



# REPORT CARICOM COMMISSION ON THE ECONOMY

October 2020

## “Caribbean 9.58”- Speeding up the Caribbean



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**PROLOGUE**  
**12-Point Action Plan in Response to the COVID-19 Global Pandemic**

At the height of the first wave of the Global Pandemic of COVID-19, the CARICOM Commission on the Economy met virtually to discuss what the Commission would recommend to CARICOM Heads of Government as the best “collective” response to the pandemic, drawing on what was then our draft report for the region’s long term growth strategy and direction. Our focus was on what could we do now, given all of the constraints of operating in the environment then, that could have an immediate impact on the region, as well as being consistent with where we need to go in the long-run.

The Commissioners made the following **‘COVID-19’ Declaration and Call to Action:**

In this crisis, all of us in the region, citizens, leaders, experts all, stand shoulder to shoulder with each other and the international community.

We must commit to no beggar-thy-neighbor policies within the Community, no building up of walls against the movement between member states of medicines and any other goods and services, and people.

Today, we rely upon each other, share information and expertise freely, and find natural ways in which economic integration, human and social development, and security is advanced regionally. COVID-19 presents no excuse to depart from our path of unity; it is cause to deepen our integration.

We pay homage to our regional and national public health institutions and staff. We owe much to them. If ever there was doubt as to the value of investing in public health and education, locally and regionally, those doubts must be banished now.



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*"Caribbean 9.58"- Speeding up the Caribbean*

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In addition to saving lives, we must strive to protect livelihoods and prepare for a healthy recovery. We make the following declaration and recommend the following immediate actions:

1. **Now is the time for action, not to wait and see, nor to worry about moral hazard nor stick rigidly to fiscal strictures and targets** developed at a different time before the drop in income we are experiencing was ever contemplated. The international community will stretch out a hand to offer support, and it must be grasped firmly by quickly establishing national and regional vulnerabilities, needs and priorities. Our development partners need specifics. **Specific priorities** are for immediate assistance in –
  - (i) the funding and sourcing of vital equipment in the public health response, for example, testing kits;
  - (ii) the development of regional stores of this vital equipment to reduce the risks of supply disruption; and
  - (iii) the funding and early and fair allocation of access to vaccines and treatments.
2. Our **long-term commitment to fiscal sustainability** should be unwavering as that is the essential way to build resilience from unanticipated shocks. However, we must get across this deep ravine to reach our destination. Now is the time to use whatever budgetary space we have and ask our international partners to help us create more space today through concessional lending or investment to governments and the private sector, to both the poorest countries, and conditionally, for those 'graduated' countries which are acutely vulnerable to the ill-effects of COVID-19.
3. We **call upon creditor nations to adopt objective measures of vulnerability** in their assessment of need and effectiveness when determining the allocation of concessional resources.
4. We know that the current international political environment does not give much confidence to hope for change in the international financial architecture, but



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*"Caribbean 9.58"- Speeding up the Caribbean*

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- politics changes and with persistence good policies find their time and place. The last allocation of Special Drawing Rights (SDRs) seemed unlikely just twelve months before it was announced. The region should **unite with calls for a new allocation of SDRs or alternative means to provide the global liquidity** needed at this moment. If ever there was a cause for an increase in global liquidity it is now that value has been destroyed by external forces that respected no border. We also back the **call for a re-capitalisation of the Caribbean Development Bank (CDB) and the CARICOM Development Fund (CDF)**, as well as other regional institutions that play a critical role in financing for development, notably the Inter-American Development Bank (IADB) and the Andean Development Bank (CAF).
5. There will be many **legitimate demands on the scarce resources** of the public sector. We believe the lessons of the last global crisis is that the most effective way of spending public funds outside of public health in this environment of considerable uncertainty and anxiety is by **prioritizing** –
    - (i) cash transfers and income-replacement schemes to needy households;
    - (ii) Investment spending on public infrastructure and training that will support the new digital and delivery economy; and
    - (iii) investments in nutrition and energy security that will make our countries and economies more resilient as well as lower the demand for foreign exchange.
  6. National governments will develop their own approaches to cash transfers to the needy. In designing these approaches, consideration should be made to **developing and financing a regional "floor."** Our societies stand together. We must leave no one behind. A regional floor will serve to limit the dislocation caused by significant economic migration of people within the region.
  7. Once safe protocols are established, **prioritising public infrastructure expenditure makes sense.** This should critically include the infrastructure required to develop the digital and delivery economy. Many of the restrictions on the overall single market and economy are physical and fraught with historical complexities. The crisis has forced the pace of the emergence of online marketplaces without a physical location. This provides a unique opportunity to
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"Caribbean 9.58"- Speeding up the Caribbean

---

refashion the Community as we would want it and start anew to create a new single market and the digital economy.

8. Digital transformation is a must, but it involves far more than and perhaps not even mainly, technology. Digital transformation makes equally vital, increased emphasis on training, upskilling and modern data regulation. The online market place and the gig economy that has grown alongside it have low and high ends: wages in low skill occupations are being pressed down by greater supply, and wages in high-skills occupations have been pushed up by increasing demand. Training will be critical to ensure our investments in the digital economy push our people towards the "higher-end" of the gig economy and away from the low end, as otherwise, this opportunity for change, like others before it, will end up reinforcing past inequities of opportunity and development, not disrupting them. There are six ways in which we can, today, **maximise the opportunity for digital transformation to lead to economic transformation** –
- (i) Our Nationals already have the right to establish and trade digital services across CARICOM. Still, we must now give effect to that through the mutual recognition of each other's licensing standards for certain professions. **We should immediately establish an inter-governmental Committee to support mutual recognition agreements or common minimum standards to remove all artificial barriers against the free movement** within the Community of digital services. Financial services and any other activity that requires local capital, will still need to be locally established, but even in that space, local establishment should only mean that capital and maybe liquidity are ring-fenced locally, rather than an extensive physical presence.
  - (ii) The intra-CARICOM Double Taxation Agreement already identifies where taxes must be paid in the provision of cross-border services – in the source country. **We must have a parallel agreement that addresses social security contributions by employees and employers.** That would help to ensure the digital economy modernises and replenishes our social security systems, not undermines them.
  - (iii) We are short of skills in our countries and currently many of our people are staying at home, out of work, or working online. Workers in one Member State should be able to have a digital employment contract in



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*"Caribbean 9.58"- Speeding up the Caribbean*

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another Member State without requiring a work permit. One set of conditions for this could be that **employees and employers pay their social security contributions to the country of the employee** and the appropriate taxes where they are due.

- (iv) **Digital addresses for all locations and entities will fast track the development of new delivery services** and excite the market for local entrepreneurs to develop new digital products and services. Some states are already making progress with geocoding, but it is expensive and there is scope to reduce costs and accelerate efforts through regional procurement.
  - (v) The public sector **must accelerate its efforts to offer as many public services as possible digitally, 24x7** with the online application, collection, and payment of all licenses. Clear targets on moving government online must be established and published.
  - (vi) Regionally, public and private sector **demand for software development is substantial enough to support a regionally resident industry** that will ensure that we share in the value-added part of the digital sector and not the commoditised parts. The software budgets of all of the region's tax, social security, and licensing departments is a \$100 million plus a year market. However, how we do procurement entrenches our use of external expertise. We **recommend** –
    - (a) Making extra effort towards regional procurement in this area;
    - (b) Orchestrating regional prizes for software development, with the winners getting the right to participate in regional tenders;
    - (c) Employing a system of enabling preferences for regional firms in the development of nationally-sensitive systems, in a trade-compliant and diversity-supporting manner, and on national security grounds.
9. The crisis underscores the **importance of nutrition and food security**. The advent of new delivery services is creating opportunities for delivery directly from farm to fork that will support consumption of healthier fresh foods and local growers.



DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY  
*"Caribbean 9.58"- Speeding up the Caribbean*

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- We must take this opportunity to use digital technologies to ease further one of the critical challenges for our growers, which is an inability to manage shocks to supply and demand. Our farmers cannot switch on food production when we need and not when we do not and cannot handle the risk that as they come to market with a crop that was in high demand and scarce supply last year, so does everybody else. There have been many proven success stories at using inexpensive information technologies to help manage these risks and boost local, small scale production. We recommend establishing a public online information system where a condition of receiving public support in the range of agricultural supporting measures would be accurate monthly reporting online on what is being grown. Added to this information site would be customs data on what is being imported. We know there are existing efforts towards production co-ordination. While these have worked well in some countries, we worry that the pursuit of perfection in this area has proved the enemy of the good. A more relaxed and simpler approach of reporting rather than participating in co-ordination can be started right now; and will create and support the long hoped for production co-ordination we seek but have so far never achieved for a host of reasons.
10. Energy security is also essential. **The crisis is an opportunity to take the bold steps required to accelerate the shift to renewable energies that save foreign exchange and provide energy security.** Governments must take the necessary regulatory steps to encourage investment in renewables. Although Governments have talked the talk, too often a combination of concern over whether foreign investors are getting too high a tariff at the expense of local consumers, or over whether renewables will disrupt the grid, have conspired to slow the adoption of renewable energy. Our Governments need to do more to support renewable energy markets. The experience of those countries that have adopted renewable energies faster than us, despite less attractive natural circumstances, is to publish investment-appealing feed-in tariffs, with transparent, predictable and limited mechanisms that allow prices to adjust lower if they prove to have been too attractive. Get the foreign investment now and adjust predictably to protect consumers later.
  11. The **regional single market and digital economy require the elimination of digital frictions in moving data across borders and digital divides within countries.** We must work with the private sector to accelerate the adoption of transparent,



DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY  
"Caribbean 9.58"- Speeding up the Caribbean

---

predictable, and low costs for cross-border movements of data, including those related to telecommunications and payments. We support the recent initiative led by the CARICOM Secretariat and the telecoms companies to have a single, low, CARICOM roaming rate for mobile data.

