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ADDRESSING KEY CHALLENGES TO SUSTAINABLE GROWTH AND DEVELOPMENT IN THE CARIBBEAN

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ABOUT ECLAC and the CDCC

The Economic Commission for Latin America and the Caribbean (ECLAC) is one of five regional commissions of the United Nations Economic and Social Council (ECOSOC). It was established in 1948 to support Latin American governments in the economic and social development of that region. Subsequently, in 1966, the Commission (ECLA, at that time) established the subregional headquarters for the Caribbean in Port of Spain to serve all countries of the insular Caribbean, as well as Belize, Guyana and Suriname, making it the largest United Nations body in the subregion.

At its sixteenth session in 1975, the Commission agreed to create the Caribbean Development and Cooperation Committee (CDCC) as a permanent subsidiary body, which would function within the ECLA structure to promote development cooperation among Caribbean countries. Secretariat services to the CDCC would be provided by the subregional headquarters for the Caribbean. Nine years later, the Commission's widened role was officially acknowledged when the Economic Commission for Latin America (ECLA) modified its title to the Economic Commission for Latin America and the Caribbean (ECLAC).

Key Areas of Activity

The ECLAC subregional headquarters for the Caribbean (ECLAC/CDCC secretariat) functions as a subregional think-tank and facilitates increased contact and cooperation among its membership. Complementing the ECLAC/CDCC work programme framework, are the broader directives issued by the United Nations General Assembly when in session, which constitute the Organisation's mandate. At present, the overarching articulation of this mandate is the United Nations Sustainable Development Goals.

Towards meeting these objectives, the Secretariat conducts research; provides technical advice to governments upon request; organizes intergovernmental and expert group meetings; helps to formulate and articulate a regional perspective within global forums; and introduces global concerns at the regional and subregional levels.

Areas of specialization include trade, statistics, social development, science and technology, and sustainable development, while actual operational activities extend to economic and development planning, demography, economic surveys, assessment of the socio-economic impacts of natural disasters, climate change, data collection and analysis, training, and assistance with the management of national economies.

The ECLAC subregional headquarters for the Caribbean also functions as the Secretariat for coordinating the implementation of the Programme of Action for the Sustainable Development of Small Island Developing States. The scope of ECLAC/CDCC activities is documented in the wide range of publications produced by the subregional headquarters in Port of Spain.

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ADDRESSING KEY CHALLENGES TO SUSTAINABLE GROWTH AND DEVELOPMENT IN THE CARIBBEAN

This issue of the Focus Magazine explores strategies and actions in three key areas to build economic resilience after the pandemic in the Caribbean. The first article outlines the benefits of a globally approved debt restructuring architecture. It underscores the critical point that high and unsustainable debt in the Caribbean is not the result of mere fiscal imprudence, but is mainly due to economic and natural disaster shocks.

It indicates that a multilateral legal framework under the aegis of the United Nations (UN) will best suit the interests of middle-income Caribbean Small Island Developing States (SIDS). A fit-for-purpose debt framework should include clear rules and procedures and appropriate instruments such as hurricane clauses and gross domestic product (GDP)-linked bonds, which better cater to the multidimensional vulnerability of Caribbean SIDS.

In addition to examining debt reduction the next two articles examine strategies for building resilience in the tourism sector. The first of these assesses how the Caribbean can stimulate intraregional travel to make its tourism sector more dynamic, competitive, and less seasonal. The article highlights the disincentive that high intra-regional taxes, fees and charges present for regional travel and tourism. Further, it notes the situation given that travel is likely to be price elastic, governments could arguably increase total revenue from the sector by lowering these added costs. The second article explores the essential elements of Optimal Hydrocarbon-based Fiscal Regime for the Caribbean. This article is timely since recent commercial oil exploration and production success in Guyana has sparked further interest in the Guyana-Suriname Basin, while Trinidad and Tobago has the longest-established petroleum industry in the Caribbean Community.

However, like many hydrocarbon-rich developing countries, the Caribbean also relies heavily on foreign direct investment to extract their hydrocarbon resources and develop the downstream sector. The article provides useful policy recommendations which may allow resource-rich Caribbean economies to earn their fair share of hydrocarbon rents, while facilitating exploration and production activity in offshore blocks.

The last article examines key innovations that should be prioritized in Caribbean tourism if it is to develop as a smart, competitive and sustainable sector. The subregion will need to focus on innovations with the highest benefit-cost ratios such as health and hygiene protocols and certification; smart tourism that leverages digital technologies, including virtual and augmented reality to better market the destination. Also, sustainable tourism will be critical for reducing energy and improving water conservation, while making the sector resilient to natural hazards.

Nevertheless, the Caribbean will continue to be challenged to finance these activities, and will need to incentivize the use of innovative financing, and be willing to wait for a longer period to reap returns for investment in the sector.

Yours in FOCUS

REFORMING THE MECHANISMS FOR SOVEREIGN DEBT RESTRUCTURING

Dillon Alleyne*

Restructuring the international debt architecture is an evergreen topic for policy makers and academics, due to the emerging debt sustainability challenges facing many countries. In the recent Summit for a New Global Financing Pact conference, hosted by President Emmanuel Macron of France on 22 and 23 June 2023, both the Prime Minister of Barbados, Honourable Mia Mottley and Secretary-General of the United Nations, António Guterres, echoed this concern. Also, in a brief prepared for the Summit of the Future in 2024, the UN Secretary-General laid out a more comprehensive strategy for reform.

Meanwhile, countries such as those in the Caribbean are hopeful that the challenges emerging from the global COVID-19 pandemic will motivate more interest in this area, as their debt burdens have risen due to increased expenditure, to ameliorate the impact of the pandemic.

It is well recognized that debt accumulation is largely linked to development needs and most countries have at some time had significant debt overhangs, but it is the sustainability of the debt that is usually at issue[1]. While the discussion has often been cast as a problem of regulating international finance, the pressing issue of climate change and its impact on debt accumulation, necessitates that more effort be placed on finding a solution. This article explores the benefits of a globally approved debt restructuring architecture. Part one examines the global debt situation and how the Caribbean features in this context. Part two considers the rationale for an optimal debt workout mechanism. Part three examines the key proposals that have been put forward and part four assesses what minimalist strategy might find favour at the international level.

While the political economy aspects of sovereign debt restructuring are not addressed, it is clear that the reform of the international financial system directly attacks the privileged position of the countries that benefited from the post World War II financial arrangements and essentially reflects, even with some changes, the political and economic power dynamics of that time.

THE PRESENT DEBT CHALLENGES

Countries issue sovereign debt as an instrument to implement counter-cyclical policies which address economic and social crises and external shocks. Such spending are an integral component of economic development and growth[2]. According to the UN in 2022, global public debt – comprising general government domestic and external debt – reached a record US $92 trillion. In addition, public debt has increased faster in developing countries compared to developed countries over the last decade.

The rise of debt in the developing world has mainly been due to growing development financing needs – exacerbated by the COVID-19 pandemic, the cost-of-living crisis, and climate change – and by limited alternative sources of affordable financing. Consequently, the number of countries facing high levels of debt has increased sharply from only 22 countries in 2011 to 59 countries in 2022. For Caribbean SIDS, vulnerable to climate change and natural disasters, debt accumulation has become necessary to build resilience[3], given limited access to concessional finance. The argument here is that fiscal mismanagement cannot account for the systemic debt accumulation over the last decade, and few countries will be able to grow themselves out of debt in the medium term, given the current economic environment.

