A report from The Economist Intelligence Unit

PRIVATE SECTOR DEVELOPMENT IN THE CARIBBEAN: **A REGIONAL OVERVIEW**

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Contents

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Preface

This report explores private sector development in the Caribbean region. The report is largely based on the analysis in the Private Sector Assessment Reports (PSARs) on 14 Caribbean countries. The PSARs were commissioned by Compete Caribbean, a private sector development, technical assistance program funded by the Inter-American Development Bank, Canada's Department of Foreign Affairs, Trade Development (DFATD), and the United Kingdom's Department for International Development. Compete Caribbean projects in the Organization of Eastern Caribbean States (OECS) countries are implemented in partnership with the Caribbean Development Bank. The Economist Intelligence Unit combined its own proprietary analysis and forecasting data with analysis from the PSARs to produce this comprehensive summary report. The PSARs explain the current situation of each of the Caribbean countries and present an overall assessment of private-sector development and recommendations for facilitating and accelerating private investment and growth. This report provides a summary of the key private-sector development issues noted in the PSARs, and approaches to overcoming these challenges.

The PSARs draw on both primary and secondary data sources. Primary data analyses were derived from interviews with key stakeholders from the domestic private and public sectors as well as from interviews with regional and international agencies. Secondary data were utilized to describe the state of each country at both the micro and macro level. In addition to these specific elements of the research, the development of the PSARs was assisted by consultations organized under the Caribbean Growth Forum (CGF). The original PSARs were formatted and edited by The Economist Intelligence Unit at the request of the Compete Caribbean Program, but were not authored by The Economist Intelligence Unit.

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Executive summary

Reforms to stimulate sustainable growth led by the private sector are more important than ever. Although the details vary from country to country, structural reform is needed in most Caribbean countries. Economic diversification is essential for tourism dependent economies. Too many countries are also excessively dependent on imported energy and/or suboptimal solutions for power generation. Another issue is that in many Caribbean economies employment is dominated by the public sector—and at a time when governments' finances are under strain.

Solutions will need to come largely from, or in collaboration with, private-sector actors. Long-standing challenges will need to be overcome if the Caribbean countries are to make the transition to a position from which sustainable and inclusive growth is possible. Fortunately, as we explain below, the challenges are surmountable.

For the Caribbean countries as a group, 2015 will be a significantly more difficult year than the previous three, reflecting the still-challenging economic climate. The need for private-sector-oriented solutions to these nations' long-standing challenges has never been greater. Some of the key challenges and opportunities identified in the PSARs are:

Challenges:

- Strained public finances
- Cost of energy
- Access to finance
- Human capital, in particular inefficient labor markets and emigration of skilled labor
- Innovation capacity

Opportunities:

- Engagement of diasporas
- Key measures to improve business environment
- Improve education systems
- Improve firm productivity
- Regional approach to climate change

2015: long-standing problems, and some new developments

2015 will be a difficult year for both policymakers and entrepreneurs in the Caribbean. The IMF estimates that the tourism-based economies[1] that make up most of the countries profiled in this report grew by only 1.1% in 2014 and will expand by 1.7% in 2015. These countries are still being held back by numerous

[1] Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines.

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structural challenges that have constrained their economic performance in recent years.

One of those challenges includes the legacy of inflexible fiscal policies, which left governments little room to manoeuvre when the global financial crisis struck. Public debt exceeds 90% of annual GDP on average in the Caribbean's tourism-based economies. Their global competitiveness as tourism destinations has been eroded over the years. In 2001 foreign visitors spent around 75% more per capita in the Caribbean than in broadly comparable destinations in the Pacific. By 2010, that advantage had disappeared. Meanwhile, in most Caribbean countries, employment is provided mainly by the public sector, whose unionized workers are often unwilling to support necessary changes that policymakers propose.

2015 will see two additional challenges. One is an acceleration in the normalization of relations between the US and Cuba. This could result in substantial investment in Cuba's tourism industry, with the result that the country becomes an even greater source of competition for the Caribbean's other tourism-based economies.

The other new factor is the possibility that economic and political developments in Venezuela could result in a substantial reduction in, or the total ending of, the benefits that are currently made available through the PetroCaribe mechanism. The main advantage of PetroCaribe has been that up to 50% of oil purchases can be converted into 25-year loans carrying interest rates as low as 1%. Without this arrangement, the oil-importing Caribbean countries would have to pay for all oil purchases at world prices. This would likely be a difficult adjustment, even though global oil prices have fallen sharply since mid-2014.

The Caribbean: not an easy place in which to do business

By and large, the Caribbean countries are not particularly easy places in which to do business. Although the ease of doing business, as measured by the World Bank's Doing Business rankings, has improved significantly in a handful of countries from 2014 to 2015 (with Jamaica and Trinidad and Tobago posting significant improvements in the rankings), of the 15 Caribbean countries considered in the Bank's latest rankings, only four—Antigua and Barbuda (89th), the Dominican Republic (84th), Jamaica (58th), and Trinidad and Tobago (79th)—are placed among the top 50% of all countries covered globally (189 economies). The business environments in Suriname and Haiti are among the most difficult in the world.