12. As our children learn online, **we must immediately redouble our efforts to bridge the digital divide**. This is not just about ensuring every child has a tablet, but ensuring there is good digital educational content, affordable internet, and low electricity and telecoms costs. **We recommend the regional education bodies, UWI and private sector ICT companies partner to create a single Caribbean Digital Library of all learning resources used in every jurisdiction**. We should make it a requirement of internet service providers and telecoms firms that access to this Library from these tablets is easy and that a certain amount of broadband space is provided free to all. The Digital Library will be open to new ways in which learning can become more interactive, connected, and fun.

In conclusion, we have set out above some narrow, clear, practical and achievable priorities. We must continue to support each other in taking all necessary actions to live with COVID-19 safely. As Member States balance their opening protocols, we urge them to move away from the false dichotomy of "open" or "closed" but on safe and risky and promoting safe people, doing safe things, in safe ways, with the most vulnerable adequately shielded. This requires a capacity for testing, tracing and treatment. To mitigate and adapt to the adverse consequences, we must not lose focus on helping households get through this restrictive period and re-directing expenditures to capital works and delivering the digital economy.

The crisis is forcing a pace of digital transformation and development of local delivery economy that provides immediate employment and a more diverse and resilient economy on recovery. There is a unique opportunity to fashion a single market and digital economy in the way we want the whole individual market economy to function. We recommend we take these steps to ensure we hold our communities, support a repaid economic return and secure our future development.

**October 2020**



## **1. Introduction and Summary**

### **1.1 Background to this Report**

We recognise the critical nature of the task to shift CARICOM States to a stronger, more sustainable, resilient, inclusive and equitable development path. More than a quarter of a century has passed since the West Indian Commission declared that it was “Time for Action.” In that time, action has been more scarce than desired, and the threats and vulnerabilities facing our region more plentiful. Twenty-five years ago, global pandemics were considered a relic of a past before advances in public health. Twenty five years ago climate change was just a warning of a distant future. Today, it is the inescapable reality of our people who stand on the front line of the war on climate change, assaulted by category 5 hurricanes, rising sea levels, bleached corals and beaches filled with sargassum. Twenty-five years ago, development agencies were encouraging our countries to switch from sugar to financial services. Now those sectors are found on often illegitimate but influential sanction lists. And twenty-five years ago, there was a stronger international consensus towards level playing fields and multilateralism than today. The impounding of emergency medical supplies destined to a country in need by another in less need at the height of the COVID-19 pandemic underscores the point that notions of an international order and respect of treaty obligations are real, not theoretical.

Members of this Commission and many others are aware that this is one of our last chances to act before the lateness of the hour dims the possibilities available to us. If we do not act, and as a result, too much of our talent leaves never to return, or our vulnerability to natural disasters so undermines our fiscal position that governments can no longer borrow to invest, or the retreat of multilateralism squeezes us out of so many opportunities that we cannot grow, then the frontier of the possible will close in, triggering a self-feeding cycle of societal and economic decay. Commissioners, like ordinary citizens of our countries are impatient; but not pessimistic. The character of Caribbean people remains a rich resource and, along with real threats, we also see viable opportunities. New digital technologies, for instance, can help us overcome the constraints of distance. The centre of gravity of consumer markets has moved eastwards and southwards from us, but we can sell Asia and Africa knowledge services down a broadband connection as quickly as if they were next door. Better use of technology in



DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY  
*"Caribbean 9.58"- Speeding up the Caribbean*

---

government and our society more generally can help us leap frog other obstacles. Further, the tradition and commitment to education and self-improvement is deep amongst our people, and partly reflecting that, our region has substantial amounts of savings that can be better mobilised to support growth and development.

***We have adopted an approach that attempts to cut the obstacles of funding and readiness and rests purely on political will.***

As a region we generally externalize why we have not done better or taken the necessary action. We say it is because we are hindered by real, structural inequities embedded in our history and international order, or because others will not provide the market access or financing that we need, or other Member States are blocking agreement or something else. These challenges are real. However, the Commission is united in saying loudly and clearly that our destiny is still in our hands. We cannot achieve all that we must without mobilizing new resources, but we can achieve much and must not postpone what we need to do any further. To emphasize this point, we have pointedly limited ourselves to a small number of recommendations that will require no new external financing but will move the needle of development and growth for all. Here are four recommendations that if our people and leaders can agree on will transform the regional economy, help reverse the adverse trends we have witnessed and provide a platform for a larger and more rapidly growing regional economy. Let's do it today. Late is the hour.

Having witnessed other reports fall on deaf ears we believe there is no point contemplating what needs to be done without considering why it has not been done. We have deliberately sought recommendations that are not critically dependent on difficult public consensus or hard starts for all. We recognise that while there is often a broad consensus to act in a particular area, there is also often insufficient consensus on how and when.

***Introducing subsidiarity and enhanced cooperation to break the log jam on CARICOM Single Market and Economy (CSME) issues.***

Multilateralism is under pressure the world over. Many of the problems we face have a strong regional and international dimension - such as regional transport, easier movement of workers and goods around the region, financial system de-risking, and climate change. They cannot be dealt with effectively by nations acting individually. Yet,



DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY  
*"Caribbean 9.58"- Speeding up the Caribbean*

---

there is less political appetite for multilateralism and more for an assertion of nationalism. Many regional proposals are stuck and some regional initiatives are being stymied locally. **We believe that a broader solution is one that recognizes "subsidiarity" and the role of advanced parties cooperating more closely.** Perfection in regional agreement, like in other areas of life, can be the enemy of the good. Not all issues are best done regionally and those that are, do not all need to start with everyone at the same time.

This point may be best illustrated with the issue of violent crime, a major issue for the region. Miraculously we have so far avoided a confrontation between the region's tourism dependency and its high crime rates, but it will come if we do not bring high crime rates must come down. There are good opportunities for the sharing of intelligence, experience and specialised personnel. But crime is a complex play of nationally bounded issues and is best led nationally with regional and international support. Consequently, one of our first recommendations we make is in the area of Community decision-making on CSME issues. In Section 3 of this report we urge the adoption of a test of subsidiarity for all CSME proposals so that the Community may be more focused on a smaller number of issues best done regionally.

Secondly, and relatedly, **we support a mechanism of "Enhanced Cooperation" where a group of no less than five (5) Member States can move ahead with closer integration on a CARICOM Single Market and Economy (CSME) matter, as long as the others do not object and are free to join at any point later.** We believe that in the area of greater economic integration an **"Enhanced Co-operation Mechanism" will overcome paralysis,** where progress may be blocked by just one country or a small group of countries that may not be ready for an initiative, may need more time to prepare the public, or more time to ready implementation and would not be harmed if the others went ahead as long as they could join at their free will later.

The four (4) regional recommendations we make in this Report are regional solutions to regional problems that are best addressed regionally and not nationally. They have been chosen and designed so that they cost Governments little and while they are best carried out with everyone, they would still yield significant benefit if a critical number of countries signed up for enhanced cooperation with others following later. The question they pose is not do we have the money or are we all ready, but do we have the political commitment to a single market and economy?



## ***1.2 Delivering freer movement of people and goods through a primarily privately funded fast ferry network***

We cannot have a single market and economy if people, goods, services and data cannot travel easily, frequently and inexpensively. But while there is strong consensus around that idea, it conjures up a long, abstract and complex agenda that quickly runs out of steam. We believe that an important way of getting us close to where we need to be is to facilitate the establishment of a network of privately run and owned fast ferries. The idea of a fast ferry has been mooted many times before. But three (3) fundamental things have made this a *kairos* moment for regional transport. First, the technology has changed so that journeys are more comfortable and quicker than before, rivaling aircraft on many of the short hops that are uneconomic for aircrafts. Integrating sea and air transport can make regional air travel more profitable too – with less need to serve unprofitable air routes that can be better served by a combination of sea and air without a degradation in connectivity. Second, the experience of existing, ferry routes, in the region and elsewhere have turned a theoretical case into a commercial one. Private sector operators will come without subsidy. Third, failure of LIAT has meant that the addition of a fast ferry may be the spine that connects a multitude of profitable but small sub-regional airlines into a single comprehensive network.

However, what the experience has taught is that for this to be commercially viable without subsidy as well as economically transformational we need a regulatory environment that enables passengers to bring their cars and pick-ups on board; for cargo to be quickly loaded and unloaded and for customs regulations to be transparent and predictable with fast dispute mechanisms. **If five (5) member countries agree to sit down and agree to just these three things, regional integration will receive the massive adrenalin boost that it needs and that will yield wide social and economic gains.** We believe there is also an opportunity for the same group of countries to consider pooling their air and sea spaces more generally. This would make this pooled space more significant and less avoidable, raising the rents that could be charged for those third parties then are passing through the space or using it. That is our first of four (4) recommendations, discussed further in our report.



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### ***1.3 Delivering greater mobility of labour and skills by making critical changes to the Skilled Nationals regime***

Our countries are small and underpopulated. We cannot develop through autarky. We must be globally excellent, learn from the world, share, and sell to the world. Our companies must be globally innovative. That is wholly inconsistent with our current approach to labour market mobility. And it is less the rules than the slow, ad hoc, discriminatory and overly bureaucratic implementation. We propose two radical changes. **First, that any CARICOM national would be treated as if they are a skilled national with rights to stay and work, as long as they have more than two Caribbean Secondary Education Certificates or their equivalent.** This appears to be a marked lowering of the threshold, but it is a woeful fact that more than two thirds of our school leavers do not have this qualification. Maybe this new rule would encourage more high school students to see obtaining a couple of CSECs as a viable route to opportunity.

Equally important, however, is that **we propose that those that have this qualification do not need any specially obtained documentation other than electronic verification that they do.** All a CARICOM National need show an immigration official or any other to assert their rights is their mobile phone with a secure certificate from CXC or in the future this information could be embedded in machine readable passports, perhaps using blockchain technology. Citizens would no longer need to apply for and wait for a letter from one or often more than one ministry in one or two countries. We believe that this will in the public's mind, give meaning to the "CC" on a Member State passport. This is our second key recommendation. We know that while the benefits of mobility far outstrip the costs, these costs are not inconsequential and are perceived to be higher still. Increased mobility must go hand in hand with our other recommendations around raising skills and broadening economic enfranchisement.

