



STATEMENT BY
GOVERNOR, EASTERN CARIBBEAN CENTRAL BANK
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Launch of FinTech Project Media Conference

ECCB Headquarters, St Kitts and Nevis with Videoconference Connections to
ECCB Member Countries

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Introduction

I wish to commence this media conference by welcoming all members of the media assembled both physically and virtually. I also welcome Rawdon Adams, the CEO of Bitt Inc, ECCB's partner for this fintech pilot.

I recognise and thank all my ECCB colleagues for their hard work and support which brought us to this day.

Today, we propose to furnish you with some details on this historic undertaking – the launch of our pilot for the issuance of a digital EC dollar (DXCD).

At this juncture in the history of development of the Eastern Caribbean Currency Union (ECCU), we must, in the words of Bob Black, American author, “**march off the edge of our maps**”.

Our Motivation

Some of you may be wondering, what precisely, is the motivation of the Eastern Caribbean Central Bank (ECCB) in making this bold move? Simply put, it is shared prosperity for the citizens and residents of the Eastern Caribbean Currency Union.

In our Strategic Plan 2017-2021, we made the case for socio-economic transformation and issued a clarion call for collective action to transform the ECCU together. I have said it before and I reiterate it today, such transformation is not possible without digital disruption. I therefore urge us to avoid a “failure of imagination” as we craft the way forward.



We must never forget that all the technologies that we now take for granted, including our smartphones were once mere ideas. Indeed, as William Blake, visionary British poet pointedly reminds us **“what is now proved was once only imagined”**.

For our region to improve our development prospects and performance, we must expedite our digital transition. To this end, regulators and innovators must work together. This pilot exemplifies such collaboration.

Bitt first approached the ECCB about two years ago with the idea of a digital EC dollar. As we continued thinking about transformation of the ECCU, we became intrigued by the possibility of a digital fiat currency for our region. At that time, we were finalising our Strategic Plan and we made a decision to test and learn more about this idea through a pilot. Five months after the launch of our Strategic Plan, we signed an MoU with Bitt in March 2018 to collaborate on this idea, and so our journey to this pilot began.

The decision of the ECCB to partner with Bitt was premised on several considerations including:

- Our shared values in respect of innovation for development;
- Our vision for a digitally integrated region;
- Bitt’s capacity: technical and financial; and
- Bitt’s Caribbean identity: presence and people.

Ladies and gentlemen, the transformation of the ECCU necessitates that we make a shift and a leap. We must move from our comfort zone to a challenge zone. But we must not stop there. From there, we must move into a creative zone. In this zone, we are obliged to challenge old assumptions, examine our cultural hang-ups and stretch our minds to embrace new possibilities.

A cursory analysis of the ECCU confirms that while the exchange rate remains firmly entrenched with a strong backing ratio averaging around 98.0 per cent; there remains a significant gap between our region’s growth target and actual performance. Last year, our region grew by 2.7 per cent. This year, we project growth of 3.1 per cent and next year about 3.5 per cent. While the direction is positive, our current growth trajectory falls well below our target of 5.0 per cent. Furthermore, unemployment especially among youth is unacceptably high. In some countries, the rate of youth unemployment doubles the national rate of unemployment. Without a doubt, we need to elevate the ECCU’s growth trajectory.



Such elevation, external factors aside, requires a combination of smart reforms and investments in the ECCU.

At the outset, I want to make it abundantly clear; the ECCB does not intend to eliminate the use of cash. Cash has its convenience and will continue to play an important role in our economy for the foreseeable future. That said, the ECCB is committed to reduce our region's use of cash and cheques. Why?

In the ECCU, about 80.0 per cent of all payments are effected using cash or cheques. When we survey our current payments landscape, we cannot help but conclude that payments are still too slow and too expensive. Many of us know only too well, the high costs associated with certain banking services.

Although a full-scale analysis of the social cost of physical cash in the ECCU has not been carried out, it is indisputable that the costs of cash services, inclusive of transporting, storing and securing, are extremely high. Invariably, these high costs (not fully recognised by many businesses) are passed on to consumers. Within the informal sector, cash tends to be the dominant payment channel. This reality means that the actors in the informal sector bear a significant burden of the cost inefficiencies of cash transactions.

Lest, we become too critical of our small businesses, we should also acknowledge that they too face real constraints. For example, some are required to pay as much as 3.5 per cent on every credit card sale. This exorbitant charge reduces and, in some instances, removes the incentive for small businesses to offer their customers electronic options such as credit and debit cards. It also reduces the ability of these businesses to offer their customers discounts. These experiences are sometimes referred to as “financial frictions”.

It is against this backdrop that the ECCB seeks to help remove some of the current “financial frictions”. Indeed, it is practical issues such as these that that led the ECCB and Bitt Inc. to reach an agreement to develop and pilot the digital EC currency, with a supporting digital payments and transfers infrastructure. Ultimately, we wish to see our people spend less of their money on payment services and more on the goods and services they wish to consume.

Our Pilot

The ECCB Central Bank Digital Currency (CBDC) pilot involves a securely minted and issued digital version of the EC dollar (DXCD). The digital EC dollar will be issued by the ECCB and distributed by licensed bank and non-bank financial institutions in the ECCU.