Over comparable periods, IMF (WEO) data covering low- and middle-income countries, including countries from the Africa, Indian Ocean, Mediterranean and South China Sea (AIMS), Caribbean and Pacific regions, as well as the Organisation for Economic Co-operation and Development (OECD), show that debt to GDP ratios varied between 36% to 68% during 2010-2019 and widened to between 34% to 97% in 2020-2021. Except for the Pacific region that maintained a low debt to GDP ratio, all other developing regions increased the debt relative to their GDP. Similar increases were observed

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[1] More generally advanced economies, relative to SIDS tend to be able to sustain large debt burdens with little consequences for economic growth or access to capital markets.

[2] See Eichengreen et al. (2021).

[3] When all regions are considered, current account imbalance ranged between -1.3% to -4.8% during 2000-2009, 7% to -7.1% during 2010-2019 and .8 to -6.7% in 2020-2021.

Table 1: Caribbean States/countries by level of indebtedness. General government gross debt as percent of GDP 2020-2021. Simple average.

Gross government debt to overall GDP greater than 90%	Gross government debt to general GDP greater than 70% and less than 90 %	Government gross debt to overall GDP below 70%
Bahamas (111.8%)	Saint Lucia (89.6%)	Guyana (61.1%)
Saint Vincent and the Grenadines (109.0%)	Dominica (86.2%)	Trinidad & Tobago (57.7%)
Barbados (102.9%)	Saint Kitts and Nevis (75.5%)	Grenada (51.2%)
Antigua & Barbuda (96.6%)	Jamaica (74.6%)	
Suriname (93.7%)		
Belize (91%)		

Source: IMF (2023)

for debt service which increased from a range of 6% to 25% over the period 2010-2019, then 8% to 28% in 2020-2021, although data for debt service covered fewer countries.

While the emergence of large public debt to GDP ratios is a global issue, most Caribbean economies have sustained considerably high debt levels over time. Only the AIMS region surpassed the Caribbean in terms of average debt to GDP during 2020-2021. The Caribbean recorded an average debt to GDP ratio of 63% during 2000-2009, 68% between 2010-2019, and 85% in 2020-2021. With the exception of the OECD countries where the level of debt was lower, no region has shown so consistent an increase in debt to GDP ratio as the Caribbean.

The average government gross debt to GDP by region, demonstrates that debt is not a country-specific problem but rather a regional one. Table I illustrates the number of countries whose debt is in excess of the 60% threshold deemed sustainable by the International Monetary Fund (IMF).

This exacerbates sovereign risk and makes it difficult for countries to access capital markets. Furthermore, high debt servicing costs that accompany high levels of debt inevitably crowd out the growth-promoting and poverty-reducing government expenditures which are necessary to reduce vulnerability[4].

Despite several rounds of traditional debt restructuring, often under the IMF/World Bank programmes (Bourne 2012, Hurley 2010), the debt levels have remained stubbornly high[5]. Debt restructuring processes in the Caribbean have been recurrent. Empirical evidence for the period 1978-2021 shows that 11 English-speaking Caribbean countries (85% of the total) have restructured their public debt. In total, there have been 34 such instances, of which 50% occur from the late 90s. Government debt restructurings have in most cases affected the external component of public debt, and meanwhile economic growth has stagnated since the global crisis of 2008-2009, and this together with the COVID-19 pandemic will have long term negative consequence for the Caribbean.

THE NECESSITY FOR A MULTILATERAL DEBT WORKOUT MECHANISM

There is now no comprehensive or clear-cut debt workout mechanism to resolve sovereign debt issues. Countries with similar debt burdens can receive very different treatment depending on bargaining power and the range of creditors, often operating under circumstances of different national legal regimes.

The current process is a decentralised market regime, which in some cases (such as restructuring Paris Club debt) require an IMF programme, often resisted by many countries. This uncertainty creates a suboptimal outcome as some creditors (vulture funds) may prefer to hold out for higher returns, while some sovereigns may prefer not to have early resolution for political reasons. Kristalina Georgieva et al (2020) assert that IMF research has shown that waiting to restructure debt until after a default occurs, is associated with larger declines in GDP, investment, private sector credit, and capital inflows than preemptive debt restructuring.

On the other hand, some sovereigns may seek a costly short-term solution, hoping that the next regime resolves the problem. The emergence of collective action clauses has helped, but there is still a long way to go.

► (continued on page 12)

[4]The main drivers of Caribbean debt have been large primary and current account deficits, resulting from low growth; high financing costs that small States face in capital markets; climate change effects; and frequent disasters that reduce both output and government revenue, and that demand high levels of expenditures on disaster preparedness and reconstruction. In 2016, for example, growth slowed in both the Bahamas and Haiti, as the two countries were severely affected by Hurricane Matthew. Damage to infrastructure in Haiti, the poorest member country in the subregion, was estimated at US$ 1.1 billion. The average annual loss attributable to hurricanes alone in the Caribbean is estimated at US$ 835 million (IBRD/World Bank, 2016, p. 24). Notably, between 2000 and 2015, Caribbean member States suffered at least seven disasters in which the cost of damage ranged from 33% to 200% of the affected country's GDP. Caribbean outlook, ECLAC 2018.

[5]In 2016, according to ECLAC, debt servicing as a percentage of government revenue accounted on average for 29.5% of government revenue in Caribbean small States, and in several countries the call on revenues was much higher: Suriname (80.7%), Antigua and Barbuda (60%), Grenada (50.1%), the Bahamas (45.5%) and Jamaica (43%) (see figure 11). The Caribbean Outlook 2018. United Nations publication.LC/SES.37/14/Rev.1

STIMULATING INTRAREGIONAL TRAVEL IN THE CARIBBEAN

Machel Pantin[*]

International travel is vital to Caribbean economies, which are dependent on tourism exports. The direct contribution of tourism to GDP averages 12% in the Caribbean and most visitors come from a few select source markets: Canada, the United Kingdom and the United States.

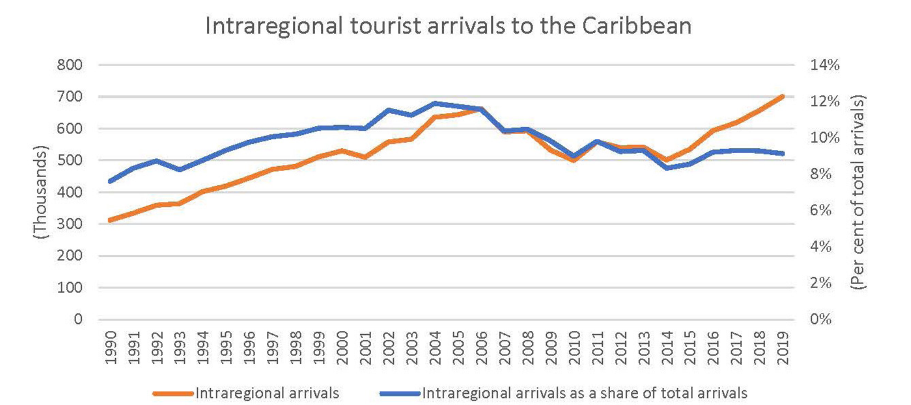
There is, however, another nearby market worthy of development: the Caribbean. Intraregional travel has the potential to boost the fortunes of tourism service providers, and increase trade and employment. Secretary General of CARICOM, Dr. Carla Barnett, has noted that intraregional travel is crucial for executing the Caribbean Single Market Economy (CSME) (Barbados Today, 2023). This article looks at some of the factors hindering travel within the Caribbean, and offers some suggestions for addressing them.