### ***1.4 Reducing the obstacles to deepening the financial sector by tackling financial conduct regionally***

Setting up a financial business in any one of our Member States has become more onerous as a result of what is euphemistically called de-risking in response to international rules on anti-money laundering (AML) and countering the financing of terrorism (CFT). The ironies run deep. Not only is the region one of the least involved in the flow of money laundering and financing of terrorism as you would expect from small,



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*"Caribbean 9.58"- Speeding up the Caribbean*

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foreign exchange constrained financial sectors, it has been the most heavily hit by “de-risking”, which in turn has led to a jump in actual risks as an increasing number of our citizens and sectors, engaged in legitimate activities, have become unbanked. De-risking has intensified despite the exponential rise in compliance costs. Much of these costs however are the result of multiple government agencies and the private sector carrying out the exact same checks using the same privately run and funded international databases, which to top the iniquities are headquartered in the same countries that drive the listing of others and never list themselves.

We propose that participating Member States should establish a single, independently operated, internationally credible and scrutinized agency that would deliver an AML certificate that would be accepted by all Government agencies and voluntarily any others in participating countries. This would dramatically reduce the cost and time of compliance for local and regional businesses and release resources for more productive use. It would also help to remove AML and CFT as anti-competitive devices to thwart for instance the introduction of fin tech solutions to reducing the costs and time of peer-to-peer transactions nationally and regionally.

We need to do something similar for *‘Fit and Proper’* tests on anyone applying for a financial activity license anywhere in the region. While we support financial conduct being regional and even a regional framework for capital requirements, we believe national regulators should set capital requirements locally and require financial firms to have local subsidiaries. **We should move to a regional financial conduct authority.** One alternative or first step towards a regional agency is a commitment by at least five national regulators - consistent with our earlier ‘enhanced cooperation’ recommendation and perhaps the first example of it - to follow an efficient standard process and a network of mutual recognition. We believe that making financial conduct rules and certification regional, along with AML and CFT, would substantially reduce the costs and increase the ease, predictability and transparency with which financial firms can set up subsidiaries around the region. It would also help to grow the market for financial intermediaries in the region that could help bring capital and investment opportunities together. That is our third recommendation and another that involves no cost to the Government, would likely save money, improve services to consumers and make integration a reality.



### **1.5 Igniting a private sector investment boom in building resilience**

These three recommendations above are about speeding up Caribbean growth and development, as well as regional integration. We must also speed up private sector investment in resilience. The costs of building resilience to climate change in our region is truly massive and in the order of billions.

The often misunderstood challenge is that climate change is a largely uninsurable risk – because of its increasingly known nature, the sheer size of loss and damage for small states and its increasing frequency and correlation. To comprehend this point ask yourself if you were to insure Dominica against losing significant Gross Domestic Product (GDP), what premiums would you have to charge given the recent experience of Tropical Storm Ophelia that caused damages of around 46% of GDP one year, then Tropical Storm Erica which destroyed 97% of GDP four years after and then Maria justly two years later that destroyed 226% of GDP. If these were random, uncorrelated, untrending events then spreading and pooling risks would help, but the point of global climate change is that they are not.

The private sector can develop ingenious insurance contracts for many individual eventualities, but not systemic collapse. This is why the financial markets themselves critically depend upon the government, in the form of the central bank, to be the lender of last resort in a systemic crisis, essentially to provide systemic insurance. The world's largest central banks have been pressed into this action frequently, most recently in 2020 amid the pandemic. What we are grappling with climate change and, seen so clearly with the recent pandemic, is the need for a response to systemic collapse of our climate. Our region is particularly vulnerable to these new systemic risks given where we are located geographically and our dependency on tourism, trade and travel and yet our governments, partly as a result of size, are unable to provide systemic insurance.

Where insurance mechanisms and incentives could be reintroduced is if those who contributed to the risks related to climate change, pay the premiums for insuring those most vulnerable to those risks. They would then be incentivised to reduce their contribution to climate change. Having those who suffer from the consequential behaviour of others pay for the insurance, so that victims pay, clearly sets the wrong incentives. Its like a car insurance policy where you only pay higher premiums if someone crashes into you. Bad drivers are not incentivised to drive better. The Warsaw Mechanism



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***"Caribbean 9.58"- Speeding up the Caribbean***

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for Loss and Damage was designed to be a version of that with the developed world compensating the developing country victims of climate change, but several years on it remains toothless and dormant. The alternative to such a mechanism is that we build, physical, economic, livelihood resilience today so that we are not dependent on an insurance payout tomorrow.

Governments must focus their limited resources on building resilience for those least able to afford it and encourage those who can to do so. This encouragement takes the form of new resilience requirements for our homes and neighbourhoods, that is not just about the construction of homes. All homes should be sufficiently hurricane resistant from the roof down, but also have reserves of power, water and food. All neighbourhoods should have resilient supplies of power, water, food, medicines and internet connection, which may imply undergrounding networks and stores.

Secondly, we propose that these new resilience requirements for private homes and public neighbourhoods are matched with inexpensive, long-term financing for resilience, through the issuance of a new asset class of Growth and Resilience Bonds, focused on investments in making all homes and neighbourhoods resilient, drawing on social impact and donor funding, and perhaps state-contingent obligations so that countries are rewarded for creating resilience.

CARICOM and the regional development banks, can play a critical catalytic role in getting this new asset class going without Government financing because it requires a nexus of the public and private, of regional public standards on resilient buildings, stores and neighbourhoods and regional private investment. Of course, a policy of creating resilient homes and neighbourhoods, should not stand in isolation and should be supportive of other plans to build resilient livelihoods.

Being on the frontline in the war on climate change creates huge risks and challenges. But there is opportunity too if the region turns its head start in resilience building and financing into a global, exportable, expertise.

***These four actions fit into a broader development model and critical national priorities***

There is no shortage of ideas in our region. We believe we can be of greatest support to the political leaders of CARICOM by prioritizing these four (4) regional actions, solutions



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
*"Caribbean 9.58"- Speeding up the Caribbean*

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to four (4) regional problems, that will move the needle, but are free and can be implemented in phases. However, our focus should not be misconstrued. These are not four (4) random items. They are part of a wider context and model of development. Consequently, in the next section we consider the overall development strategy for the region. And after a discussion of the four key integration steps we identify the other critical issues we believe countries should take the lead on at the national level: tackling inequality and poverty through broadening ownership and investing in skills and innovation, improving public services with the help of technology, changing our poor diets and the associated explosion of non-communicable diseases that is overwhelming our health care systems and cutting crime through a multi-dimensional approach.

The Commissioners have been honoured and excited to volunteer and serve the region in this capacity. The logistics of doing things across the region are never easy and COVID-19 made it harder but we have met, talked and shared with each other as well as with experts from the region and beyond. Over the past twelve months we have met in Barbados, Trinidad and Jamaica and we hope to hold meetings in all Member States as we refine and discuss our recommendations. Within the constraints of budget and time we would like to reach out and engage far more. We hope to use technology to help to disseminate widely our ideas, discussions and background papers and topics. We have identified four (4) specific actions that the Leaders can do now if they wish. But there is much else to do. **We recommend that a standing Commission be charged with reviewing progress and finding the next four actions we should implement to secure progress and move the needle on development.**

**CARICOM Commission on the Economy**

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**Chester Humphrey**

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**Paul Scott**

**Therese Turner-Jones.**



## 2. Speeding-up Development: A People-Centric Development Model

One certainty we have over the coming 50 years is that many of the jobs of the future do not yet exist, and many of the jobs that exist today will have disappeared in 50 years. Consequently, efforts to try and preserve specific jobs seem heroic but futile, unlikely to be sustainable in the long run. **We need to shift our focus to investments in our people that enable them to be more valuable and adaptable thus broadening their access to opportunity.** A future-proof, and prudent approach, is a more people-centric development model, and a less production-based model, where production in specific sectors is supported through unsustainable tax and other concessions.

The thrust of the new development model should be in providing education and training. This has long been a central part of our traditional beliefs in the Caribbean, even before Arthur Lewis, the first Economics Nobel Laureate in Development Economics and a son of the soil, famously said, "...The fundamental cure for poverty is not money but knowledge." But 66 years since Sir Arthur wrote those words we have learned that schooling alone and even having a graduate in every household is vital but not enough.

We have learned three (3) things. First, what stood for education sixty (60) years ago is not enough today. With information so much more readily available, we need an education system that supports critically thinking, curious and confident kids, not those able to just recite word perfectly. And the rise of machine learning and robotics requires a different emphasis. For instance, it has been said that while the first two industrial revolutions were based on muscle, and the third, requires our mind, the fourth will be based around our heart. Investing in education goes well beyond the traditional curriculum and classroom, (*see Commissioner Therese Turner-Jones' box on innovation and skills later on in this Report*). It includes learning that takes place in the playground, at home, at work and through travel and other experiences.

Second, we have learned that engagement with the world makes us better. Watching how others manage the same problems differently, trading and international competition deliver some of the best education. And we must have an educational system that can respond to what we have learned from that engagement and allows for students to reveal and fulfil their demand for new courses, options and subjects.



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
*"Caribbean 9.58"- Speeding up the Caribbean*

---

Finally, introducing markets and technology can lead to great efficiencies, but if the original conditions are wrong, and there is too much poverty and inequality, markets and technology alone are not enough. For instance, the degree of risk-taking and entrepreneurship in an economy relate to the spread of the ownership of assets. Those without assets, savings or buffers, whose lives are already so filled with risks, who can be plunged into poverty by an illness that takes them out of work for a week, have to be risk-averse and are not in a position to take the opportunities that may be presented to them. Consequently, **while investment in education is critical in the machine age, and what we mean by education is changing, finding active ways to reduce inequality is fundamental to helping our citizens take full advantage of that education.**

### **3. Speeding up Decision Making: Subsidiarity and Enhanced Co-operation**

We feel that today the CARICOM Single Market and Economy (CSME) is more honoured in the breach than the observance, (*see Commissioner Pascal Lamy's text box on the dire need for greater regulatory convergence*). Agreements that would deliver an effective CSME appear endlessly stuck. Some have been stuck for so long that they have become out-of-date, moot or reflective of a moment that has passed. Attempts to create a single financial space pre-date lessons learned in the aftermath of the Global Financial Crisis and the CLICO debacle. Rules that do exist, especially with regards to the ease of movement of people and goods, have weak and slow enforcement. This has generated a sense of despondency around the project. Few believe a single market is around the corner. Few businesses plan or invest for its eventuality and so this becomes a self-fulfilling prophecy.

