

The Government's approach to sustainable economic development





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CONTENTS

Key facts	1
Executive summary	2
Key messages.....	2
Introduction	11
Economic growth is a Government priority	11
Several public and private sector entities are involved in developing the economy	11
The Government spent about \$1.2 billion developing the economy between 2018 and 2022	14
About the audit	16
Economic performance	19
The economy is performing well, but the cost of living is high	19
Four sectors contribute about 70 per cent of total Gross Domestic Product and employ around half of the workforce.....	25
Strategic direction.....	32
The Government has strategies for the tourism and financial services sectors but no overarching strategy for economic growth and development	32
There are no clear plans to diversify the economy.....	36
Risks to and challenges for the economy	41
The Cayman Islands' economy has been adversely affected by two global economic shocks in the last two decades.....	41
The Government is revising its risk management process	44
The Government has yet to develop or finalise plans to manage some risks to and challenges for the economy	45
Conclusion	57
Appendix 1 – About the audit.....	60
Appendix 2 – Recommendations	63
Appendix 3 – The Government's priorities for economic development, 2018 to 2026.....	66
Appendix 4 – Economic information for four sectors, 2018 to 2022	68

KEY FACTS



2.9%

Average annual gross domestic product (GDP) growth from 2018 to 2022.



0.877

United Nations Human Development Index for the Cayman Islands in 2021, the highest reported in the Caribbean.



3.3%

Total unemployment rate in 2023.



3.8%

Inflation rate in 2023.



3rd highest

The Cayman Islands' cost of living global ranking.



9.8%

The weighted average interest rate in June 2023.



\$2.4 billion

Total borrowing by households as at December 2022, representing 52 per cent of GDP.



70%

Percentage contribution to GDP from the four largest sectors of the economy.



\$7 billion

Financial services sector contribution to GDP between 2018 and 2022.



\$71,000

GDP per capita in 2023.



46%

Percentage of total workforce employed in the four main sectors, 2018 to 2022. Average of 21,404 people annually.



10,015

Average annual number of Caymanians employed in the four main sectors, 2018 to 2022. 21.7 per cent of the total workforce.



\$2 billion

Contribution to Government revenues by the four main sectors, 2018 to 2022.



\$1.2 billion

Estimated total Government expenditure developing the economy between 2018 and 2022.

EXECUTIVE SUMMARY

Economic growth and economic development are critical for sustainable development. Growth in an economy is measured by the change in the volume of its output or in the real expenditure or income of its residents.¹ Economic development creates the conditions for economic growth and improved quality of life by expanding the capacity of individuals, firms and communities to maximise the use of their talents and skills.² Sustainable development aims to balance different, and often competing, needs against an awareness of the environmental, social and economic limitations faced by society. It should meet the needs of the present generation without compromising the ability of future generations to meet their own needs.³

For the period of our audit, 2018 to 2022, successive Governments have highlighted economic growth as a priority in Strategic Policy Statements (SPSs). Between 2018 and 2022, the Government spent almost \$1.2 billion in implementing these priorities.

Our audit assesses the Government's approach to economic development. In our view, this is a broader measure than economic growth that also considers people's income and quality of life. This report assesses the economy's performance, the Government's strategic direction for sustainable economic development and the Government's response to selected key risks to and challenges for the economy. The overall objective of the audit was to assess the effectiveness of the Government's approach to sustainable economic development. It sought to answer the following questions:

- Does the Government have a clear and effective strategy for sustainable economic development?
- How effective is the Government at developing and diversifying the economy?
- How well does the Government plan for economic shocks?

KEY MESSAGES

We make four recommendations in our report. These include developing an overarching economic development strategy, a strategy for the construction sector and options for economic diversification. The fourth recommendation is about assessing and responding to risks to and challenges for the economy.

¹ DataBank – Metadata Glossary, World Bank (accessed 17 May 2024).

² U.S. Economic Development Administration.

³ United Kingdom Sustainable Development Commission.

Economic performance

We assessed the Cayman Islands' economic performance over the five-year period 2018 to 2022, using a range of indicators. We have added 2023 data where these are available. In addition, we compared the Cayman Islands' economic performance with that of selected countries and regions.⁴ Overall, the economy is performing well, but the cost of living is high.

Between 2018 and 2023, the Cayman Islands' average real gross domestic product (GDP) growth rate was 2.9 per cent. This growth rate was higher than that of advanced economies, the Bahamas and Bermuda, but lower than the Caribbean region as a whole.

GDP per capita (a head) in the Cayman Islands was \$70,000 in 2022. This was higher than in advanced economies, the Bahamas and the Caribbean, but lower than in Bermuda. The Cayman Islands' GDP per capita ranked sixth highest in the world in 2022. GDP per labour force, that is, GDP divided by the number of people working, increased by around 2 per cent between 2018 and 2022. GDP per capita in the Cayman Islands was \$71,000 in 2023.

The United Nations (UN) Human Development Index (HDI) is a measure of economic development. The UN considers an HDI greater than 0.8 to be very high. Based on the latest government data, the Cayman Islands' HDI in 2021 was 0.877, ranking it 34th among 191 countries. In 2021, Switzerland had the highest HDI globally of 0.962, while the Cayman Islands had the highest HDI reported in the Caribbean (the Bahamas had the second highest HDI reported in the region).⁵

As at December 2023, the Cayman Islands' total workforce was 60,513 and the total unemployment rate was 3.3 per cent. Between 2018 and 2023, the total unemployment rate in the Cayman Islands ranged from 2.1 per cent to 5.7 per cent. The Cayman Islands' total unemployment rate was lower than that of Bermuda, the Bahamas, and Latin America and the Caribbean throughout the five-year period 2018 to 2022. It was also lower than that of the United States and advanced economies over the same period, except in 2021.

Inflation and interest rates are high, contributing to a high cost of living. Between 2018 and 2022, the inflation rate in the Cayman Islands ranged from 1 per cent to 9.5 per cent. The average inflation rate was 4.6 per cent, which was higher than in Bermuda, the Bahamas, advanced economies and the United

⁴ Where possible, we compared the Cayman Islands' economic performance with that of the following jurisdictions and regions: advanced economies, the United States, Bermuda, the Bahamas and the Caribbean region. Advanced economies include the United States.

⁵ The UN's database does not include Bermuda's HDI, and we could not find the data.

States. The inflation rate in 2023 was 3.8 per cent. The weighted average interest rate in the Cayman Islands increased from 5.8 per cent in December 2020 to 9.8 per cent in December 2023.

Four key sectors of the economy

Four sectors of the economy contributed about 70 per cent of GDP and Gross Output annually between 2018 and 2022.⁶ The sectors were financial services, business activities and administration, construction and real estate, and tourism.⁷ Combined, these four sectors employed around half of the total workforce over the same period. The Government spent at least \$1.2 billion supporting three sectors, excluding business activities and administration, in the five years to 2022.

The financial services sector

The financial services sector is the largest contributor to the economy. Between 2018 and 2022, it contributed about \$7.0 billion, or 31 per cent of total GDP, and at least \$1.5 billion to Government revenues. It contributed \$14.2 billion, or 34 per cent of the economy's \$41.5 billion in Gross Output over the same period. Over the same period, it employed an average of 4,000 people annually, or 8.6 per cent of the average total labour force. About 2,700 (67 per cent) of these people were Caymanian.

The Cayman Islands is one of the world's leading financial services providers. The Ministry of Financial Services and Commerce (MFSC) attributes this success to a sound regulatory regime and political and economic stability, supported by highly skilled and experienced service providers. In February 2021, the Financial Action Task Force (FATF) placed the Cayman Islands on its "grey list". The Government prioritised getting the Cayman Islands removed from the FATF grey list, achieving this goal in October 2023. In October 2024, the FATF invited the Cayman Islands to participate in the FATF Plenary and Working Groups as guests. The FATF Plenary is the FATF's decision-making body. It meets three times a year and holds countries to account if they do not comply with FATF standards.

⁶ In economic terms, Gross Output (GO) refers to sales or revenue from production in an industry. Intermediate inputs are the goods and services used up in an industry in producing its GO. GDP is the difference between GO and intermediate inputs. Source: *What is gross output by industry and how does it differ from gross domestic product (or value added) by industry?* United States Bureau of Economic Affairs (<https://www.bea.gov/help/faq/1197>, accessed 18 October 2024).

⁷ The financial services sector includes financing and insurance services. The tourism sector includes transport, storage and communication, and hotels and restaurants, including bars. The business activities and administration sector includes legal services, accounting and auditing services, business management and consultancy firms, corporate managers and corporate service providers, engineering services, architectural quantity surveying and mapping services, and construction-related project management.

The business activities and administration sector

MFSC considers the business activities and administration sector part of the financial services sector because legal and accounting services are integral to financial services. However, the business activities and administration sector contains more than legal and accounting services. The sector was the second highest contributor to GDP between 2018 and 2022, contributing about \$3.6 billion, or 16 per cent of total GDP. It contributed \$4.8 billion, or 12 per cent of the economy's \$41.5 billion in Gross Output over the same period. In 2021, legal and accounting services contributed 68 per cent of the total GDP for this sector. Data on the business activities and administration sector are reported separately in the Government's economic reports. However, we could not find data on how much the Government spent on this sector or how much the sector contributed to government revenue. Between 2018 and 2022, the sector employed an average of 4,400 people annually or 9.5 per cent of the average total labour force. About 2,000 (47 per cent) of these people were Caymanian.

The construction and real estate sector

The construction and real estate sector is the third highest contributor to the economy in terms of GDP. It contributed about \$2.8 billion, or 13 per cent, of total GDP between 2018 and 2022. The sector contributed \$7.4 billion, or 18 per cent of the economy's \$41.5 billion in Gross Output over the same period. It also contributed about \$408 million to government revenue. Over the same period, it employed the most people, averaging 6,600 annually, or 14 per cent of the average total labour force. About 2,500 (38 per cent) of these people were Caymanian.

The tourism sector

The Government does not report the economic contribution from the tourism sector separately. In addition, we were told that the Government does not measure the economic contribution from the tourism sector. For the purposes of this report, we have used the tourism-related sectors to assess the tourism sector's economic contribution. The tourism-related sectors are transport and storage, and hotels and restaurants, including bars. Based on this assessment, the tourism sector is the fourth largest contributor to the economy in terms of GDP, contributing about \$2.0 billion between 2018 and 2022, or 9 per cent of total GDP. It contributed \$3.3 billion, or 8 per cent of the economy's \$41.5 billion in Gross Output over the same period. It also contributed \$149 million to government revenues. The sector was the second highest employer, employing about 6,400 people on average annually, or 13.9 per cent of the average total labour force over the five-year period. About 2,800 (43 per cent) of these people were Caymanian.

Strategic direction

The Government consistently stated its aim of building a strong economy in each of the SPSs over the six-year period 2018 to 2023. Economic growth and development need a long-term approach. However, each SPS covers only two years, and therefore represent a short-term approach. The Economics and

Statistics Office started measuring the UN HDI in 2023 and announced in April 2024 that it would start measuring quality of life; both are indicators of economic development.

Responsibility for economic development is shared by different ministries. For example, the Ministry of Tourism and Ports (MTP) is responsible for the tourism sector and MFSC for the financial services sector. The Ministry of Finance and Economic Development (MFED) has economic development in its title but it does not have any outputs about economic development in its Budget Statements. In its 2021–2025 strategic plan, the MFED stated that it would create an economic development strategy, but it has yet to do so.

Each ministry is now expected to develop a strategy, which is a positive development. The MTP and MFSC already have strategic plans for the tourism and financial services sectors, respectively. However, the Government does not have an overarching economic development strategy. Without an overarching strategy, the approach to economic development is not coordinated or joined-up, increasing the risk of conflicting strategies and activities and duplicated effort across the Government.

In 2019, the Cayman Islands Department of Tourism (CIDOT), a department under MTP, developed the National Tourism Plan (NTP) 2019–2023. The NTP identified critical success factors for the tourism industry, backed by data and realistic assumptions. However, CIDOT did not effectively measure and monitor progress against the strategy. We were told that CIDOT stopped tracking progress against the strategy during the COVID-19 pandemic because there was limited, if any, tourism activity to monitor, as the Cayman Islands' border was closed to tourists. However, CIDOT did not start monitoring progress against the strategy again after the border fully reopened in August 2022. The NTP expired at the end of 2023. In July 2024, MTP published a National Tourism Plan for 2024. MTP intends to update the plan annually. We were told that CIDOT is also developing a long-term cruise tourism strategy that it aims to release for public consultation in 2024.

Between 2018 and 2022, MFSC had rolling three-year strategies for the financial services sector. MFSC's 2022–2024 strategy sets out its vision for the Cayman Islands to be a globally respected financial services centre of excellence. The strategic plan is supported by action plans, which are more detailed and inform the ministry's budget. MFSC is currently developing an updated strategy for the financial services sector. We are pleased to note that it plans to incorporate outcomes-based budgeting in this strategy. MFSC told us that the strategy will cover a longer time horizon but will be implemented in three-year periods to align with the Government's budget cycle so that the ministry has the funds to implement the strategy.

The Ministry of Planning, Agriculture, Housing, Infrastructure, Transport and Development (MPAHITD) has yet to develop a strategy for the construction industry. The *Development and Planning Act (2021 Revision)* requires the Government to update the development plan every five years but the Government does not have an up-to-date National Development Plan (NDP). In September 2023, the Central Planning Authority approved a project delivery plan for the NDP. The project delivery plan sets a

target for completing the NDP in the last quarter of 2024. In May 2024, MPAHITD started consulting on the NDP (known as PlanCayman).

Despite the lack of a joined-up approach, we noted some partnerships between public and private sector entities in developing the economy. For example, there was effective collaboration across the Government and with the private sector in removing the Cayman Islands from the FATF grey list.

Economic diversification

The Government has highlighted priorities for economic diversification in SPSs since 2018. It does not have a strategy or plan that sets out how it plans to achieve this, but it has established some bodies and implemented several initiatives and policies to diversify the economy.

In 2011, the Government established framework legislation to set up Special Economic Zones (SEZs). The legislation allowed multiple SEZs.⁸ The aim was to encourage economic growth, attract foreign investment and diversify the economy. Cayman Enterprise City (CEC) is the first, and only, approved SEZ operator in the Cayman Islands. CEC is a private company through which companies can apply to operate in the SEZ. MFSC told us that the SEZ framework and CEC's initial business parks were established following research on economic development that was commissioned from an outside firm specialising in economic development consulting. CEC's most recent assessment of its economic impact estimated that it contributed about \$787 million to the economy between 2011 and 2023, with \$109 million (14 per cent) contributed in 2023. CEC commissioned the assessment, so it was not independent. However, it illustrates the positive impact of economic diversification initiatives.

In 2020, the Government created the Cayman Islands Centre for Business Development (CICBD) as a department to support the development of micro- and small businesses. The Government established CICBD under the then Ministry of Commerce, Planning and Infrastructure. Following the 2021 General Election, the Government transferred CICBD to the Ministry of Investment, Innovation and Social Development (MIISD). According to MIISD, CICBD has delivered several programmes to foster economic diversification and development through economic participation. During the COVID-19 pandemic, CICBD was responsible for distributing the COVID-19-related small business stipends that the Government paid out. The Government spent about \$1.4 million on CICBD from July 2021 to December 2022. The Government did not track its expenditure on CICBD separately before July 2021.

MIISD also created InvestCayman in 2021 to assist and support those looking to invest in the country. The Government spent about \$1.2 million on InvestCayman from 2021 to 2022 but discontinued the department in 2023.

⁸ *Special Economic Zones Act (2023 Revision)*.

Risks to and challenges for the economy

The Government has recently started to assess the risks. However, it is unclear if all risks to and challenges for the economy are identified and assessed and plans are in place to manage these.

In March 2019, the MFED approved a risk management framework for the Government. The framework aimed to explain the risk management methods for mitigating risks that government entities face when pursuing their objectives. The framework also aimed to enable risk-based decision-making at all levels of the Government. Individual entities have started to prepare risk registers, but these are still being developed. However, the framework was not fully implemented.

The Government appointed a Chief Risk Officer (CRO) in February 2024, transferring responsibility for its risk management framework from MFED to the CRO. The CRO is working to streamline a new framework for consistent adoption across the civil service in 2025. In addition, the Government has established new processes for an enterprise-wide quarterly internal risk assessment and an annual external risk assessment. The Government has also formed a senior leadership risk committee, comprising chief officers, to provide ongoing oversight of the risks.

The Cayman Islands' economy was adversely affected by the Great Recession in 2009 and the COVID-19 pandemic in 2020 and 2021. The Great Recession had a significant negative impact on the economy, affecting GDP growth, unemployment and government finances. The economy started to recover in 2011 but full recovery took longer. The pandemic caused the economy to contract by 5.0 per cent in 2020, although it has since recovered. The tourism sector was affected the most by the pandemic and has rebounded strongly since the Government lifted the air and cruise travel restrictions. The pandemic also negatively affected government finances. The Government spent additional money responding to and minimising the impact of the pandemic and went without some revenues. Consequently, the Government reported deficits in 2020 and 2021 before returning to surplus in 2022.

It is unclear if the Government could withstand future shocks to the economy such as a global economic slowdown or a COVID-19 pandemic-level shock. The Government's draft external risk assessment identifies a major economic downturn as a risk.

We have identified some of the main risks to and challenges for the economy that need to be effectively managed. These include maintaining responsible financial management, reduced spending power because of the high cost of living, and other risks to economic development.

Responsible financial management

The Government must ensure that it operates responsible financial management to help withstand any future economic shocks. The *Public Management Finance Act (2020 Revision)* includes six principles of responsible financial management that should inform the policies and decisions taken by the Government. The principles relate to net worth, cash reserves and borrowing. The Government forecasts that it will comply with the principles between 2023 and 2026. However, the forecasts for net debt, debt servicing cost and cash reserves are very close to the limits, which may create risks for future responsible financial management.