The challenges to doing business in Caribbean countries arise from a number of factors. All of the Caribbean's economies are relatively small[2]. The CARICOM Single Market and Economy[3] (CSME) has not resulted in regional links that might create economies of scale. Other than in Trinidad and Tobago,

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[2] Measured by Gross National Income per capita, which stood at US$8,913 in Caribbean states (excluding Barbados, for which data was not available), compared with a global average of US$10,679 in 2013. By this measure four countries, Antigua and Barbuda, the Bahamas, St. Kitts and Nevis and Trinidad and Tobago, have GNI per capita above the global average, but all are well below the OECD average of US$38,904.

[3] The CSME is an integrated development strategy with the aim of deepening economic integration and strengthening trading links among non-traditional trading partners.

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high electricity prices and/or unreliability of power supply are reasons for concern. In Guyana and the Dominican Republic, for instance, about 30% of firms obtain electricity from their own generators.

Meanwhile, nearly 60% of firms in the region cite access to finance as a moderate to severe obstacle to doing business. Furthermore, labor markets are inefficient, with over- or underemployment being common. Collectively, the Caribbean countries perform better than the world average in terms of secondary-school enrolment (at 79%, compared with 73% globally), but they perform less well in tertiary-education enrolment (at 27%, compared with a world average of 32%). Emigration of skilled workers is a particularly acute issue for Trinidad and Tobago, Suriname, Jamaica, Haiti and the Dominican Republic.

So, what can be done?

Fortunately, there is much that can be done by governments to promote sustainable growth in the region. Governments and private-sector enterprises can work together to establish public-private partnerships (PPPs) on a regional basis. The intelligent engagement of the Caribbean countries' substantial diasporas, along with a variety of private- and public-sector actors within each of the various countries, has the potential to promote innovation. The diasporas are important owing to the fact that, since the 1990s, remittances to the region have exceeded inward foreign direct investment and official development aid. As of early 2015, remittances appear to have held up fairly well.

Further, as the governments of Trinidad and Tobago and Jamaica have shown over the past year or so, specific measures can have a meaningful and positive impact on the overall business environment. That the region is home to internationally competitive educational institutions means that beneficial educational reforms are possible.

Improved education systems and outcomes are just part of the policy packages that have the potential to boost the competitiveness of Caribbean countries. Other elements include tax reforms that encourage investment in the most productive economic sectors, and regional initiatives to boost innovation. Greater efforts need to be made to boost female employment in formal-sector firms in industries other than education and restaurants/hotels, in which women are already fairly well represented. Renewed efforts at the regional level to deal with climate change and environmental problems could also be useful.

Progress in these areas should produce measurable benefits. If achieved, some of these outcomes will be specific to particular countries—increased links between Suriname's mining sector and the rest of that economy is one such example. Other sectors in which the Caribbean countries are well placed to compete include business-process outsourcing, medical and other higher education, agriculture and food processing, sustainable power generation and ecotourism. Achieving such benefits may take time. Positive action is therefore needed more than ever before.

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I. The Caribbean private sector in the regional macroeconomic environment

As Caribbean economies have sought to recover and diversify following the global financial crisis, private-sector development has taken on new importance in the region. There is broad recognition that enabling and strengthening the private sector is the most effective way of ensuring continued economic growth in the region. Structural reforms are also needed in most Caribbean countries to promote economic diversification. Moreover, many countries are overly dependent on imported energy and/or suboptimal solutions for power generation. Solutions will need to come largely from, or in collaboration with, private-sector actors. Long-standing challenges will have to be overcome if Caribbean countries are to make the transition to a position from which sustainable and inclusive growth is possible.

For the purposes of this report, the Caribbean region includes 14 countries[4] This group of countries is broadly divisible into two groups: those economies that are largely dependent on tourism[5], and those that are dependent on the mining and minerals and agricultural commodities sectors[6]. The economies in the latter group produce various commodities, most notably gold, aluminum ore, petroleum products, sugar, bananas and rice[7].

Regional macroeconomic environment

Like many countries around the world, Caribbean economies suffered during the global recession that began in 2008, with the majority experiencing at least one year of negative growth. With recovery now under way, Caribbean economies are growing again, although the tourism-based economies are expanding more slowly than the commodity-based ones. The fall in global oil prices from late 2014 has affected net oil exporters, such as Trinidad and Tobago, which has announced a projected public revenue shortfall for fiscal year 2014/15 (October-September). Meanwhile, net oil importers, like the Dominican Republic and Jamaica, have enjoyed a dip in inflation as a result of falling oil prices.

[4] Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

[5] Antigua and Barbuda, the Bahamas, Barbados, Dominica, Dominican Republic, Grenada, Jamaica, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines.

[6] Belize, Guyana, Suriname, and Trinidad and Tobago.

[7] MIT, Observatory of Economic Complexity 2014.