The four (4) recommendations we make in this report are designed with this in mind. They will further CSME substantially, but their success are not dependent on levels of consensus, commitment and enthusiasm that we have become unfamiliar with lately. We hope all will join but they are actions that can start with coalitions of the willing and grow if that is a preferred route. Not all recommendations are best suited to this approach and we do feel that the decision-making process is part of the obstacle to the CSME. We venture that CSME matters are by their nature different than other subjects and may require a different decision-making process than one that relies on the full agreement of all Member States.



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
*"Caribbean 9.58"- Speeding up the Caribbean*

---

We note that other regional and even Federal bodies have faced similar issues, most notably the European Union. It is said that the introduction of the principle of subsidiarity into the Treaty of Maastricht in 1992 was critical to the EU making substantial progress to economic integration in the years that followed. Subsidiarity is also enshrined in the tenth amendment to the United States (US) Constitution and in Acts of Parliament in the United Kingdom (UK) concerning devolution. In short, **the principle of subsidiarity is that decisions are taken as closely to the citizen as possible, and should only be done at the higher level, such as at CARICOM versus the national level, if doing it at the CARICOM level would be more effective and efficient than doing it at the national level.**

Subsidiarity strikes a middle chord. It recognises that some things are best done nationally and some things are best done regionally or internationally and the principle is that things should be done at the lowest level at which they can be best done as that will help citizens to feel most engaged with government. Subsidiarity may be all the more necessary in an age when citizens around the world are rebelling against political elites that they feel do not understand their plight. We believe that asserting the principle of subsidiarity will focus what needs to be agreed at the CARICOM level and what could happen at the national level, reducing disagreement at the CARICOM level where something is not best agreed there and allowing some things to move ahead at the national level. In financial regulation for instance, the experience of the Global Financial Crisis was that the ring-fencing and assessment of how much capital financial institutions needed was best done at the national, not regional level, because the consequences of getting it wrong end up with the national tax payer, while rules on financial conduct, fit and proper persons and anti-money laundering are best agreed internationally as they need international buy-in and credibility.

Getting change going is important in itself. Change begets change. **The initiative we would like to propose to break CSME agreements out of gridlock is that of Enhanced Cooperation.** Amongst those matters that are best done internationally, some need to be done collectively at the same time and some could work in a phased manner if a critical number of countries set off first in an advance party. There are initiatives, for instance, that some would join but only if others, more enthusiastically, have shown that it works first. Matters that would be done under Enhanced Cooperation would still be discussed and debated at CARICOM and marshalled by the CARICOM Secretariat so that all are involved, just not all starting at the same time. What is the right minimum level for "Enhanced Cooperation"? We suggest it is a minimum of five (5) Member States. In



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
*"Caribbean 9.58"- Speeding up the Caribbean*

---

Europe, the minimum number required for Enhanced Cooperation is also around one third of Member States.

Enhanced cooperation is mostly "second best", not as good as everyone starting off together at the beginning, but it is better than not starting at all. Variable speeds on a limited set of issues can get us moving again. Many of the CSME decisions that are stuck today have been stuck for a while even though a majority of Member States are in agreement and were they to press forward it would cause no harm to the others.



DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY  
*"Caribbean 9.58"- Speeding up the Caribbean*



***CSME is being Strangled by the Absence of Regulatory Convergence***

Since 1948, tariffs rates, the purpose of which is to protect producers from foreign competition, have been progressively lowered worldwide as a result of international negotiations under the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). Efforts to open trade through tariff reduction at the multilateral level have therefore suffered from diminishing returns in recent years, as tariffs come to account for a decreasing proportion of overall trade costs. This has caused attention to shift to non-tariff measures (NTMs) such as SPS / TBT and other "behind-the-border" regulatory measures, the purpose of which is to protect consumers from various risks. This evolution from protection to precaution matters for the Caribbean region as well, as it affects trade in both goods and services.

Many "behind-the-border" laws and regulations seek to achieve legitimate public policy objectives. However, they may also act as obstacles to trade, due to their heterogeneity, opacity and complexity, or to the cumbersome procedures that are imposed to enforce compliance. These laws and regulations, if not appropriately monitored, can create unnecessary barriers to trade if they are inconsistent or incompatible with equivalent measures taken by a trading partner.

Legislators and regulators can employ principles of regulatory convergence to minimize inconsistencies and mitigate the trade-restrictiveness of their laws, policies and regulations. Regulatory convergence can be pursued unilaterally through transparency measures, the observance of good regulatory practices (e.g. conducting regulatory impact assessments) and / or the adoption of international standards. It can also be achieved through regulatory cooperation with trading partners and the creation of mechanisms for regulatory harmonization, equivalence or mutual recognition.

In the European Union, for example, mutual recognition arrangements ensure that some differences in the laws and regulations that prevail in the various Member States do not lead to trade barriers: in 1979, the European Court of Justice famously ruled that "Cassis de Dijon" produced and sold in France could also be sold in Germany, despite failing to meet German technical specifications (in this case, minimum alcohol content). The fact that the product had been through a system with a different set of standards, regulations and conformity assessment practices did not mean that it posed a threat to public health or to the public interest, and there was therefore no need to restrict the sale of the product in the German domestic market. In other areas rules and regulations had to be harmonised, or agreed as "equivalent." Only when a regulatory levelled playing field combining these various approaches was established among member states did borders within the EU disappear. This is why Brexit, as a capacity to diverge from EU standards, necessitates the re-establishment of a border.



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
***"Caribbean 9.58"- Speeding up the Caribbean***

---

***CSME is being strangled by the Absence of Regulatory Convergence***

In the Caribbean, a lack of regulatory convergence continues to thwart efforts towards impactful regional integration. Although trade in goods between CARICOM Member States is essentially free from tariffs, the IMF (2020) recently found that "significant nontariff barriers (NTBs) to trade [...] and lack of harmonized regulations" have undermined the regional integration process that has been at the heart of CARICOM's mandate since the Treaty of Chaguaramas in 1973. Furthermore, it has been noted that "limited progress has been made in harmonizing / coordinating policies to support a single economic space, with continued restrictions on capital mobility, and lacking [sic] harmonization and coordination of investment codes, tax incentives and macroeconomic policies" (ibid).

Economic models suggest that greater integration could expand market access for regional SMEs, boost employment and productivity for the entire region. Greater regulatory cooperation could also help to shield the small vulnerable economies in the region from the risk of becoming "rule-takers" in a world dominated by "regulatory hegemons", whose economic clout allows them to impose their regulatory practices onto smaller trading partners. By working more closely with their neighbours, CARICOM Member States can harness the tools of regulatory convergence to their own advantage, promoting greater economic integration in the fields of trade, investment promotion and labour mobility in a way that works for the region.

Important to a successful approach in regulatory convergence will be effective public private dialogue at the national and regional level to ensure the priorities of the micro, small and medium sized enterprises are reflected in the regulations and that harmonisation of regulations and building the capacity of entities to monitor and evaluate the efficacy of these policies be part of the dialogue with development partners and development agencies.

By mandating national regulatory bodies in the region to work closer together and by furnishing existing regional agencies such as the CARICOM Regional Organisation for Standards and Quality (CROSQ) and Caribbean Agricultural Research and Development Institute (CARDI) with the resources and the space to develop, implement and monitor regional regulatory policies the Caribbean will be honoring the intention of the 1973 Treaty of Chaguaramas.

**Pascal Lamy**  
**Commissioner**



#### **4. Speeding Up Regional Integration Through Four (4) Practical Actions We Can Do Today**

There is no shortage of exhortations to improve the regional mobility of people, goods, services, and investment. The public imagination is not ignited by clarion calls for free movement and politicians have taken note. The proposals seem academic, complex, in parts risky or threatening to ordinary people, and to mainly benefit someone else. Proposals and initiatives have been stuck for so long that some have become out-of-date further sapping any positive momentum. Many of the ideas around mobility of financial services for instance, pre-date the Global Financial Crisis and the CLICO debacle and are no longer considered positively by regulators.

Instead of adding to these abstract exhortations, we have identified four practical things to be done, each of which will have substantial impact on improving mobility, will cost the public sector little and where just five or more countries could form an advance party and not be held up by the need for agreement by all.

These four actions can be carried out independently, but they amplify each other. But more importantly, they have to be carried out in the context of the wider people-centric development model. The winners of the greater mobility these four actions will create, individually, collectively, socially, far exceed the losers. But the losers are real. They and their families and their expectations and hopes must be protected too. Failure to protect losers from trade is perhaps the single most important reason for the retreat of internationalism and dangerous rise of economic nationalism.

The losers from greater mobility are those engaged in the least valued-added activities. Committing to moving them to greater value-added activities through serious re-training of the type we discussed in the earlier section is essential. It is an investment in people, regional society and the economy.



#### 4.1 Action 1: In the Area of Freer Movement of Labour

***Speeding up the movement of labour around the region by reducing the skill thresholds for CARICOM Skilled Nationals Work Permit Programme for skill-short Member States.***

We recommend above that a group of five or more Member States be allowed to engage in enhanced cooperation on labour market mobility. **We propose here that Citizens of any or participating CARICOM countries can live and work in another participating Member State without the need to apply for a work permit as long as they possess a passing grade in at least two Caribbean Secondary Education Certificates (CSEC) or their equivalent.**

Further, **we propose that this information be embedded in their CARICOM passport and that immigration officers in participating countries would be allowed to rely on that information in granting free entry to work and stay for CARICOM Nationals with no need for the national to have any further certification or documentation.** In the absence of that information being in a national's passport, possessing electronic validation of the national holding the relevant qualifications would also be sufficient for entry to work and stay with no other documentation or certification required by national immigration authorities.

We believe that this single initiative will make a considerable difference to the easy movement of people and labour within the region. It will give meaning and create value to a Caribbean Community passport and incentivise Nationals to acquire school certification. We believe this should be the first part of a series of steps that willing countries may take to facilitate the easier entry to stay and work for CARICOM Nationals.

