

UNLEASHING CAYMAN'S POTENTIAL

A Journey Towards Prosperity And Unity

Introduction

Having spent most of 2023 studying the Cayman Islands economy and actively engaging with Caymanians and policymakers, I feel compelled to share my analysis and insights. I am grateful that Cayman has a robust statistical framework thanks to the ESO, more so than many in the Caribbean - and this facilitates our ongoing analysis. After hearing about the problems that exist and analyzing the data, I hope to dispel some possible misconceptions about how the economy functions. I also share my ideas on solutions that could be transformative for the Cayman Islands towards becoming more inclusive, sustainable (fiscally, demographically, and ecologically), and prosperous.

James Whittaker from the Cayman Compass did an excellent job outlining the major issues affecting the Cayman Islands that everyone should be focusing on this year - especially ahead of an election next year. I wholeheartedly agree with his selection, and I have incorporated some of those crucial issues in the following discussion.

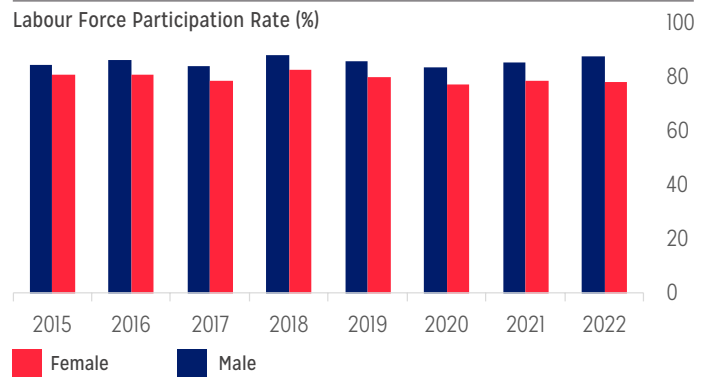
The Cayman Islands Economy

We often hear about the twin pillars of tourism and financial services being the main drivers of the Cayman Islands economy, especially as it relates to growth and jobs. Additionally, there is a prevalent view that Cayman needs 'development' to stimulate economic expansion (meaning *physical* development, which means construction). In this piece I use the word 'construction' to differentiate it from the broader economic concept of 'development' - thanks for understanding!

Here I will share my thoughts and analysis on these 5 topics - Jobs, Growth, Tourism, Financial Services, and Construction.

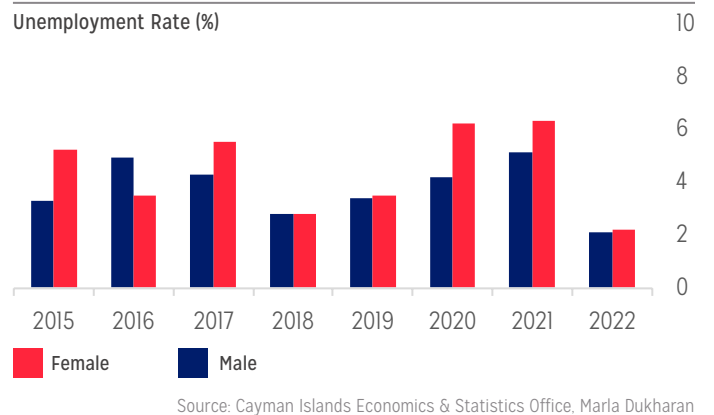
I. Jobs

Labour Force Participation



The labour force participation rate in Cayman is probably the highest in the region, which means there is less idleness and less informality in the economy - all of which is positive.

Unemployment Rate



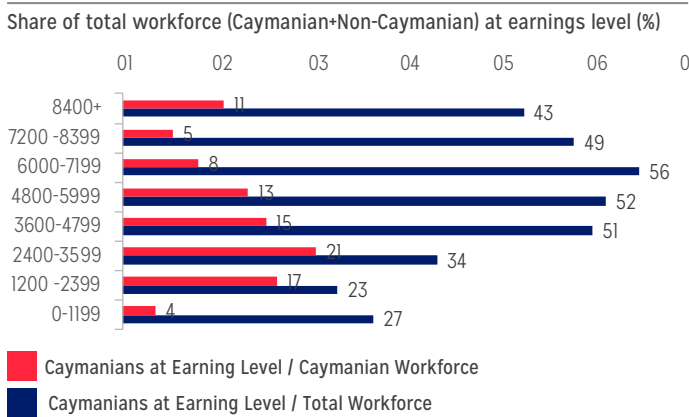
Cayman is the only country in the region where unemployment is not a problem. Cayman imports most of its labour - from janitors to judges - and the unemployment rate in Cayman is usually the lowest in the Caribbean.