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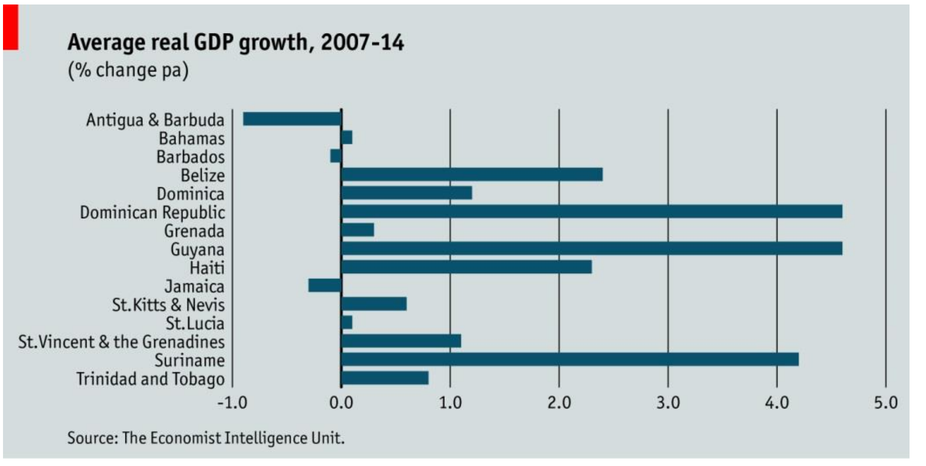
Figure 1



Persistent economic diversification shortcomings and difficult policy environments have prevented a strong recovery in Caribbean economies. The IMF estimates that for this group GDP grew by an average of just 1.1% in 2014 and will expand by 1.7% in 2015—an increase compared with near-zero real GDP growth in 2011 and 2012 and -4% in 2009, at the lowest point of the recession, but still short of the pre-recession rate of nearly 4% in 2007[8]. This compares with GDP growth estimates of 2.1% in 2014 and 2.5% in 2015 for small Pacific island countries, according to the IMF[9]. However, a pick-up in the economic performance of key tourism source markets, such as the US and the UK, will help to boost arrival numbers, thus lifting revenue in 2015. In January-November 2014, travel to the Caribbean by US residents was up by 9.6% compared with the year-earlier period[10] while travel to the Caribbean by UK residents increased by 4.1% during the first three quarters of 2014 compared with the year-earlier period[11].

[8] IMF, 2014a. "Latin America and the Caribbean: Coping with Challenging Times", http://www.imf.org/external/pubs/ft/reo/2014/whd/eng/pdf/wreo1014.pdf

[9] IMF, 2014b. Asia & Pacific Small States Monitor. http://www.imf.org/external/np/apd/ssm/2014/0814.pdf

[10] International Trade Administration, 2015. "U.S. Citizen Traffic to Overseas Regions, Canada & Mexico 2014", http://travel.trade.gov/view/m-2014-0-001/index.html

[11] Office for National Statistics, 2015. "Overseas Travel and Tourism—Quarterly Release—Q3 2014". http://ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-318981

Figure 2

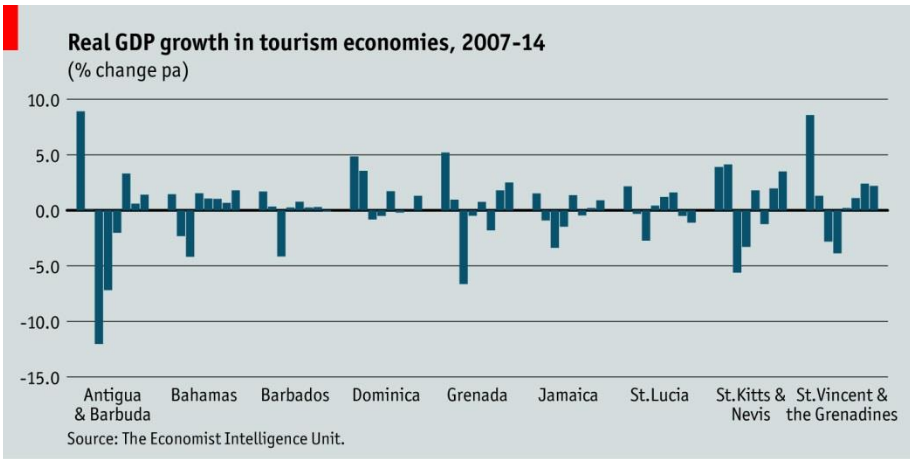
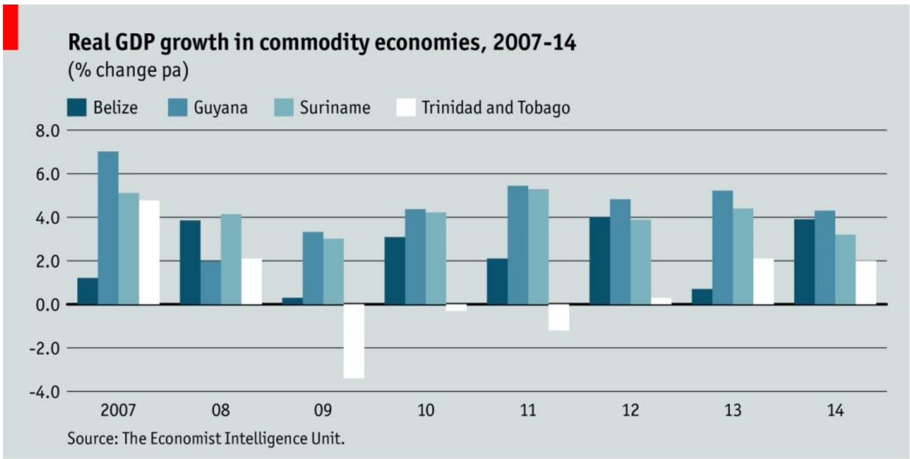