While the major source markets provide a steady stream of visitors to the Caribbean, tourism dependent countries are vulnerable to negative external shocks in these countries. Additionally, most visitors to the Caribbean arrive during the "high season" between December and March, which corresponds to the winter months in the main source markets. Conversely, most worldwide tourism travel occurs during the Northern hemisphere's summer months. Many Caribbean countries receive fewer visitors between April and November. Stimulating intra-Caribbean travel can increase visitor arrivals, particularly during the "low season". It can serve to smooth out tourism expenditure flows and temper the impact of negative external shocks from major source markets.

Intraregional travel has been falling for some time. The number of intraregional tourists[1] fell steadily from 2006 to 2015. While the absolute number increased between then and the start of the pandemic, the share of total visitors coming from Caribbean stagnated at around 9% (see figure 1).

Following the travel restrictions resulting from the COVID-19 pandemic, all travel to the Caribbean declined steeply in 2020. While the numbers from international markets have rebounded strongly in 2021 and 2022, arrivals from Caribbean sources are lagging behind (CHTA, 2022).

Figure 1: Intraregional tourist arrivals to the Caribbean



Source: Author, based on data from the Caribbean Tourism Organization

THE TAX ISSUE

Travelling within the Caribbean can be expensive, partly due to the small market size and lack of economies of scale. Many airports cannot accommodate larger aircraft, resulting in the use of smaller planes and higher ticket costs. Another main reason for the high prices is the high taxes, fees and charges (TFC's) levied by public authorities.

Many of the TFC's are fixed, which makes them relatively more expensive for nearby markets. The base airfare for an airline ticket is directly related to the distance from the source market due to fuel and other variable costs. As a result, fixed TFCs make up a greater share of ticket prices for nearby markets than for distant ones. This is clearly visible in the figure below, which depicts TFCs as a share of ticket price for selected air routes. For all the intraregional flights, TFCs make up 40% or more of the ticket price, while for the Latin America – Latin America and Caribbean – United States flights they make up 25% or less of the ticket price. Because of these high tax rates, airfares are often cheaper to visit the US than another Caribbean country from within the Caribbean. The barrier to intraregional travel is clear. Many regional and international organizations have called for a reduction in taxes, including the Caribbean Development Bank (CDB), the Association of Caribbean States (ACS), the International Air Transport Association (IATA) and the World Travel and Tourism Council (WTTC).

Caribbean airports see much less visitor traffic than larger cities or transport hubs, and as such may be concerned about a loss of revenue from lowering taxes, but there are reasons to suggest that these fears are misplaced. The TFCs charged on airfare are part of the direct taxes paid by visitors to the country, but there are also indirect taxes that the governments collect in the form of VAT receipts for tourist expenditure, taxes on fuels paid by taxi drivers, and import taxes on hotel supplies. Lowering the TFCs can increase the number of visitors, which ultimately would result in an increase in the indirect taxes collected by the government

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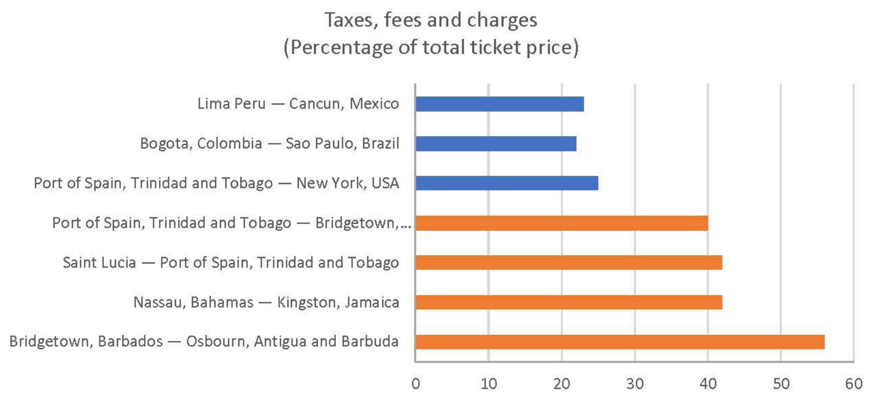
[1] Defined as arrivals from the wider Caribbean (English, Spanish, French and Dutch Speaking countries and territories, US territories and Mexico) to Anguilla, Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago. Source is the Caribbean Tourism Organization.

Figure 1: Figure 2: Taxes, fees and charges



Source: Author, based on World Travel and Tourism Council, (2022), Travel and Tourism in the Caribbean.

(Caribbean Journal, 2021). Further, increased tourist activity increases economic activity throughout the economy, thus increasing revenue collection by the government.

Another reason for reducing taxes is related to the price elasticity of demand for intraregional travel in the Caribbean. Price elasticity of demand is an economic concept that measures the responsiveness of the quantity demanded of a good or service to a change in its price. Demand is said to be elastic (elasticity value >1[2]) when a certain percentage change in price produces a larger percentage change in demand. Conversely, when the same percentage change in price produces a smaller percentage change in quantity demanded, the demand is said to be inelastic (elasticity value between 1 and 0). For a good or service with an elastic demand, a decrease in price leads to an increase in total revenue, while the reverse is true for a good or service with an inelastic demand. Consequently, if demand for Caribbean intraregional travel is elastic, then a reduction in TFCs will increase revenue.

A review of the literature produces mixed results for the Caribbean (Laframboise et al., 2014), with some studies finding demand for travel to the Caribbean to be elastic and others finding it to be inelastic. There is, however, a lack of research estimating elasticity for intra-Caribbean travel (Bello and others, 2016). A study from IATA (2008) finds that elasticity tends to be higher for intraregional and short-haul traffic, which augurs well for intra-Caribbean travel. On the other hand, a lack of substitute modes of travel[3], unlike in a region such as Europe or South America, would limit price elasticity.

RECOMMENDATIONS

Policy makers should consider commissioning a large-scale study to estimate the price elasticity of demand for intraregional travel within the Caribbean. With up-to-date data, they can implement more informed policies for stimulating travel within the subregion. If demand is found to be elastic, lowering rates should serve to increase total revenue and there should be no reason to maintain them.
The implementation of a ferry service in the Eastern Caribbean: The ferry in itself will provide another, cheaper option for Caribbean travel. In addition, its presence as a substitute mode of travel should serve to increase the elasticity of demand for intra-Caribbean air travel. Given the current status of port infrastructure and related connectivity services, the development of this ferry service would require significant government investment (Aita, 2022).

Tourism service providers should promote Caribbean multi-destination packages. Much like European tours and trip packages, there can be Caribbean trip packages featuring multi-country itineraries. This would increase the number of visitors travelling between countries, thus allowing for increased economies of scale and making intraregional travel cheaper. Like a cruise ship tour, the package tours would allow for visitors to experience multiple countries in the Caribbean, but with more time at each stop and greater expenditure. Integrating cultural activities can increase the value for visitors and demand for the packages. For this option to become a reality, there would need to be increased regional collaboration and marketing of the Caribbean as a whole, rather than individual competing destinations.

Individually or together, these recommendations can contribute to lowering the cost of travel within the Caribbean, and increasing the movement of people and the trade of goods and services.