Reduced spending power

As reported previously, the Cayman Islands' economy is performing well, but the cost of living is high. The inflation rate was 9.5 per cent in December 2022 but had reduced to 3.8 per cent by December 2023. The interest rate was 9.8 per cent in 2023. The Government has limited control over inflation and interest rates. Most goods are imported, with prices dictated by overseas suppliers and shippers. The high cost of living is a risk to residents, and strained household budgets and financial distress are a potential risk to the economy.

Increased interest rates have reduced people's spending power, as they need to use more of their income to repay mortgages and other borrowing. As at December 2022, household debt held was \$2.4 billion.

In May 2024, we reported that the national basic minimum wage of \$6.00 per hour had not been revised since 2016.⁹ As at December 2023, there was a 32 per cent gap between the national basic minimum wage and what the rate should have been if it had kept pace with inflation.

Economic development indicators

Between 2018 and 2022, there was a very high correlation between GDP growth and population growth. There is a stronger correlation between GDP growth and the non-Caymanian population. During this period, GDP grew by about 9 per cent and the population increased by 24 per cent, from just below 66,000 people to almost 82,000 people. The Caymanian population increased by 5.5 per cent to almost 39,000 and the non-Caymanian population increased by 47 per cent to 43,000. Therefore, the Government needs to plan better for population growth and how this may affect economic development.

⁹ *Improving employment prospects for Caymanians*, Office of the Auditor General, May 2024.

The population has a direct impact on the demand for public services now and in the future. Failure to respond to these demands and expectations could adversely affect the economy. For example, an increase in population would result in more pressure on the transport system, roads network, waste management and internet connectivity. It would also increase the demand for places in public and private schools, affordable housing and healthcare.

INTRODUCTION

ECONOMIC GROWTH IS A GOVERNMENT PRIORITY

1. For each two-year budget period the Government outlines its priorities in a Strategic Policy Statement (SPS). Each SPS contains Strategic Broad Outcomes (SBOs) that outline the Government's overarching aims for the budget period. The SPS also outlines, for each SBO, the specific outcomes or actions that are to be achieved through the delivery of government programmes, government policy actions and legislative changes. The Government's SPSs for the six-year period 2018 to 2023 focused on economic growth and diversification. Appendix 3 of this report outlines the SBOs and specific outcomes and actions directly related to economic growth from the 2018–2019 budget cycle to the 2024–2026 budget cycle.
2. For the purposes of this report, we have assessed how the Cayman Islands is developing the economy, including economic growth. As previously reported, economic growth and economic development are different. In our view, economic development is a broader measure that considers people's income and quality of life, rather than just economic growth. We discuss the Government's performance against some indicators of economic growth and development in more detail in the **Economic performance** chapter of this report.

SEVERAL PUBLIC AND PRIVATE SECTOR ENTITIES ARE INVOLVED IN DEVELOPING THE ECONOMY

3. According to the Ministry of Finance and Economic Development's (MFED's) *Strategic Plan 2021 to 2025*, MFED is responsible for economic development. However, a range of ministries play different roles in developing the various sectors of the economy. In addition, we identified several Statutory Authorities and Government Companies (SAGCs) that are directly involved in developing the economy. Exhibit 1 provides an overview of the ministries and SAGCs directly involved in economic development.

Exhibit 1: Overview of ministries and SAGCs directly involved in economic development

Ministry	Role	SAGC	Role
Ministry of Finance and Economic Development (MFED)	MFED is responsible for economic growth and accountable use of public funds to enhance the quality of life in the Cayman Islands.	Cayman Islands Development Bank (CIDB)	CIDB is responsible for mobilising, promoting, facilitating and providing finance to expand and strengthen the economic development of the Cayman Islands. It aims to achieve this by financing tertiary education, housing, agriculture, and small business development.
Ministry of Financial Services and Commerce (MFSC)	MFSC is responsible for legislation and policy development in the financial services industry.	Auditors Oversight Authority (AOA)	The AOA is responsible for regulating and supervising auditors who audit the accounts of market-traded and other AOA-specified companies.
		Cayman Islands Monetary Authority (CIMA)	CIMA regulates and supervises financial services businesses and monitors compliance with money laundering regulations.
		Civil Aviation Authority of the Cayman Islands (CAACI)	CAACI is responsible for regulating the aviation industry in the Cayman Islands.
		Maritime Authority of the Cayman Islands (MACI)	MACI facilitates the development of Cayman Islands as an international maritime centre. MACI also promotes compliance with international standards, regional agreements and Cayman Islands legislation in the areas of maritime safety and security, marine environmental pollution prevention and social responsibility.
Ministry of Investment, Innovation and Social Development (MIISD)	MIISD is responsible for advancing the Cayman Islands' reputation as an investment destination and innovating and improving the well-being of every individual in the Cayman Islands. Its investment function aims to enhance the Cayman Islands' reputation to attract investment for economic diversification, sustainability and resilience while building the Cayman Islands into a competitive global jurisdiction.	Cayman Islands Stock Exchange (CSX)	CSX is responsible for establishing and operating a securities market for listing and trading securities.

Ministry	Role	SAGC	Role
Ministry of Planning, Agriculture, Housing, Infrastructure, Transport and Development (MPAHITD)	MPAHITD funds, develops and monitors the implementation of policy, legislation and services concerning infrastructure development. It is also responsible for agricultural support and regulatory services. Until November 2023, MPAHITD was known as the Ministry of Planning, Agriculture, Housing and Infrastructure (MPAHI).		
Ministry of Tourism and Ports (MTP)	MTP's role is to support the economy by promoting the Cayman Islands as the premier destination for visitors and to support local tourism businesses. MTP also provides strategic guidance and direction to the tourism and hospitality sectors. It develops policies and legislation to promote the sustainable growth and development of the Cayman Islands tourism sector. The Cayman Islands Department of Tourism (CIDOT), a department under MTP, develops and implements sustainable policies and initiatives that attract and retain visitation to the Cayman Islands.	Cayman Airways Limited (CAL)	CAL's main activity is the provision of scheduled passenger and cargo air transportation to, from and within the Cayman Islands. CAL is essential in achieving the Government's goals for the tourism sector of the economy.
		Cayman Islands Airport Authority (CIAA)	The CIAA owns and operates Cayman's airport facilities, which consist of two international aerodromes, Owen Roberts International Airport on Grand Cayman and Charles Kirkconnell International Airport on Cayman Brac.
		Tourism Attractions Board (TAB, now known as Cayman Islands National Attractions Authority, CINAA)	TAB is responsible for the general and financial management of Pedro St. James as a building of historic interest and a heritage site for visitors. TAB does the same for other land and buildings vested in it or placed under its management by the Government.
		Cayman Turtle Centre (CTC)	CTC's primary objective is operating a tourist attraction, including a gift shop, restaurant and bar. It is also responsible for conserving and repopulating sea turtles in the waters of the Cayman Islands and the wider Caribbean.
Ministry of Sustainability and Climate Resiliency (MSCR)	MSCR is responsible for the strategic development of programmes and policies to ensure the Cayman Islands is best placed to solve current challenges and meet the present needs without compromising future generations.		

Source: OAG analysis of ministry and SAGCs websites and other related public documents.

4. The Government collaborates with private sector entities to sustainably develop the economy. Exhibit 2 shows some private sector entities that the Government collaborates with in developing the economy. Note that the list is not exhaustive.

Exhibit 2: Private sector entities collaborating with the Government in developing the economy

Entity	Role
Cayman Contractors Association (CCA)	CCA aims to ensure that the Cayman Islands' construction industry serves the Caymanian public professionally and efficiently. It also seeks to ensure that its members comply with relevant laws and regulations. Membership with CCA is voluntary.
Cayman Islands Chamber of Commerce	The Chamber of Commerce aims to promote and protect Cayman Islands businesses and ensure that their voices are heard within the Government.
Cayman Islands Small Business Association (CISBA)	CISBA aims to support, mentor, coach and educate small businesses on thriving in the Cayman Islands' business environment. We understand that small businesses in the Cayman Islands are collectively the largest employer. CISBA has at least 215 members.
Cayman Islands Tourism Association (CITA)	CITA aims to promote the continuous improvement and development of the Cayman Islands' tourism industry through exchanging information, Government relations, training and education, marketing and events.
Cayman Finance	Cayman Finance aims to protect, promote, develop and grow the Cayman Islands' financial services industry through cooperation and engagement with domestic and international political leaders, regulators, organisations and media. It also aims to: • promote the industry's integrity and transparency by legislative and regulatory enactment. • encourage the industry's sustainable growth through excellence, innovation and balance.

Source: OAG analysis of entities' websites and other related public documents.

THE GOVERNMENT SPENT ABOUT \$1.2 BILLION DEVELOPING THE ECONOMY BETWEEN 2018 AND 2022

5. Our analysis shows that the Government spent about \$1.2 billion developing the economy between 2018 and 2022 (Exhibit 3). The exhibit does not include government expenditure on the business activities and administration sector because the Government does not report it separately. The expenditure is based on our assessment of entities and departments directly involved in economic development.

Exhibit 3: Government expenditure directly related to economic development, 2018 to 2022

Sector	Expenditure ('000s)					
	2018	2019	2020	2021	2022	Total
Tourism sector						
Cayman Airways Limited	82,377	83,214	61,417	52,124	84,682	363,814
Cayman Islands Airport Authority	32,825	33,555	25,557*	25,642*	29,872*	147,451
Cayman Islands Department of Tourism	19,672	21,403	15,833	18,332	22,140	97,380
Cayman Turtle Centre	4,689	5,080	3,897	2,143	2,248	18,057
Tourism Attractions Board	3,097	3,488	2,515	2,597	2,726	14,423
Tourism sector expenditure sub-total	142,660	146,740	109,219	100,838	141,668	641,125
Financial Services sector						
Auditors Oversight Authority	309	336	292	292	272	1,501
Cayman Islands Monetary Authority	28,199	30,624	36,022	40,623	44,820	180,288
Civil Aviation Authority of the Cayman Islands	4,741	5,037	4,981	5,065	5,952	25,775
Maritime Authority of the Cayman Islands	9,502	9,371	9,066	10,354	10,719	49,013
Cayman Islands Stock Exchange	1,858	1,951	1,805	2,124	2,221	9,959
Financial Services	8,666	10,012	11,346	13,384	15,633	59,041
Financial Services sector expenditure sub-total	53,275	57,331	63,512	71,842	79,617	325,577
Construction sector						
Lands and Survey	11,676	12,105	13,649	11,969	7,228	56,627
Planning	–	–	–	4,197	4,758	8,955
Planning and Infrastructure	18,672	20,269	19,267	–	–	58,208
Construction sector expenditure sub-total	30,348	32,374	32,916	16,166	11,986	123,790
Sub-total	226,283	236,445	205,647	188,846	233,271	1,090,492
Other						
Cayman Islands Development Bank	1,510	1,784	1,859	2,058	2,208	9,419
Commerce	–	–	–	1,255	2,431	3,686
Commerce and Investment	1,533	1,954	2,029	–	–	5,516
Economics and Statistics Office	1,890	2,017	1,713	3,528	2,006	11,154
Environment	4,846	8,241*	**	2,990*	5,572*	21,649
Innovation	–	–	–	6,085	13,254	19,339
Investment	–	–	–	2,822	5,108	7,930
Policy Advice and Support	–	–	–	430	3,429	3,859
Trade and Investment	–	830	1,057	1,621	–	3,508
Other expenditure sub-total	9,779	14,826	6,658	20,789	34,008	86,060
Grand Total	236,062	251,271	212,305	209,635	267,279	1,176,552

Source: OAG analysis of entities' financial statements from 2018 to 2022.

Notes: * Figures are unaudited; ** information not available. Expenditure by some departments is not reported for some years because segmental reporting by ministries changed during the period.

6. Exhibit 3 shows that the Government spent about \$1.1 billion between 2018 and 2022 on three sectors:

- \$641 million on the tourism sector. The Government's annual expenditure in developing the sector marginally reduced, from \$143 million in 2018 to \$142 million in 2022. The Government spent an additional \$106 million to support the sector during the COVID-19 pandemic that is not included in the exhibit. The additional expenditure was mainly for displaced tourism workers affected by the border closure. The Government also went without about \$85 million in tourism-related revenues during the pandemic because of the border closure.¹⁰ Therefore, overall, the Government spent \$832 million in developing and supporting the tourism sector between 2018 and 2022.
- \$326 million on the financial services sector. Annual expenditure in developing this sector increased by 49 per cent, from \$53 million in 2018 to \$80 million in 2022.
- \$124 million on the construction sector. This figure includes government expenditure on infrastructure between 2018 and 2020 because the Government combined expenditure on planning and infrastructure in these years. Planning expenditure is directly related to construction, but infrastructure expenditure is not. Infrastructure expenditure relates to the provision of quality roads in the islands, maintenance of government buildings, and professional project management and consulting services for government buildings and other facilities.¹¹ Therefore, expenditure on construction and real estate is likely to be lower.

ABOUT THE AUDIT

7. The objective of the audit was to assess the effectiveness of the Government's approach to sustainable economic development. It sought to answer the following questions.

- Does the Government have a clear and effective strategy for sustainable economic development?
- How effective is the Government at developing and diversifying the economy?
- How well does the Government plan for economic shocks?

8. The report has three main chapters:

- Economic performance.
- Strategic direction – covering the first and second audit questions above.

¹⁰ *The impact of the COVID-19 pandemic on Government finances: Update to March 2022*, Office of the Auditor General Cayman Islands, May 2022.

¹¹ *2020 and 2021 Budget Statements*, Cayman Islands Government.

- Risks to and challenges for the economy – covering the third audit question above.
9. The audit covered the Government’s strategic direction for sustainable economic development, including its effectiveness at diversifying the economy and planning for risks to and challenges for the economy between 2018 and 2022. We considered 2023 data and information where relevant to ensure that our findings are current. The audit did not cover the Government’s expenditure during the COVID-19 pandemic, as this was covered by other Office of the Auditor General (OAG) reports.¹² Neither did the audit cover lessons learned from the pandemic.
10. The audit drew on various types of evidence to inform the findings and conclusions. These included:
- Conducting interviews with key public and private sector individuals, including the Deputy Governor and officials from MFED, MFSC, MIISD, MPAHITD, MTP, Cayman Islands Chamber of Commerce, Cayman Contractors Association, Cayman Islands Small Business Association, Cayman Islands Tourism Association and Cayman Finance.
 - Reviewing documents, including legislation, budget documents, financial reports and statements, strategic plans, financial metrics and key performance indicators.
 - Analysing and recalculating financial and performance information.
 - Comparing the strategies, processes and practices in use against good practice.
 - Analysing audit evidence and assessing it against agreed criteria to develop findings, conclusions and recommendations.
 - Reviewing media updates for any relevant information applicable to the audit.
 - Analysing data, statistics and reports about global and regional economies and the Cayman Islands’ economy from the World Bank, International Monetary Fund (IMF), Cayman Islands Economics and Statistics Office (ESO) and other relevant entities.
 - Providing a draft report to officials at MFED, MFSC, MIISD, MPAHITD and MTP so they could review its factual accuracy and respond to the report’s recommendations (see Appendix 2).
 - Presenting a final report about the audit to the Parliament.
11. More information about the audit, including the audit criteria, approach and methodology, can be found in Appendix 1 of this report. Appendix 2 includes our recommendations and management responses. Appendix 3 outlines the SBOs and specific outcomes and actions directly related to economic development from the 2018–2019 budget cycle to the 2024–2026 budget cycle.

¹² *Overview of the Government’s costs in relation to COVID-19*, Office of the Auditor General, July 2020, and *The impact of the COVID-19 pandemic on Government finances: Update to March 2022*, Office of the Auditor General, May 2022.

Appendix 4 provides a summary of economic data for four sectors – financial services, business activities and administration, construction and real estate, and tourism.

ECONOMIC PERFORMANCE

12. This chapter assesses the Cayman Islands' economy using a range of economic indicators and compares its performance with other regional and global economies. Several indicators are used to measure economic growth and development. We have used gross domestic product (GDP) growth, GDP per capita (i.e. GDP a head), unemployment, inflation and the United Nations (UN) Human Development Index (HDI). In April 2024, the Government's Economics and Statistics Office announced that it planned to start measuring quality of life, which is another indicator of economic development.
13. We aimed to use these indicators to compare performance against advanced economies, the United States, Bermuda, the Bahamas and the Caribbean region.¹³ However, we could not compare performance against all regions and countries for all indicators because data were not consistently available. For example, we could not find data about the UN HDI for Bermuda.