#### ***Why would this move the needle on regional growth?***

Productive companies are innovative companies and one of the major constraints to innovation at the company level in the Caribbean is a shortage of people with skills and experience. The Caribbean is underpopulated and short of skilled workers (*see Commissioner Paul B. Scott's box on freedom of movement below*). This is a major competitive headwind in the Caribbean.



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
*"Caribbean 9.58"- Speeding up the Caribbean*

---

The current CARICOM skills certificate programme continues to be a source of restriction to the free movement of CARICOM Nationals to work and stay in another CARICOM Member State. The process of obtaining the certificate has got better with time but remains too long, cumbersome and uncertain in time and decision. This proposal will also broaden the pool of available workers. Not all of the relevant experience and skills that a company needs are captured in qualifications and so this initiative deliberately lowers those requirements, but equally importantly it lowers the barriers of time and cost and the subjectivity in obtaining the necessary certificate.

***What should be done?***

- (i) All or a group of five Member States may agree to enhance their cooperation on immigration issues. They would declare that they will treat as if they are a CARICOM Skilled National if a CARICOM National possesses two or more passing grades in the CSEC or any equivalent qualification; and
- (ii) Participating Member States would agree to accept as electronic verification in passports or electronic devices as sufficient documentation.



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
***"Caribbean 9.58"- Speeding up the Caribbean***



***Free Movement of Labour***

The desire to have a single market functioning efficiently must incorporate the free movement of labour for a number of reasons. Our region does not retain talent. Talent migrates north because of the economic freedoms that are associated with the options available. Creating frictionless economic opportunities throughout our region for our people must be a priority if we are to safeguard the investment we have made (through the education system) and harness the true capabilities of our region.

The free movement of labour must follow the free movement of goods if we are not to create further inequality in our societies. The mobility of our labour forces must increase with the available opportunities. Goods coming from one Member country that leads to jobs temporarily moving from one place to another should not be impeded to protect jobs because it is an essential part of the job creation process. The jobs available in the expanding exporting country will be open to qualified people in the importing country. The absence of this mobility builds resentment to the integration movement and impediments to trade. Likewise, the free movement of services should be implemented to allow those countries that have comparative advantage in those areas to be able to export their services to the benefit of the region. Free movement of labour is essential in the development of our regional services businesses. No free market can simply be built on manufactured goods alone. Those goods need to be paid for, and in many cases, the sale of services are required to do so.

Inter-Member State investment by private sector firms will only increase when those who are making the decisions to invest are comfortable with the risk. Successful implementation of any private investment correlates to the capacity of their people.

Free movement of labour will reduce such risk by utilizing people that have proven capabilities whether in management or on the production floor. This will lead to significant cross border training as well as increased investment across our region.

The concept of the free movement of labour in our region is not new. The Revised Treaty was signed almost two decades ago in which it is clearly articulated as a key component in creating the CSME. The fact that very little progress has been made undermines the entire integration process. It is only with the free movement of labour that integration will be properly formed. Economic options matter to people and it is people that will bind our region together.

***Paul B. Scott***  
***Commissioner***



#### 4.2 Action 2: In the Area of Freer Movement of People and Goods

***Speeding up the movement of people and goods by facilitating a private sector-led initiative to establish a fast ferry network.***

##### ***Why would this move the needle?***

The Caribbean region has one of the highest costs of intra-regional transport of any similar area in the world. These costs are an immense impediment to the movement of goods, services, and people. Greater mobility of each of those factors is vital for growth in the region. Mobility of all levels of skills is economically valuable in an underpopulated region. Trade is an essential driver of growth. Economies of scale in the production, marketing and delivery of goods and services means that this high cost of mobility is stifling growth.

Where there have been new transport links - like the replacement of old, slow and unsteady ferries on the Port-of-Spain to Scarborough route, or the inter-island ferry between countries in the OECS - traffic of both people and goods has risen dramatically. The experience of L'Express des Iles and Port-of-Spain to Scarborough is that annual passenger traffic is approximately half of the combined populations of the two places connected. It is interesting that in the case of Trinidad and Tobago, the almost trebling of traffic did not come at the expense of the existing air bridge, which also experienced a modest lift, indicating that the increase in activity can lift all. This mutual benefit is an essential observation because some fear alternatives that would cannibalize traffic that is already too small.

Today, when people think of the costs of intra-regional travel, they think of airport taxes and believe that if only governments lowered them, all would be well. That idea underestimates some of the other real issues at work. Regulatory costs - before duties - of moving goods and services can be as much as 20%, wiping out competitive profit margins. These costs include fees and brokerage costs but also the cost of time. Then there are real technical issues. For most of the past fifty (50) years, the inter-island sea traffic has been rickety: so slow and uncomfortable that most prefer air travel. But taking off and landing in quick succession, on small runways, constrains the economics of air transport. It limits the size of planes, which limits cargo and alternative sources of revenue. There are many other legacy issues, but this encapsulates one of the significant problems that LIAT faced and contributed to its demise. Moreover, these taxes are often



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
***"Caribbean 9.58"- Speeding up the Caribbean***

---

ways of funding the upgrading of airports and runways to international standards. When these airports serve small populations, this leads to disproportionately high departure taxes and airport levies, further constraining traffic numbers.

Technological advances provide one disruption to this problem – as in other areas. There are now new large boats with advanced technologies that lead to smooth and fast travel. These boats can travel up to 50 miles per hour, arriving straight into the centre of capitals. If we take into account door-to-door times, and intervening stops, many journeys up and down the island chain would be quicker and smoother than current air routes.

It takes large boats, 110-120 metres long to manage the blue waters between many of our islands smoothly, and these boats have substantial capacity for carrying cars, trucks, and cargo. The experience of the Port-of-Spain to Scarborough route is that an important dimension is passengers taking their cars and pick-ups with them.

Contemplate frequent, inexpensive travel between islands on boats that can carry hundreds of passengers, their cars, cargo, at 50 miles per hour (mph), smoothly, inexpensively, in daily services. Imagine pulling up to the port 30 minutes before departure and traveling from St. Vincent to St. Lucia in under two hours, spent in the dining room of the vessel. Consider ordering fresh fruit from Grenada one morning and receiving the delivery in Barbados, that evening, or driving your pick-up onto the fast ferry in St. Lucia and driving off in Barbados a few hours later to make a delivery. It is hard to measure the impact of what does not yet exist, but we believe the positive economic impact would be considerable

***Linking the air and sea bridge***

Many of the routes that would be cheaper and quicker by fast ferry are also uneconomic for LIAT. Some co-ordination of air and sea travel, then, could, far from cannibalizing the market, create something far greater than the present and the sum of its parts. Fast ferry service could be the single physical investment that transforms local and regional activity and trade.

There have been many feasibility studies on Fast Ferries, including from the IDB, IFC/World Bank, and CARICOM Secretariat. Technological changes and mounting evidence from smaller Ferry services shows that this is now viable from a private



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
*"Caribbean 9.58"- Speeding up the Caribbean*

---

investment perspective, so there is no need for fiscally constrained governments to get involved. Commissioners have consulted with investors and boat builders. There are investors prepared to invest US\$50 million to purchase an ideal vessel for intra-regional routes and one is available. This is no longer a much talked about pipe dream. But it will not happen if we do not change the travel and trade regulation within the region.

***What needs to be done now?***

A Committee nominated by participating Member States (along the lines of the Committees that facilitated free movement during the 2007 Cricket World Cup in the region) should be established to agree solutions to the following issues:

- (i) The same ease of immigration that greets our out-of-region cruise ship passengers should be applied to CARICOM residents moving on the fast ferry;
- (ii) Cars, and vehicles carrying cargo and containers should be able to be loaded and unloaded in minutes. This requires use of on-line customs, pre-shipping approvals, and trusted trader programmes;
- (iii) Citizens of one Member State should be able to carry their car on board with them and drive off at another Member State and stay for a short period of time. Travel insurance should be available and safeguards need to be put in place, perhaps through insurance mechanisms, that allows for finance-owned vehicles to be put on ferries and to return on ferries and not sold. These are surmountable problems that many have already tackled around the world.
- (iv) There needs to be a fast dispute resolution mechanism when goods are not allowed to flow freely within the region or contentious levels of duties or charges are applied. The dispute resolution process should include an automatic appeal to the Caribbean Court of Justice (CCJ), after the failure to find a solution otherwise in a reasonable time, such as three months.
- (v) Data and voice communication within the region is also unreliable and expensive. We believe that given the increasing value of digital commerce, this is a serious impediment to the region's integration and development. **There should be a single CARICOM roaming rate for mobile phone calls for CARICOM Nationals.**



#### 4.3 Action 3: In the area of Freer Movement of Services

***Speeding up the establishment of regional subsidiaries by CARICOM financial service companies and inter-regional payments, by creating an independently operated one-stop for AML and Fit and Proper certification recognised by all Government agencies across the region.***

##### ***Why would this move the needle?***

The term "De-risking" has been used to explain the loss of correspondent banking relationships that local banks have suffered. The financial sector has responded across the region with a greater focus on compliance. Because the costs of anti-money laundering (AML) and similar checks and scrutiny are size-intolerant, and are almost more costly when focused on a small, unknown, depositor, versus a large, well-known, business customer, financial institutions have responded to AML risks by shifting away from sectors that are perceived to be risky and where returns and fees are small. The Caribbean has been disproportionately hurt by this development.

To be fair, extra compliance has not focused on where there is evidence of extra risk. Consequently, although most of our countries hardly ever feature at the centre of money laundering chains, and if they ever do, much less frequently and significantly than the large financial centres of New York, London and Zurich, Caribbean countries have suffered most, proportionally, from de-risking and the increased costs of compliance. Research shows that money launderers focus on where their transactions can be most easily lost in the milieu of international finance and would avoid with a barge pole jurisdiction where foreign exchange is in hard supply or worse still where there are restrictions requiring central bank permissions or even local bank authorisations. Giants wash more. Nevertheless, we have lost out and there seems to be no space for a genuinely risk-sensitive approach.

