surveys

5.0 INFRASTRUCTURAL DEVELOPMENT

Developing robust infrastructure has been identified as integral to sustainable growth. This is of importance to the ECCU region, as member countries require huge investments to bridge infrastructural gaps brought about by ageing infrastructure, damages sustained from natural disasters and emerging needs. This brings to the fore the need to 'build back better' to enhance climate resilience and reduce fiscal costs.

The OECS Treaty envisages that the movement towards a single economic and financial space will enhance cross-border economic activities by removing the obstacles to the free movement of persons, goods, services and capital. Therefore, as the region implements measures to become a single financial and economic space, the issue of connectivity and logistics features prominently in the discussion. Thus, there must be initiatives aimed at improving the cost and efficiency of regional transportation for persons, goods, and capital. Such an initiative would also facilitate multi-destination tourism, thereby enhancing the competitiveness of the region.

5.1. A Case for a Fast Ferry Service

The OECS Growth and Development Strategy (OGDS makes specific reference to the goal of developing an inter-island ferry system as part of a broader strategy to improve access as well as the transportation infrastructure in the sub-region. Improved transportation and travel networks are likely to boost trade in goods and services across the OECS and provide a fillip to the future growth of tourism and auxiliary services. The benefits are likely to extend to the agricultural and manufacturing sectors, as reasonably priced transportation services could greatly reduce cost, increase productivity and overall profitability of firms.

In 2018, the World Bank conducted a pre-feasibility study for a regional ferry service in the Eastern Caribbean. The report suggests that insufficient cross-island connectivity limits the market size for local firms. In addition, the region is characterized by its limited trade in goods and the almost non-existent trade in services (plumbers, electricians, construction contractors), largely owing to the lack of vehicle transport capacity. Of note, the report cites the potential boost to tourism services, which is likely to emanate from improved inter-island connectivity. Based on a survey of travel agents, 90.0 per cent of tour operators indicated that clients often enquired about multi-destination holidays in the Caribbean. Further, 77.0 per cent of the respondents believed that a regional ferry service would increase intra-OECS tourism by over 10.0 per cent.

The report also identified three feasible inter-island fast ferry routes as follows: 1) Trinidad – Grenada – St Vincent – Saint Lucia – Barbados; 2) Trinidad – Grenada – St Vincent – Saint Lucia; and 3) The British Virgin Islands – St Maarten – St. Kitts and Nevis – Antigua and Barbuda – Guadeloupe. Based on financial and economic net present value (NPV) terms, options 2 and 3 were deemed the most feasible for the region. In addition, the selected options were envisaged to interface seamlessly with the existing ferry services connecting Saint Lucia, Martinique, Dominica and Guadeloupe, as well as the services between Anguilla and St Maarten.

Importantly, the report recommends a public-private partnership (PPP), following a Build-Own-Operate model for the operationalization of the service. Essentially, such a model would require that the private operator incur all investments, operational costs and revenues. However, member governments would be required to commit to fixed availability payments in the event of revenue shortfalls, and therefore share in the market risk with the operator. The model also makes allowances for governments to receive a share of the revenue.

Given the scope of work required to bring such a project to fruition, the study makes several critical recommendations including the design of appropriate governance and regulatory structure, appropriate design of any PPP arrangements, agreement on burden and revenue sharing, and the need for coordinated tourism development strategies.

6.0 CONCLUSION AND POLICY RECOMMENDATIONS

The ECCU member countries have been characterized by lacklustre growth over the past decade and have yet to recover the levels of growth recorded prior to the global financial and economic crisis in 2007/2008. Partly fuelling this performance is the lack of financial inclusion, as credit growth has not recovered, owing to scepticism and a high degree of risk aversion among some of the largest lending institutions in the region. In addition to the foregoing, the ECCU member governments continue to face challenging fiscal and debt environments. At the institutional level, ECCU member countries have regressed in respect of their rankings on the ease of doing business and trail behind many of their comparators.