THE ECONOMY IS PERFORMING WELL, BUT THE COST OF LIVING IS HIGH

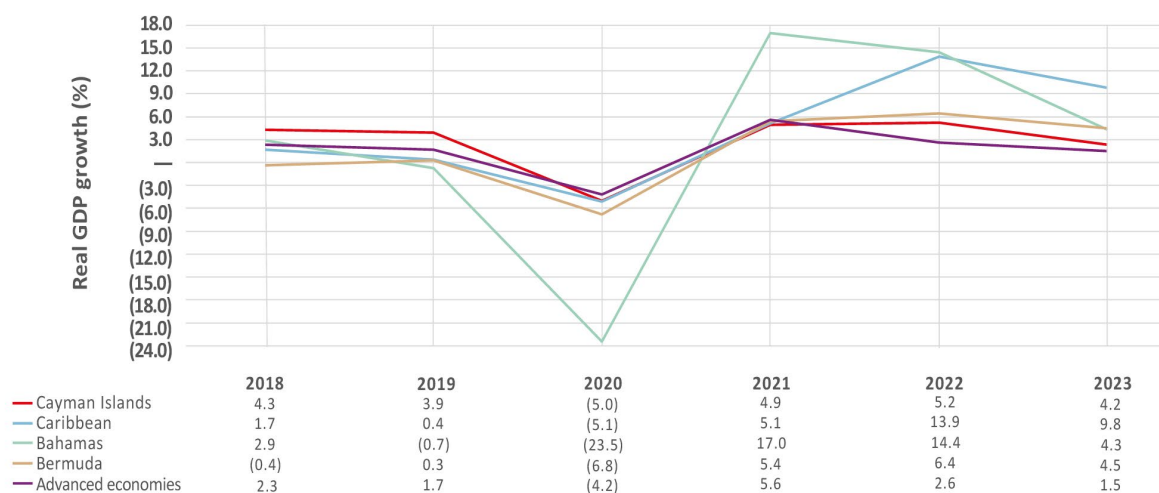
REAL GROSS DOMESTIC PRODUCT GROWTH COMPARES FAVOURABLY AGAINST REGIONAL AND ADVANCED ECONOMIES

14. The World Bank defines GDP as the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. In other words, GDP represents the monetary value of all goods and services produced in a country during a specified period. The real GDP growth rate measures the percentage change in GDP from one year to another, adjusted for inflation. It indicates the pace of economic expansion or contraction.
15. Over the six-year period 2018 to 2023, the Cayman Islands real GDP growth rate ranged from –5 per cent (during the COVID-19 pandemic) to 5.2 per cent. On average, the rate was 2.9 per cent over this period. The average rate outperformed that of advanced economies (1.6 per cent), the Bahamas (2.4 per cent) and Bermuda (1.6 per cent). However, it underperformed against the Caribbean

¹³ According to the IMF, the seven largest advanced economies in terms of GDP (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States) constitute a subgroup of major advanced economies often referred to as the Group of Seven (G7). According to the IMF, the Caribbean comprises Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

region (4.3 per cent). Exhibit 4 shows the real GDP growth rate for the Cayman Islands and selected countries and regions from 2018 to 2023.

Exhibit 4: Real GDP growth for the Cayman Islands and selected countries and regions, 2018 to 2023



Source: OAG analysis of data from the Cayman Islands ESO, IMF and Bermuda's Ministry of Finance.

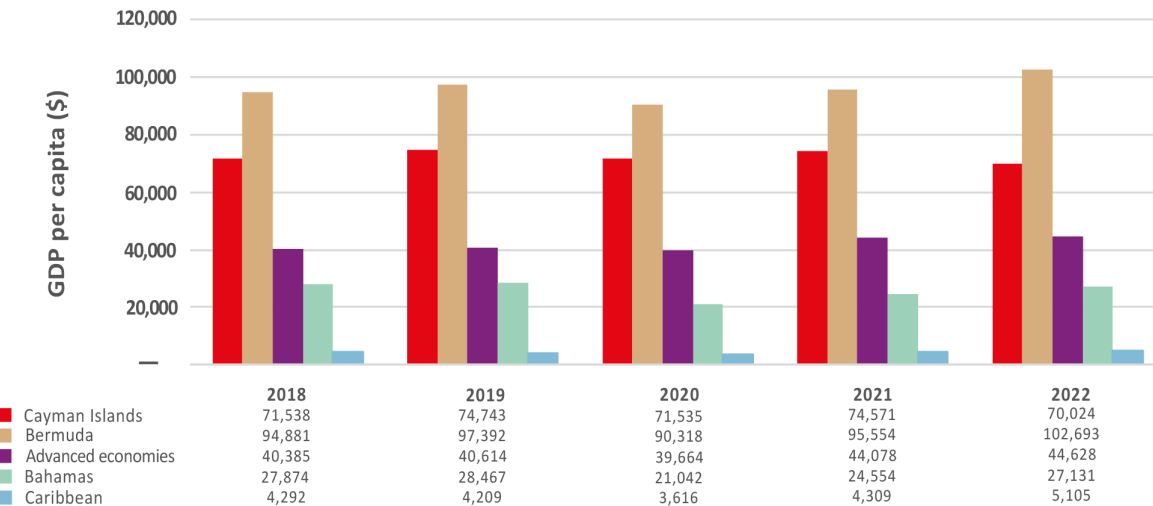
16. In 2018 and 2019, the Cayman Islands' GDP growth was higher than that of the selected countries and regions. The Cayman Islands' economy did not recover as quickly as other countries and regions after the COVID-19 pandemic in 2020. This is mainly because the Cayman Islands' borders were closed for longer than borders of other countries and regions post COVID-19. However, the adverse effect of the pandemic was worse in all of the comparator countries except the advanced economies.

GROSS DOMESTIC PRODUCT PER CAPITA IS HIGH AT AROUND \$70,000

17. The World Bank defines GDP per capita as GDP divided by the mid-year population. GDP per capita is commonly used to measure average living standards or economic well-being. A higher GDP per capita indicates a higher standard of living. It is important to note that while GDP per capita provides insights into average economic well-being, it does not reflect income distribution within a population.
18. Our analysis shows that the Cayman Islands' GDP per capita was relatively constant, ranging from about \$70,000 to almost \$75,000 between 2018 and 2022. This is consistently higher than that of the advanced economies, the Bahamas and the Caribbean but consistently lower than that of Bermuda. In 2022, the Cayman Islands' GDP per capita was one and half times that of the advanced economies, two and half times that of the Bahamas and almost 14 times that of the Caribbean, but

around two-thirds of Bermuda’s. Exhibit 5 shows GDP per capita at current prices for the Cayman Islands and selected countries and regions over the five-year period 2018 to 2022. Note that GDP per capita at current prices has not been adjusted for inflation.

Exhibit 5: GDP per capita at current prices for the Cayman Islands and selected countries and regions, 2018 to 2022



*Source: OAG analysis of data from the Cayman Islands ESO, IMF and Bermuda’s Ministry of Finance.
 Note: All values converted to CI\$ using a rate of CI\$0.84 per US\$1 where relevant.*

- 19. In 2022, the Cayman Islands’ GDP per capita ranked sixth highest in the world, behind Luxembourg, Bermuda, Norway, Ireland and Switzerland. Luxembourg had the highest GDP per capita, equivalent to CI\$106,000. The Cayman Islands’ GDP per capita in 2023 was \$70,985.
- 20. In addition, we analysed GDP per labour force, that is, GDP divided by the total number of people working, over the same period. Our analysis showed that GDP per labour force in the Cayman Islands increased by 2 per cent between 2018 and 2022. GDP per labour force peaked in 2020, during the pandemic. At that time, total GDP was lower, but the total labour force was also lower.

THE CAYMAN ISLANDS HAS THE HIGHEST REPORTED HUMAN DEVELOPMENT INDEX IN THE CARIBBEAN

- 21. According to the UN, the Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, knowledge and decent living standards. The health dimension is assessed by life expectancy at birth. The education dimension is measured by mean years of schooling among adults aged 25 years and older and expected years of schooling among children of school-entering age. The standard of living dimension

is measured by gross national income per capita. In simple terms, the HDI is the average of the results for each dimension expressed on a scale of 0 to 1. The UN considers an HDI greater than 0.8 to be very high.

22. In 2023, the Government started measuring social progress using the HDI, retrospectively measuring data from 2010. Based on these data, the Cayman Islands' HDI in 2021 was 0.877. The Cayman Islands is not included in the HDI database, but it would have ranked 34th out of 191 countries globally in 2021.¹⁴ In 2021, Switzerland had the highest HDI globally of 0.962 while the United States' HDI was 0.921. The Cayman Islands' HDI of 0.877 was the highest reported in the Caribbean. The Bahamas had the second highest HDI reported in the region, at 0.812.¹⁵

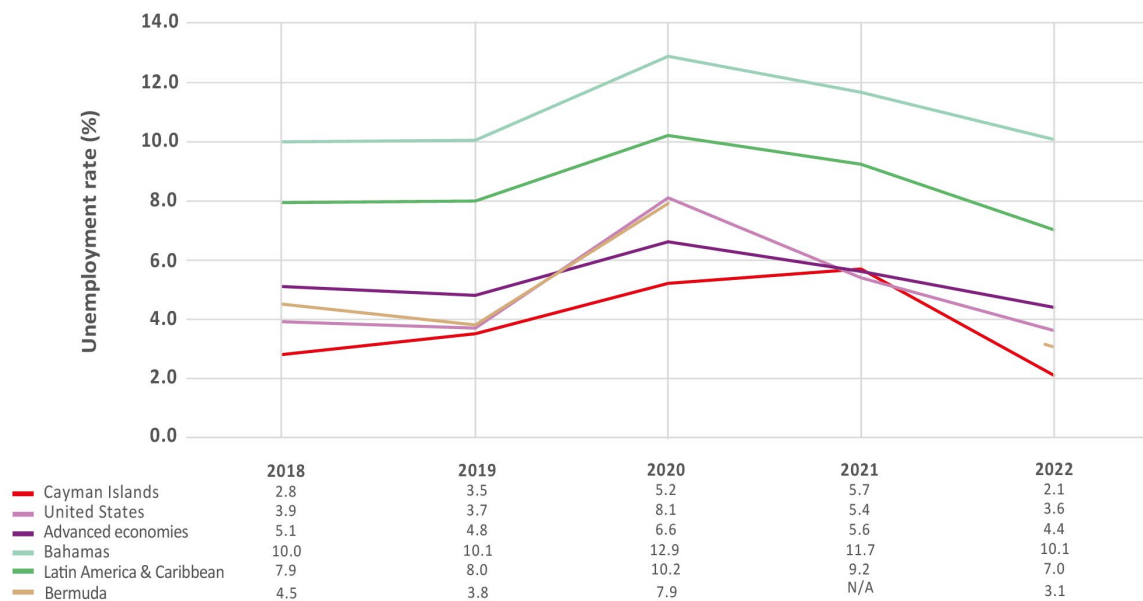
THE UNEMPLOYMENT RATE IS LOW COMPARED WITH ALL SELECTED COUNTRIES AND REGIONS

23. Exhibit 6 shows the unemployment rate in selected countries and regions between 2018 and 2022. The exhibit does not include the 2021 unemployment rate for Bermuda. Bermuda's Department of Statistics did not collect and publish unemployment data for that year because of disruptions resulting from the COVID-19 pandemic. The total unemployment rate in the Cayman Islands ranged from 2.1 per cent to 5.7 per cent over the five-year period. The exhibit also shows that the unemployment rate was lower than that of Bermuda, the Bahamas, and Latin America and the Caribbean throughout the five years, and lower than that of the United States and advanced economies, except in 2021.

¹⁴ Data for 2022 for the Cayman Islands were not available as at October 2024. Therefore, we could not compare these with the UN's published 2022 data for other countries and regions.

¹⁵ The UN's database does not include Bermuda's HDI, and we could not find these data.

Exhibit 6: The unemployment rate in the Cayman Islands and selected economies, 2018 to 2022



Source: OAG analysis of data from the Cayman Islands ESO, IMF and Bermuda's Department of Statistics.

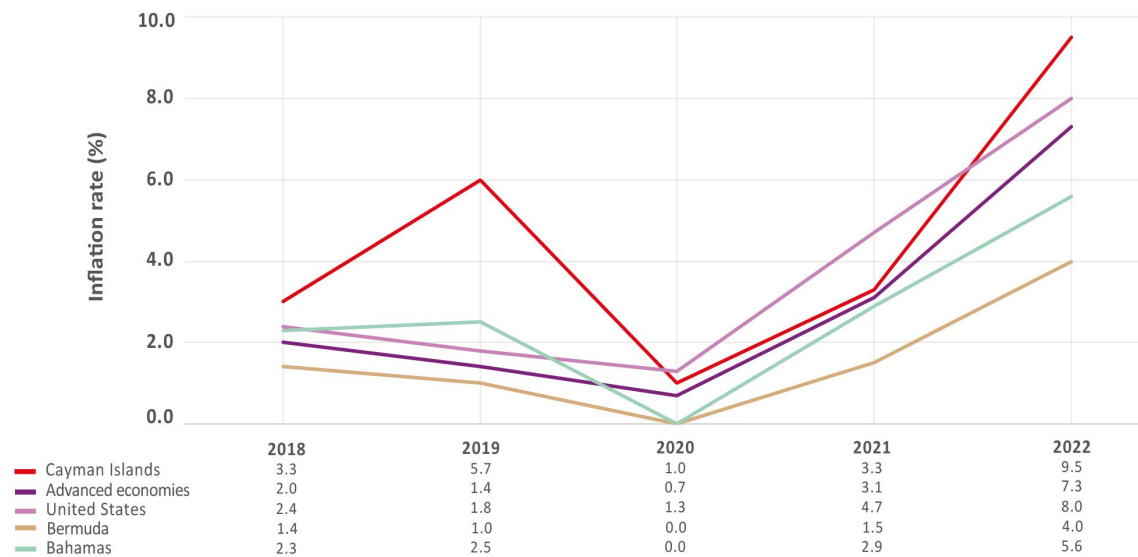
24. The total unemployment rate increased slightly to 3.3 per cent in December 2023. At the time, the Cayman Islands' total workforce was 60,513.

THE COST OF LIVING IS HIGH, BUT INFLATION REDUCED SIGNIFICANTLY IN 2023

25. The cost of living is the amount of money needed to cover basic expenses such as housing, food, taxes and healthcare in a certain location and time period. Combined, high inflation and high interest rates are contributing to a high cost of living in the Cayman Islands.
26. According to the World Bank, inflation, as measured by the Consumer Price Index, reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. According to the IMF, inflation measures how much more expensive a set of goods and services has become over a certain period, usually a year.
27. Exhibit 7 shows the inflation rate in the Cayman Islands, advanced economies and selected countries between 2018 and 2022. The exhibit shows that the inflation rate in the Cayman Islands was consistently higher than that of the advanced economies. It was also higher than that of all selected countries from 2018 to 2022, apart from the United States in 2020 and 2021. Between 2018 and 2022, the inflation rate in the Cayman Islands ranged from 1 per cent to 9.5 per cent. The average inflation rate over the same five-year period was 4.6 per cent. This average was higher than that of

Bermuda (1.6 per cent), the Bahamas (2.7 per cent), advanced economies (2.9 per cent) and the United States (3.6 per cent). The inflation rate in the Cayman Islands in 2023 was 3.8 per cent, a significant reduction from the inflation rate of 9.5 per cent in 2022.

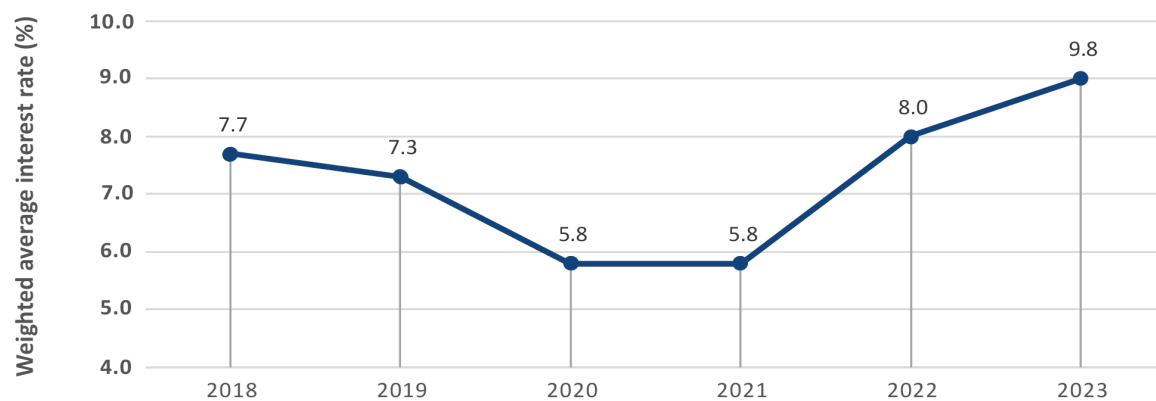
Exhibit 7: The inflation rate in the Cayman Islands and selected economies, 2018 to 2022



Source: OAG analysis of data from the IMF and the Cayman Islands ESO.

28. The interest rate in the Cayman Islands is linked to that of the United States and has been consistently high. Our analysis shows that the weighted average interest rate ranged from 5.8 per cent to 9.8 per cent between 2018 and 2023. The rate was lowest in 2020 and 2021 during the COVID-19 pandemic. After 2021, the rate started increasing again and was 9.8 per cent as at December 2023. Exhibit 8 shows the weighted average interest rate in the Cayman Islands between 2018 and 2023.

Exhibit 8: Weighted average interest rate in the Cayman Islands, 2018 to 2023



Source: OAG analysis of data from the ESO's Annual Economic Reports.

29. Two cost of living comparison websites – Adda247 and Expatistan – rank the Cayman Islands as the third most expensive country to live in.¹⁶ According to Adda247, as at October 2023, Monaco was the most expensive country to live in, with individuals incurring an estimated \$3,300 in monthly expenses. The report estimates an individual's cost of living in the Cayman Islands to be about \$2,700 monthly, 18 per cent lower than in Monaco.¹⁷ According to Expatistan, as at April 2024, Switzerland was the most expensive country to live in, with a price index of 219. The Cayman Islands ranked third with a price index of 212.¹⁸

FOUR SECTORS CONTRIBUTE ABOUT 70 PER CENT OF TOTAL GROSS DOMESTIC PRODUCT AND EMPLOY AROUND HALF OF THE WORKFORCE

30. According to the Government, the main sectors of the economy are financial services, tourism, and construction and real estate.¹⁹ MFSC told us that it considers the business activities and

¹⁶ Adda247 analyses and publishes annually a list of the most expensive countries to live in globally, and Expatistan compares the cost of living index by country.