In theory, if unemployment ever became a problem, the Government could reduce the number of work permits it grants, and available jobs could go to Caymanians (legitimately and not through entitlement), once they possess the requisite skills to fill these vacancies.

Which brings me to two challenges I see in Cayman.

Only 27% of students in Government primary schools and 37.5% at Government secondary schools are achieving the expected standards in their education. This is at odds with a country of Cayman's GDP per capita and the level of fiscal spending on education. It suggests that Cayman will likely have to continue to outsource its most highly paid and highly sought after jobs for the foreseeable future. And this is clearly reflected in the data.

Monthly Basic Earnings Caymanians



Source: Economics & Statistics Office, Marla Dukharan

Caymanians mostly occupy the middle- to low-wage jobs, rather than the higher-wage positions. From what I am able to discern by talking to employers - and the education data supports this - there is simply a shortage of appropriately-skilled Caymanians to fill the high-skilled, higher-wage posts.

Do we know why the performance of students at Caymanian Government schools is so poor? I'm sure the reasons are complex / multi-faceted. But unless this problem is addressed meaningfully and with urgency, we may see the job positions held and wages earned by Caymanians suffer over time.

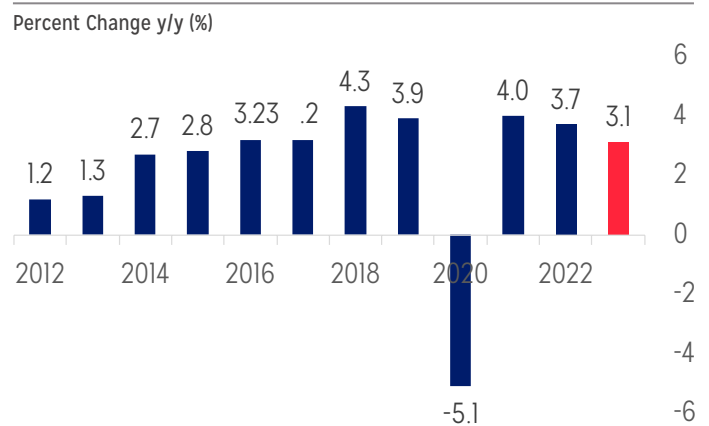
Not every successful career path requires an academic background, either. Do those students who are not academically inclined / accomplished have reasonable alternative training options to pursue in Cayman, such as a hospitality school, trade school, culinary institute, for example? Or is Cayman determined to also continue importing its plumbers, electricians, chefs, etc.?

Furthermore, a skills-gap analysis has not yet been conducted in Cayman - which would tell us the specific skills employers need vs the existing skillset of the Caymanian workforce. Such an analysis would also inform what skills should be taught in schools and enable the development of an education and training strategy to fill those gaps - assuming that Caymanians want to live and work in Cayman, in existing sectors and roles.

It is also crucial to consider the aspirations of Caymanians who don't necessarily want to work in the existing sectors and roles available in Cayman. There is a growing opportunity for Caribbean people, Caymanians included, to live and work right here in the region, engaging in employment remotely or conducting their business online. This is specifically what the Prime Minister of Grenada is driving, as [we discussed in this interview](#).

2. (Economic) Growth

GDP Growth: Cayman Islands



Source: Cayman Islands Economics and Statistics Office, Marla Dukharan

Let's look at the concept of 'growth' and its significance. Simply put, 'growth' is the expansion of the economy (or GDP, as it is measured). And growth is important if we want to create more job opportunities, raise the incomes and wealth of the population, and pursue better social outcomes such as greater wellbeing and higher living standards, etc.

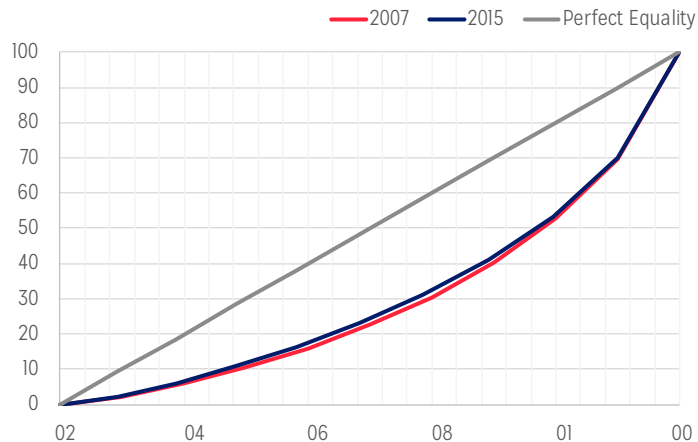
We have already established that job creation is not a challenge in Cayman. However, there is a desire to cultivate sufficient opportunities for Caymanians. And this requires more than growth, as discussed earlier - it requires a deliberate intervention identifying and addressing the existing skills gaps through targeted education and training initiatives for Caymanians.