For the avoidance of any doubt, the digital currency will operate alongside cash as currently obtains. Indeed, the ECCB will soon launch a new family of bank notes using polymer.

The DXCD will be used for financial transactions between consumers and merchants, people-to-people (P2P) transactions, all using smart devices.

The objective of this pilot project is to assess the potential efficiency and welfare gains that could be achieved: deeper financial inclusion, economic growth, resilience and competitiveness in the ECCU - from the introduction of a digital sovereign currency.

IBM Hyperledger Fabric was selected as the blockchain platform because of its strong security architecture (private permissioned blockchain with strong identity management) and open source, which contributes to its security, flexibility and scalability among other desired attributes.

Hereunder are some of the key features of the platform:

- Private Permissioned Blockchain
- Open source, hosted and managed by Linux Foundation
- Enterprise Grade Distributed Ledger
- Supports business transactions
- Confidentiality of data through channel architecture
- Privacy in channels through private data feature
- Better performance and scalability through flexible architecture

While one acknowledges, the benefits of Distributed Ledger Technology (shared ledger that allows records/blocks to be added and securely maintained in a way that prevents tampering), the ECCB recognises that network security is a non-negotiable for a central bank digital currency construct.

In light of this essential requirement, the private blockchain of IBM Hyperledger Fabric affords the ECCB, the ability to control who can access the network, submit and read the ledger of verified transactions, and who can verify them. Hence, the decision to opt for a private rather than a public blockchain.

Stakeholder engagement, consultations and education have been and will continue to be central to the design, development and deployment process. During 2018, over a period of eight months, the ECCB engaged diverse groups of ECCU stakeholders (financial institutions, government institutions, private sector institutions, professional associations, merchants, consumers) as well as regional and international peer central banks, to identify the issues



critical to the development of the customer value proposition and the resulting business requirements for the digital EC pilot. As part of pilot implementation, the ECCB will ramp up its sensitisation and education initiatives to facilitate active public engagement throughout all member countries in 2019.

In the design of the digital EC (DXCD) the following will apply:

1. The appropriate treatment of the DXCD by the ECCB to safeguard the confidence in and the international value of the Eastern Caribbean currency.
2. The statutory business model as enshrined in Article 4 of the ECCB Agreement Act 1983.
 - To regulate the availability of money and credit;
 - To promote and maintain monetary stability;
 - To promote credit and exchange conditions and a sound financial structure conducive to the balanced growth and development of the economies of the territories of the participating governments; and
 - To actively promote through means consistent with its other objectives the economic development of the territories of the Participating Governments.
3. The quantity of DXCD units in circulation will be ultimately controlled by the ECCB, as is currently the case for our physical notes and coins.
4. DXCD issuance will be centralised with only the ECCB having the authority to issue and redeem DXCD. This restriction would ensure resilience in system operation and security.
5. DXCD units will be the liability of the ECCB as is currently the case with our physical notes and coins.
6. DXCD will be issued to licensed bank and non-bank financial institutions on a private permissioned blockchain platform.
7. KYC & AML/CFT Compliance.
8. DXCD storage and transactions will be conducted via DXCD accounts and wallets which form part of the design architecture.
9. Merchants/customers digital wallets will be a part of the digital payment network on the blockchain to facilitate transactions in DXCD.
10. The technical design of the DXCD system will prevent any transaction between DXCD wallets from increasing or reducing the overall supply of DXCD units in circulation, thereby eliminating credit and liquidity risks. (The DXCD account cannot go into overdraft).



The pilot will be executed in two phases: development and testing, for about 12 months, followed by rollout and implementation in pilot countries for about six months.

Throughout the 18-month period of the pilot, there will be education initiatives to facilitate active public engagement throughout all member countries.

The pilot will be deployed in three (3) member countries based on the interest in participating in the pilot expressed by licensed financial institutions domiciled in the countries as well as other criteria including: institutional capacity, geographic representation (Windwards and Leewards) and supporting technology infrastructure.

It will be conducted under the supervision of the ECCB and within a controlled environment (sandbox type arrangement). It will have the appropriate safeguards to ensure the stability of the financial and monetary systems:

- Boundary
- Measures to ensure protection of participants (volunteer)
- Risk Management controls
- Monitoring and Evaluation mechanisms

The ECCB is receiving technical support from Pinaka Consulting Ltd., our Blockchain Technical Adviser, with project execution.

Conclusion

As I conclude, I call to remembrance, Nobel Laureate, Derek Walcott and his poem titled: *Prelude*. In this poem, Walcott reminds us that **“time creeps over the patient who are too long patient.”**

Here in the ECCU, we can no longer be patient when our economies and people demand transformation.

The time to act is now.

I issue a clarion call for partnership. I invite non-bank financial institutions, which provide wallet services, to join this effort. I invite telecommunication service providers and other technology companies to join this effort as we develop a digital ecosystem from which our region can reap huge digital dividends. Most importantly, I invite the citizens and residents of the ECCU to share your views on how this pilot could best serve you.



Eastern Caribbean Central Bank

With laser-like focus, let us now move forward with the EC digital currency pilot project, determined to make a significant difference in the lives of the people of the Eastern Caribbean Currency Union.

I thank you.