Notwithstanding the challenges that confront the ECCU, the member countries are urged to continue with the design and implementation of strategic initiatives aimed at building resilience at all levels and addressing structural weaknesses within the economies. This would include the following;

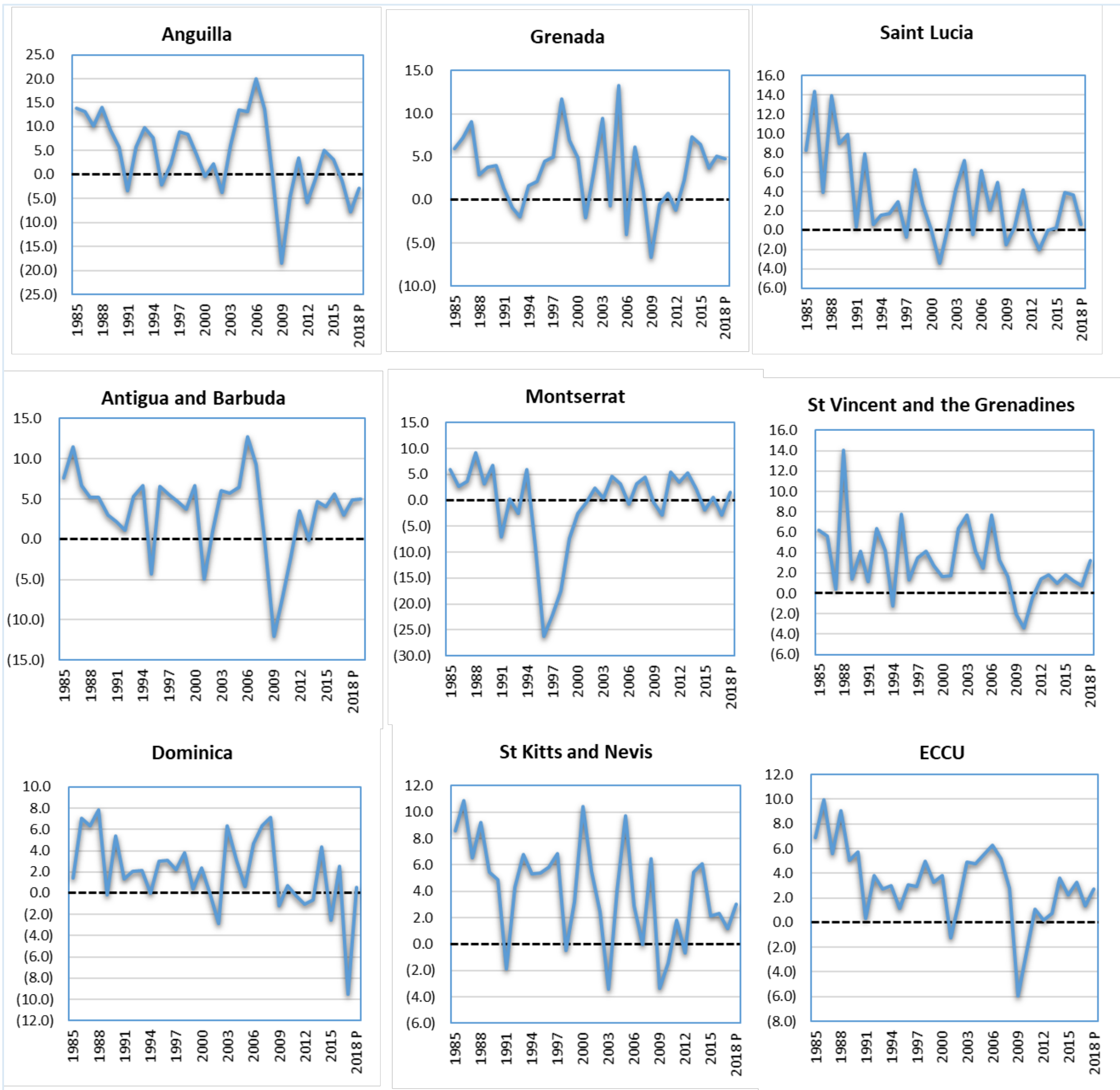
1. Coordinate and implement recommendations to address the region's challenges, as articulated in the Action Plan of the last two Growth Dialogues with Social Partners, the ECCB's 2017-2021 Strategic Plan and the OECS Growth and Development Strategy.
2. Adopt and codify measures that would foster greater fiscal transparency and accountability. Such measures would entail setting reasonable fiscal and debt benchmarks over the short, medium and long term and design and implementation of fiscal accountability frameworks.
3. Implement measures to explicitly internalize the cost of investing in more resilient infrastructure. These measures should be adopted and couched within a climate change or disaster risk-financing framework.
4. Systematically review the structural weaknesses/bottlenecks within the economy and implement reforms to strengthen the business environment including key reforms aimed at resolving insolvency, secure transactions, access to credit and registering property.
5. Support the initiative aimed at the establishment of a regional fast ferry service through reforms aimed at enhancing customs clearance and port facilities. This service would be