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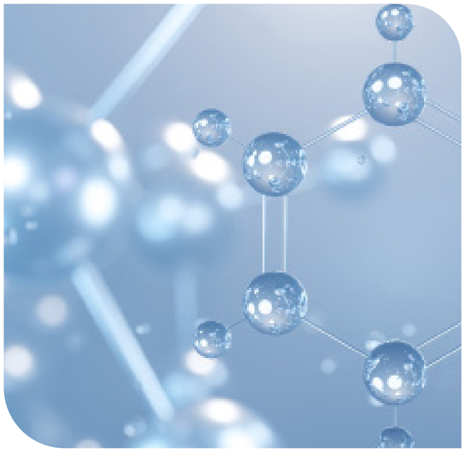
[2] The price elasticity for normal goods is actually negative due to the inverse relationship between price and quantity demanded. For ease of understanding, however, this article will refer to elasticity values as positive.
[3] The availability of substitutes increases the elasticity of demand.



EXPLORING AN OPTIMAL HYDROCARBON-BASED FISCAL REGIME FOR THE CARIBBEAN

Sheldon Mc Lean[*]

Many small, open hydrocarbon-rich developing economies possess insufficient technical and financial capacity to fully extract their hydrocarbon resources. Governments in these economies therefore encounter the policy dilemma of designing a competitive hydrocarbon based fiscal regime which delicately balances the policy-objective of earning a fair share of their natural resource wealth with the profit-maximizing interest of the multinationals.

Any sudden changes in fiscal regimes, which result in multinational energy companies (MECs) having to pay more taxes, can prompt MECs to consider relocating their capital elsewhere, a prospect that many of these developing economies can ill-afford.

This policy conundrum may often result in reticence on the part of a government, leading to the maintenance of an unchanged hydrocarbon fiscal regime. Hence, it is crucial that countries get it right during initial negotiations, or craft fiscal regime changes skillfully if there is an opportunity to do so. Guyana, Suriname and Trinidad and Tobago (T&T) are three Caribbean Community (CARICOM) member states that possess commercial reserves of hydrocarbons and are currently extracting crude oil for commercial use. T&T has the oldest hydrocarbon industry which spans over a century, dating back to 1859 with the first successful onshore well drilled in 1866. Oil was first discovered in Suriname in 1928 and coordinated oil exploration commenced in the 1960s. Commercial discoveries of crude oil were made in Guyana by ExxonMobil affiliate, Esso Exploration and Production Guyana Ltd., in 2015. Since the first discovery at the Lisa-1 well, several discoveries were made in the Stabroek block, some 190 kilometers (km) offshore Guyana (Exxon Mobil 2015). At present, ExxonMobil estimates that there are at least 10 billion bbls. of proven reserves of crude oil offshore Guyana. The recent commercial success in Guyana has sparked further interest in Suriname, as both countries are situated in the Guyana-Suriname Basin.

The hydrocarbon-rich Western Hemispheric region, including the Caribbean, faces similar challenges. They rely heavily on foreign direct investment (FDI) to extract their hydrocarbon resources and develop the downstream sector. Governments of small developing economies are particularly unlikely to extract and monetize these resources on their own, often lacking the financial resources, infrastructure and technical expertise. This FDI can shift between countries and jurisdictions that offer relatively more attractive fiscal terms to explore, extract and process the host country's hydrocarbon resources.

Accordingly, ECLAC, earlier this year (2023) completed a study which analyzed the process for the awarding of blocks within the western hemisphere (Brazil, Guyana, Mexico, Suriname and Trinidad and Tobago). The key findings allowed for the determination of key elements of what can be considered an optimal hydrocarbon fiscal regime for Caribbean economies, that would allow governments to elicit their fair share of hydrocarbon rents, whilst ensuring sufficient exploration and production activity[1].

The objectives of the most recent study were to:

- Review and explore the theoretical framework for the awarding of acreage;
- Assess the process for the awarding of blocks in specific countries within Latin America and the Caribbean; and
- Provide policy recommendations to allow hydrocarbon-rich Caribbean economies to earn their fair share of hydrocarbon rents, while facilitating exploration and production activity in the offshore blocks.

The following section examines a few of the defining features of the oil and gas industry in many hydrocarbon-rich developing countries, particularly with regard to exploration and production.

EXPLORATION AND PRODUCTION ACREAGE ALLOCATION:

In many countries, the ownership of natural resources is vested in the state, and the government acts as the custodian (Sen and Chakravarty 2013). Therefore, governments are more likely to grant the rights to explore and, extract hydrocarbons to a third party, either a multinational hydrocarbon company or a state-owned one. This investment can stimulate economic activity, create jobs and boost economic growth. The fiscal revenue or rents generated can be used to fund important projects such as infrastructure development or social programmes. Of course, there are also some risks associated with granting the rights to explore and extract resources to a third party. For example, the government may not

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[2] It is useful to recall that a previous study undertaken by ECLAC (2021), which sought to navigate transfer pricing risk in the oil and gas sector, intimated that many multi-national energy companies (MECs) invariably possess relatively greater institutional capacity than developing country governments and can, therefore, reduce their tax liability through the use of transfer pricing. Transfer pricing is an accounting procedure that records the financial transactions between a company and its subsidiaries and divisions and can be applied for services, intellectual property, financing, interest, and the exchange of goods. Transfer pricing risk is the chance that the transfer prices do not reflect true market prices, i.e. resulting in the shifting of a company's profit from one jurisdiction to another, thereby eroding the local tax base. Guyana and Trinidad and Tobago are among the Caribbean countries with commercial reserves of hydrocarbons, where transfer pricing risk has the potential to result in considerable revenue leakage. That particular piece (2021) posited that inherent pricing risk in the oil and gas sector, can be mitigated by developing an appropriate fiscal and legislative framework, complemented by the designation of a competent revenue authority to ensure that multinationals set fair hydrocarbon prices. It is therefore essential to view these two distinct bodies of work as two inextricably linked parts of a whole.

receive a fair share of the profits from the extraction of these resources. Additionally, the company may not be environmentally responsible.

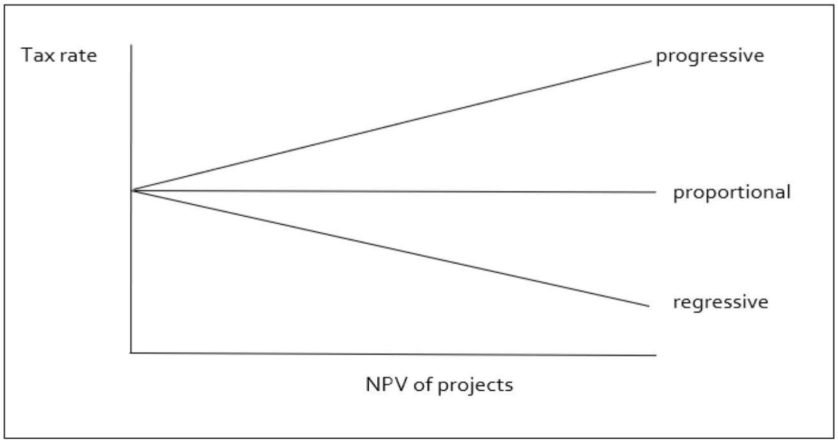
There are generally two legal systems used by governments to facilitate the exploration and production of hydrocarbon resources, namely, concessions and contracts. In the hydrocarbon industry, a concession is a long-term contract, usually over 10 years, that gives an investor the sole right to conduct exploration and production (E&P) activities over a specified area or block. A block is essentially a geographical area of the continental shelf where hydrocarbons are believed to be found. The respective government can decide how its continental shelf will be divided. Historically, hydrocarbon rights are allocated mainly through concessions. Some concession contracts may grant government ownership to the physical capital and equipment, and may last over 20 years to allow investors ample time to recoup the cost of capital. All the risks and costs involved in the exploration and production activities are borne by the investor and they only pay royalties and taxes to the government on hydrocarbons produced and sold (Tordo et al. 2010; BCG 2012).