This is a prime example of how the benefits of growth are not automatic and do not necessarily reach everyone.

Another example of this is the fact that a country can have growth of 30% and 50% per year, like Guyana is having now, but the majority of the population has yet to fully experience the benefits of this growth. Government policy has to be more deliberate and specific in ensuring that the benefits of growth are more broadly and more evenly distributed, for example, by spending on affordable housing, education/training and schools, hospitals, infrastructure, etc.

If intentional efforts are not made to promote inclusive growth through targeted policies, and if the benefits of economic growth are not distributed more equitably among the population, it can lead to widening inequality. **Inequality, in turn, can contribute to poverty** as it concentrates wealth and power in the hands of a few individuals. These individuals may then utilize their growing power and wealth to influence election campaigns and shape government policies to their advantage, potentially marginalizing others. This perpetuates a vicious cycle of inequality and further exacerbates the problem. Is this dynamic occurring in the context of the Cayman Islands?

Lorenz Curve: Cayman Islands



Source: Cayman Islands Economics and Statistics Office, Marla Dukharan

According to the IMF, while some inequality is inevitable in a market-based economic system as a result of differences in talent, effort, and luck, excessive inequality could erode social cohesion, lead to political polarization, **and ultimately lower economic growth**. According to the World Inequality Report the inequalities within countries are now even greater than the significant inequalities observed between countries.

Inequality is a political choice, not an inevitability.

Regrettably, we do not have any data beyond 2015 on inequality in Cayman. This puts Cayman's policymakers and nation builders at a significant disadvantage in addressing inequality, and there has been no meaningful improvement in inequality since 2007. Furthermore, like most of the Caribbean, Cayman has not consistently measured poverty, so we are unsure whether the number of people living in poverty is increasing or declining. In the absence of current poverty and inequality data, we are unable to assess whether the Government's social support mechanisms are having the desired effect. The Government could be mis-targeting and therefore wasting precious time and money.

The inequality and poverty level in Cayman manifest anecdotally in many ways - the apparent rise in crime, the uproar about the rising cost of living, the limited availability of affordable housing for Caymanians, the massive social impact that rising interest rates have had on the lives of Caymanians, for example. These factors point to the existence of a segment of society which is increasingly unable to comfortably afford the high and rising cost of living in Cayman.

And Cayman's inequality, from what I can discern, is not being effectively addressed from a policy perspective. Measures such as the Christmas bonus given to civil servants and the additional access to Pension funds, for example, do not fundamentally alter the income/wealth distribution in Cayman. These one-off windfalls may also create expectations that are ultimately unsustainable, however.

One of the most important ways in which income inequality becomes wealth inequality is via the property market. Those who can afford to buy and hold property (which is the major asset most people will own in their lifetime) will likely see their property value appreciate over time as the economy grows. And if a growing segment of the population is unable to purchase property, they get left behind when growth pushes up property prices, making housing even more unaffordable, which further exacerbates inequality.

Because of Cayman's unaddressed inequality, the growth being achieved is likely benefitting only a portion of the population and may come at the expense of many Caymanians - thereby widening inequality. It is imperative to make a deliberate effort to measure Cayman's inequality and poverty and to implement solutions to ensure that the growth everyone prizes so dearly is more widely and more evenly distributed among Caymanians.

But what really drives growth in the Cayman Islands in the first place?

$$C + G + I + (X - M) = GDP$$

Let's look at how Cayman's economy works and how growth, that many get so emotional about, is actually created.

The size of the economy - Gross Domestic Product or GDP as it is commonly known - is measured by adding the amount that is spent on :

1. C for Consumption - meaning goods such as food and clothing, utilities, household items, furniture, utilities, etc., (most of which are imported), and services (which are partially imported).

2. G for Government spending - meaning wages and salaries, subsidies, spending on goods and services, etc.

3. I for Investment - meaning domestic investment in construction of homes, offices, and hotels for example, the amount the Government spends on building roads, schools, and airports for example, and the amount foreigners invest in plant and equipment, real estate, hotels, condos, etc in Cayman.