a further impetus to private sector growth especially in agriculture, manufacturing and tourism sectors.

Ultimately, the success of any major reform initiatives hinges on the ability of governments to foster buy-in from the public. Accordingly, sensitization and public education drives, which clearly demonstrate the benefits of, announced policy measures would be important to delivery and success.

APPENDICES

Appendix 1: Economic Growth in the ECCU (1985-2018)

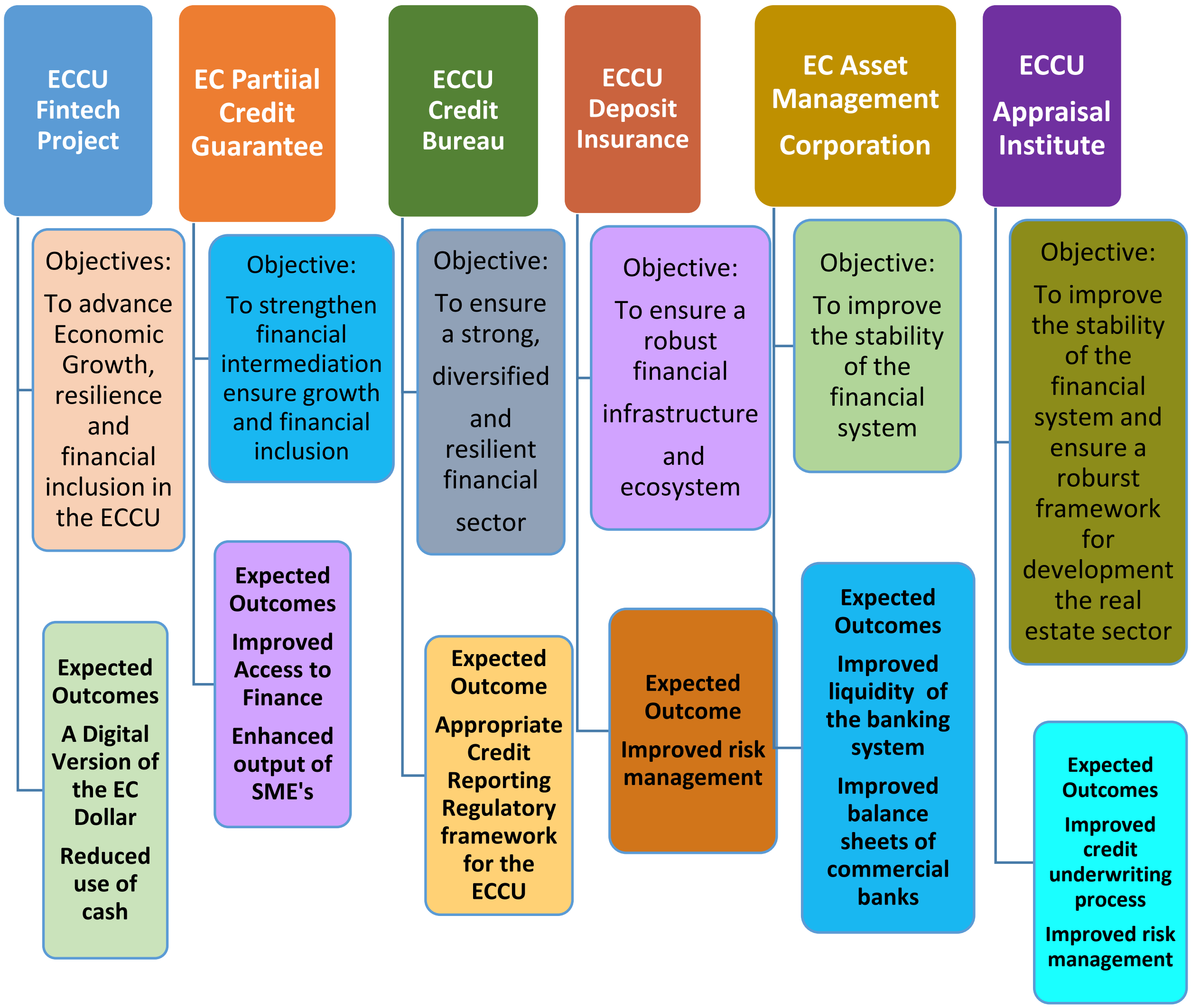


Appendix 2: Action Plan: Growth Dialogue with Social Partners

Thematic Area	Actions/Deliverables	Key Performance Indicators
Strengthening our institutions for growth and sustainability	1. Establish open data policy 2. Instituting a social partnership dialogue platform 3. Establish Oversight Committee for implementation 4. Diagnostic evaluation of Governance Structure	▪ Greater access to data for analysis. ▪ The number of meetings of social partnership structure. ▪ Start of implementation of key policy improved by one quarter. ▪ Proposal for further improving efficiency.
Building resilience in our financial sector markets	1. Create an ecosystem for savers to become equity investors. 2. Increasing Compliance to reduce De-risking threat to the Banking sector. 3. Building capacity in government and banking sector as it relates to standards of governance.	▪ Increase in equity investors amongst users of funds. ▪ Reduction of NPLs. ▪ Improved responsiveness by Commercial Banks. ▪ Reducing the risk factors as reported by CFATF. ▪ Reduction in migration. ▪ Reduction in the informal sector. ▪ Improving Debt to GDP ratios. ▪ Better Macro performance indicators. ▪ Improvement in fiscal space to undertake development.