Although investors receive autonomy in the operationalization of E&P, an important characteristic of concession agreements is the government's right to unilaterally alter the terms and conditions that are not negotiated but are set by legislation. While this gives concessions a huge potential for frequent sweeping changes, in practice, there may be little alterations as governments tend to promote stability to maintain investor confidence (Tordo et al. 2010). Alternatively, contracts state the terms and conditions to which a government and an investor agree for the development of hydrocarbon resources. There are two types of contracts used, namely, production sharing contracts (PSC), and service agreements.

Like a concession, under a PSC, an investor is granted the right to engage in exploration and production activities within a specific block or blocks for a specified period. PSCs differ from concessions to the extent that in a PSC, the investor bears all the risks and costs associated with exploration and production in exchange for a share of the hydrocarbons produced. In contrast, with concession agreements, the state has no share of the hydrocarbons but makes its gains through taxes or royalties. Hence, with PSCs, the produced output of hydrocarbons is shared between the investor and the government, the details of which are specified in the product sharing contract (Tordo et al. 2010). In some instances, rather than giving the government its share of physical hydrocarbons, the investor may pay the government for its stipulated share. The government's income comes from the "profit oil". Specifically, when the hydrocarbons are produced, the cost of production or "cost oil" is first deducted, then the government receives its share from the remaining oil or "profit oil."

Based on the takes from the government and the PSC holder, PSCs can be classified as regressive, proportional, or progressive. Under the regressive PSC structure, the government's take or "share of the hydrocarbon rents" declines as the economic rents or "profits derived from extraction and sales from the hydrocarbon projects" increase. Under the proportional PSC structure, the government's take remains constant and is independent of increases in the economic rent which accrues to the PSC holder. Under the progressive PSC structure, both the government's and the PSC holder's take from the hydrocarbon projects increase as the economic rents increase (Wen 2018). Figure 1 illustrates. However, under a service agreement, the government hires a company to perform exploration and production activities within a specific block for a specific period. The exploration and production company is paid a fee for its services. The state retains the ownership of the hydrocarbons at all times (Tordo et al. 2010).

Figure 1: Regressive, Proportional, and Progressive PSC



Source: Adapted from Wen (2018)

COMPARING AND CONTRASTING FISCAL REGIME AMONGST SELECT COUNTRIES:

More importantly, ECLAC's study explored in detail the hydrocarbon fiscal regimes of select hydrocarbon-rich economies in Latin America and the Caribbean, and subsequently utilised a set of production data and oil price assumptions in order to simulate how governments' take and effective tax would differ across countries. The countries examined in the analysis were Brazil, Guyana, Mexico, T&T and Suriname. It should be noted that the assumption of oil production (for each country) of 461,616 barrels (the total marine production for T&T in 2020) was made merely to allow for cross-country comparison.

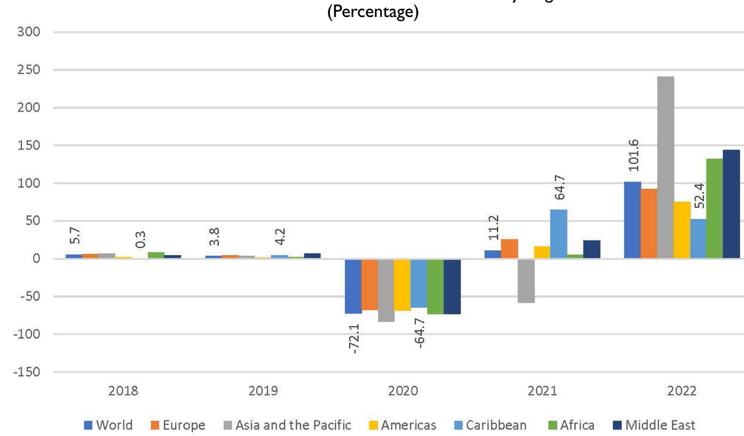
(continued on page 14)

INNOVATION FOR A RESILIENT AND SUSTAINABLE CARIBBEAN TOURISM SECTOR AFTER THE PANDEMIC

Michael Hendrickson*

Caribbean tourism was one of the sectors most severely affected by the pandemic. Nevertheless, this industry in the subregion is on track to be the fastest in the world to return to 2019 levels of arrivals and spending. This should not lead to complacency though, as the pandemic is predicted to lead to a significantly reconfigured industry; one that is more globalized and competitive, with more environmentally conscious travellers.

Figure 1:
Performance of International Tourist Arrivals by Region
(Percentage)



Source: UNWTO, CTO, 2022.

With all destinations trying to recapture market share, the Caribbean cannot simply return to 'business as usual' after the pandemic. Caribbean destinations will need to develop a forward-looking strategy to achieve sustained growth and resilience in the sector. This is critical for supporting decent jobs, better sharing the benefits with local communities and protecting environmental assets, which are key parts of the tourism product.

It is essential for the industry to adopt an innovation strategy to drive competitiveness in the sector. Product, process and organizational innovation in the sector will be vital for it to compete and thrive in the post-pandemic environment. Innovation will be critical for driving productivity growth, differentiating and customizing the tourist product/experience and also for reducing the environmental impacts in the sector.

This article examines some of the key innovations that Caribbean tourism should prioritize to ensure sustainable growth and resilience that could foster a smart, competitive industry with wide community benefits and a strong focus on protecting the natural and cultural environment.

BRIEF OVERVIEW OF THE IMPACT OF THE PANDEMIC ON CARIBBEAN TOURISM

The pandemic was a negative shock for the subregion's tourism sector with arrivals plunging by 64.7% in 2020. This led to significant unemployment and loss of incomes, especially for workers in the sector, and for ancillary services such as commerce and distribution. In the mainstay hotel sector, average room occupancy plummeted from 63.6% in 2019 to 30.0% in 2020, while revenue per available room dropped from US$140.08 in 2019 to US$67.69 in 2020 (CTO, 2022).

The speed of Caribbean tourism recovery post pandemic (see Figure 1 below) is directly related to the subregion's need to reopen given the importance of tourism to its economy, and due in lesser degree to its relative success in containing the spread of the virus. In 2022, tourist arrivals increased by 52.4% compared with 2021, rising from 18.6 million to 28.3 million visitors. Notably, the 2022 figure was similar to that for 2015 and represented 88.6% of the arrivals in 2019, just before the pandemic. Indeed, Caribbean tourism could have posted even stronger recovery but for higher global inflation and supply chain disruptions caused by the pandemic and the war in Ukraine.

WHAT KEY INNOVATIONS ARE EXPECTED TO DRIVE GROWTH AND RESILIENCE IN CARIBBEAN TOURISM AFTER THE PANDEMIC?

McCloskey (2018) and Mokyr (2018) note that innovation is the main or determining factor behind economic growth and

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prosperity across societies. They describe innovation as the practical use of new ideas to invent and or create new products, services, processes and systems that contribute to human welfare.