4. X minus M represents Cayman's trade with the rest of the world. X represents exports and adds to the size of the economy, and in the Cayman context, exports are mainly financial services and tourism. M represents imports and as you can see, imports have a negative sign, which means it shrinks the economy. Imports are a drain on the economy.

Across the Caribbean, and in Cayman as well, 80-90% of what we consume is imported. So in this GDP equation, the C should really have a negative sign, or at best, a positive small fraction attached to it.

Now, the Government's budget is around KYD1.05 billion, so under this equation, about one billion should be added to the size of the economy, or GDP, right? Well, not exactly. The Government's largest expenditure items in its budget are Personnel costs at about KYD501 million, Public Authorities around KYD179 million, and Supplies and Consumables around KYD175 million. But Supplies and Consumables in Cayman are largely imported, so this KYD175 million largely ends up as imports. Also, when the Government pays its employees, they consume, so most of the KYD501 million also leaks out as imports.

So when the Government spends one billion dollars every year, most of that actually leaves the country via imports in what is called fiscal leakage. Fiscal leakage in many countries in the Caribbean is so high that only a small fraction of what the Government spends actually ends up adding to GDP. This fraction is called the fiscal multiplier, and while this data does not exist for Cayman, across the Caribbean, fiscal multipliers are low - less than 0.3 generally!, meaning that for every dollar spent by the Government, only 30 cents is added to GDP.

Therefore, Government spending and consumption do not meaningfully grow the economy of the Cayman Islands - instead they grow the economies Cayman imports from!

¹ Fiscal multipliers in the Caribbean are low, according to the existing empirical studies. Guy and Belgrave (2012) find that the cumulative multipliers are less than 0.3 after 24 quarters in their sample countries over the period 1980-2008.

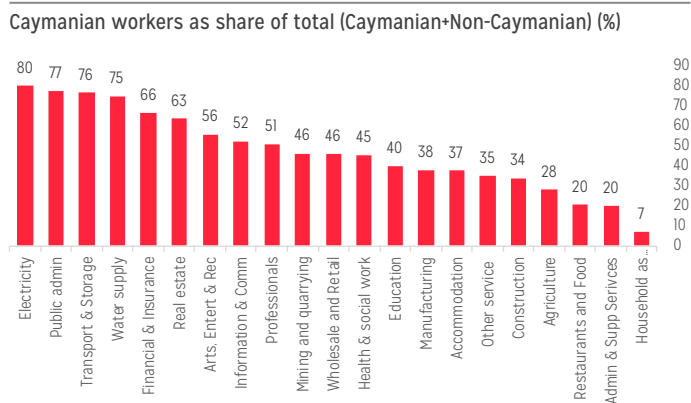
Across the Caribbean, I would argue that our growth is really driven by investment and by exports. More specifically, growth is driven by the domestic components of our exports (and not the imported components) and by the investments which create and improve our nation's productive capacity. Let me explain.

Investment is needed for everyone to have homes to live in, to provide an education, to provide healthcare, to provide the telecommunications, roads, ports, and physical infrastructure necessary to live and be productive. Investment is also needed to create the means of production (like factories and hotels, for example) of things that people want / need and will pay for. The physical infrastructure necessary for all of the above is largely imported - steel, aggregate, cement, roofing, asphalt, etc., so there is some leakage that takes place with construction, for example. But without investment, we don't have the means to live or produce anything. So regardless of the import component of the (physical) infrastructure, we must invest wisely in it to create the capacity to live and produce and earn a living as a country, and therefore to grow.

But, what is Cayman producing in order to grow? Recall that exports drive growth and imports carry a negative sign and are a drain on growth, so we have to be careful that what Cayman is producing and exporting is not dependent mostly on imported components / ingredients, exacerbating Cayman's import dependence and driving higher imports than exports.

Tourism is a heavily import-dependent sector in the Cayman Islands - more so than the rest of the Caribbean, based on the largely-foreign workforce in tourism. The domestic inputs into Cayman's tourism product are mainly the natural environment and culture, while the domestic inputs in the financial services sector are labour, the domestic legal and regulatory framework, and intellectual property. These are the domestic inputs that need to expand in order to see more net growth from tourism and financial services, otherwise Cayman is just growing the economies of the countries where the imported 'ingredients' of these exports are from.