Figure 3



Rates of economic growth in the Caribbean's commodity-exporting economies are forecast to be roughly double those in its tourism-dependent economies in the short term: the IMF estimates GDP growth in commodity-exporting countries at 2.7% on average in 2014 and forecasts growth at 3% in 2015. However, shifts in global prices for key commodities pose significant risks to this forecast. Lower commodity prices have already resulted in downward revisions to growth projections, while the lacklustre performance of non-commodity sectors in these countries remains an obstacle to higher overall growth rates.

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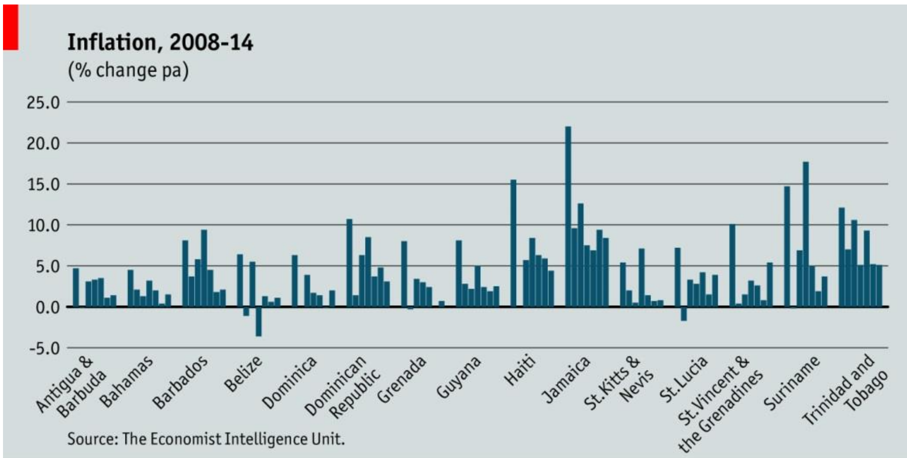
Figure 4



The regional average rate of inflation has fallen since 2011 and is not expected to exceed 3.5% on average in 2015[12]. Inflation figures vary significantly across the region, with most countries posting low rates, while a handful of others buck that trend with volatile prices and high inflation in recent years (see Figure 4). Average inflation in the region stood at 2.4% in 2013, boosted by relatively rapid rates of increase in prices in Jamaica (9.4%), Haiti (5.9%) and Trinidad and Tobago (5.2%). Inflation estimates for 2014 show an uptick in the region, to 3.1%. Again, the average rate is boosted by countries that are experiencing relatively high inflation, most notably Jamaica, St. Vincent and the Grenadines, and Trinidad and Tobago.

Caribbean economies generally exhibit weaker macroeconomic fundamentals than other small economies globally,[13] performing less well on indicators including government fiscal balance and public debt[14]. Researchers have pointed to generally challenging macroeconomic environments, particularly a high level of government debt as a percentage of GDP, as key factors explaining the Caribbean's relatively low GDP growth rates.[15]

[12] IMF, 2014a.

[13] Ruprah, I. et al., 2014. Is there a Caribbean sclerosis?: stagnating economic growth in the Caribbean. Inter-American Development Bank.
http://publications.iadb.org/bitstream/handle/11319/6450/Is%20There%20A%20Caribbean%20Sclerosis_%203-13-14%20web.pdf?sequence=1

Ruprah et al. include in this group around 50 countries with populations under 3m.

[14] Ruprah et al.

[15] Ibid.

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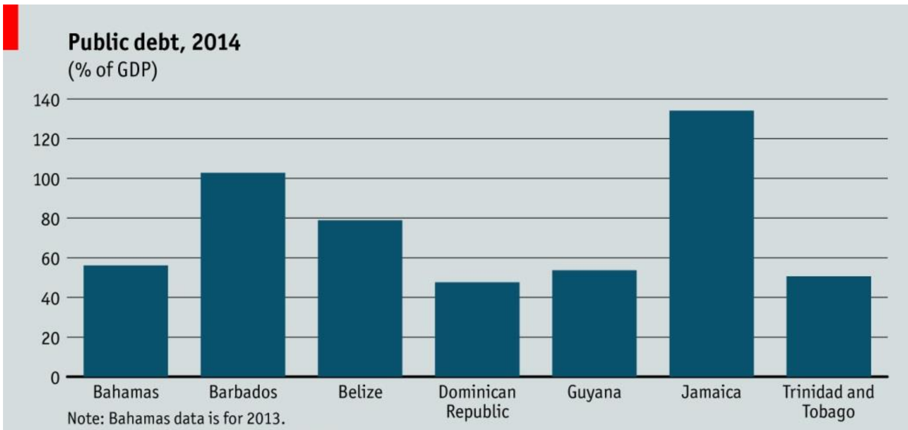
Figure 5



Note: Bahamas data is for 2013.
Source: The Economist Intelligence Unit.