Financial institutions follow each other in adherence to conventions and rules and perhaps as a result they can sometimes drive themselves off the cliff edge. They do not wish to have different approaches that may generate little efficiencies but attract greater scrutiny. Better to be wrong and in company than wrong and alone. In response to



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
*“Caribbean 9.58”- Speeding up the Caribbean*

---

questioning on rules that do not appear to make sense, the stock response of local bank managers is that they have no control over the rules, they come from the foreign head office or a foreign regulator and so national Governments are increasingly powerless in the face of an increasing number of our citizens and businesses becoming unbanked in a world, that is becoming “cashless” and in which you cannot conduct business without a bank account. This is no small risk for the integrity of our economies, which may be slow in onset, but large in eventual impact.

Increased costs of compliance, translated into increased charges and fees of doing banking for customers, and an increasing number of unbanked citizens is prime ground for technological solutions in the payments and banking space, such as peer to peer lenders and electronic payment systems like the proposed Caribbean Settlement Network (*see Commissioner Damien King’s box below on facilitating cross-border capital flows*). However, these networks have to involve a bank in final settlement or at least, an institution that as a result of that regulation can access liquidity to manage short-term payment imbalances. But these same banks, perhaps aware that a revenue stream will be lost, have been reluctant to bank the firms that are offering technology solutions in the payment safe, often hiding behind alleged concerns over AML. Recent experience suggests that these concerns may be overwrought and that there is a risk that AML is being used as an anti-competitive instrument. After all, financial transaction costs in the region remain comparatively, very high.

Compliance costs are not just in the private sector. In order not to run foul of international AML and other similar rules as set out by the Financial Action Task Force, Governments are required to carry out tough checks too. In order to operate as an insurance company in Barbados for instance there must first be an application to form a company. The Government Corporate Registry carries out a series of checks on the applicant. The newly formed company then goes along to a bank to get a bank account. The banks carry out a series of similar checks, and often complain that they have to do the real check. There are now a small number of private, international databases like “Worldcheck” that everyone uses. The newly formed company, now armed with a bank account, then goes to the Financial Services Commission, which carries out the very same checks, using the same databases, often complaining that they are the ones that have to do the real check. The exercise in establishing whether an applicant is “fit and proper” often involves the same checks too. Effectively the same exercise is carried out three times, applicants have stood in three queues and the same process is paid for three times.



DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY  
*"Caribbean 9.58"- Speeding up the Caribbean*

---

If that God-forsaken company then decides to apply to do business in Trinidad and Tobago, they will have to carry out the same exercise with officials there using the same databases, paying each time for the privilege. Worse, after all of these checks, international banks remain uncertain that the local checks are any good when deciding whether they will accept wire instructions from the company or their bank. More checks, more time and money spent on these checks has not diminished de-risking. It is far from clear that the response, "that we must do still more", makes any sense. Doubling up on what is not working is not sensible.

If just one Government were to decide to establish an independently operated agency to carry out stringent AML checks and issue a single AML certificate that was accepted by all regulatory agencies, the government would save considerable unproductive time and money. Singapore and others have done this already and for this reason. The service would be entirely paid-for by the applicants and they would be happy to pay for a single window. Because the focus on AML is following international rules, if the tender for managing this agency was international and the operator was incentivised to do checks that stood up to all scrutiny internationally as well as being fast and convenient, this could have an impact on de-risking, which is partly related to perceptions of risks in unfamiliar far-a-way places. If as much of the private sector as possible, voluntarily, recognised this internationally credible check it would arrest the decline in business frustrated by the length of time these checks take. If other Member States signed up, so this was a one-stop shop for as many countries in CARICOM as participated, the benefits would be amplified.

The same issues and efficiencies above apply to Financial Conduct and Fit and Proper rules that bank and non-bank regulators apply across the region. They are the same standards and need only be done once by an internationally credible institution. The remaining focus of financial regulation would be what is the capital that would be applied to the activity being carried out in the jurisdiction and who is the financial product being sold to, essentially local questions.

If financial institutions in CARICOM could apply once for AML and Fit and Proper certification from an internationally credible, independently operated institution, and this certification automatically applied and was recognised across participating Member States without any further hoops and processes this would dramatically improve the



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
***“Caribbean 9.58”- Speeding up the Caribbean***

spread of financial services across the region. If the same institution had to keep capital in each jurisdiction to absorb potential losses of the activities they are doing there and would have to be bound by local rules on who they could sell to, this ease would be achieved without impinging on the regulatory buffers that avoid and contain loss from another “CLICO”.



***Supporting Cross-Border Capital Flows in the Caribbean***

Article 40 of the Revised Treaty obliged Member States to “remove among themselves... restrictions on the movement of capital payments.” Given the ambivalent attitude in the region towards the free movement of labour as well as the practical difficulties of implementation such, facilitating the smooth flow of capital becomes crucial to optimizing the use of productive resources across the region.

Amongst obstacles to intra-regional capital flows, the first is that several countries have foreign exchange controls. Since such controls have to apply equally to regional transactions along with those from outside the region, movement of capital within the region is obstructed. The elimination or minimization of currency controls would facilitate intra-regional capital flows.

A second obstacle is differing rules governing investment and qualifications to do business as an alien. For examples, Bahamas has local ownership requirements and St. Vincent and the Grenadines obligates the submission of medical information for foreign land ownership. Rules for perfection of security vary across the region. Mutual recognition of qualifications and licences will lead to regulatory arbitrage and thereby undermine the integrity of financial and investment regulations. Hence, the region should move towards harmonisation of requirements, either by each country ratifying and implementing common standards or preferably by ceding sovereignty over such regulation to CARICOM. This is a broad, ambitious area and so would require some prioritization of the key elements to form an agenda of reform.

Finally, the Caribbean relies on international banks and US dollars to intermediate intra-regional transactions, giving rise to delays, high transaction costs, and the de-risking problem. Capital flows can be greatly facilitated by having each central bank in the region issue digital currency (CBDC) which then becomes the basis for bilateral CBDC swaps and conversion amongst them, allowing for one-time net settlement multilaterally. Such an arrangement would allow cross-border transactions between individuals to take place via mobile apps securely, cheaply, and instantaneously.

***Damien King***  
***Commissioner***



***What is to be done?***

- (i) A Committee nominated by participating Member States, should be established to draft the model legislation that would enable all agencies required to conduct AML tests on applicants, and separately Fit and Proper tests, to be able to accept, if they chose to do so, certifications of an independently operated, internationally recognised, specialised, CARICOM Agency; and
- (ii) The same Committee should launch a competitive Request for Proposals (RFP) to find, firstly, an independent, credible, operator of the CARICOM AML Agency that would also carry out Fit and Proper tests for regional application.

**4.4 The Action: In the area of Bringing Forward Investment in Resilience**

***Speeding up private sector investment in resilience by creating new requirements for household resilience and enabling the issuance of a new asset class of Growth and Resilience Bonds that would fund it.***

***Why would this move the needle?***

Small island states in the tropical belt, smaller than the hurricanes that are increasing in their ferocity, face existential risk. This risk is not only substantial, but it is also rising in absolute terms and in correlation with other risks. To give an example, Dominica suffered 40% of GDP loss from Tropical Storm Ophelia in 2011, then a 90% loss from Storm Erika four years afterward, and 220% from Hurricane Maria just two years later. There is no tolerable level of insurance premium that would insure Dominica against losing 350% of GDP every eight or so years. And if climate change risks are known, large, and rising, then pooling with those who do not share your risk would only be helpful for you but not for them. These are increasingly uninsurable risks.

Dominica and other countries that bore the brunt of Category 5 hurricanes in recent years have taught us many things about the new risks being faced, including that it is possible to build in a way and in places that can withstand a Category 5 hurricane. Despite the general devastation, some things survived. We used to assume that beyond a "Category



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
*"Caribbean 9.58"- Speeding up the Caribbean*

---

3" all bets were off. But that is not the case. Building resiliently is expensive, but nowhere as expensive as not doing so. Every dollar spent on resilience before a disaster saves over \$10 in the event of a disaster. The best path for small island tropical states facing rising hurricane risks is to try and "waterproof" their economies so that the loss is not 220% of GDP, but 20% or even 2.0%. The full risk of a 220% of GDP loss is uninsurable at tolerable premiums. It is likely that trying to build to total, invincible, 100% resilience would be excessively expensive in actual and opportunity costs. But building resiliently and so leaving a risk of the order of 2-20% may be the right balance as risks of 2-20% of GDP can be managed through contingent lending lines, like the IDB's facility, parametric insurance like CCRIF, and the natural disaster clauses in Barbados and Grenadian Government bonds.

The first best solution would be to build pre-disaster resilience for all rather than raising funds for post-disaster reconstruction. Everyone wants to "build back better" for the reasons cited above. The essential problem is that building resiliently is expensive, and the Governments of the Caribbean have limited fiscal space. The second-best solution is for Governments to prioritize delivering resilience to those who cannot otherwise afford to do so. This is already embedded in many Government programmes for infrastructure or low-income housing. But we must then encourage those that can afford to become resilient to do so. Despite all the warnings, news, and incentives, that is not happening. Many who can afford to have resilient roofs, do not. Most continue to look to the State to provide relief in a disaster.

***Addressing the Resilience Gap***

The problem we are trying to address then, is how do we ignite private-sector resilience-building and preparation boom. How do we draw in the private sector to bridge the resilience gap between the primary responsibilities of the public sector and the total amount of resilience required? There will be massive benefits if we can do so. First, if those who can afford to be resilient are so, it would substantially reduce the burden on the State in the aftermath of a disaster. This would allow the State to be more impactful with limited resources, and to focus on making key public, social and economic infrastructure more resilient. Secondly, if a substantial proportion of the community is resilient, they are in a better position to help others. Further, if we create an active market and expertise in delivering resilience, this will lower the costs for the State to provide resilience to others. It is estimated that the cost of building or building back damaged public infrastructure to the required standard of physical resilience is in the order of 25%



DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY  
"Caribbean 9.58"- Speeding up the Caribbean

higher than pure replacement cost.<sup>1</sup> This constitutes a major component of the resilience gap, but a boom in resilience building and preparation will provide economic growth and jobs and help build sustainable livelihoods, (see Commissioner Ngozi Okonjo Iweala's text box on the resilience building and quality jobs). And it would be an opportunity to invest local savings in creating lasting value.