¹⁷ *Most Expensive Countries in the World – List of Top 10*, Adda247 (<https://currentaffairs.adda247.com/most-expensive-countries-in-the-world/>, accessed 28 January 2024).

¹⁸ *Compare cost of living between countries: Where you want to move vs your country*, Expatistan (<https://www.expatisan.com/cost-of-living/country/comparison>, accessed 22 April 2024).

¹⁹ *Our Finance & Economy*, Cayman Islands Government (<https://www.gov.ky/economy>, accessed 12 March 2024).

administration sector part of the financial services sector because legal and accounting services are the main contributors to this sector's GDP.²⁰

31. Our analysis shows that the four sectors that contribute most to the economy are:

- financial services, comprising financing and insurance services;
- business activities and administration;
- construction and real estate; and
- tourism, comprising transport and storage, and hotels and restaurants, including bars.

However, for tourism, the Government does not measure or report the economic contribution from the sector separately. Therefore, for purposes of this report, we have used the tourism-related sectors to estimate the tourism sector's economic contribution.

32. In economic terms, Gross Output refers to sales or revenue from production in an industry. Intermediate inputs are the goods and services used up in an industry in producing its Gross Output. GDP is the difference between Gross Output and intermediate inputs.²¹

33. As reported earlier, the Government spent around \$1.2 billion developing the economy. In addition, our analysis shows that between 2018 and 2022 the four sectors:

- contributed about 70 per cent of GDP and Gross Output annually;
- generated around \$2 billion in direct government revenues from fees and charges;
- received around \$1.1 billion in government funding;
- employed around half of the total workforce; the four sectors employed over 11,000 non-Caymanians on average each year, which would have contributed to government revenues through the payment of work permit and immigration fees; and
- employed around 10,000 Caymanians, or 21.7 per cent of the total workforce.

²⁰ According to the *Cayman Islands' System of National Accounts Report 2020*, the business activities and administration sector comprises legal and accounting activities; activities of head offices; management consultancy activities; architectural and engineering activities; technical testing and analysis; scientific research and development; advertising and market research; other professional, scientific and technical activities; and veterinary activities.

²¹ *What is gross output by industry and how does it differ from gross domestic product (or value added) by industry?* United States Bureau of Economic Affairs (<https://www.bea.gov/help/fag/1197>, accessed 18 October 2024).

34. Exhibit 9 shows the four largest sectors of the economy by total GDP and Gross Output contribution, total government revenues generated, estimated total government expenditure, and the average number of people employed between 2018 and 2022. Appendix 4 provides more detailed information for each of the four sectors over the five years. Note that the GDP figures are adjusted for inflation but the Gross Output figures are not.

Exhibit 9: Contribution of the four largest sectors of the economy by total GDP and Gross Output contribution, government revenue generated and estimated government expenditure, and workforce, 2018 to 2022

Sector	GDP and Gross Output		Government revenue and expenditure		Workforce	
	Total GDP contribution (\$ 000s); Average GDP contribution (%)	Total GO contribution (\$000s); Average GO contribution (%)	Total Government revenue generated (\$000s); Average contribution to total Government revenue (%)	Estimated total Government expenditure in developing the sector (\$000s) (Exhibit 3)	Average sector total workforce (Number and %)	Caymanians in the average sector total workforce (Number and %)
Financial services	7,039,000	14,225,000	1,510,854	325,577	3,981	2,673
	31%	34%	36%		8.6%	67%
Business activities and administration	3,642,000	4,774,000	-	-	4,389	2,048
	16%	12%	-	-	9.5%	47%
Construction and real estate	2,781,000	7,423,000	407,804	123,790	6,587	2,514
	13%	18%	10%		14%	38%
Tourism	2,082,000	3,325,000	149,207	641,125	6,448	2,780
	9%	8%	4%		13.9%	43%
Total	15,544,000	29,746,000	2,067,865	1,090,492	21,406	10,015
	69%	72%	49%		46%	47%
Total for Cayman Islands	22,454,000	41,466,000	4,212,494		46,226	20,220

Source: OAG analysis of data from the ESO's GDP Reports from 2018 to 2022 and labour force data, and entire public sector (EPS) financial statements from 2018 to 2022 (note that the 2021 and 2022 financial statements are unaudited).

Notes: The Government does not report separately on revenue generated from and expenditure incurred in developing the business activities and administration sector. Government revenue excludes revenue from work permits. GO, gross output.

THE FINANCIAL SERVICES SECTOR IS THE ECONOMY'S MAIN SECTOR

35. Exhibit 9 shows that between 2018 and 2022 the financial services sector was the largest contributor to the economy. The sector:

- contributed about \$7.0 billion to GDP or 31 per cent of total GDP;
- contributed about \$14.2 billion in Gross Output or 34 per cent of total Gross Output;

- contributed at least \$1.5 billion to government revenue or about 36 per cent of total government revenue;
- received around \$326 million in government funding; and
- employed an average of 4,000 people annually or 8.6 per cent of the average total labour force; about 2,700 (67 per cent) of these people were Caymanian.

36. In February 2021, the Financial Action Task Force (FATF) placed the Cayman Islands on its “grey list”. Reflecting the importance of the financial services sector, the Government prioritised getting the Cayman Islands removed from the FATF grey list. It achieved this in October 2023.

37. FATF is a global watchdog that tackles money laundering and terrorist financing. The intergovernmental body sets international standards to prevent these illegal activities and avert the harm they cause to society.²² The FATF grey list refers to “jurisdictions under increased monitoring”. According to the FATF, these countries are actively working with it to address strategic deficiencies in their regimes to counter money laundering, terrorist financing and proliferation financing. When the FATF places a jurisdiction under increased monitoring, it means that the country has committed to resolving swiftly the strategic deficiencies identified within agreed time frames and is subject to increased monitoring.²³

38. Being placed on the FATF grey list can significantly impact a country’s GDP. For example, the IMF estimates that a FATF grey listing results in an average decline in GDP of 7.6 per cent. The impact of the FATF’s grey-listing of the Cayman Islands is unclear, but GDP did not decrease.

39. In October 2024, the FATF invited the Cayman Islands to participate in the FATF Plenary and Working Groups as guests. The FATF Plenary is the FATF’s decision-making body. It meets three times a year and holds countries to account if they do not comply with its standards.

THE BUSINESS ACTIVITIES AND ADMINISTRATION SECTOR WAS THE SECOND HIGHEST CONTRIBUTOR TO GROSS DOMESTIC PRODUCT BETWEEN 2018 AND 2022

40. As stated earlier, we were told that MFSC considers the business activities and administration sector part of the financial services sector because legal and accounting services are integral to financial services. Exhibit 9 shows that the business activities and administration sector was the second highest contributor to GDP from 2018 to 2022, contributing about \$3.6 billion, or 16 per cent of

²² *FATF Members*, FATF (<https://www.fatf-gafi.org/en/the-fatf/who-we-are.html>, accessed 15 March 2024).

²³ *“Black and grey” lists*, FATF (<https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html>, accessed 15 March 2024).

GDP. The sector contributed \$778 million to GDP in 2021. Of this, legal and accounting services contributed \$526 million, or 68 per cent.²⁴ Between 2018 and 2022, the sector:

- contributed about \$4.8 billion in Gross Output or 12 per cent of the economy's total Gross Output; and
- employed an average of 4,400 people annually or 9.5 per cent of the average total labour force; about 2,000 (47 per cent) of these people were Caymanian.

41. However, there are no data on how much this sector contributes to government revenues or how much the Government spends on this sector.

THE CONSTRUCTION AND REAL ESTATE SECTOR IS THE LARGEST EMPLOYER AND CONTRIBUTED \$2.8 BILLION TO GROSS DOMESTIC PRODUCT BETWEEN 2018 AND 2022

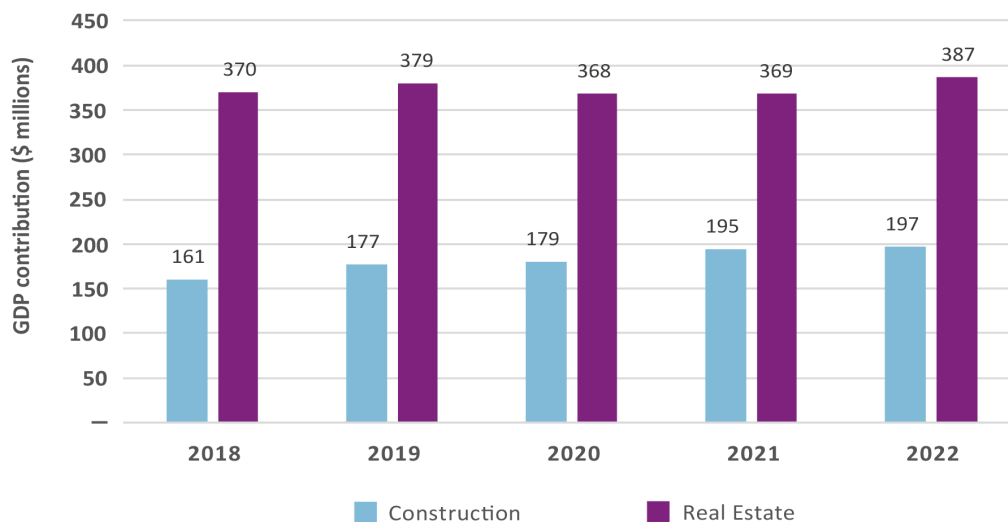
42. Exhibit 9 shows that between 2018 and 2022 the construction and real estate sector was the third largest contributor to the economy in terms of GDP. The sector:

- contributed about \$2.8 billion to GDP or 13 per cent of total GDP;
- contributed about \$7.4 billion in Gross Output or 18 per cent of total Gross Output;
- contributed about \$408 million to government revenue or about 10 per cent of total government revenue;
- received around \$124 million in government funding; and
- employed the most people, an average of 6,600 people a year or 14 per cent of the average total labour force; about 2,500, or 38 per cent, of these people were Caymanian.

43. The Government plays a key part in the construction industry, including approving planning proposals and providing work permits. However, the Government exerts limited control over the real estate industry. Our analysis shows that the economic contribution of these two industries varies. The construction industry contributed a total of \$908 million between 2018 and 2022, increasing from \$161 million to \$197 million a year. The real estate industry contributed \$1.9 billion to GDP in the same period. Exhibit 10 shows the construction and real estate industries' contribution to GDP from 2018 to 2022.

²⁴ *Gross Domestic Product Report 2022*, ESO, November 2023.

Exhibit 10: Construction and real estate industries' contribution to GDP, 2018 to 2022



Source: OAG analysis of data from the ESO's 2022 Annual Economic Report.

TOURISM IS THE FOURTH LARGEST CONTRIBUTOR TO GROSS DOMESTIC PRODUCT AND THE SECOND BIGGEST EMPLOYER

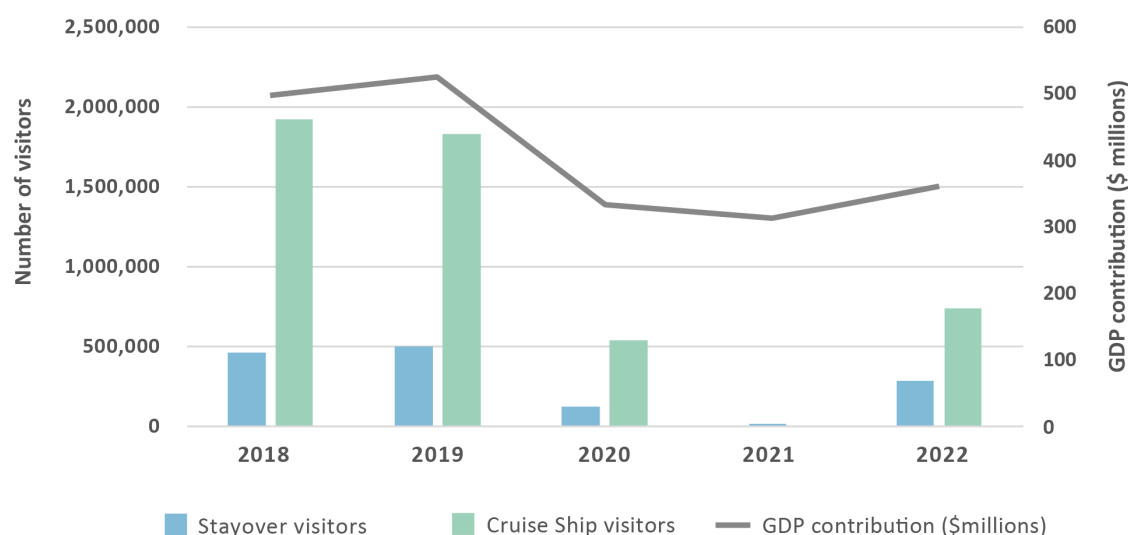
44. Exhibit 9 shows that between 2018 and 2022 the tourism sector was the fourth largest contributor to the economy. The sector:

- contributed about \$2.0 billion to GDP or 9 per cent of total GDP;
- contributed about \$3.3 billion in Gross Output or 8 per cent of total Gross Output;
- contributed about \$149 million to government revenue or about 4 per cent of total government revenue;
- received around \$641 million in government funding; and
- was the second largest employer, employing about 6,400 people on average annually, or 13.9 per cent of the average total labour force; about 2,800, or 43 per cent, of these people were Caymanian.

45. As reported earlier, the Government does not measure or report the economic contribution from the tourism sector separately. Therefore, for purposes of this report, we have used the tourism-related sectors to estimate the tourism sector's economic contribution. The tourism sector's contribution to GDP increased from \$191 million in 2021 to \$288 million in 2022, a 50 per cent increase.

46. We report later that the tourism sector was significantly affected by the COVID-19 pandemic in 2020 and 2021. The tourism sector's contribution to GDP in 2022 was 29 per cent below that in 2019. However, it is worth noting that data from Cayman Islands Department of Tourism (CIDOT) show that 2019 recorded the largest number of tourists to date. Exhibit 11 shows the tourism sector's contribution to GDP and cruise and stay-over visitor statistics between 2018 and 2022. The exhibit shows that the changes in GDP are correlated with the cruise and stay-over visitor statistics. The exhibit also shows the impact of the border closures during the COVID-19 pandemic on tourist numbers and the sector's GDP contribution. We have not included 2023 data because the ESO had not published its 2023 GDP report at the time of drafting this report.

Exhibit 11: Cruise and stay-over visitor statistics and the tourism sector's contribution to GDP, 2018 to 2022



Source: OAG analysis of data from the ESO's 2022 GDP Report.

Note: According to the ESO's 2021 Annual Economic Report, the hotel and restaurant sector contracted by 21.4 per cent and the transport and storage sector contracted by 31.9 per cent.

STRATEGIC DIRECTION

47. We defined economic growth, economic development and sustainable economic development in the **Introduction**. This chapter assesses the Government's strategic direction for sustainable economic development and its efforts to diversify the economy. It also considers the Government's other activities to grow the economy and businesses.

THE GOVERNMENT HAS STRATEGIES FOR THE TOURISM AND FINANCIAL SERVICES SECTORS BUT NO OVERARCHING STRATEGY FOR ECONOMIC GROWTH AND DEVELOPMENT

48. The Government's SPSs over the six-year period 2018 to 2023 consistently stated its aim of building a strong economy. Economic growth and development need a long-term approach. However, each SPS covers only two years and therefore represents a short-term approach. Appendix 3 provides a summary of the Government's Strategic Broad Outcomes and specific outcomes and actions in the three SPSs between 2018–2019 and 2024–2026.
49. Responsibility for economic development is currently shared across different ministries. For example, MTP is responsible for the tourism sector and MFSC for the financial services sector. MFED has economic development in its title but no outputs about economic development in its Budget Statements. In its 2021–2025 strategic plan, MFED stated that it would develop an economic development strategy but has yet to do so. Economic development needs a coordinated and joined-up approach across Government. No single ministry can do this alone.
50. Each ministry is now expected to develop a strategy, which is a positive development.²⁵ MTP and MFSC already have strategic plans for the tourism and financial services sectors, respectively. However, the Government does not have an overarching economic development strategy. Without an overarching strategy, the approach to economic development is not joined-up, increasing the risk of conflicting strategies and activities and duplicated effort across the Government.

THE MINISTRY OF TOURISM AND PORTS HAS A STRATEGY FOR THE TOURISM SECTOR

51. In 2019, CIDOT, a department under MTP, developed the National Tourism Plan (NTP) 2019–2023 and tabled it in Parliament in January 2020. The plan aimed to provide a comprehensive sustainable tourism development and management framework. It also aimed to share both a long-term vision and medium-term objectives to help the tourism sector thrive and prosper while conserving the

²⁵ *The Civil Service Strategic Plan 2024–2026*, Cayman Islands Government, April 2024.

Cayman Islands' natural resources and cultural heritage. The NTP starts with an overarching vision of protecting the environment and celebrating cultural heritage while ensuring a vibrant tourism economy that benefits the Cayman Islands. It highlights six distinct goals to help achieve its aims, including delivering outstanding visitor experiences and building strong partnerships to manage, market and diversify tourism assets sustainably.