Prior to 2008, Caribbean governments were not sufficiently prepared to cope with economic shocks, given the limited nature of their fiscal buffers, which reflected relatively high public debt and large fiscal deficits. This amplified the effects of the global crisis on the region's economies. Public debt increased markedly, especially when compared with the debt levels of small economies in other world regions[16]. Research indicates that Caribbean economies with debt-to-GDP ratios above 56% suffer reduced economic growth, owing to the fact that domestic and foreign investors refrain from making investments because of their expectation of lower returns and the possibility of higher taxes being imposed[17]. In Barbados, public debt as a proportion of GDP has continued to increase since 2012, from 84% in that year to 103% in 2014. In Jamaica this measure has remained above 130% since 2009. Guyana's ratio has dropped from a recent high of 65% in 2010 to 54% in 2014 (see Table 1).

Table 1: Public debt (% of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014
Bahamas	n/a	n/a	n/a	43.3	45.1	48.8	56.1	n/a
Barbados	51.0	52.7	63.0	71.8	78.0	83.9	96.4	102.8
Belize	88.5	82.5	88.2	85.5	81.4	76.9	82.1	78.9
Dominican Republic	31.5	32.3	35.7	36.1	37.2	41.0	45.6	45.0
Guyana	59.9	61.6	64.8	65.2	65.2	62.6	56.9	53.7
Jamaica	109.6	118.0	131.9	133.5	131.8	133.9	132.5	131.0
Trinidad and Tobago	28.5	34.5	54.4	52.7	46.9	55.9	52.7	50.6

Source: The Economist Intelligence Unit.

In 2012 the average debt-to-GDP ratio of Caribbean economies was 1.7 times the global average for small economies. Although some countries, such as Jamaica, St. Kitts and Nevis, and Guyana have worked with the IMF to control their fiscal risks, vulnerabilities have increased elsewhere in the region. Public debt in tourism-dependent economies already exceeds 90% of GDP on average, while the financing needs of these countries' governments continues to increase. The conundrum of slow growth combined with high debt continues

[16] Ruprah et al.

[17] Greenidge, K. et al., 2012. Threshold Effects of Sovereign Debt: Evidence from the Caribbean, IMF. https://www.imf.org/external/pubs/ft/wp/2012/wp12157.pdf

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to threaten economies in the region[18]. In tourism-based economies, governments' ability to access international financial markets has diminished while current-account deficits have widened. A particular fiscal risk is posed by the dependence of many Caribbean economies (including the Dominican Republic, Jamaica, Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Haiti, St. Kitts and Nevis, St. Vincent and the Grenadines, and Suriname) on PetroCaribe[19] for subsidized fuel: the removal of this subsidy would increase energy prices and worsen these countries' current-account positions. The Caribbean's commodity-based economies need to improve the quality of government spending in terms of its impact on social indicators, and to enhance their revenue management in order to ensure that they remain financially stable in the medium term.[20]

Many Caribbean economies also face risks to their financial sectors, which could add to the difficulties that private-sector firms already face in accessing finance. The IMF has recommended that governments reform the financial sector through regional projects to reduce systemic risks such as high levels of non-performing loans and excessive market concentration in the financial sector[21]. The Fund's Caribbean Regional Financial Project is gathering data on exposure and the interconnectedness of institutions, and will subsequently focus on the prevention and management of financial crises[22]. Cleaning up banks' balance sheets and dealing with unstable institutions is also essential to ensuring sufficient financial stability to support continued economic recovery.

A high level of remittance inflows is one positive by-product of the large-scale outward migration from Caribbean countries that continues to occur. Remittances make up the biggest source of external funding for the region's economies, having been higher than foreign direct investment and also higher than official development aid since the 1990s[23]. Such inflows have thus played a significant role in reducing poverty and in promoting business development by providing an alternative source of investment capital. Entrepreneurs are taking advantage of economic links that exist in the diaspora economy to create growth opportunities in their home countries. The diaspora economy includes telecommunications, tourism, transportation, and trade in nostalgic, ethnic and niche goods[24].

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18 Ibid.

19 Under the PetroCaribe initiative, up to 50% of the cost of oil purchases can be converted into 25-year loans from Venezuela carrying annual interest rates as low as 1%.