Caymanian Sectoral Employment



Source: Cayman Islands Economics and Statistics Office, Marla Dukharan

So, going back to our equation, $C + G + I + (X - M) = \text{GDP}$, really should be something like :

$$\%C + \%G + \%I + (\%X - \%M) = \text{GDP}$$

I don't have the data to calculate the specific coefficients for each of the variables in this growth equation for Cayman, but you get the idea - growth in the Caribbean and also in Cayman, is mostly driven by investment and exports. Indeed, I am told repeatedly that the twin pillars of tourism and financial services are the major economic drivers and exports in Cayman. Regarding investment - I have often heard that Cayman needs construction (or 'development' as it is often called in Cayman) in order to grow the economy. So my argument that exports and investment are the true drivers of growth is consistent with the widely held view about the Cayman Islands economy.

But has anyone ever looked at the data to analyze whether there is any truth to these widely held beliefs that tourism and financial services are the twin pillars driving the Cayman economy and that construction is needed to create growth? And if not, why not?

Because these widely held narratives shape policymaking, Government spending priorities, and ultimately, shape the way the country is governed - who the people of Cayman elect and why. It is especially important in the year ahead of an election, to make sure Caymanians understand how the economy works and what actually are the problems you need to resolve, so you can make the best decisions possible when you head to the polls.

Let's, therefore, look more closely at this narrative.

3. Tourism

Tourism is the largest sector in the Caribbean, based on the amount of persons directly and indirectly employed in this sector, and based on the domestic linkages between tourism and other sectors in the economy - construction, agriculture, retail, and distribution, etc.

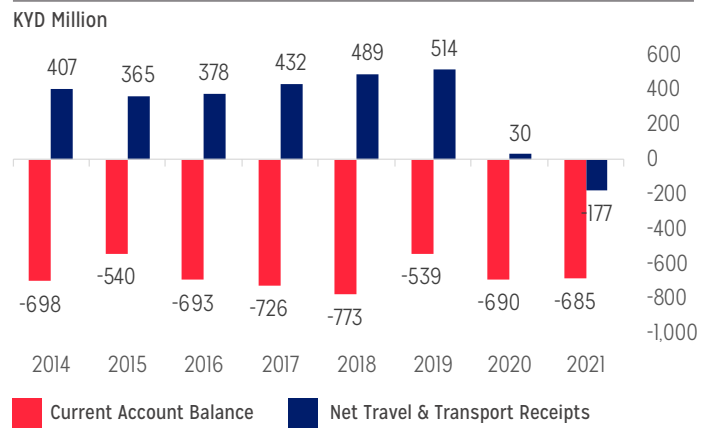
Like most of the Caribbean, tourism is an export sector in Cayman. But unlike the rest of the Caribbean, which relies heavily on tourism to create jobs, in Cayman, 9,595 work permits were issued in the restaurant, accommodations, wholesale & retail sectors in 2022, meaning 75% of the tourism labour force² is imported, so the domestic inputs into tourism in Cayman are very low.

And the Cayman Islands is the only country in the Caribbean that consistently shows a net outflow of remittances, as foreign workers send a portion of their wages back home. This net outflow of remittances constitutes a drain on the Cayman Islands economy, just like imports.

In 2019, pre-Covid, the tourism sector earned about KYD514 million in exports based on over half-million stopover tourist arrivals. Cayman consistently receives multiples more tourists per annum than the size of the population, at over 7 stay-over tourists per resident prior to the pandemic, with 21,460 available bed places at tourism accommodations in 2022/2023. But the current account balance in Cayman, like most of the Caribbean, is in persistent deficit because of our dependence on imports. A persistent deficit on the current account of the balance of payments means Cayman is losing more via imports and the net outflow of remittances, than it is earning via exports. And based on the number of tourists vs the size of the population, it is safe to assume that tourism is a significant contributor to the import bill in Cayman.

² Based on author's calculations from Compendium of Statistic 2022, tabs .05b and .04a.