52. The NTP identified a range of critical success factors for the tourism sector. These include effective collaboration between public and private sector stakeholders, good visitor arrival and departure processes, and prioritising stay-over tourism over cruise tourism. CIDOT had robust data and assumptions to support these critical success factors.
53. However, CIDOT did not effectively measure and monitor progress against the strategy. CIDOT tracked progress against the strategy, but stopped doing so during the COVID-19 pandemic. We were told that CIDOT stopped tracking progress against the strategy during the COVID-19 pandemic because there was limited, if any, tourism activity to monitor while the Cayman Islands' border was closed to tourists. However, CIDOT did not start monitoring progress against the strategy again after the border fully reopened in August 2022. We encourage MTP and CIDOT to track progress against its strategies for the tourism sector in the future and take corrective action as necessary.
54. The NTP expired at the end of 2023. In July 2024, MTP published a National Tourism Plan for 2024. MTP intends to update the plan annually. We were told that CIDOT is also developing a long-term cruise tourism strategy that it aims to release for public consultation in 2024.
55. In 2020, CIDOT developed a strategy – The Road Back to 500K Air Arrivals – to guide the tourism sector's recovery from the COVID-19 pandemic. The strategy aimed to set a road map for enhancing the tourism sector's recovery and to ensure the sustainability of the islands' human capital and cultural and natural assets during and after the pandemic. It outlined CIDOT's plans to support the tourism sector's recovery from the socioeconomic impact of the COVID-19 pandemic.
56. MTP and CIDOT developed their strategies in consultation with key stakeholders in the public and private sectors. CIDOT also told us that it meets with hotel general managers quarterly and has regular business intelligence calls with tourism partners to share information and understand changing consumer behaviours.
57. CIDOT has annual targets for stay-over and cruise tourists. We were told that the Cabinet sets these targets. In 2022, CIDOT exceeded its target of reaching 40 per cent of the 2019 tourist numbers:

- About 740,000 cruise passengers visited in 2022. This number exceeded the Government’s target of about 720,000 cruise passengers (40 per cent of the 1.8 million cruise passengers in 2019).²⁶
- About 280,000 tourists stayed over in 2022. This also exceeded the Government’s target for stay-over visitors of 200,800 (40 per cent of the 502,000 stay-over visitors in 2019).

58. For 2023, the Government set an overall target of 70 per cent of 2019’s numbers (i.e. 1.3 million cruise tourists and 351,000 stay-over tourists). CIDOT exceeded these targets. About 1.3 million cruise passengers visited in 2023, representing 72 per cent of arrivals in 2019. About 429,000 stay-over tourists visited in 2023, representing 85 per cent of arrivals in 2019. CIDOT’s 2024 target is to achieve the same visitor numbers as in 2019.

THE MINISTRY OF FINANCIAL SERVICES AND COMMERCE HAS A STRATEGY FOR THE FINANCIAL SERVICES SECTOR

59. The Cayman Islands is one of the world’s leading financial services providers. MFSC attributes the financial services sector’s success to a sound regulatory regime and political and economic stability, supported by highly skilled and experienced service providers.²⁷ MFSC told us that it had identified these critical success factors over the years – primarily through industry–client interactions, developing marketing material for trade shows and attending conferences. These critical success factors are consistent with the ones highlighted by Cayman Finance on its website. We highlighted Cayman Finance’s role in developing the economy in Exhibit 2.

60. Between 2018 and 2022, MFSC had rolling three-year strategies for the financial services sector. MFSC’s 2022–2024 strategy sets out its vision for the Cayman Islands to be a globally respected financial services centre of excellence. The strategic plan is supported by action plans, which are more detailed and inform the ministry’s budget.

61. MFSC is currently developing an updated strategy for the financial services sector. We are pleased to note that it plans to incorporate outcomes-based budgeting in this strategy. It told us that the strategy will cover a longer time horizon but will be implemented in three-year periods to align with the Government’s budget cycle so that the ministry has the funds to implement the strategy.

²⁶ The year 2019 is used as a benchmark because it was the last full year that the border was open to tourists before the COVID-19 pandemic.

²⁷ *About Cayman*, Ministry of Financial Services and Commerce (<https://www.mfs.ky/about-us/about-cayman/>, accessed 12 March 2024).

62. As previously stated, there was effective collaboration across Government and the private sector to remove the Cayman Islands from the FATF grey list. MFSC collaborates with Cayman Finance and the Financial Services Legislative Committee (FSLC). The FSLC is a public–private body comprising representatives from MFSC and the Cayman Islands’ financial services industry, which was set up in 2011. The FSLC proposes and helps draft legislative enhancements to the Cayman Islands’ financial services regime for the Government’s consideration and potential action. It has been responsible for at least 15 legislative proposals since its inception.²⁸
63. MFSC also collaborates with other public sector entities through the Anti-Money Laundering Steering Group. The group comprises several public sector entities, including the Attorney General’s Chambers, the Office of the Director of Public Prosecutions, the Royal Cayman Islands Police Service, and the Anti-Corruption Commission.

THE GOVERNMENT DOES NOT HAVE AN UP-TO-DATE NATIONAL DEVELOPMENT PLAN

64. The *Development and Planning Act (2021 Revision)* requires the Government to update the development plan every five years. In 2015, the OAG recommended that the National Development Plan (NDP) for the Cayman Islands, adopted in 1997, be comprehensively updated.²⁹ The NDP is intended as a long-term comprehensive plan to guide the physical development and overall use of land in the Cayman Islands.³⁰ Each of the SPSs since 2018 has included a specific outcome to complete a new NDP.
65. The Ministry of Commerce, Planning and Infrastructure (MCPI; now known as MPAHITD) planned to start consultations on a new NDP in the third quarter of 2018. The ministry planned to review the plan in November 2018 but would not fully adopt it until 2022. MCPI also committed to introducing a development plan for the Sister Islands.³¹ To date, none of these plans has been implemented.
66. In November 2018, the Department of Planning drafted a National Planning Framework as part of a comprehensive policy for land use in Grand Cayman. The Central Planning Authority approved the framework in August 2022. The framework is the first stage in the development plan’s review, and took five years to develop. In September 2023, the Central Planning Authority approved the NDP

²⁸ *Legislative Recognition for Capital Redemption Contracts, AKA Funding Agreements*, Conyers (<https://www.conyers.com/publications/view/legislative-recognition-for-capital-redemption-contracts-aka-funding-agreements/>, accessed 10 February 2024).

²⁹ *National Land Management and Government Real Property*, Office of the Auditor General Cayman Islands, June 2015.

³⁰ *National Planning Framework*, MPAHITD, February 2023.

³¹ *Follow-up on Past PAC Recommendations*, Office of the Auditor General Cayman Islands, October 2018.

project delivery plan. The project delivery plan sets a target to complete the NDP in the last quarter of 2024. MPAHITD started its public consultations on PlanCayman – the NDP – in May 2024.

67. In addition, MPAHITD has not identified critical success factors for the construction and real estate sector. Several stakeholders identified delays in reviewing planning applications and building inspections as challenges that the sector faces. MPAHITD told us that it is conducting an organisational review, aiming to transition from an inspectorate role to a regulatory one for the construction industry by privatising building inspections and planning reviews.
68. Between 2018 and 2022, a total of 3,967 construction projects were approved, with an annual value ranging from \$534 million to \$977 million. However, MPAHITD does not track the number of project approvals that result in completed projects. Therefore, it is unclear how many of these planned projects have been completed.

Recommendation 1: The Ministry of Planning, Agriculture, Housing, Infrastructure, Transport and Development should develop a strategy for the construction sector. The strategy should set out the ministry’s plans to finalise and regularly update a National Development Plan and how the two documents align. The strategy should also align with international best practice and set out the construction sector’s critical success factors and how the ministry plans to enable them.

Recommendation 2: The Ministry of Finance and Economic Development should work with the Ministry of Financial Services and Commerce, Ministry of Investment, Innovation and Social Development, Ministry of Planning, Agriculture, Housing, Infrastructure, Transport and Development and Ministry of Tourism and Ports to develop an overarching strategy for sustainable economic development. In doing so, it should build on existing strategies and ensure all strategies align, avoid conflicting policies and activities, and clearly set out how priorities for sustainable economic development will be achieved.

THERE ARE NO CLEAR PLANS TO DIVERSIFY THE ECONOMY

69. Economic diversification, where a country moves to a more diverse production and trade structure, is a key element of economic development. A lack of economic diversification is often associated with increased vulnerability to external shocks, which can undermine prospects for longer term economic growth. Diversification helps manage volatility and provides a more stable path for equitable growth and development.³²

³² *Aid for Trade at a Glance 2019: Economic Diversification and Empowerment*, Organisation for Economic Co-operation and Development and World Trade Organization, 2019.

70. Over the period covered by our audit, each of the SPSs highlighted the Government's priorities for economic diversification:

- The 2018–2019 and 2020–2021 SPSs set out plans to develop sector-based plans to support the economy's diversification.
- The 2022–2023 SPS did not include an overall objective to diversify the economy but included specific outcomes (e.g. create new industries and expand existing ones, and expand and diversify domestic tourism products) to create a modern social infrastructure. It also highlighted plans to promote and grow sports and events tourism, expanding into emerging and secondary tourism markets.
- The most recent SPS, covering 2024 to 2026, contains a specific outcome to create and encourage further economic diversity.

71. As previously stated, the Government does not have an overarching economic development strategy. Neither does it have a strategy for diversifying the economy. However, we noted that the Government has established some bodies and implemented several initiatives and policies to diversify the economy. We discuss these in the following paragraphs.

THE SPECIAL ECONOMIC ZONE HAS BEEN SUCCESSFUL

72. In 2011, the Government established framework legislation to set up Special Economic Zones (SEZs) to encourage economic growth, attract foreign investment and diversify the economy. The *Special Economic Zones Act (2023 Revision)* sets areas of specialised economic activity in the Cayman Islands. Firms that meet the criteria for being located in these zones benefit from a tax-neutral platform, easy company formation, reduced customs and trade certificate fees, fast-tracked business registration and licensing, and competitive employment certificate fees. The Special Economic Zone Authority (SEZA) licenses all SEZs in the Cayman Islands on the Government's behalf. SEZA oversees all licensing, compliance and enforcement activities and maintains statistical data.³³ The Government spends less than \$5,000 on SEZA annually.

73. Cayman Enterprise City (CEC), the first, and only, approved SEZ operator in the Cayman Islands, is a private company through which companies can apply to operate in the SEZ. CEC aims to develop world-class SEZs and build a state-of-the-art campus to attract new knowledge-based industries to the Cayman Islands.³⁴ It seeks to serve the community's needs by diversifying the Cayman Islands'

³³ *Special Economic Zones*, Cayman Islands Department of Commerce & Investment (<https://www.dci.gov.ky/licensing/special-economic-zones/overview>, accessed 6 April 2024).

³⁴ The knowledge-based economy is an expression coined to describe trends in advanced economies towards greater dependence on knowledge, information and high skill levels, and the increasing need for ready access to all

economy, creating a platform for innovation and providing opportunities for Caymanians and future generations. The Government does not spend any money on CEC because it is a private company. MFSC told us that the SEZ framework and CEC's initial business parks were established following research on economic development commissioned from an outside firm specialising in economic development consulting.

74. According to CEC, it had helped more than 350 businesses establish in the Cayman Islands by April 2024.³⁵ CEC's most recent assessment of its economic impact estimated that it had contributed about \$787 million to the economy between 2011 and 2023, with \$109 million (14 per cent) contributed in 2023. CEC also estimated that it generated about \$3.6 million of government revenue in 2023, comprising licensing and registry fees, work permit fees, and import and stamp duties.
75. The assessment also highlighted that CEC has a pivotal role in the Cayman Islands' economic diversification because it is home to companies in the biotech, gaming, oil and gas, and artificial intelligence sectors, among others. CEC commissioned the assessment, so it is not independent. However, it illustrates the positive impact of an economic diversification initiative.

THE GOVERNMENT SET UP THE CAYMAN ISLANDS CENTRE FOR BUSINESS DEVELOPMENT TO ASSIST LOCAL BUSINESSES

76. In 2020, the Government created the Cayman Islands Centre for Business Development (CICBD) as a department to support the development of micro- and small businesses. The Government established CICBD under the then Ministry of Commerce, Planning and Infrastructure. Following the 2021 General Election, the Government transferred CICBD to the Ministry of Investment, Innovation and Social Development (MIISD). CICBD aims to provide services to businesses at all stages of the business life cycle by working one-on-one with them to co-create customised solutions for their specific needs. The Government spent about \$1.4 million on CICBD from July 2021 to December 2022. The Government did not track its expenditure on CICBD separately before July 2021.
77. According to MIISD, CICBD has delivered several programmes to foster economic diversification and development through economic participation. For example:

of these by the business and public sectors. See *Glossary: Knowledge-based economy*, Eurostat (https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Knowledge-based_economy, accessed 13 May 2024).

³⁵ *Cayman Enterprise City* (<https://www.caymanenterprisecity.com/blog/socio-economic-impact-assessment>, accessed 21 October 2024).

- CICBD administered the Government's business stipend and asset preservation grant programme for tourism-related businesses in 2022. According to MIISD's 2022 annual report, more than 400 qualifying businesses received about \$7.5 million in funding through this programme. The programme ended in November 2022.
- CICBD runs the Business Growth Incubator programme, an initiative designed to equip entrepreneurs from different sectors with essential skills and tools to survive and thrive. These skills include strategic development, financial management and marketing. The programme empowers business owners to expand, innovate and create jobs. As at August 2024, 58 businesses had participated in this programme.
- CICBD runs the Small Business Holiday Market, an event designed to increase brand awareness and opportunities for small businesses across various categories, including food vendors, craft vendors, artisans and musicians. The event focuses primarily on small, local manufacturers. As at August 2024, 114 businesses had participated in the programme, increasing their brand awareness and sales.
- CICBD offers personalised one-on-one consultations to provide bespoke guidance to businesses, helping them navigate challenges, seize opportunities and adapt to a dynamic market environment. As at August 2024, CICBD was supporting 115 businesses under this programme.

INVESTCAYMAN WAS CREATED TO PROMOTE INVESTMENT IN THE CAYMAN ISLANDS

78. The Government created InvestCayman in 2021 as a department of the MIISD. According to the InvestCayman website, it was the Government's investment facilitation agency and was responsible for assisting and supporting those looking to invest in the country. Its primary role was assessing and facilitating projects, and assisting with research and data gathering to develop policy. InvestCayman was also responsible for delivering sustainable and diversified projects and enterprises that delivered significant social, cultural, environmental and economic benefits to the Cayman Islands and its people.
79. MIISD's annual reports contain some information about InvestCayman's performance. For example, its 2022 annual report states that InvestCayman helped facilitate the Cayman Islands' three-month presence at the World Expo in Dubai. The annual report also stated the following:
- InvestCayman facilitated collaborations and connections by sponsoring two local events with professional societies. These events were the Bsides cybersecurity conference and the Chartered Financial Analyst Society event.
 - In partnership with the CICBD, InvestCayman worked to identify and tackle specific challenges for micro- and small businesses in 2022. These challenges included supporting local lending sources, venture capital and talent to help businesses grow.

- InvestCayman provided information about the Cayman Islands as a jurisdiction through its website, social media channels and monthly newsletters.

80. MIISD's 2022–2023 Budget Statements included some output targets for InvestCayman. The Government spent about \$1.2 million on InvestCayman from 2021 to 2022, and discontinued the department in 2023.

Recommendation 3: To meet the Government's stated policy objectives, each ministry should identify and assess options for economic diversification. These should be developed into practical recommendations.

RISKS TO AND CHALLENGES FOR THE ECONOMY

81. Organisations will always face risks. Economic, technological, environmental and competitive factors introduce obstacles that organisations must manage and overcome. Risk management is the systematic process of identifying, assessing and mitigating threats or uncertainties affecting an organisation. It involves analysing the likelihood and impact of risks, developing strategies to minimise harm and monitoring the effectiveness of measures. One of the challenges organisations face is identifying their risks accurately. Therefore, it is crucial to pinpoint unexpected events or conditions that could significantly impede an organisation's business strategy.³⁶ This chapter explores the Government's approach to risks to and challenges for the economy, including planning for economic shocks.

THE CAYMAN ISLANDS' ECONOMY HAS BEEN ADVERSELY AFFECTED BY TWO GLOBAL ECONOMIC SHOCKS IN THE LAST TWO DECADES

82. The Cayman Islands, similarly to the rest of the world, was adversely affected by two economic shocks in the last two decades.
- The Great Recession lasted from December 2007 to June 2009, making it the most prolonged economic downturn since the Second World War. The recession originated from the collapse of the housing market in the United States, triggering a chain reaction that affected financial institutions globally.³⁷ Like many other economies globally, the Cayman Islands' economy was adversely affected during this period.
 - In March 2020, the World Health Organization officially declared the COVID-19 outbreak a pandemic. According to the World Bank, the pandemic triggered the largest global economic crisis in more than a century.³⁸ The first COVID-19 cases in the Cayman Islands were identified in early March 2020, and the Government took several actions to suppress and control its spread. For example, it closed the borders to all airlines and cruise ships in March 2020 and did not reopen the borders until November 2021 for airlines and January 2022 for cruise ships.³⁹

³⁶ *What is Risk Management & Why is it Important*, Harvard Business School Online, (<https://online.hbs.edu/blog/post/risk-management>, accessed 24 March 2024).

³⁷ *Financial crisis of 2007–08*, Duignan, B., Britannica Money (<https://www.britannica.com/money/topic/financial-crisis-of-2007-2008>, accessed 28 January 2024).

³⁸ Chapter 1 – The economic impacts of the pandemic and emerging risks to the recovery, *World Development Report 2022*, World Bank, 2022.

³⁹ *The impact of the COVID-19 pandemic on Government finances: Update to March 2022*, Office of the Auditor General, May 2022.

83. Our analysis of a range of economic indicators shows that the Great Recession had a significant negative impact on the Cayman Islands' economy. Exhibit 12 shows selected Cayman Islands economic indicators between 2006 and 2011. We have included years before and after the recession for comparison.