20 IMF, 2014a.

21 Canetti, E., 2014. "Financial Interconnectedness in the Caribbean". IMF. http://www.imf.org/external/np/seminars/eng/2014/caribbean/pdf/s3p2-Canetti.pdf

22 Ibid.

23 Dawson, L. R., (2007). Brain Drain, Brain Circulation, Remittances and Development: Prospects for the Caribbean. Caribbean Paper No. 2, June 2007. Centre for International Governance Innovation (CIGI), Ontario. https://www.cigionline.org/sites/default/files/2.%20Brain%20Drain,%20Brain%20Circulation,%20Remittances%20and%20Development-%20Prospects%20for%20the%20Caribbean.pdf

24 UWI Consulting, 2014. Caribbean Diasporic Entrepreneurship Preliminary Analytical Report. Compete Caribbean. http://competecaribbean.org/resources/private-sector-development/caribbean-diasporic-entrepreneurship-analytical-report/?preview=true&preview_id=2942&preview_nonce=78ef5ce3bf

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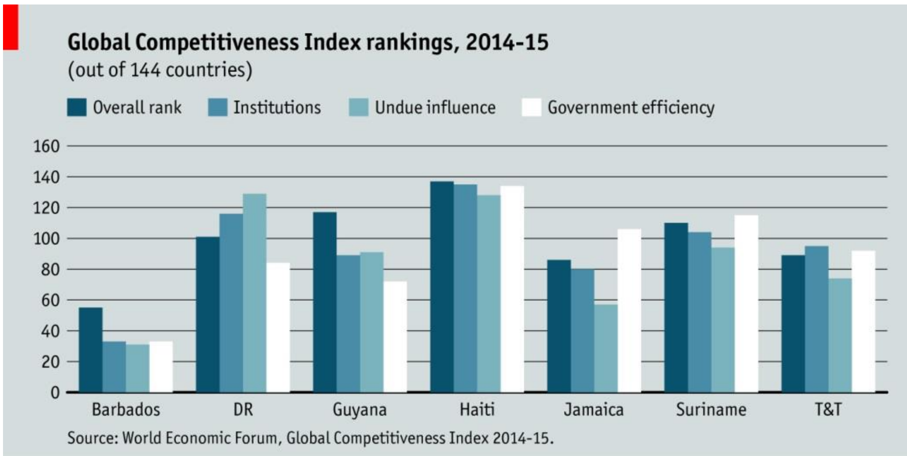
Institutional effectiveness

As entrepreneurs in the Caribbean private sector seek to create opportunities, they frequently face regulatory and bureaucratic hurdles in connection with government institutions. According to the Global Competitiveness Report, produced by the World Economic Forum (WEF), countries in the region typically score poorly relative to other small economies, and the rest of the world generally, in terms of their public institutions (see Figure 6)[25]. Poor institutional performance negatively affects overall competitiveness: in the WEF's report for 2014-15, six of the seven Caribbean countries included were ranked in the bottom 50% of the 144 economies covered by the study, and only Barbados, at 55th, was placed in the upper half of the world rankings.

Figure 6



Reforms to improve institutional performance have been widely discussed, but research indicates that there is resistance to such changes in Caribbean economies, driven by rent-seeking on the part of entrenched interests[26]. Globally, small economies tend to have proportionally larger public sectors, and the situation is no different in the Caribbean. The public sector in the region is large in terms of employment, and the political power of public-sector workers has enabled them to erect barriers to reforms that might adversely affect them. In some cases, special interest groups have created obstacles to reform within institutions, thus impairing these organizations' performance[27].

[25] Nurse, K., 2014. Human Imagination, Innovation and Competitiveness in the Caribbean. IDB. http://competecaribbean.org/resources/private-sector-development/human-imagination-innovation-competitiveness-caribbean

[26] Persaud, A. D., 2011. Fostering Growth and Development in Small States through Disruptive Change: A Case Study of the Caribbean, Caribbean Paper No. 11, April 2011. CIGI, Waterloo. https://www.cigionline.org/sites/default/files/no.11.pdf

[27] Ruprah et al.

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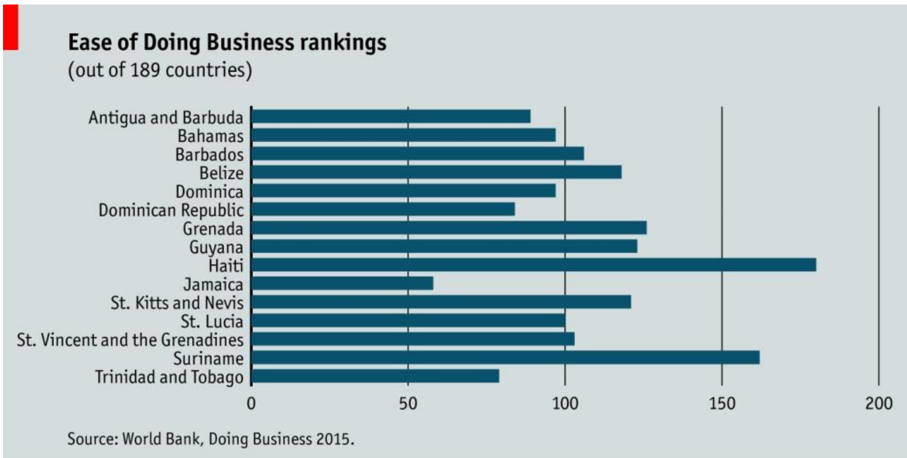
Figure 7