McKinsey (2022) further posits that innovation in "a business context refers to the ability to conceive, develop, deliver, and scale new products, services, processes, and business models for customers." Innovation in tourism as in other sectors, differs based on type and degree. With respect to type, the key categories are product or service, process, marketing and organizational innovation (Sulton et. al, 2022)[1]. With regard to scope and extent, innovation in tourism can be either incremental or radical/disruptive. Incremental innovation involves small steady and sustained improvements in products, services and processes in the sector to improve the quality and the richness of the tourist experience. Meanwhile, radical innovation refers to breakthrough innovations that disrupt existing industries, create new products, services and markets and transform how people live, work and engage in recreation (Pallister, 2023). In fact, the Caribbean has been an important source of innovation in the sector, with Jamaica's Sandals Resort chain disrupting and revolutionizing the 'all-inclusive' model, becoming the world's most recognized brand of luxury all-inclusive resorts (Sandals, 2023).

Tourism analysts have indicated that the sector would not be business as usual after the pandemic (IMF, 2020). Indeed, there are indications that the pandemic marks a turning point in the sector. The pandemic is expected to lead to five major shifts in the sector (OECD, 2020; Travel Pulse, 2022). How destinations respond to them will determine their survival and competitiveness. The first shift is mainstreaming health, safety and hygiene protocols in tourism destinations.

The immediate and decisive change is in health and safety. Innovations in health, including contactless check-in and check-out in hotels, regular sanitation upgraded air filtration and ventilation systems, digital health passports and contact tracing systems, are likely to become standard features of the industry. Caribbean destinations must tailor these changes to the specific needs of regional tourism.

The second major shift is the transition to smart tourism. Smart tourism entails integrated measures to collect and harness a wide pool of physical, social and organizational data that are transformed using advanced technologies such as big data, machine learning, the internet of things and generative large language models to modernize and enhance the tourist experience and business value-propositions with a clear focus on efficiency, sustainability and experience enrichment (Gretzel et. al, 2015). Caribbean destinations have implemented aspects of smart tourism, including digital vaccine passports, self-check-in and check-outs and online payments. Nevertheless, the subregion needs to take a more structured, inclusive and systematic approach to its smart tourism strategy. Large well-resourced hotels and properties have been able to adopt these changes, while their uptake has been slower in smaller, less profitable segments of the industry.

An ecosystem approach to digital transformation in tourism will be crucial. This will integrate government policy and the strategy of telecommunications firms and tourism operators. The public incentive regime will need to encourage the wider diffusion of cheaper broadband internet access across destinations. This will need to be supported by a cadre of highly trained and skilled workers who can invent, troubleshoot and solve problems in the sector. This will be key to the industry's capacity to provide the highly customized, personalized, value-added services that modern tourists demand. The industry could also put in place a 'smart tourism solution prize" to incentivize young ICT technicians to invent and commercialize smart solutions for the sector. Crucially, a strong digital ecosystem could help the subregion attract more digital nomads who tend to stay for long periods and spend more in the destination. Nevertheless, digital nomads depend on temporary worker visas, affordable, and reliable high-speed internet access, strategies for helping them connect with local communities and convenient workspaces (Lewis, 2021). Regional destinations interested in this market segment will need to upgrade to provide these services.

The third shift relates to the extent to which tourism is embedded in local communities in destinations. Prior to the pandemic, most Caribbean destinations sought to grow the community-based tourism segment of the industry. Signature examples of this included the Karasabai community tourism project in Guyana, which provided tangible benefits to the indigenous community and the Anse La Raye village tourism approach in Saint Lucia. The pandemic highlighted the significant fallout on communities with the closure of the industry. Therefore, an important aspect of tourism demand, especially for millennials and Generation Z tourists is for more embedded tourism, which places a strong emphasis on providing authentic, immersive experiences that offer 'Instagrammable moments' that they can share with relatives and friends while increasing the benefits to local communities, especially in rural areas (Christoff, 2019).

The fourth innovative opportunity is the promotion of sustainable tourism. Sustainable tourism is the optimal use of natural, cultural, social and other resources to provide a self-sustaining tourism product and experience that benefits local communities and limits greenhouse gas emissions and climate change (Caribbean Tourism Organization (CTO), 2022).

► (continued on page 16)

[1] Product innovation refers to the introduction of truly new products or services to the market or the improvement of existing products or services thus presenting a higher value proposition for consumers. Process innovation entails the use of improved processes, techniques, procedures and systems that reduce production costs, improve the quality of the product or service offered and enable a superior product/service offering. Marketing innovation is based on a new marketing method that entails significant changes in product design, product placement and promotion or prices. Organizational innovation is the application of new and improved organizational methods in business practices or external relations. This helps to reduce administrative costs by streamlining procedures and promotes coordination and synergies across different segments of the business such as transportation, marketing and product delivery.

▸ (continued from page 5)

Guzman and Stiglitz (2016) suggest that, in the current circumstances, restructuring efforts are often found to be too little too late. Most countries are concerned that if they default, they lose access to capital markets, which then forestalls options for robust investment that would promote growth and development, at least in the short term. The fact is that there is usually massive underutilization of resources in the face of debt restructuring. The current framework does not privilege economic efficiency and the best use of resources, which would be in the interest of both debtors and creditors. The focus of much restructuring is on repayment, which forces austerity, as governments retrench necessary expenditure. In small open economies, there is a complementarity between public capital investment and private spending, with huge cutbacks in public investment causing decline in private spending.

KEY PROPOSALS ON THE TABLE

Over time a number of proposals have been put on the table to address this issue. The most ambitious was the United Nations General Assembly resolution, (A/68/L.57/Rev.1), adopted on 10 September 2014, which focused on principles to guide sovereign debt restructuring processes. This landmark resolution was submitted to the General Assembly by South Africa but initiated by Argentina in the wake of the vulture funds lawsuit by an international hedge fund against that country.

The resolution yielded a 'yes' vote from 136 countries from Africa, Asia, the Caribbean and Latin America. A 'no' vote was registered by 6 countries: Canada, Germany, Israel[7], Japan, the United Kingdom and the United States, with 41 countries abstaining.

The resolution spoke to nine basic principles with respect to debt restructuring, among which were the principles of sovereignty which has been challenged in recent years in the courts in New York (Guzman and Stiglitz 2016); the principle of sustainability which implies that sovereign debt restructuring workouts lead to a stable debt situation in the debtor state; and preserving creditors' rights. These should promote economic growth and sustainable development, minimizing economic and social costs, warranting the stability of the international financial system and respecting human rights (Bhumika Muchhala 2015). Other principles were also enunciated as sovereign immunity and transparency. Like so many important developments, however this resolution has remained still born.

Retreating from these broader principles, a number of proposals seek to modify and augment existing approaches but within a market-based framework. The International Capital Market Association (ICMA 2014) with IMF (2014), support, argues for modifying existing contracts to include collective action clauses where a super majority can carry the day against bondholders who may still hold out. They also propose the modification of the pari passu clause, under which vulture funds could buy debt at a discount, then hold out to receive higher returns when they surrender the bonds. Guzman and Stiglitz (2016) argue that these are improvements but leave major issues unaddressed. This is because the issue of sovereign debt restructuring is presumed to be akin to the private contractual approach issue, which is based on bargaining strength and not on grounds of equity and efficiency. In any case, the issue of holdouts is still in play with respect to some debt. Kristalina Georgieva et al (2020) conclude that the current framework has proven less effective for restructuring the increasing volume of non-bonded debt, as well as for collateralized debt and debt with collateral-like features. They further identify such debt as being prevalent among low-income countries exporting natural resources.