Exhibit 12: Selected Cayman Islands economic indicators and government financial indicators, 2006 to 2011

Metric	2006	2007	2008	2009	2010	2011
			Great Recession			
Economic indicator						
GDP growth (%)	4.6	4.3	(0.4)	(6.9)	(3.4)	1.1
Financial services' GDP contribution (CI\$ millions)	1,397	1,488	1,439	1,236	1,194	1,201
Total unemployment rate (%)	2.6	3.8	4.0	6.0	6.2	6.3
Number of unemployed Caymanians	682	1,029	1,169	1,680	1,713	1,732
Construction and real estate: value of project approvals (CI\$ millions)	639	505	509	434	331	252
Construction and real estate: value of property transfers (CI\$ millions)	685	551	634	417	316	658
Tourism: total number of visitor arrivals (stay-overs and cruise) (000s)	2,197	2,007	1,856	1,792	1,861	1,711
Government finances						
Annual surplus/(deficit) for the period (CI\$ millions)	–	–	–	(68)	(26)	23
Core Government borrowing at period end (CI\$ millions)	–	–	–	417	497	625
Entire public sector borrowing at period end (CI\$ millions)	–	–	–	577	656	793

Source: OAG analysis of data from the Cayman Islands 2011 Annual Economic Report, the Cayman Islands GDP by Industrial Origin 2006–2021 report, and consolidated entire public sector (EPS) financial statements.

Notes: Figures in brackets are negative numbers, that is, a reduction or loss. The financial period covered 1 July to 30 June. EPS financial statements for 2006 to 2008 were not audited.

84. Exhibit 12 shows that the recession had a significant impact on the economy:

- Annual GDP growth fell significantly between 2008 and 2010.
- The total unemployment rate increased from 2.6 per cent in 2006 to 6.3 per cent in 2011. Within this total, the number of unemployed Caymanians increased from 682 in 2006 to 1,732 in 2011; an increase of 154 per cent.
- The financial services and construction and real estate sectors were affected, although the impact varied by sector. The financial services sector's contribution to GDP reduced in 2009

and 2010. The value of project approvals reduced by 50 per cent between 2008 and 2011. The value of property transactions reduced by 50 per cent between 2008 and 2010.

- Government finances were significantly affected. The Government incurred a deficit in 2009 and 2010 but reported a surplus in 2011. In addition, government borrowing increased by 50 per cent between 2009 and 2011, increasing from around \$420 million in 2009 to \$625 million in 2011.

85. The exhibit shows that the economy started to recover in 2011. In 2011, GDP growth was 1.1 per cent and the value of property transactions also started to increase. However, other parts of the economy took longer to recover. In particular, the unemployment rate and number of unemployed Caymanians continued to increase in 2011. Government finances started to recover in 2011, but the Government had significant debt that needed to be repaid.

THE COVID-19 PANDEMIC AFFECTED THE ECONOMY BUT IT HAS RECOVERED WELL

86. We reported earlier that the Cayman Islands' economy contracted by 5 per cent in 2020 because of the pandemic, but bounced back in 2021 and 2022. However, the four main sectors performed differently during the pandemic. Exhibit 13 shows the change in each of the four main sector's contribution to GDP between 2019 and 2022.

Exhibit 13: Change in GDP contribution by sector, 2019 to 2022

Sector	Percentage change in GDP contribution		
	From 2019 to 2020	From 2020 to 2021	From 2021 to 2022
Financial services	1.3	3.1	2.9
Business activities and administration	4.1	4.9	2.0
Tourism	(46.8)	(11.4)	50.3
Construction and real estate	(1.5)	2.9	1.5
Overall Cayman Islands GDP growth in real terms	(5.0)	4.9	5.2

Source: OAG analysis of data from the ESO's 2022 GDP report.

Note: Figures in brackets are negative changes, that is, a reduction.

87. The exhibit also shows that two sectors continued to grow throughout the pandemic, while two were negatively affected, as follows:

- The financial services sector, the biggest contributor to GDP, continued to grow throughout the period. It grew by 1.3 per cent in 2020 and 3.1 per cent in 2021.

- The business activities and administration sector grew by 4.1 per cent in 2020 and 4.9 per cent in 2021.
- The construction and real estate sector declined by 1.5 per cent in 2020 but grew by 2.9 per cent in 2021.
- Tourism was the sector most affected by the pandemic, largely because of the border closures. For example, from 2019 to 2020, the tourism sector's contribution to GDP declined by 46.8 per cent. Its contribution decreased by a further 11.4 per cent between 2020 and 2021. However, the tourism sector rebounded strongly after the Government lifted the air and cruise travel restrictions, growing by 50.3 per cent between 2021 and 2022. As reported earlier, the tourism sector continues to recover.

88. We reported in May 2022 that the financial impact of the pandemic on the Government's finances between March 2020 and March 2022 was at least \$333 million.⁴⁰ The Government incurred additional costs of almost \$201 million in responding to and minimising the impact of the pandemic. It also went without around \$131 million in revenues over the two years. The consolidated financial statements for the entire public sector show that these additional costs and reduced revenues caused the Government to incur deficits of \$124 million and \$49 million in 2020 and 2021, respectively. However, the Government's finances bounced back in 2022, with it reporting a surplus of \$71 million. The Government repaid \$261 million of its bullet bond in 2019, which would have helped ease pressure on its finances.⁴¹

THE GOVERNMENT IS REVISING ITS RISK MANAGEMENT PROCESS

89. In November 2011, the Cayman Islands and United Kingdom Governments signed the Framework for Fiscal Responsibility (FFR). The framework's purpose was to enable the Cayman Islands Government to restore prudent fiscal management after the Great Recession by controlling government expenditure, limiting new borrowings and realigning its revenue base. Parliament, then known as the Legislative Assembly, passed the framework into law in November 2012 as an amendment to the *Public Management and Finance Act* (PMFA). Section 14A of the PMFA requires the Government to comply with the principles outlined in the FFR to ensure effective medium-term planning, obtain value for money, effectively manage risk and deliver improved accountability.

⁴⁰ *The impact of the COVID-19 pandemic on Government finances: Update to March 2022*, Office of the Auditor General, May 2022.

⁴¹ A bullet bond is debt where the entire principal is paid in one lump sum on its maturity date rather than paid off over its lifetime.

THE GOVERNMENT HAS NOT FULLY IMPLEMENTED THE RISK MANAGEMENT FRAMEWORK IT DEVELOPED IN 2019

90. In March 2019, MFED launched a risk management framework for the Government. The framework aims to explain risk management methods for mitigating risks that government entities face when pursuing their objectives. The framework's purpose was to:

- standardise risk assessment methodologies and integrate various concepts into a single framework to accomplish a government-wide understanding of the subject;
- provide each risk unit and ministry with the tools to implement a robust risk environment for daily operations;
- enable risk-based decision-making at all levels of the Government; and
- ensure that risk information is available through a strong reporting and governance system when required or requested.

91. The Government did not fully implement the framework. Ministries, portfolios and offices have started to develop risk registers that focus on operational and project-related concerns at the ministry level. However, these are not used consistently across the Government.

92. In February 2024, the Office of the Deputy Governor appointed a Chief Risk Officer (CRO), transferring responsibility for its risk management framework from MFED to the CRO. The CRO is working to streamline a new framework for consistent adoption across the civil service in 2025. In addition, the Government has established new processes for an enterprise-wide quarterly internal risk assessment and an annual external risk assessment. The Government has formed a senior leadership risk committee, comprising chief officers, to provide ongoing oversight of the risks.

93. The external risk assessment process involves lead ministries defining possible worst-case scenarios, engaging with relevant stakeholders, and assessing impact and likelihood using a consistent framework. This process also considers measures to prevent, mitigate or respond to identified risks. The external risk assessment is designed to enable planning for common consequences across various risks, including major economic impact. The Government's draft external risk assessment identifies a major economic downturn as a risk.

THE GOVERNMENT HAS YET TO DEVELOP OR FINALISE PLANS TO MANAGE SOME RISKS TO AND CHALLENGES FOR THE ECONOMY

94. According to the IMF, the likelihood of a recession has reduced and risks to global growth are broadly balanced. On the positive side, faster disinflation could further ease financial conditions. However, new commodity price spikes from geopolitical shocks – including continued attacks in the Red Sea – and supply disruptions or more persistent underlying inflation could prolong tight monetary conditions. In January 2024, the IMF called for a renewed focus on fiscal consolidation to

rebuild budgetary capacity to deal with future shocks, raise revenue for new spending priorities and curb the rise of public debt.⁴²

95. As highlighted in the **Economic performance** chapter, the Cayman Islands' economy has remained strong in the face of global macroeconomic challenges such as interest rate increases, inflation and disruption to supply chains. In addition, in a June 2023 report, Moody's, an international credit rating agency, maintained the Cayman Islands Government's Aa3 bond issuer rating, Aaa country ceiling rating and "stable" economic outlook. This rating is partly dependent on the Government's financial performance and continued compliance with the principles of responsible financial management.
96. However, the Government has not assessed the economic risks and challenges in the event of a global economic downturn or other unexpected shocks. We were told that the Government does not expect the economy to be significantly affected by a global economic downturn.
97. We have identified additional risks to and challenges for the economy. These include maintaining responsible financial management, reduced spending power because of the high cost of living, and population growth. We discuss each of these below.

THE GOVERNMENT IS EXPECTED TO DEMONSTRATE RESPONSIBLE FINANCIAL MANAGEMENT

98. Section 14 of the PMFA sets out six principles of responsible financial management that should inform the policies and decisions taken by the Government. The Government forecasts its compliance with five of the six principles in its SPS. The Government does not provide information on the sixth principle on financial risks in the SPS. Exhibit 14 shows the Government's forecasts against the principles from 2023 to 2026.
99. If the Government does not comply with the FFR, then it needs to prepare a plan to demonstrate how it will achieve compliance. This plan needs to be approved by the United Kingdom's Secretary of State. The FFR specifically states that failure to comply with borrowing limits or forecast failure to comply within the lifetime of the SPS is deemed a failure to comply with the FFR.

⁴² Disinflation relates to a decrease that remains in the positive; deflation is where the rate falls below zero. See *World Economic Outlook Update*, IMF (<https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024>, accessed 14 March 2024).

Exhibit 14: The five principles of responsible financial management and the Government's forecasts, 2023 to 2026

Principle	PMFA limit	Forecast			
		2023	2024	2025	2026
Operating surplus should be positive.	Positive	\$61.7 million	\$77.4 million	\$98.2 million	\$103.2 million
Net worth should be positive.	Positive	\$2.1 billion	\$2.1 billion	\$2.2 billion	\$2.3 billion
Debt servicing cost for the year should be no more than 10% of core Government revenue.	10%	9.9%	9.5%	8.2%	9.9%
Net debt should be no more than 80% of core Government revenue.	80%	2.8%	24.3%	36.8%	70.0%
Cash reserves should be no less than estimated executive expenses for 90 days.	90 days	172.7 days	117.6 days	101.0 days	90.1 days

Source: PMFA and the 2024–2026 SPS.

Note: Figures in bold indicate forecasts that are close to the limit.

100. Exhibit 14 shows that the Government forecasts that it will comply with the five principles between 2023 and 2026. However, the forecasts for debt servicing cost and cash reserves are very close to breaching the limits. In addition, net debt will be just 10 per cent lower than the limit. The significant increase in net debt between 2025 and 2026 is mainly attributed to the Government's financing arrangements for its planned construction of an integrated solid waste management facility, ReGen. In July 2024, the Government announced that it planned to start discussions to exit the agreement for ReGen. We previously reported on the Government's performance against the principles in May 2021.⁴³ In that report we noted that the Government's calculation of net worth did not take account of the post-retirement liability of \$2.3 billion. It is unclear if the Government could withstand the effects of a shock to the economy without breaching the requirements of the principles of responsible financial management.

101. In December 2023, after the publication of the 2024–2026 SPS, the Government announced plans to borrow an additional \$150 million. MFED issued a Request for Proposal for the loan facility on the Government's procurement website, Bonfire. This planned borrowing is not included in Exhibit 14.

⁴³ *Improving Financial Accountability and Transparency: Financial Management and Reporting*, Office of the Auditor General, May 2021.

We are conducting a separate performance audit of the Government's long-term financial sustainability.

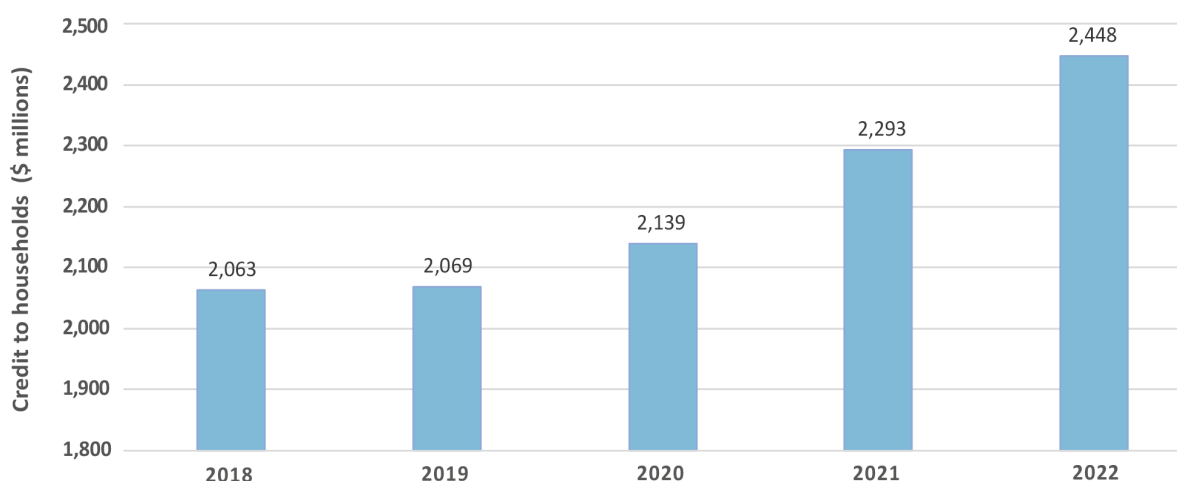
THE HIGH COST OF LIVING REDUCES SPENDING POWER

102. As reported in the **Economic performance** chapter, the Cayman Islands economy is performing well, but the cost of living is high. The inflation rate and weighted average interest rate increased between 2018 and 2022. In addition, the minimum wage has not increased for more than eight years. Together, these factors reduce people's spending power, which is a risk to the economy.
103. The risks associated with rising inflation are multifaceted, posing challenges to specific segments of the population, particularly people relying on a fixed income, such as pensioners.⁴⁴ Exhibit 7 in the **Economic performance** chapter shows that inflation has been rising since 2020, and was 9.5 per cent as at December 2022. However, inflation significantly reduced to 3.8 per cent in 2023. The Government has limited control over inflation and the interest rate. Most goods are imported, with prices dictated by overseas suppliers and shippers. However, the Government can assess the impact of rising inflation on the economy but has not done so. The Government implemented some programmes to help residents cope with rising prices. For example, the Government launched the Electricity Assistance Programme in July 2022, which was in place until December 2022. Under the programme, residential customers with a monthly energy consumption of between 101 and 2,000 kilowatt hours had part of their electricity bills paid by the Government. The programme benefited more than 22,000 households across the Cayman Islands and cost the Government almost \$8 million.
104. In the Cayman Islands, the absence of a dedicated interest rate-setting body means that commercial banks rely on the United States Prime Rate to set their lending rates. The Prime Rate is tied to the Federal Funds Target Rate set by the United States Federal Reserve. Exhibit 8 in the **Economic performance** chapter shows that the weighted average interest rate was lowest in 2020 and 2021, during the COVID-19 pandemic. Since then, the rate has increased and was 9.8 per cent as at June 2023.
105. The Government has no control over the interest rate. However, it is unclear if it has considered the economic risks from rising interest rates and developed contingency plans to manage this. Increased interest rates pose a risk to residents, banks and the Government. For example, higher payments will put pressure on household budgets, commercial banks face the risk of more property defaults, and a slowdown in the property market would reduce government revenue.

⁴⁴ *Inflation: Prices on the Rise*, IMF (<https://www.imf.org/en/Publications/fandd/issues/Series/Back-to-Basics/Inflation>), accessed 16 March 2024).

106. Our analysis shows that, as at December 2022, households in the Cayman Islands had debt of around \$2.4 billion. Exhibit 15 shows that household debt increased annually between 2018 and 2022, increasing by around 19 per cent from \$2 billion to \$2.4 billion. Credit to households was 52 per cent of GDP in 2022. This rate is less than that of advanced economies such as the United States (74 per cent) and the United Kingdom (83 per cent).⁴⁵ We could not find comparable data for countries in the Caribbean. However, the increased level of debt together with high interest rates means that people are paying more for mortgages and debt repayments.

Exhibit 15: Household debt, 2018 to 2022



Source: OAG analysis of data from the ESO's 2022 Annual Economic Report.

107. Our analysis shows that for a person earning an average salary and with a \$300,000 mortgage, monthly repayments would have increased by 28 per cent between 2018 and 2022, from \$2,114 to \$2,699 a month. This means that a person earning an average salary would have around \$7,000 less annual spending power, some of which would have been spent locally, contributing to the economy. Repayments on a \$300,000 mortgage at 9 per cent would account for 65 per cent of an average salary. Exhibit 16 shows the estimated impact of the increase in the interest rate from December 2020 to June 2023 for people earning an average salary.

⁴⁵ *Household Debt, Loans and Debt Securities*, IMF (https://www.imf.org/external/datamapper/HH_LS@GDD/CAN/GBR/USA/DEU/ITA/FRA/JPN/VNM, accessed 14 March 2024).