The World Bank's Doing Business rankings for 2015 (see Figure 7) shows how these issues of institutional performance affect businesses' operations, quantifying how well Caribbean economies facilitate business activities. Overall, the region's economies lag behind the top performers globally on key measures of efficiency. Of the 15 Caribbean countries included in the most recent rankings, only four—Antigua and Barbuda, the Dominican Republic, Jamaica, and Trinidad and Tobago—are placed in the top 50% of countries worldwide. In addition, only Jamaica, Trinidad and Tobago and Barbados have seen their rankings improve by more than one place in the past year, while the rankings of the vast majority of Caribbean countries have fallen. Antigua and Barbuda has slipped six places in the overall rankings, while St. Lucia has dropped five places. The Caribbean's poorest performers, Suriname and Haiti, are among the most difficult locations globally in which to do business. The business environment in Jamaica has recently improved dramatically. In the World Bank's 2015 Doing Business report, Jamaica's overall ranking improved to 58th out of 189 countries, from 85th in 2014. Regional institutions have supported crucial reforms in the country via technical assistance to improve access to finance, facilitate public-private partnerships and enhance the efficiency of tax administration[28].

[28] Compete Caribbean, 2014. "Compete Caribbean contributes to Jamaica's 27-place jump in World Bank rankings". http://competecaribbean.org/news/compete-caribbean-contributes-to-jamaicas-27-place-jump-in-world-bank-rankings

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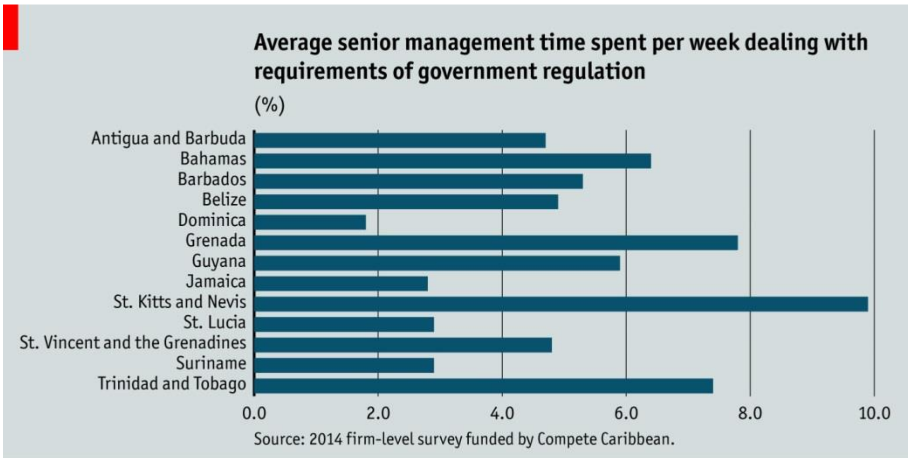
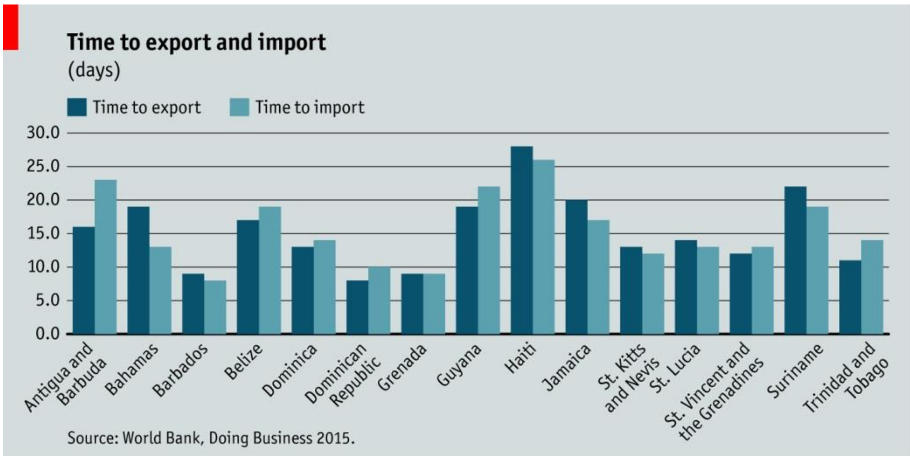
Figure 8



Data from a 2014 firm-level survey funded by Compete Caribbean highlight a number of areas in which Caribbean institutions outperform world and regional averages, and others where efforts are required to improve institutional performance. On average senior management spent just over 5% of their time per week dealing with requirements of government regulation in the Caribbean, while the global average was nearly 10% (see Figure 8)[29] and the average for all of Latin America and the Caribbean was 14%. In no Caribbean country was the proportion above 10%, suggesting that the region's institutions perform relatively well in this area. Moreover, in all but three of the countries surveyed—Belize, Guyana and St. Lucia—the majority of respondents indicated that customs and trade regulations were either no obstacle at all, or a minor obstacle to doing business.