**Quality Jobs**

One issue common to CARICOM and the rest of the developing world is the need to create quality jobs and employment opportunities for a new generation of young people whose expectations may be quite different from generations before them. Jobs that are more flexible, creative and technology linked may be more in demand. The need for quality jobs lies at the root of many of the challenges in the region be it increasing inequality, rising crime, or gender based violence.

A common link between all the recommendations made for regional action is their ability to create openings for quality jobs. Faster integrated regional transport allows for easier movement of people, goods and services and coupled with freer movement of labor will allow young people to explore job opportunities within CARICOM and thereby fill gaps in those countries where there may be missing skills. It will also facilitate entrepreneurship. Millennials are known globally to value creativity, flexibility and social impact in their jobs. This means that many also value entrepreneurship. A freer CARICOM lends itself to openings for entrepreneurial talent. Finally, the development of resilience bonds to facilitate resilience proofing should provide the ideal opportunity for green jobs that also strengthen countries' ability to both adapt to and mitigate climate change. Green jobs in the urban space, in infrastructure, in services, and food and land use should open up as avenues to building resilience.

The recommendations in this report offer opportunities to support jobs and entrepreneurship. All that is needed is supportive public policies and political will to make CARICOM work better for our young people.

**Ngozi Okonjo-Iweala**  
**Commissioner**

One of the primary mechanisms we propose is to build on the work currently being carried out across the region on building standards and establish a requirement of all households in homes with a value higher than [50%] of all homes in each country to have a minimum level of resilience. But we are talking a new resilience standard that goes beyond physical building. For instance, the new resilience standard may require adequate safe spaces, sufficient stores of water, and food for a suitable period, systems of emergency power,

<sup>1</sup> Reference: I. Otker-Robe (2019), World Bank Blog, "Building a more resilient Caribbean to natural disasters and climate change" <http://blogs.worldbank.org/developmenttalk/building-more-resilient-caribbean-natural-disasters-and-climate-change>



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
***"Caribbean 9.58"- Speeding up the Caribbean***

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and communication. This requirement will generate a resilience investment boom, growth, and jobs across the region. But it will do so at a cost to households, and so, at the same time, we must also provide, low cost, long term loans.

One of the key objectives of our proposed Growth and Resilience Bonds will be to create a pool of funding to finance these loans. We further propose to develop a CARICOM model Public Private Partnership (PPP) framework to identify and structure a regional portfolio of commercially viable projects that could be part-financed from the proceeds of Resilience and Growth Bonds. We invite the CDB to provide the technical support required to establish this CARICOM Model PPP framework. This, plus the requirement to comply with minimum regional resilience building standards, will be the two principal drivers of development of the market for Resilience and Growth Bonds.

***Beneficiaries of Growth and Resilience Bond Funding***

Although the market for resilience would have been created by an initial requirement on above-average valued homes, buttressed by a portfolio of PPP-ready resilience building projects, once there is a nexus of savings looking for investments in resilience, and a market has been developed and a new asset class of Resilience bonds created, anyone could borrow from these low-cost funds once they can show that they are delivering resilience. This could include, for instance, members of the public buying resilient roofs, private companies selling resilient roofs, governments building resilient shelters, state agencies, and utility companies building resilient networks of water, power, and connectivity (telecommunications and transport, including road and maritime).

***The Bond Issuer***

The public sector's key role in this initiative is to help mobilise private, regional savings for investment in regional resilience. It is the role of regional instigator, convener and regulator, of identifying priorities and defining resilience, it is not the role as the main borrower. Regional savings will flow towards these bonds if there is a regionally-based entity coordinating with Governments on the regulation of the funds, defining for instance who can issue; who can purchase the bonds; who will determine the resilience building initiative that the bondholders money will be spent on; how this is tied up with regional and domestic priorities and standards; who will allocate and implement lending; and who will report, monitor and evaluate.



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
*"Caribbean 9.58"- Speeding up the Caribbean*

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We propose that while the CDB may play a role co-ordinating the structuring and arrangement of the bond, the CARICOM Development Fund (CDF) will play a critical development role in helping to set regional priorities and monitoring and evaluating the performance of the financial partners and the resilience outputs delivered to CARICOM and the wider public.

It is proposed that the CDF perform this multi-faceted role of 'coordinator' within a Special Purpose Vehicle (SPV) to be created to issue the bond. It is feasible for the CDF to perform this role, provided support can be garnered from partners and donors to bolster existing capacity. The CDF is already embarking on a similar incremental and targeted approach to building and augmenting its technical and institutional capacity to introduce a new innovative financing instrument, the Credit Risk Abatement Facility (CRAF) geared to enabling increased access to finance by SMEs investing in sustainable energy initiatives. The CRAF is due to be launched in the fourth quarter of 2020. There are synergies to be explored between CDF's management of the CRAF and its proposed coordination and oversight role in respect of the Resilience and Growth Bond. This SPV will be set up as a not-for-profit company. It may have a supervisory board focused on financial management and reporting and a policy advisory committee with asset management and resilience expertise.

### ***The Investors***

The Issuance of Green Bonds in Barbados and elsewhere to fund renewable energy solutions has shown that there is appetite for privately issued bonds with an investment focus and as well as social impact. We believe that the prize, is to create an asset class that has the confidence of regional retail and institutional savers, on the Caribbean street so that the Bonds tap into the US\$50 billion or more on bank deposits and in credit union accounts earning very low rates on interest and not being mobilised for good-return investments in resilience. We recognize that this will require regulatory and marketing expertise. Experience suggests that to gain the confidence of the regional saver requires a strong, transparent, governance structure with some official oversight, co-ordination with Government regulation and standards, official monitoring and evaluation and a strict focus on delivering regional resilience and growth. We believe this will help attract social impact investors and regional development banks to seed this new asset class, keeping the required interest rate on the Resilience and Growth Bonds down.



### ***The Potential Role for Donors***

We believe there is a role for climate-concerned donors to support this resilience building effort by providing a modest degree of credit enhancement that may attract surplus liquidity in bank accounts across the region. An example of credit enhancement is that donors could guarantee the first 10% or some dollar amount of loss on any well-chosen, certified, resilient project.

### ***What is to be done?***

The following urgent actions will have to be taken, some concurrently, to develop and launch the regional Resilience and Growth Bond on the market.

- (i) The CDB and CDF to establish the SPV which would be the entity issuing the Bond, with the CDF playing a role as Trustee;
- (ii) Participating Governments to establish and legislate the 'building to resilience' Standards, [CROSQ to be involved in establishing the Standards];
- (iii) CDB to prepare and approve the CARICOM Model PPP framework to enable creation of a portfolio of commercially viable projects eligible for the Growth and Resilient Bond Fund support;
- (iv) Member States should approve the CARICOM Policy for the Development of a Regional Securities Market that would allow for cross-border application of collateral; and
- (v) Amend the 'Agreement Relating to the Operation of the CARICOM Development Fund' to *inter alia* grant the CDF the power to issue debt.



**5. Things that Need to be Done that are Best Done Nationally with Regional Support**

**5.1. Education, Skills and Innovation**

At the core of a people-centric development model must be a new approach to education and skills training. Education must embrace a shift from acquisition of information to the development of critical thinking, decision-making, adaptability and innovation, *see Commissioner Turner-Jones' box*. Education must be about life-long learning and not just schooling and university.

It is accepted that real economic growth, in order to be transformative, requires profitable and sustainable firms. Such firms are best born out of innovation. A national innovation system that feeds into a regional system may help in fostering new business growth. We need a national and regional innovation system that is tied in to our schooling, universities and skills training institutions.

There is a strong national component to all of this, but there is also scope for more regionalism in the space of curriculum development, regional centres of excellence in skills training, and mutual recognition of training certification, for instance.

**Innovation and Skills—We are in a Re-skilling Emergency**



**The Issue:** The Caribbean, along with every other country on the planet is facing a skills crisis. To put this into perspective, the World Economic Forum (WEF) has quantified what this crisis looks like for the global economy: over one billion workers need to be reskilled or upskilled by 2030 to meet the needs of the fourth industrial revolution, which we are now experiencing. Further, over the next two years, by 2022, over forty percent of core skills required to perform existing jobs are expected to change. **In addition to high tech skills, specialized interpersonal skills will be in high demand, including skills related to sales, human resources, care and education.**

Relevance for Caribbean: Demographic shifts in the region over the next decade call for urgency for new approaches to make education systems more aligned to industry needs. Schools are not churning out enough graduates with skills to meet the nature of jobs transformed by technological change and innovation aka the fourth industrial revolution. Caribbean people need to be global citizens, digitally literate, creative, collaborative with good interpersonal skills. While technology will be a platform for working, highly technical and specialized scientific skills are not a must as these are more likely to be done by artificial intelligence in the future.

**What to do about it:** We need to work with public policy, private industry and civil society to map a way forward. There are many opportunities to redefine the Caribbean Worker, the Region cannot be left behind. Let's create global citizens—folks who can navigate in multiple languages to be a part of the global economy. Let's focus on Caribbean strengths: creativity and care stand out as two areas where the Region excels. How can we build on our comparative advantage in these skills, while reskilling and upskilling others? This is a challenge we can solve as a region, beginning with making the CARICOM Skills Certificate more accessible and automatically uploaded to our digital identities (whether e-passport or national IDs) as we propose in this Report .

<https://www.weforum.org/agenda/2020/01/reskilling-revolution-jobs-future-skills>  
 OECD Estimates.

**Therese Turner Jones**  
 Commissioner

**5.2 Tackling Crime**



DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY  
*"Caribbean 9.58"- Speeding up the Caribbean*

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There are few more important issues than ensuring that our citizens are safe. Quite apart from that being a core purpose of society and government, their own physical safety is one of the foremost concerns for investors in deciding whether to invest or not.

The region has a sorry record with gender-based violence and violence against children.

Tackling crime requires a multi-pronged, targeted approach, from intelligence, law enforcement, to providing employment and training opportunities, and initiatives to reduce recidivism. It is by its localised nature best led nationally and supported by regional information sharing, sharing of experience and personnel, and capacity for joint operations.