SOME SOLUTIONS

In light of the discussion thus far, a multilateral legal framework for debt restructuring may be best, using the principles of the 2014 resolution and preferably established under the aegis of the United Nations. However, the private sector might object on grounds that the repayment concerns may not be fully entrenched, and they are still wedded to modifying purely market-based strategies. It is also possible that the IMF may object to being sidelined in a matter that it considers central to its agenda. What is obvious is that the private market solution has not worked well and while this is acknowledged, the way forward is not clear.

The bottom line, however, is that most countries are willing, to pay their debt when they are able to and would be willing to subject themselves to a fair system of adjudication. It is also the case that if the private lenders are made accountable as well, this might ensure that interest rates stay below rates for return on investment. As a result, more discretion in lending may follow and more timely debt restructuring may be encouraged. It may very well be that a

[7] It is worth noting that the group of countries that voted "no" are primarily OECD or G7 countries. As indicated the political economy aspect of this issue is beyond the scope of the current brief.

full-fledged multilateral system is never implemented along the lines defined in the resolution of 2014. However there is urgent need for change, since the debt issue is now systemic.

From the point of view of Caribbean member States, many of which have undergone several rounds of debt restructuring, a multilateral approach with clear rules and procedures will work best, given their limited capacity for protracted debt negotiations, and their challenges to access international capital markets in such circumstances.

International financial institutions (IFI's) can assist, even under current conditions, by supporting new debt issuances that contain hurricane clauses and other state contingent instruments like GDP linked bonds, so that countries can have relief in the face of climate effects and natural disasters. They can also provide guarantees for debt reprofiling through liability management operations (LMO's), which increase fiscal space, lengthen the debt repayment period and allocate a portion of funds for liquidity enhancement and climate adaptation.

Finally, given the enormous amount of projected development finance needed to build resilience to climate change and natural disasters, debt financing will be unsustainable. For this reason, ECLAC has proposed the creation of a Caribbean Resilience Fund (CRF) to leverage long-term affordable finance, including concessional finance, to support the Caribbean. This fund is to be housed at a reputable financial institution in the Caribbean, and will be focused on regional projects that can have a meaningful impact on resilience building. The CRF was conceived as a complement to existing mechanisms of finance, but will be nimble in its delivery and focused on filling the financing gaps in climate resilience building.

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▸ (continued from page 9)

EXPLORING AN OPTIMAL HYDROCARBON-BASED FISCAL REGIME FOR THE CARIBBEAN (CONTINUED)

For T&T, multiple scenarios of different oil prices were examined to simulate how the government's take would change as the revenue changes. For instance, when the 2020 oil price of US $38.54/bbl. is used, the effective tax paid to the GORTT is 31%. However, if the price of oil is increased to US$69.27/bbl., the effective tax paid to the government is 48%. Likewise, when oil prices increased to US$84.26, the effective tax to the government increased to 53%. Therefore, the Supplemental Petroleum Tax (SPT) included in T&T's fiscal regime ensures that the tax structure is progressive in nature. When the analysis was extended to Guyana, under the scenario of 2020 oil prices of US$38.54/bbl, the effective tax for Guyana was 14.5%, whereas where oil prices rose in 2021 and 2022 to US$69.27/ bbl. and US$84.26/bbl, the effective tax for Guyana remained at 14.5%. Therefore, the current fiscal regime in Guyana is proportional. Particularly, the potential revenue from corporation tax is significantly larger than the royalty revenue. This represents an opportunity cost to the government, since it could generate additional revenue from the multinational hydrocarbon company, in the absence of the fiscal incentive of paying the company's corporation taxes.

When the scenarios are applied to Mexico, if the 2020 oil prices of US$38.54/bbl. are considered, it yields an effective tax of 34%; whilst under the assumption of a US$69.27/bbl. oil price, the effective tax rises to 35.969%; and with a scenario of an oil price of US$84.26/bbl., the effective tax was 37.42%. Therefore, Mexico's fiscal regime is progressive in nature. Particularly, the attractive features of this tax regime are:

- setting the cost recovery limit (cost oil) to any month at 60% of the value of the oil;
- including corporate income tax (although it was reduced from 30% to 20% as an incentive);
- setting a higher royalty rate for higher oil prices; and
- including an overall royalty tax.

Using the fiscal regime assumptions set at a cost recovery limit of 60% and income tax at 34% for Brazil, when the scenario analysis are applied - under the 2020 oil price scenario, the effective tax for the Brazil scenario was 28.6%. For the 2021 oil prices scenario, the effective tax was 28.6%. With 2022 oil prices, the effective tax was 28.6%. Therefore, the counties fiscal regime is proportional. When the fiscal regime was based on the assumptions for Suriname, it was seen that with the 2020 oil prices scenario, the effective tax for the Suriname situation was 21.45%. For 2021 oil prices, the effective tax was 21.45%. For the 2022 oil price scenario, the effective tax was 21.45%. Therefore, the fiscal regime was also shown to be proportional.

Ideally Suriname and Guyana should seek to institute a progressive hydrocarbon fiscal policy regime.

CONCLUSION:

Oil and gas-rich subregional economies require a fiscal regime that is sufficiently incentivized to attract and retain investors to engage in exploration and production activity, while allowing the government to get its fair share of the hydrocarbon rents. Accordingly, ECLAC found that an optimal (and fair) hydrocarbon fiscal framework should include a reservation price/cash bonus, for the awarding of blocks; royalties charged on the gross value of the hydrocarbons; a windfall tax charged on the profit from the production and export of the hydrocarbons; and payment of taxes from the investor's share of profit oil.

Additionally, an optimal fiscal regime should also contain - a clearly defined cost recovery limit, to allow the investor to recover their costs. There should be an attendant limit on how much the investor can claim as cost recovery in any taxable month. Additionally, the cost recovery should be ring-fenced, so that sunk costs would no longer be deductible after they have been fully recovered; an allowance for depreciation; and an allowance for tertiary recovery methods, such as enhanced oil recovery. Subregional governments can committantly seek to operate an open acreage licensing program to award the blocks to potential investors. Consideration should be given to including the following features in such a programme, furnishing the investor with a good data package containing requisite technical information; awarding of blocks based on a formula that weighs the reservation price, the work programme, and local content participation; in the event that an auction system is used to award acreage, governments should consider allowing potential investors to nominate blocks of interest; and a production sharing contract model should be utilised as the contracting system with the investor as far as possible.

Mindful that the sunk costs which may be incurred by the multinationals in exploration and production activities, invariably, fiscal incentives would be necessary. The study, however, argues in favour of collusion among oil and gas endowed regional countries in pursuit of hydrocarbon sector FDI. This would simultaneously avoid the proverbial race-to-the-bottom and go a long way in optimising each country's hydrocarbon rents. ■

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INNOVATION FOR A RESILIENT AND SUSTAINABLE CARIBBEAN TOURISM SECTOR AFTER THE PANDEMIC (CONTINUED)

To meet this expectation, Caribbean destinations have redoubled initiatives to increase the use of renewable energy in the sector. For example, Aruba and Barbados have set targets to generate 100% of their electricity from renewables by 2030 and 2025, respectively. While these are ambitious targets, they should provide momentum towards the wider adoption of renewables. Countries are also promoting the use of electric vehicles for domestic ground transportation for tourists. Further, some tourists are taking longer holidays, to reduce their number of trips and their carbon footprint (Travel Pulse, 2023). Also, although aviation is one of the hardest sectors to decarbonize, public pressure is forcing airline companies to upgrade their technologies to reduce emissions (Time Magazine, 2021). The Caribbean aviation sector will need to get on board with this trend.