Exhibit 16: The estimated impact of the increase in the interest rate from December 2020 to June 2023 for a person earning an average salary

	Interest rate of 5.8%	Interest rate of 9.0%	Monthly change in repayment	Annual change in repayment	Percentage change in repayment
Average salary (\$)	49,611	49,611			
Monthly salary (KYD)	4,134	4,134			
Monthly repayment assuming:					
(a) \$100,000 borrowed	\$705	\$900	\$195	\$2,340	28
Percentage of income	17	22			
(b) \$200,000 borrowed	\$1,410	\$1,799	\$389	\$4,668	28
Percentage of income	34	44			
(c) \$300,000 borrowed	\$2,114	\$2,699	\$585	\$7,020	28
Percentage of income	51	65			

Source: OAG analysis based on estimates using the following data and assumptions: the average salary as reported in the Cayman Islands' 2021 Census of Population and Housing Report.

Note: The monthly repayments assume a 20-year repayment period.

108. The Government has consistently included in each of its SPSs since 2018 a specific outcome to ensure that the minimum wage keeps pace with inflation and maintains living standards. In May 2024, we reported that the national basic minimum wage had not been revised for almost eight years.⁴⁶ As at December 2023, the gap between the national basic minimum wage and where it would have been if it had kept pace with inflation was 32 per cent.

109. In October 2022, the Government appointed a Minimum Wage Advisory Committee (MWAC) to review the minimum wage and advise if the Government should amend it. In its October 2023 report, the MWAC recommended increasing the national minimum wage to \$8.75 an hour, a 46 per cent increase.⁴⁷ The Government has yet to implement the MWAC's recommendations.

110. The Global Living Wage Coalition defines a living wage as the remuneration received for a standard workweek by a worker in a particular location that is sufficient for the worker and their family to

⁴⁶ *Improving employment prospects for Caymanians*, Office of the Auditor General, May 2024.

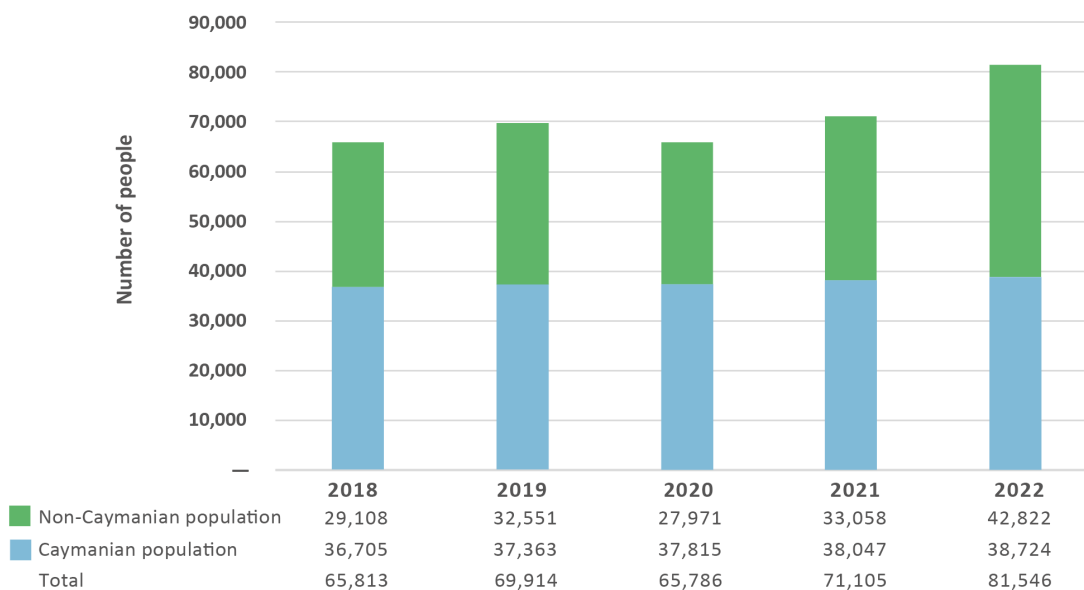
⁴⁷ *Minimum Wage Regime in the Cayman Islands*, Minimum Wage Advisory Committee, October 2023.

afford a decent standard of living. The coalition states that elements of a decent standard of living include food, water, housing, education, healthcare, transport, clothing and other essential needs, including provision for unexpected events.⁴⁸ The living wage is usually higher than the minimum wage. The MWAC’s report states that the living wage would range from \$10.38 to \$16.95 an hour, almost double to triple the current minimum wage.

POPULATION GROWTH AND CHANGING DEMOGRAPHICS MAY PUT PRESSURE ON THE ECONOMY IF NOT MANAGED EFFECTIVELY

111. Between 2018 and 2022, there was a very high correlation between GDP growth and population growth, particularly growth in the non-Caymanian population. During this period, GDP grew by about 9 per cent and the population increased by 24 per cent, from just below 66,000 people to almost 82,000 people. Exhibit 17 shows the increase in the Caymanian and non-Caymanian populations between 2018 and 2022. Over the five-year period, the Caymanian population increased by 5.5 per cent to almost 39,000 and the non-Caymanian population increased by 47 per cent to 43,000.

Exhibit 17: Growth in the Caymanian and non-Caymanian populations, 2018 to 2022



Source: OAG analysis of data from the ESO’s 2022 Annual Economic Report.

⁴⁸ According to its website, the Global Living Wage Coalition is a unique knowledge–action partnership working to enable collaborative action to achieve a decent standard of living for working people and their families worldwide.

112. As stated in the **Strategic direction** chapter, the Government does not have an overarching strategy for economic development. The Government needs to consider population growth, demography and expectations when planning for the future, including assessing the impact these will have on other factors that make up sustainable economic development. These factors include:

- infrastructure, including the road network, traffic congestion and internet connectivity;
- the availability of places in public and private schools;
- demand for housing and housing affordability;
- capacity of healthcare providers to cope with the increasing population; and
- environmental issues.

We explore each of these factors in the following sections.

THE PUBLIC TRANSPORT SYSTEM IS INADEQUATE

113. The Cayman Islands has a very limited public transport system. As at January 2023, minibuses serviced nine routes connecting some districts of Grand Cayman. Therefore, most residents use private motor vehicles for transport. Between 2018 and 2022, the number of licensed vehicles increased by 27 per cent, from 36,000 to 46,000. According to the ESO's *Cayman Islands' 2021 Census Report*, the average number of vehicles per household in 2021 was 1.7. We could not find data from earlier years for comparison.

114. The increase in the number of vehicles may contribute to the need for more expenditure on building and maintaining roads. The National Roads Authority (NRA) administers, manages, controls, develops and maintains the Cayman Islands' public roads and related facilities such as signals, stormwater facilities, road lighting and road signage. The Government, through the NRA, spent about \$120 million building and maintaining public roads between 2018 and 2022.⁴⁹ The funding almost doubled over the period, from \$15.3 million in 2018 to \$30.1 million in 2022.

115. To alleviate traffic congestion in the eastern districts, the Government plans to build a new road, the East–West Arterial Extension. According to the Government, the 10-mile extension is intended to create a resilient transport network, offering an alternative route between the North Side, East End, and George Town and West Bay. The estimated cost of the project is unclear. In April 2024, the NRA forecast that traffic volume at the Grand Harbour roundabout, the only route for commuters from the east, would increase by 57 per cent, that is, by around 28,000 cars a day, by 2036.⁵⁰

⁴⁹ Based on NRA's financial statements for 2018 to 2022.

⁵⁰ *CUC Roundabout to Tomlinson Roundabout Corridor Multimodal Improvement Plan*, National Roads Authority, April 2024.

116. In September 2022, the then Ministry of Tourism and Transport commissioned consultancy firm Deloitte to develop a plan for a sustainable public transport system that meets residents' and visitors' needs. The estimated cost of this work was about \$200,000. The Government transferred responsibility for transport to MPAHITD in March 2023. Deloitte finalised the report in May 2023, and the Government published it in November 2023. It is unclear what progress the Government has made since then, other than commissioning help from the Government of the United Kingdom to advise on public transport.

THE GOVERNMENT PLANS TO PROCURE A NEW SUBSEA DATA CABLE TO IMPROVE CONNECTIVITY

117. According to the 2021 census, 91 per cent of households have internet access, a notable increase from 65 per cent in 2010.⁵¹ The Government plans to acquire a third subsea data cable. The Cabinet approved the Outline Business Case (OBC) for a third subsea data cable and approved the preparation of a Final Business Case in February 2023. The OBC states that "International connectivity is also a fundamental component of the Government's strategy to focus and strengthen the digital economy, and to build a technology sector that supports the global technology ecosystem". It also states that the former two cables are ageing and the Government has no control over the future of these.

118. In November 2023, MPAHITD awarded a contract valued at \$1.4 million to Cambridge Management Consulting Limited for advisory and project management services in procuring a third subsea data cable. In April 2024, MPAHITD awarded the contract for legal support in procuring a third subsea data cable to Fieldfisher LLP, which will provide legal services on an "as needed" basis. However, the project's full estimated cost is unclear. The Government allocated \$30 million for the project in the *Appropriations (Financial Years 2022 and 2023) Act, 2021*. However, only \$393,000 had been used as at 31 December 2023. The 2024–2025 Budget Statements do not allocate any funds for the project.

THE GOVERNMENT DOES NOT FORECAST PLACES NEEDED IN PUBLIC AND PRIVATE SCHOOLS

119. The total population increased by 24 per cent from 2018 to 2022, which is likely to increase the demand for places in schools. However, the Government does not forecast the capacity needed in public and private schools at different population levels. Without these forecasts, the Government cannot effectively plan for the necessary staff and education infrastructure. In 2019, we recommended that the Ministry of Education include private school student numbers in its student

⁵¹ *The Cayman Islands' 2021 Census of Population and Housing Report*, ESO, July 2022 and *The Cayman Islands' 2010 Census of Population and Housing Report*, ESO, November 2011.

projection planning and that projection planning be used to inform other medium- to long-term plans.⁵²

THERE IS A LACK OF AFFORDABLE HOUSING

120. The Government has committed to improving affordable housing in each of its SPSs from 2018 to 2023. The 2024–2026 SPS articulated the Government’s commitment to launch the Affordable Housing Initiative in all districts. The United States Department of Housing and Urban Development defines affordability as housing costs, including utilities, that cost the occupant no more than 30 per cent of their gross income.⁵³

121. The cost of owning a home in the Cayman Islands is high. As at November 2023, the price of a one-bedroom property in Grand Cayman ranged between \$258,000 and \$1.9 million. A two-bedroom property in Grand Cayman costs between \$205,000 and \$2.5 million, and between \$295,000 and \$349,000 in Cayman Brac.⁵⁴ We reported earlier that the repayments on a \$300,000 mortgage at 9 per cent would account for 65 per cent of the average salary. This means that home ownership may be unaffordable for many people.

122. In April 2022, the Cabinet approved the creation of an inter-ministerial taskforce to “access and address the housing crisis in the Cayman Islands”. In October 2023, the Cabinet received and approved the taskforce’s report, agreeing to implement its 27 recommendations. We are currently carrying out a separate performance audit on affordable housing.

THE GOVERNMENT HAS NOT ASSESSED THE HEALTHCARE SYSTEM’S CAPACITY TO COPE WITH THE INCREASED POPULATION

123. In 2017, we provided an overview of the Cayman Islands’ population and demographics.⁵⁵ We reported that the health needs of the population were unique because of the mix of Caymanians and non-Caymanians. Caymanians who use the healthcare system the most are the young and elderly. We reported that the rates of heart conditions, cancer and long-term conditions such as diabetes and asthma were higher in the Caymanian population than in the non-Caymanian population.

⁵² *School Education*, Office of the Auditor General Cayman Islands, October 2019.

⁵³ *Glossary of Terms to Affordable Housing*, United States Department of Housing and Urban Development (<https://archives.hud.gov/local/nv/goodstories/2006-04-06glos.cfm>, accessed 19 March 2024).

⁵⁴ OAG analysis of data from the eCayTrade website (<https://ecaytrade.com/>, accessed 23 November 2023).

⁵⁵ *Cayman Islands Health System*, Office of the Auditor General, January 2017.

124. In our report *Ensuring Quality Health Care and a Healthy Population* we recommended that the Government update the National Health Policy Plan, which was due to expire at the end of 2017. In the second half of 2017, the Ministry of Health committed to addressing this recommendation, and in June 2018 the ministry revised the target completion date to December 2018. We repeated this recommendation in 2021.⁵⁶ In April 2024, the ministry launched its consultation for a new national health strategy.

MORE EFFORT IS NEEDED ON THE ENVIRONMENT TO ENCOURAGE SUSTAINABLE DEVELOPMENT

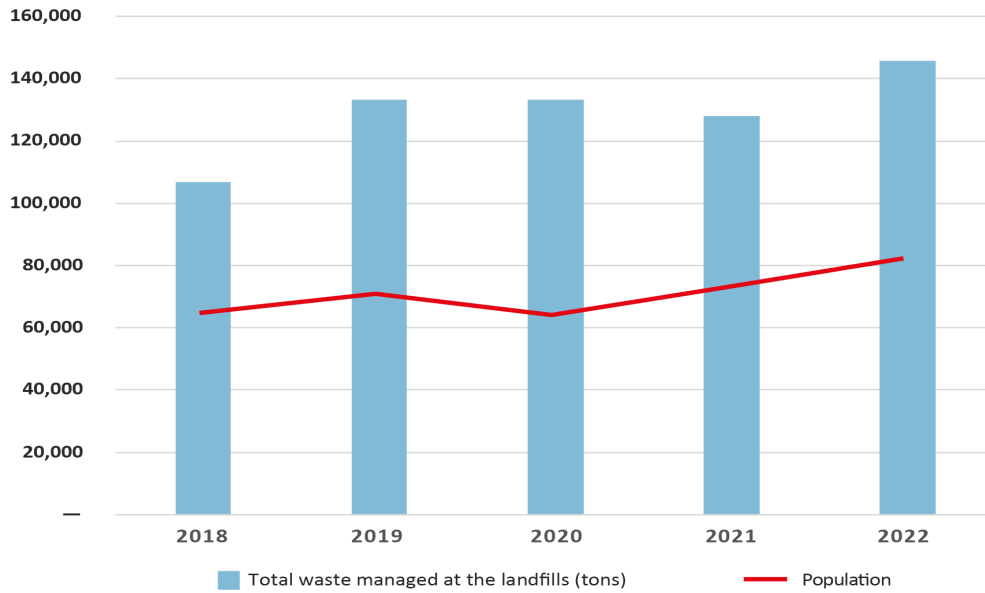
125. In March 2023, we reported that the Cayman Islands' performance against eight UN Sustainable Development Goals and 47 targets that relate directly to the environment was mixed.⁵⁷ We reported that only four of the 47 targets had been met and the Cayman Islands was on track to meet two. There were no data to measure 16 of the targets.

126. A growth in population will increase the amount of waste generated. Our analysis shows that there is a high correlation (0.72) between population numbers and waste tonnage managed at landfill sites. Exhibit 18 shows the relationship between the population and waste between 2018 and 2022. Successive Governments have been working towards an integrated waste management system (known as ReGen) and signed a Project Agreement in March 2021. The Government started to renegotiate the contract in December 2021. In May 2024, the Government decided to end the negotiations and begin discussions to terminate the Project Agreement.

⁵⁶ *HSA Outpatient Pharmacy Services*, Office of the Auditor General, November 2021.

⁵⁷ *Overview of the Cayman Islands' performance against the Sustainable Development Goals focused on the environment*, Office of the Auditor General, March 2023.

Exhibit 18: Population and waste tonnage at landfill sites, 2018 to 2022



Source: OAG analysis of ESO data.

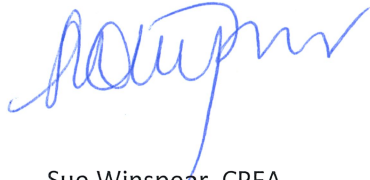
Recommendation 4: The Government should regularly assess the risks to and challenges for the economy and recommend appropriate measures to mitigate their impact as soon as possible.

CONCLUSION

127. The Cayman Islands economy is performing well and has done so consistently over the five years 2018 to 2022. However, some economic indicators were affected by the COVID-19 pandemic. The economy has also performed well when compared to the economies of the United States, Bermuda, the Bahamas, advanced economies and the Caribbean region. However, inflation and interest rates in the Cayman Islands are high, contributing to a high cost of living.
128. My report focuses on the four largest sectors of the economy, financial services, business activities and administration, tourism, and construction and real estate. Over the five years 2018 to 2022, the Government spent at least \$1.2 billion supporting three sectors. This figure excludes the business activities and administration because I could not find data on how much the Government spent on this sector. Over the same period, the four sectors contributed about 70 per cent of GDP annually, generating around \$2 billion in government revenues. Half of the workforce is employed in these four sectors, including around 10,000 Caymanians on average each year. I comment on the key highlights for each of these sectors below.
129. The financial services sector is the largest contributor to the economy. It contributed over \$7 billion to GDP and over \$1.5 billion to government revenues between 2018 and 2022. The Government spent about \$326 million developing the sector over this period. The sector employed, on average, around 4,000 people a year (9 per cent of the total workforce), of which two-thirds are Caymanian.
130. The business activities and administration sector is linked to the financial services sector but reported separately. It is the second highest contributor to GDP (\$3.6 billion over five years) and employs on average 4,400 people a year (9.5 per cent of the workforce). Just under half of these workers are Caymanian.
131. The construction and real estate sector is the largest employer. It employs, on average, 6,600 people a year (around 14 per cent of the workforce); about two-fifths are Caymanian. The sector is the third highest contributor to GDP (\$2.8 billion over five years). The sector contributed over \$408 million in government revenues.
132. The tourism sector was most affected by the COVID-19 pandemic and is recovering well. The Government spends most on this sector. Between 2018 and 2022, the Government spent about \$832 million supporting the tourism sector. Around \$641 million of this was expenditure the Government incurred in developing the sector. The Government spent an additional \$106 million supporting the sector during and after the pandemic. The tourism sector generated around \$149 million in government revenues over the period. The Government does not measure or report the economic contribution from the tourism sector separately. However, considering the economic contribution from tourism-related sectors such as transport, and hotels and restaurants, including

bars, it contributed over \$2 billion in terms of GDP over the five years. The tourism sector is the second biggest employer, averaging around 6,500 people a year (13.9 per cent of the total workforce); just over-two-fifths of these workers are Caymanian.