The nation state needs to nurture the development of social capital through more caring, inclusive societies in which everyone has a stake, where equity matters and everyone enjoys greater physical and economic security.

### **5.3 *Health – An Essential Ingredient to Development***

Health, as referenced in the Nassau Declaration (2001), has been acknowledged as a key driver in our development, individual and national. In small islands like ours, which are open by nature, price takers in the international markets and among the most susceptible to natural disasters, our only true resource is our human resource. The role of health therefore has to be seen as one of restoration, protection and advancement of our human capital base, that is, it requires an 'investment' and 'inter-generational' approach if we are to optimise the benefits of this resource.

Demographic changes coupled with evolving lifestyle, environmental, behavioral, and economic factors have led to non-communicable diseases (NCDs) being the leading cause of illnesses and deaths in the region, and in some settings, co-existing with communicable diseases (CDs). While improvements in primary health care and disease control and surveillance and a strong immunization programme have reduced the burden of communicable diseases, the rates of NCDs have grown unabated, with cardiovascular disease, diabetes, cancer, and chronic respiratory disease among the leading causes of death. The risk factors linked to the major NCDs are tobacco use, unhealthy diet, physical inactivity, and harmful use of alcohol. Building on the Port of Spain Declaration (2007) and



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
*"Caribbean 9.58"- Speeding up the Caribbean*

---

subsequent International Conventions and initiatives, the response therefore requires a multi-sectored focus or 'whole of society' approach, with the active involvement of the non-health sectors, (Agriculture, Trade, Education and Finance) to complement that of Health.

There are lessons to be learnt from the region's approach to the HIV pandemic, which saw the collaboration between, National Ministries of Health, International Agencies and Civil Society Organizations as part of a coordinated regional response under a Pan Caribbean Partnership (PANCAP). This internationally recognised best practice provides a template that should be replicated for NCDs, including mental health, and other conditions. It also highlights the importance of a regional coordinating mechanism and planning framework which will guide and inform health plans at the national level. **To this end, the Caribbean Cooperation in Health (CCH) framework need to be strengthened and operationalized at the regional and national level.**

The experiences with SARS, Zika, Ebola and presently COVID-19 (the effects of which were felt long before the first cases hit our region) should warn us that small countries like ours are severely constrained in our ability to cope with the consequent social and economic disruptions/disasters. In this regard, there is an imperative for prevention, screening, enforcement of international and domestic public health regulations and by implication for national and regional investments in our capacity for 'public health goods' to avoid and control major public health challenges.

The challenges above also highlight the importance of Universal Health Coverage (UHC) to address the ever evolving health needs of our population, which includes the accompanying financing mechanism. Central to this is the need to minimize catastrophic health expenditure, particularly among the most vulnerable in our populations, who are most susceptible to these health challenges.



**DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY**  
***"Caribbean 9.58"- Speeding up the Caribbean***



***The Region's Drive towards Achieving Universal Health***

Universal Health Coverage (UHC) as stated by the Pan American Health Organization (PAHO) implies that all persons and communities have access to comprehensive, affordable, appropriate, quality health services, without discrimination in a manner that does not expose persons to financial hardships, especially those considered vulnerable. (PAHO,2014).

UHC therefore promotes health as a human right, disassociating access to services from ability to pay. It results in improved population health and productivity, and ultimately to overall economic growth and development.

While Universal health coverage (UHC) is primarily the responsibility of government, it transcends political decisions linked to the health sector, requiring policies and actions with a greater multisectoral reach, aimed not only at health service delivery but also at addressing the social determinants (drivers) of health.

PAHO, in its 2014 resolution, identified 4 strategic lines of action that were designed to guide countries towards the achievement of Universal Health Coverage, they can be summarized under four headings:

1. Expanding equitable access to comprehensive, quality, people- and community centered health services;
2. Strengthening stewardship and governance;
3. Increasing and improving financing, with equity and efficiency, and eliminating direct (out-of-pocket) expenditure; and
4. Strengthening intersectoral action to address the social determinants of health.

**For the region if the above guidelines are to be operationalized so as to maximize the benefits of UHC, a number of prerequisite steps should be undertaken.** These include:

1. The identification, based on national needs, of a costed essential basket of health services that should be provided to persons free at the point of delivery in both the private and public sectors.
2. Decreasing out-of-pocket expenditure especially for persons in the lower consumption quintiles. This should also include the elimination of user fees at public facilities, where feasible and possible, and introducing a system of prepayment.
3. Greater co-operation at the national levels to increase the availability and access to health services across countries in the region. This should also entail establishing closer Public-Private-Civil Society partnerships so as to ensure that the gaps from both the service delivery and client awareness sides are addressed.
4. A review of the current health related legislation, including treatment guidelines, to ensure they are current, relevant and consistently developed and applied across countries.



***The Region's Drive towards Achieving Universal Health***

5. A comprehensive regional health sector planning and policy framework should be developed in consultation with key stakeholders, which will inform the plans and policies at the national level. This should have the accompanying monitoring framework which will facilitate the tracking of progress along the Universal Health and related SDG indicators at the national and regional levels.
6. A human resource policy should be developed for the health sector with clear policies on recruitment, training and retaining key personnel.

UN Member states, in September 2019, adopted the declaration on Universal Health Coverage which supports the Sustainable Development Goals (SDGs) target 3.8. This declaration represents a clear recognition of the importance of achieving universal health to the quality of lives of our populations in general, and in particular the most vulnerable among them. It is also recognition of the importance the health of our people to the development of our region.

**Roger McLean**  
Commissioner

However, NCDs are based on own-behaviour and not random chance, consequently, they are not an ideal candidate for financing health care through insurance. It is almost little like trying to sell fire insurance to an arsonist in terms of adverse selection. It is a slow onset national disaster/security issue. **Countries must develop a plan.** Relatedly but additionally, the advantages of pooling risks for all are lost when risks are high and largely known. Medical insurers do not voluntarily take on those with pre-existing conditions for similar reasons. There are a limited number of routes that countries can take, some may go the route of whole-population health insurance and others the route of directly incentivising better diets and lifestyles. The choices will inevitably be national, involve trying to incentivise better lifestyles. But, however it is organised, there will be a new nexus of health, local agriculture and food import policy and one that may require regional and international agreement and coordination.



#### 5.4 *Public Services, Doing Business and Technology*

Better use of technology can help to make public services in the Caribbean faster, better, transparent, predictable and lower cost and available 24 x 7, (see Commissioner Wendell Samuel's text box on harnessing technology). Technology can also help to drive the consumer to the centre of public services. It would also support efforts to eliminate corruption: delay in processing public licenses is the avenue of corruption. All of these things will level the playing field and support local and foreign investment, boosting growth.



##### ***Harnessing Technology to Increase Productivity***

Accelerating real economic growth requires harnessing technology to increase productivity. The slowdown in Caribbean growth over the last three decades is directly related to the decline in total factor productivity, hence reversing the trend in growth implies addressing the factors that reduce productivity. The World Bank has identified information and communication technology (ICT) readiness as one of the drags on growth in the Caribbean. Accordingly, adopting ICT to foster the digital transformation of the region is key to enhancing productivity and growth.

The small size of the economies is a favorable factor in facilitating digital transformation. As evidenced internationally, small agile and creative economies like Estonia, Singapore and Hong Kong have appropriated more of the digital dividend from embracing ICT. Furthermore, ICT frees the small state from physical constraints—allowing it to increase its market size, to expand production in activities that are not constrained by land space, to better utilize its spectrum resources and to participate in data-related activities that represent the fastest growing sector of the global economy.

Effective utilization of IT could increase productivity in several ways if security is assured -

- A key component is the interaction with government. Digitalization of government should go beyond taking existing activities online, by transforming business process to eliminate paper, avoid duplication of data entry and storage, and automate government services, thereby increasing productivity of the civil service. The private sector and consumers would also become more productive by eliminating wait times and duplicate filling of forms.



**Harnessing Technology to Increase Productivity *contd.***

- Similarly, embracing ICT by the private sector would help reduce inefficiencies, lower cost and increase productivity.
- Most importantly, it would create an environment in which Caribbean young people can compete (or collaborate) on a level playing field with their peers in other countries. It would help create a digital ecosystem in which innovation can thrive and ideas can be tested.
- A unique digital identification system would be the linchpin for the integration of e-government services, financial intermediation and inclusion, and trade and payments.
- Robust cyber security will be key to developing and maintaining public trust in the system and hence its adoption and usage by the public.

All these productivity gains could be stymied by an aging telecoms infrastructure. Small isolated markets limit the ability to make the investment required to keep pace with developments. Completing the single market for telecom services by creating a single regulator (or harmonizing regulatory frameworks) and offering regional licenses could facilitate investment in modern infrastructure in a larger regional market, help increase internet access, and reduce roaming charges. This could help unleash creativity among the region's young people, foster greater collaboration and create high quality employment opportunities.

**Wendell Samuel**  
**Commissioner**

## 5.6 *Addressing Inequality*

The challenges of smallness in our national economies is compounded by the narrowness of the ownership base. We used to feel that good public education would be sufficient to spread opportunity in our economies and societies but it has not been enough. **Ownership also matters.** Narrow ownership limits the spread of risk-taking and entrepreneurship and perpetuates narrowness. Countries need to consider novel, local, ways of broadening ownership in a way that lifts all boats. Some devices include more independent management of public pension schemes with broader asset allocation than primarily government bonds or sovereign wealth funds to better manage state assets, with returns given as direct dividends to citizens to build up a minimum income and cushion that would enable more entrepreneurship and risk-taking by all.



DRAFT REPORT CARICOM COMMISSION ON THE ECONOMY  
*"Caribbean 9.58"- Speeding up the Caribbean*

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While we need regulatory and other regimes that support a broadening of ownership, it is important to recognise that an efficiency and competitive agenda can also support the broadening of opportunity and ownership. We need to be serious about lowering barriers to entry; reducing anti-competitive behaviour; tackling corruption, crime and violence. All of these keep ownership and opportunities narrow.

*October 2020*