Net Travel & Transport vs Current Account Balance

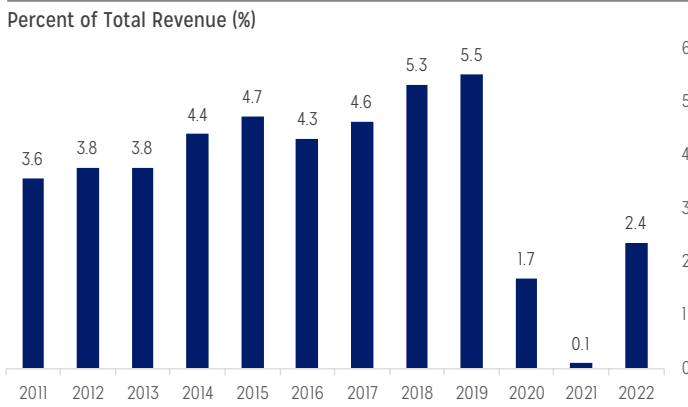


Source: Cayman Islands Economics and Statistics Office, Marla Dukharan

Remember that all the hotel construction material is imported, almost all the food is imported, all the furnishings and linens, almost all the electricity and most of the labour, etc is imported for tourism to function. What isn't imported for Cayman's tourism sector? Cayman's culture and natural environment! But if Cayman continues growing the tourism sector, which requires more and more physical space, more hotels, bringing in more and more people, and generating more and more waste and pollution, we risk jeopardizing the very culture and natural environment which are the only major domestic input into the tourism sector. The natural environment is also a big part of the quality of life and culture that everyone enjoys - residents as well as visitors. It is important therefore to preserve the natural environment, and not threaten its sustainability, lest you threaten the tourism product as well as the standard of living in Cayman.

Now, what about the impact that tourism has on the amount of revenue the Government earns and can therefore spend in the economy? While we have found no official data published on the revenue generated from Work Permits granted to the tourism sector specifically, the Tourism Accommodation and Cruise Ship Departure charges amount to less than 3% of Government Revenues.

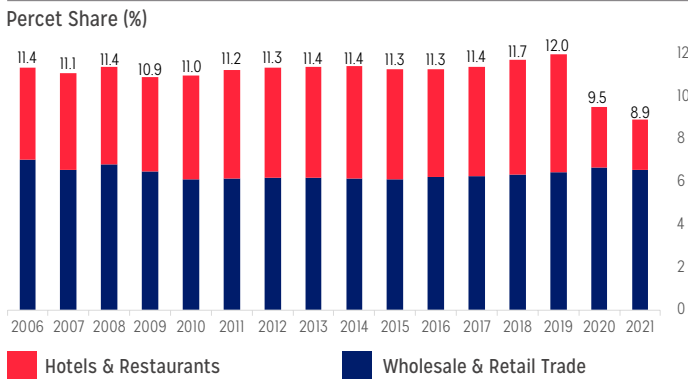
Tourism-related Government Revenue



Source: Cayman Islands Economics and Statistics Office, Marla Dukharan

ESO data show that the hotel & restaurant and wholesale & retail sectors had their best year in 2019, combining to account for 12% of GDP, which fell to below 9% in 2021. In fact, the public administration & defense sector has been bigger than the hotel & restaurant sector in 13 of the last 16 years.

GDP Share Tourism: Cayman Islands

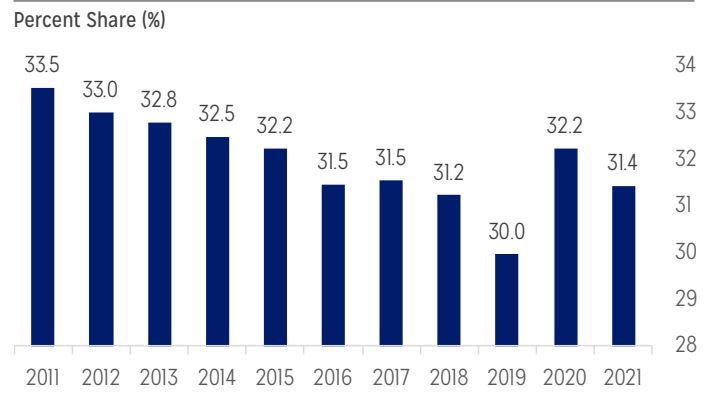


Source: Cayman Islands Economics and Statistics Office (instead of ESO)

4. Financial Services

The Cayman Islands' flagship sector is financial services, supported by auxiliary professional services, such as legal and accounting. This sector consistently directly accounts for about one-third of GDP on average, and about one-third of Government revenue, on average.