What then is required for transition to a dynamic and sustainable sector? Firstly, the industry will need to fully implement a smart, adjustable health, safety and wellness system, guided by guidelines provided by external travel agents and partners and jointly crafted by the CTO, CHTA, tourism operators and governments. This system should include digital travel passports, which entail digitally stored travel tickets. Apart from improving safety, these will expedite the travel clearance process (Ciupka, 2021). Furthermore, contactless technology for check-ins and out, payments should become the standard across the subregion.

Nevertheless, resilience and sustainability extend far beyond health and safety. Indeed, the most impactful changes are expected in the structure and conduct of the sector. Analysts predict a shift away from mass tourism to 'slow tourism' which entails building connections with local people, cultures, food and music and a strong focus on the educational and emotional impact of the tourism experience (Dickinson, 2023). Further, slow tourism is projected to grow at a 10 per cent annual rate in the future. Another trend is regenerative tourism which seeks to leave the destination better than the visitor met it.

HOW CAN CARIBBEAN DESTINATIONS RESPOND TO THE CHANGES IN THE TOURISM SECTOR?

Caribbean tourism had been forced to respond to some of the changes that have resulted from the pandemic, especially concerns related to health and safety and how tourism benefits communities[2]. Nevertheless, most of these changes have been reflexive, rather than strategic. Given that key innovations in the sector reflect long-term trends, hotels, other tourism operators and governments need to develop a strategic framework to deal with them.

It is proposed that the revised strategy should focus on four key areas. First, the ministries of health should map and identify the innovations in health and safety; smart, community-based and sustainable tourism that should be prioritized over the short to medium and longer-term, to achieve the highest benefit-cost ratios in the sector. Second, there should a revamped training and skills development programme to provide a more professional and creative workforce to enhance the quality the tourism product. Third, tourism operators and policy makers need to upgrade and restructure the sustainable tourism programme to better balance community benefit with environmental protection. Fourth, innovative financing will be required for less-resourced segments of the industry, especially small indigenous hotels and operators.

With respect to health and hygiene, the CTO, CHTA and tourism operators should roll out a coordinated minimum standard certification system to ensure a good reputation in the market for the industry. This should include contactless systems such as mobile check-in and check-out, and safety protocols aided by digital technologies (CTO and UNDP, 2022). This might be best done by certification that is provided by a regulatory body such as the CTO, which has the licence for the Hospitality Assured certification that regulates service delivery in the sector.

Smart tourism approaches should strengthen their focus on the highest return on investment, while ensuring sustainable use of cultural and environmental resources. It is expected that hotels, tour operators and other service providers will need to invest in key smart digital technologies, especially to attract millennials and Gen Z[3] visitors, who now make up more than half of the world's population (PressReader 2023). In the area of marketing and promotion and onsite tours, particularly for fragile cultural sites, the subregion will need to leverage the use of virtual reality (VR) and augmented reality (AR), to incentivize potential visitors to

[2] The severe hardship faced by workers who were retrenched from the sector due to the pandemic and the knock-on effects on their communities underscored the need to revisit relative wages and benefits in the sector and the extent to which local communities benefit from tourism.

[3] Further, since millennials and Gen Z tourists will be an important segment of future tourism demand, Caribbean destinations will need to put in place a programme of continuous innovation to respond to their tastes and preferences.

travel. Indeed, a portion of travellers switched to VR during the pandemic to create a virtual experience and would look forward to VR promotions in the future (Hotel Management Network, 2022).

The Caribbean will need to accelerate and restructure its sustainable tourism programme. Indeed, the pandemic abated unsustainable trends, including over-tourism in high demand areas, and high emissions from transportation. This provides tourism operators with the opportunity to entrench new sustainable tourism practices, including increased use of renewable energy, improved water and energy conservation through the use of smart devices. Also, staycations, hybrid tourism and regenerative tourism should all be promoted to create a more diversified offering. Community and creative tourism should also be leveraged to increase the benefits to rural communities (Seabra and Bhatt, 2022).

Finally, the question is, where will the financing come from to fund these innovative activities? It is expected that large hotels and other tourism businesses might be able to leverage internal and capital market funding. However, small indigenous businesses will be hard-pressed to raise the resources required. It is proposed that commercial banks should be encouraged to accept moveable assets as collateral to enable viable small businesses in the sector to access capital for upgrading to meet the new competitive demands. Also, patient capital that is prepared to wait a longer time for returns on its investment will be needed to help bridge the financing gap for these businesses.

In addition, the training programmes at hospitality training institutions in the Caribbean will need to be modernized to incorporate a strong accent on innovative approaches that can solve specific problems in the sector. Also, exchange programmes with the leading global institutions in the field should be strengthened to develop dynamic networks for undertaking research.

Fifth, tourism operators in different countries in the subregion need to collaborate in developing and sharing innovative solutions to specific challenges in the sector. This could aid in providing an integrated and coordinated system for developing, distributing and sustaining innovation among tourism firms and destination management organizations. There are a number of essential synergistic aspects of an innovation system that, if such systems existed, could help drive innovation and competitiveness in Caribbean tourism (Hjalager et. al, 2008). Important among these are: networks consisting of a multitude of actors, including entrepreneurial firms, R&D institutions and public sector organizations; diversity and density of relations that leverage a variety of backgrounds and knowledge, and connections that provide a hotbed for generating innovative ideas and commercializing them. The system could also help in mobilizing key actors who play visionary roles in leveraging appropriate finance such as venture capital, sourcing skilled labour and modernizing organizational systems. Private tourism businesses will have to find the financing either from internal resources, loan or equity financing to invest in innovation to boost the competitiveness of their products and services. Nevertheless, the public sector has a critical role to play in investing in basic research, and developing a high-quality tourism education and apprenticeship system to provide skilled workers for the sector.

In the short to medium term, however, hotels and other tourism businesses should aim to develop improved mechanisms for coordination and knowledge sharing among themselves (Sindico, 2021). This could prove critical in helping to lift the productivity and innovative ability of small, indigenous hotels, attractions, entertainment and other businesses. At present, the industry remains highly dualistic with large international hotel chains and entertainment firms having internal funding and capacity to undertake innovative activities, while small indigenous hotels and other businesses are severely limited both by knowledge, funding and other capacity constraints. The CHTA, CTO and governments should encourage larger, better resourced tourism businesses to share helpful knowledge with smaller businesses without compromising firms' competitive advantage based on proprietary tacit and codified knowledge.

CONCLUSION

The tourism industry is expected to become more competitive and focused on a smart and sustainable model. Given this expectation, innovation will be a key driver of the competitive advantage of destinations. Caribbean tourism operators have recognized the need for innovation and change and have been adapting smart and sustainable practices. Nevertheless, the time is ripe for policy makers- public/private to pursue more systematic and strategic interventions. This could be facilitated by certification by the CTO, improved skills training for workers in the sector. In addition, small indigenous firms will need to secure more appropriate financing, either from savings or other sources to invest in upgrading their operations. Improved knowledge sharing among businesses will also help to boost overall competitiveness in tourism. Such an integrated approach could help the industry compete, thrive and sustain the environmental and cultural resources that provide its competitive advantage. ■

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