Developing our human resources capacity for growth and sustainability	1. A reviewed and upgraded outlined growth road map.	▪ Strategy and action plans completed.

Thematic Area	Actions/Deliverables	Key Performance Indicators
	2. Conduct a skills assessment and audit on a national level in a regional framework. 3. The Ministry of education ensures that secondary schools integrate the vocational studies in the curriculum. CVQ 4. Establish a national comprehensive apprenticeship program that encapsulates personal development and training.	▪ An assessment and audit report with recommendations. ▪ An increased in the percentage of technical oriented grandaunts. ▪ Increased productivity. ▪ Competitiveness. ▪ Reduction in unemployment. ▪ Foster a culture of entrepreneurship.
Building climate smart resilient infrastructure in the OECS	1. Develop and enforce land use policy across the region. 2. Harmonized building codes across the region. 3. Capacity building with the use of appropriate technology. 4. The establishment of a Regional Resilience Fund.	▪ Policy legislated and implemented. ▪ Institutional buildings conform to codes. ▪ Codes passed into law. ▪ Reducing unemployment among at risk youths. ▪ The establishment of a certified apprentice system. ▪ Commitment of member states to contribute up to .5% of GDP. ▪ Establish criteria for allocation of the fund.

Appendix 3: Strategic Policy Initiatives for Enhancing Growth in the ECCU



[5] EC-Eastern Caribbean
[5] ECCU Eastern Caribbean Currency Union