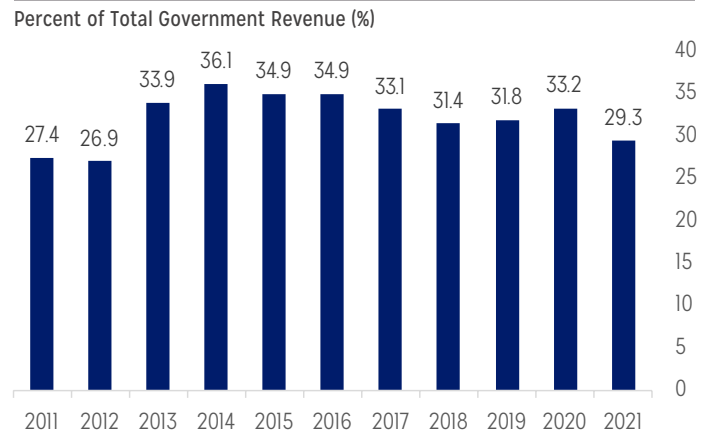
Financial and Insurance Services GDP



Source: ESO Compendium of Statistics, 2022, Marla Dukharan

Pre-Covid, financial services sector exports reached KYD1.2 billion. But if we add the auxiliary professional services, financial services is responsible for KYD1.463 billion in exports - approaching three times the tourism sector!

Financial Services-related Government Revenue

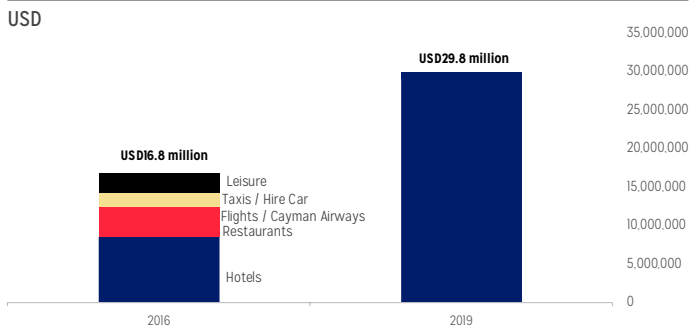


Source: Cayman Islands Economics and Statistics Office, Marla Dukharan

The financial services sector is facing ever-increasing pressure from the OECD, FATF, EU, and UK - all of whom have put the Cayman Islands on some list or another, and who keep changing the rules of the game, making it more difficult to compete effectively and regulate appropriately. But the authorities are making excellent progress in keeping Cayman compliant with these global regulators, because they recognize that this sector is of primary importance to the socio-economic progress of the Cayman Islands.

Without the license fees paid by the financial services sector, the Government will generate a fiscal deficit every year, and will have to borrow to pay its bills. **The financial services sector therefore, in effect, subsidizes everything else in the economy - including tourism** (which, as we already discussed, is heavily import-dependent and generates a net outflow of remittances).

Captives Industry Fuels Tourism Expenditure in the Cayman Islands



Source: Insurance Managers Association of Cayman, Marla Dukharan

I don't have adequate data to say definitively, but I believe that the financial services sector also subsidizes the tourism and other import-dependent sectors from a foreign exchange standpoint. Because the tourism sector imports everything including labour and generates a net outflow of remittances, and the level of leakage is so high, it is safe to assume that the amount of foreign currency earnings remaining in Cayman from the tourism sector is very likely to be a fraction of tourism's overall earnings, while the reverse is true for financial services.

So - tourism isn't quite the goose laying the golden egg that many believe it is, and I think it is safe to say that while financial services is producing a bounty of golden eggs, these are really the only solid eggs in Cayman's basket. And this makes Cayman fiscally and economically vulnerable (not unlike the rest of the Caribbean).

5. Construction

The construction sector is widely regarded as a major driver of growth in the Cayman Islands. Construction demand is driven largely by the tourism sector, the financial services industry, housing, and the demand for (investment) properties based on the immigration policy and the foreign property ownership policy.

According to the [2015 Input Output tables published by the ESO](#), the construction sector had the highest output multiplier in Cayman, such that "for every KYD1.00 of additional construction output demanded, total output in the economy would increase by KYD2.56." This means basically that KYD1.00 spent on construction, has a multiplier or knock-on effect across the economy, such that the total impact on economic activity or GDP, is KYD2.56. The report goes on to explain that "the high multiplier in the industry largely emanates from its heavy reliance on output from other domestic industries (the indirect impact). Chief among these are *other manufacturing* which provides concrete and *finance and insurance* and *professional activities* which supply architects and engineers etc."

So the construction sector is a major growth driver in Cayman. Why then does Cayman seem to have a longstanding affordable housing problem? Solving this problem would have immense positive social and economic growth implications. But it appears to me that the construction sector is not adequately focused on affordable housing (maybe because it isn't financially lucrative?), but on investment properties, hotels, expensive condos, etc.

This perhaps again demonstrates that the benefits of Cayman's growth are not shared widely across the population, and direct policy intervention is needed to address this unevenness.