133. Successive Governments highlighted economic growth as a priority in Strategic Policy Statements (SPSs) for the five-year period covered by my audit. However, there is no overarching economic development strategy. Without an overarching strategy, the approach to economic development is not joined-up, increasing the risk of conflicting strategies and activities and duplicated effort across the Government.
134. Responsibility for economic development is shared by different ministries. It is pleasing to note that the Ministry of Tourism and Ports, responsible for the tourism sector, and the Ministry of Financial Services and Commerce responsible for the financial services sector, had strategic plans. However, the Ministry of Planning, Agriculture, Housing, Infrastructure, Transport and Development has yet to develop a strategy for the construction industry. I am pleased to note that the new civil service strategic plan 2024–2026, launched in April 2024, requires ministries to develop strategic plans.
135. The Government also highlighted priorities for economic diversification in each SPS covered by my audit, but there is no strategy or plan that sets out how this will be achieved. However, there has been progress in some areas. It is pleasing to note the success of some of the Government's initiatives to diversify the economy, for example the establishment of the framework legislation for Special Economic Zones (SEZs).
136. There are several risks to and challenges for the economy but it is unclear how well the Government has identified, assessed or managed these risks and challenges. We identified some of the main risks to and challenges for the economy. These include economic shocks such as a global economic slowdown or a COVID-19 pandemic-level shock, maintaining responsible financial management, and reduced spending power because of the high cost of living. They also include other risks to economic development such as infrastructure, including the road network, transport and internet connectivity, environmental issues such as waste management, and demand for places in public and private schools, affordable housing and healthcare.
137. I am pleased to note that the Government appointed a Chief Risk Officer (CRO) in February 2024. The CRO is developing a new risk assessment framework for consistent adoption across the civil service in 2025. This will include quarterly internal risk assessments and an annual external risk assessment. The Government has formed a senior leadership risk committee, comprising chief officers, to provide ongoing oversight of the risks. These changes should help the Government monitor and manage risks more effectively.
138. I gratefully acknowledge the assistance and cooperation we received from the Government in all phases of the audit. Without their help, the audit could not have been completed.



Sue Winspear, CPFA
Auditor General
George Town, Grand Cayman
Cayman Islands

12th November 2024

APPENDIX 1 – ABOUT THE AUDIT

1. This appendix provides a summary of the audit’s objective, questions, criteria and approach.

OBJECTIVE

2. The objective of the audit was to assess the effectiveness of the Government’s approach to sustainable economic development. It sought to answer the following questions:
 - Does the Government have a clear and effective strategy for sustainable economic development?
 - How effective is the Government at developing and diversifying the economy?
 - How well does the Government plan for economic shocks?

CRITERIA

3. Audit criteria set out the expectations or standards against which an audit assesses observed performance to develop findings and make recommendations, as appropriate, and conclude on audit objectives. We developed the following nine audit criteria for the audit. These criteria are based on international good practice and the Cayman Islands’ legislation requirements:
 - 1) The Government has a clear and effective strategy for sustainable economic development.
 - 2) The Government’s strategy for economic development is aligned with international best practice.
 - 3) There is clear and effective ownership and oversight of the Government’s strategy for economic development.
 - 4) The Government has a good understanding of the key sectors and drivers of the economy.
 - 5) The Government had evidence-based plans for rebuilding the economy post COVID-19, and the plans have been effective.
 - 6) The Government effectively identifies and pursues opportunities to diversify the economy.
 - 7) There is effective collaboration across the Government to develop the economy.
 - 8) The Government effectively collaborates with external stakeholders to develop the economy.
 - 9) The Government effectively identifies and manages risks arising from economic development.
4. We shared the audit criteria with officials from the MFED, MFSC, MIISD, MPAHITD and MTP after the planning phase of the audit.

AUDIT SCOPE AND APPROACH

5. The audit covered the Government's strategic direction for sustainable economic development, including its effectiveness at diversifying the economy and planning for risks to and challenges for the economy from 2018 to 2022. We considered 2023 data and information where relevant to ensure that our findings are current. The audit did not cover the Government's expenditure during the COVID-19 pandemic, as this was covered by other OAG reports.⁵⁸ Nor did the audit cover lessons learned from the pandemic.
6. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions. This included:
 - Conducting interviews with key public and private sector individuals, including the Deputy Governor and, officials from MFED, MFSC, MIISD, MPAHITD, MTP, Cayman Islands Chamber of Commerce, Cayman Contractors Association, Cayman Islands Small Business Association, Cayman Islands Tourism Association and Cayman Finance.
 - Reviewing documents, including legislation, budget documents, financial reports and statements, strategic plans, financial metrics and key performance indicators.
 - Analysing and recalculating financial and performance information.
 - Comparing the strategies, processes and practices in use against good practice.
 - Analysing audit evidence and assessing it against agreed criteria to develop findings, conclusions and recommendations.
 - Reviewing media updates for any relevant information applicable to the audit.
 - Analysing data, statistics and reports about global and regional economies and the Cayman Islands' economy from the World Bank, IMF, the Cayman Islands ESO and other relevant entities.
 - Providing a draft report to officials at MFED, MFSC, MIISD, MPAHITD and MTP so they could review its factual accuracy and respond to the report's recommendations (see Appendix 2).
 - Presenting a final report about the audit to the Parliament.

AUDIT STAFF

⁵⁸ The two reports are the *Overview of the Government's costs in relation to COVID-19*, Office of the Auditor General, July 2020, and *The impact of the COVID-19 pandemic on Government finances: Update to March 2022*, Office of the Auditor General, May 2022.

7. The audit was carried out under the direction of Angela Cullen, Deputy Auditor General (Performance Audit), assisted by Adrian Murenzi, Audit Manager (Performance Audit), Desigan Thaver (Audit Project Leader) and Jason Lee (Audit Project Leader).

APPENDIX 2 – RECOMMENDATIONS

Recommendation	Management response	Responsibility	Date of planned implementation
1. The Ministry of Planning, Agriculture, Housing, Infrastructure, Transport and Development should develop a strategy for the construction sector. The strategy should set out the ministry's plans to finalise and regularly update a National Development Plan, and how the two documents align. The strategy should also align with international best practice and set out the construction sector's critical success factors and how the ministry plans to enable them.	MPAHITD confirms that the National Development Plan is being updated in line with the published framework, which includes 10 area plans covering the Cayman Islands. Once the Planning Statement is accepted in Parliament, it is envisaged that a minimum of 2 area plans will be reviewed and updated every 5 years, in line with the framework. A review of the organizational structure of the Planning Department is in its final stages. This includes the Building Control Unit. It is likely to include recommendations of reforming the Planning Department and outsourcing the functions currently being undertaken by the Building Control Unit.	Chief Officer for MPAHITD	Ongoing
2. The Ministry of Finance and Economic Development should work with the Ministry of Financial Services and Commerce, Ministry of Investment, Innovation and Social Development, Ministry of Planning, Agriculture, Housing, Infrastructure, Transport and Development and Ministry of Tourism and Ports to develop an overarching strategy for sustainable economic development. In doing so, it should	<u>Response from MFED:</u> As the report mentions on Page 31, paragraph 49, MFED's 2021–2025 strategic plan committed to presenting the Cabinet with a comprehensive proposal for an economic development plan within the plan period. Per its commitment and after consultations with the Caribbean Development Bank and other agencies, MFED presented a proposal for a comprehensive development plan to the Cabinet in August 2024. The Cabinet opted to defer a decision on the proposal and asked MFED to resubmit the proposal	Chief Officer for MFED	

Recommendation	Management response	Responsibility	Date of planned implementation
build on existing strategies and ensure all strategies align, avoid conflicting policies and activities, and clearly set out how priorities for sustainable economic development will be achieved.	at a later date. MFED will continue to liaise with the Cabinet on the best way forward with the development plan. The recommendation has been in process before the audit and remains ongoing. <u>Response from MoTP:</u> MoTP agrees with the recommendation and will support MFED on the recommendation. <u>Response from MIISD:</u> As it relates to Recommendation 2, MIISD remains committed to supporting MFED and the wider Civil Service in delivering sustainable economic development.	Chief Officer for MoTP Chief Officer for MIISD	
3. To meet the Government's stated policy objectives, each ministry should identify and assess options for economic diversification. These should be developed into practical recommendations.	Recommendation accepted and is on-going. <u>Response from MFSC:</u> Financial services diversification under the Virtual Asset Service Provider Act is already underway. Also, there is an increased focus on reinsurance to expand this sector. This should all be considered as diversification efforts. In addition, current strategy work is considering how to incorporate ESG principles into financial services products.	Chief Officer for MFSC	Ongoing

Recommendation	Management response	Responsibility	Date of planned implementation
	<u>Response from MoTP:</u> MoTP agrees with the recommendation and will take action accordingly. <u>Response from MIISD:</u> As it relates to Recommendation 3, MIISD agrees with this recommendation and will identify and assess options for economic diversification.	Chief Officer for MoTP Chief Officer for MIISD	
4. The Government should regularly assess the risks to and challenges for the economy and recommend appropriate measures to mitigate their impact as soon as possible.	Recommendation implemented and is on-going. <u>Response from Office of the Deputy Governor:</u> The external risk assessment, considering economic impacts across major events, is being established as an annual process. <u>Response from MFED:</u> When the economic development plan is resubmitted to Cabinet, it will include a risk assessment. <u>Response from MoTP:</u> MoTP agrees with the recommendation and will take guidance accordingly.	Deputy Governor Financial Secretary and CO of MFED Chief Officer for MoTP	Ongoing

APPENDIX 3 – THE GOVERNMENT’S PRIORITIES FOR ECONOMIC DEVELOPMENT, 2018 TO 2026

SPS period	SBO number and description	Specific outcomes and actions
2018–2019	SBO 1: A strong economy to help families and businesses.	• Develop and implement sector-based plans that support the diversification of the Caymanian economy. • Develop and implement area-based plans that support economic growth across Grand Cayman and the Sister Islands. • Improve the advice and support available to entrepreneurs wanting to start and grow small businesses. • Remove unnecessary regulation and bureaucracy from the small business sector. • Support the agricultural industry in implementing more modern practices that increase yields and improve quality, enhancing food security. • Ensure that the minimum wage keeps pace with inflation and maintains living standards. • Intervene, if necessary, to improve the competitiveness of markets, starting with fuel. • Complete a new National Development Plan.
2020–2021	SBO 1: A strong economy to help families and businesses.	• Develop and implement sector-based plans that support the diversification of the Caymanian economy. • Develop and implement area-based plans that support economic growth across Grand Cayman and the Sister Islands. • Improve the advice and support available to entrepreneurs wanting to start and grow small businesses. • Remove unnecessary regulation and bureaucracy that hinder businesses, particularly in the small business sector. • Support the agricultural industry to implement modern practices, which increase yields and improve quality, enhancing food security. • Ensure that the minimum wage keeps pace with inflation and maintains living standards. • Intervene, if necessary, to improve the competitiveness of markets, starting with fuel. • Continue the work that started under ‘PlanCayman’, which will create a new National Development Plan. • Increase the Cayman Island’s capability for positive engagement with overseas governments, investors and businesses through the establishment of a new Ministry of International Trade, Investments, Aviation, and Maritime Affairs. • Deliver a programme of infrastructure improvements that supports future economic growth.

SPS period	SBO number and description	Specific outcomes and actions
2022–2023	SBO 3: Providing solutions to improve the well-being of our people so they can achieve their full potential.	• Create a modern social infrastructure. ○ Create new industries and expand existing ones (e.g. film, agriculture).
	SBO 8: Building a modern infrastructure to ensure a successful future for our Islands.	• Plan tomorrow’s infrastructure today. ○ Provide for public education and consultation on national infrastructure development ○ Update and revise the National Development Plan. ○ Create a national infrastructure fund.
	SBO 9: Improving our financial services as an industry, product and economic driver for our Islands.	• Proactively engage the international and local communities. • Maintain our best-in-class reputation. • Promote greater Caymanian participation and new revenue streams.
	SBO 10: Improving our tourism industry as a product and economic driver.	• Develop a sustainable national tourism plan. • Expand and diversify our domestic tourism product. • Modernise our travel and transport infrastructure. • Encourage stronger Caymanian participation in the industry. • Enhance quality and service delivery standards.
2024–2026	BO 2: Enhance competitiveness while meeting international standards.	• Enhance the entrepreneurial environment for micro/small businesses in the Cayman Islands. • Improve our financial services as an industry, product and economic driver for our islands. • Improve our tourism, as an industry, product and economic driver for our islands. • Increase the positive sentiments and trust of the Cayman Islands as a global business jurisdiction. • Maintain a market/commercial leading edge in financial, maritime and aviation services. • Modernise business processes and enhance information technology platforms and infrastructure.
	BO 3: Future-proof to increase resiliency.	• Building a modern infrastructure to ensure a successful future for our Islands. • Enhance the entrepreneurial environment for micro/small businesses in the Cayman Islands. • Improve our tourism, as an industry, product and economic driver for our Islands. • Modernise business processes and enhance information technology platforms and infrastructure.

Source: The Government’s SPSs for 2018–2019, 2020–2021, 2022–2024 and 2024–2026.

APPENDIX 4 – ECONOMIC INFORMATION FOR FOUR SECTORS, 2018 TO 2022

	KYD (\$millions)						Average contribution (%)
	2018	2019	2020	2021	2022	Total	
Contribution to GDP							
Financial services	1,345	1,379	1,396	1,439	1,480	7,039	31
Business activities and administration	676	698	727	763	778	3,642	16
Construction and real estate	530	556	547	570	578	2,781	13
Tourism	498	525	334	314	411	2,082	9
GDP at constant purchasers' (2015) prices of the four sectors	3,049	3,158	3,005	3,086	3,247	15,545	69
GDP at constant purchasers' (2015) prices of all sectors	4,358	4,529	4,304	4,515	4,748	22,454	
Four sectors' GDP contribution (%)	70	70	70	68	68	69	
Real GDP growth (%)	4.3	3.9	(5.0)	4.9	5.2		
Contribution to Gross Output							
Financial services	2,666	2,763	2,794	2,860	3,142	14,225	34
Business activities and administration	821	872	933	1,033	1,115	4,774	12
Construction and real estate	1,234	1,392	1,434	1,593	1,771	7,423	18
Tourism	794	859	529	428	715	3,325	8
Total Gross Output at current basic prices of the four sectors	5,514	5,885	5,690	5,915	6,742	29,746	72
Gross Output at current basic prices of all sectors	7,642	8,170	7,861	8,323	9,469	41,466	
Four sectors' Gross Output contribution (%)	72	72	72	71	71		
Core Government revenue							
Financial services Comprising company registration fees, private fund fees, mutual fund fees, bank and trust license fees and proceeds of liquidated entities	258.4	256.7	282.8	360.6	352.2	1,510.8	36
Business activities and administration	Data not available						
Tourism Comprising tourist accommodation charges and cruise and environment taxes	50.6	54.3	15.6	1.3	27.3	149.2	4

	KYD (\$millions)						Average contribution (%)
	2018	2019	2020	2021	2022	Total	
Construction and real estate <i>Comprising stamp duty on land and property transfers</i>	80.7	64.5	65.6	104.9	92.1	407.8	10
Government revenue generated by the four sectors	389.7	375.6	364.0	466.8	471.6	2,067.9	49
Revenue from other sectors							
Import duties	181.1	193.1	173.4	206.0	226.2	979.8	
Work permits and other immigration fees	88.2	100.4	87.2	108.3	120.7	504.9	
Other fees	121.9	126.0	117.3	136.4	158.3	656.0	
Total core government revenue	781.1	795.1	741.9	917.6	976.8	4,212.5	
Percentage of core government revenue generated by four sectors	50	47	49	51	48	49	
Estimated total Government expenditure in developing the sector							
Financial services	53	57	64	72	80	326	
Business activities and administration	Unknown						
Construction and real estate	30	33	33	16	12	124	
Tourism	143	146	109	101	142	641	
Other expenditure	10	15	6	21	33	85	
Total	236	251	212	210	267	1,176	
People							
Workforce							Average
Financial services	4,400	3,502	3,659	3,654	4,690		3,981
<i>Caymanians</i>	3,191	2,373	2,496	2,423	2,882		2,673
<i>Caymanians (%)</i>							67
Business activities and administration	3,523	4,715	3,706	4,667	5,332		4,389
<i>Caymanians</i>	1,561	2,173	1,949	2,361	2,195		2,048
<i>Caymanians (%)</i>							47
Construction and real estate	5,721	6,073	5,966	7,028	8,144		6,587
<i>Caymanians</i>	2,308	2,401	2,377	2,586	2,899		2,514
<i>Caymanians (%)</i>							38
Tourism	6,807	7,823	5,268	5,603	6,739		6,448
<i>Caymanians</i>	3,395	2,916	2,519	2,288	2,782		2,780
<i>Caymanians (%)</i>							43
Total workforce for the four sectors	20,451	22,113	18,599	20,952	24,905		21,404
Total Cayman Islands workforce	44,887	47,394	41,644	44,441	52,764		46,226
Percentage of the total workforce employed in the four sectors	46	47	45	47	48		46

Source: OAG analysis of labour force data from the ESO and entire public sector (EPS) financial statements from 2018 to 2022. The 2021 and 2022 financial statements are unaudited.

Note: Figures in brackets are negative values.

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