Furthermore, there are limits to the positive impact that construction can have on the economy. When Mount Trashmore is the highest point on Grand Cayman, and when on this tiny island we can spend an hour in traffic, and when there is little space left to construct affordable housing, and when so much airtime and attention is devoted to the unaffordable cost of living, we know Cayman has reached the point of diminishing returns to 'growth' via more and more construction to serve more and more tourists and an exploding population.

As the [Cayman Compass](#) noted some time ago, Cayman has a choice to make - you can either decide to become the Caribbean's Manhattan or Singapore, in which case, build away! But if not, and if Caymanians want to retain what's left of your island-ness, Cayman needs to think more carefully about the physical and ecological fallout of its construction addiction, in its sustainable socio-economic development journey.

So, what to do?

Well, in the first place, I think Cayman needs to mitigate the risks inherent in being a tourism, financial services, and (indirectly) construction-driven economy. The best way to mitigate the risks associated with potential vulnerability in any sector that drives fiscal revenue, exports, and growth, is to create and maintain adequate fiscal and foreign exchange buffers. Cayman already has a healthy accumulation of fiscal surpluses, but that 'piggy bank' for a rainy day would benefit (I would argue) from a stronger governance framework, to ensure that it is used appropriately. Ideally we would want some funds (say a few months worth of fiscal runway) set aside for short-term fiscal stabilization purposes, in case there is a shock to the economy or any major sector. And beyond this, we would want some funds invested to finance longer term socio-economic development projects. This approach can also support a reduction in poverty and inequality, if done correctly. This is exactly the purpose of a Sovereign Wealth Fund, and last year, some good progress was made towards establishing one for the people of the Cayman Islands.

As discussed earlier, we would also want to mitigate the risks to the sectors Cayman depends on for growth. With the financial services sector, the authorities have done a splendid job of getting Cayman removed from various (biased and unjustified) lists, and this approach is welcomed and commendable. The UN Tax Convention is likely to negate the power exerted by the OECD in the international tax governance space, which is another positive for this sector. Regarding tourism, until Cayman can definitively determine the net contribution of this sector to fiscal and export earnings, it would be wise to avoid further subsidizing this sector, because as discussed earlier, it is likely that this sector is a net fiscal and foreign exchange drain, based on its high import dependence and remittances. We may also want to prioritize the preservation of the natural environment in Cayman, as this is a key factor in the attractiveness of Cayman as a tourism (and permanent resident) destination.

Beyond this, globally, if you look at the amount of income generated from knowledge-based sectors (of which financial services is an important one, and one in which the Cayman Islands is already the gold standard globally), you will see that these types of sectors generate greater growth with less space and ecological impact and can generate more desirable job opportunities for Caymanians compared to tourism.

Cayman, therefore, already has a head-start in building a knowledge-based economy. So it would be easier to diversify more deeply into knowledge-based sectors in Cayman, which have lower physical and ecological footprints and higher wages - and the key to this is education. Cayman already has the fundamentals and foundation for a thriving Intellectual Property and knowledge-based ecosystem. Cayman already has a world-class legislative framework and judicial system. Cayman already has technologically advanced sectors and knowledge-based industries that Cayman Enterprise City for example, has been able to attract.

What Cayman needs now is to deliberately accelerate the shift towards more highly educated and, therefore, more highly paid Caymanians. While it is to Cayman's advantage that the best and brightest from all over the world want to come to Cayman to live and work here, we need to make sure that Caymanians have those same opportunities. The Caymanian skills-gap must therefore be determined and addressed directly and deliberately via education and the transfer of knowledge from the foreign workforce. This is even more important if Cayman wanted to pursue the construction-driven growth path a la Singapore or Manhattan.

Conclusion

Not all growth is equal. The current growth patterns in Cayman have painted a dual narrative - a remarkable tale of economic development on one hand, and on the other, a growing set of social challenges. The rhythm of Cayman's physical development, if left unchecked, threatens to amplify the social and environmental outcomes that Caymanians seek to avoid. Social deterioration as evidenced by rising crime, traffic jams, and pollution for example, can undermine the very economic progress Caymanians have worked so hard to secure. We cannot let that happen.

Slowing the pace of physical development and being deliberate about the nature, location, sustainability, and resilience of such development - and the economics behind it - is necessary to ensure that there is sufficient space for affordable housing and recreation for Caymanians and visitors alike.

Cayman must grow, but she must grow more carefully and more equitably to create a future where no Caymanian is left behind.



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