Figure 9



[29] Data for averages was taken from the latest World Bank Enterprise Surveys, http://www.enterprisesurveys.org/. 2014 updates on firm level data can be found on the Compete Caribbean website, http://competecaribbean.org/category/micro-level-data/

Profile of the private sector

The services sector dominates the majority of Caribbean economies, and is also the biggest employer[30]. Services are the largest contributor to economic growth in the region: value added of the services sector accounts for more than 50% of GDP in the 15 economies covered by this research, with the exception of commodity-dependent Guyana and Trinidad and Tobago. Tourism and business services are two of the most important components of the sector. The tourism and travel industry, in particular, contributes significant proportions of GDP in many Caribbean economies, ranging from 22% in Grenada to 75% in Antigua and Barbuda, with the Bahamas, Barbados and St. Lucia all depending on tourism for nearly 50% of their economic activity[31]. However, Caribbean economies have seen their US dollar receipts per tourist decline relative to other world regions. In 2001 tourists visiting the Caribbean spent 75% more than visitors to the Pacific islands, but by 2010 this advantage had virtually disappeared. Tourism-based economies in the Pacific have grown faster, in part because the Pacific islands' customer base is fairly diverse, whereas the Caribbean depends for the vast majority of arrivals on the US, Canada and Europe—economies that were severely affected by the economic slowdown that took place from 2008[32].

The mining and energy sector is the second-largest contributor to economic activity in the region. Guyana, Suriname, and Trinidad and Tobago rely heavily on commodity export revenue. In Guyana, such income is derived largely from gold mining. Suriname exports both gold and aluminum oxide, while Trinidad and Tobago exports oil and gas.

The Caribbean private sector consists largely of small- and medium-sized enterprises (SMEs). Such companies are mostly locally owned, conduct their business in small- and medium-sized towns and lack strong links to the international economy. As a result of these factors, sales and employment growth at many of these firms lag behind those of their peers in other small economies. Such businesses tend to be concentrated in the tourism and retail sectors, and nearly 75% are classified as small, compared with 66% in small economies globally[33].

The 15 countries covered by this research have moved towards regional integration. With the exception of the Dominican Republic, all are members of the Caribbean Community (CARICOM), which promotes regional economic integration. The majority also have membership of the CARICOM Single Market and Economy (CSME). Once implemented, the CSME will provide for the free movement of goods, services, capital and labor, while member countries also will share a common trade policy. However, integration has not

30 Rabellotti et al., 2014. "Clusters in the Caribbean: Understanding their Characteristics, Defining Policies for their Development". Compete Caribbean. http://competecaribbean.org/resources/private-sector-development/clusters-caribbean-understanding-characteristics-defining-policies-development/?preview=true&preview_id=2945&preview_nonce=fe5585839c

31 Ruprah et al.

32 Ibid.

33 World Bank Enterprise Surveys, cited in Ruprah et al.

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occurred as quickly as expected. Only a few inter-country industrial clusters exist in the Caribbean region, reflecting poor cooperation and the weakness of economic links between nations[34]. Integration initiatives have not led to a marked increase in intraregional non-oil trade, which has not expanded greatly since the 1970s[35].

Table 2: Top export destinations

Country	1st	2nd	3rd	4th
Antigua & Barbuda	Nigeria (66%)	Poland (15%)	Cameroon (4%)	South Korea (2%)
Bahamas	Singapore (30%)	US (22%)	Poland (10%)	Ecuador (6%)
Barbados	Nigeria (37%)	US (15%)	Trinidad & Tobago (7%)	Jamaica (3%)
Belize	US (33%)	UK (20%)	Netherlands (5%)	Japan (4%)
Dominica	Jamaica (13%)	Trinidad & Tobago (9%)	St. Kitts and Nevis (7%)	Sweden (6%)
Dominican Republic	US (51%)	Haiti (11%)	China (5%)	Canada (2%)
Grenada	US (18%)	Switzerland (15%)	Germany (11%)	Netherlands (9%)
Guyana	US (31%)	Canada (26%)	Venezuela (9%)	UK (7%)
Haiti	US (84%)	Canada (3%)	Vietnam (2%)	Mexico (2%)
Jamaica	US (47%)	Canada (6.0%)	Russia (4%)	UAE (4%)
St. Kitts & Nevis	US (47%)	Germany (8.0%)	Canada (6%)	Turkey (5%)
St. Lucia	UK (24%)	France (21%)	Barbados (12%)	Guyana (9%)
St. Vincent & the Grenadines	St. Lucia (14%)	Turkey (11%)	Poland (10%)	Trinidad & Tobago (8%)
Suriname	US (27%)	Belgium-Lux (20%)	Canada (10%)	Barbados (10%)
Trinidad & Tobago	US (26%)	Argentina (15%)	Chile (11%)	Spain (7%)

Source: MIT Observatory of Economic Complexity. Data is from the latest year available, typically 2012.

In part, integration efforts such as CARICOM seek to overcome the challenges faced by small markets. Achieving economies of scale is difficult in Caribbean countries, owing to the limited size of their home markets and the consequent low level of domestic demand. In the Caribbean, this has been a perennial problem for the agricultural sector. Traditional exports, such as bananas and sugar, largely ceased to be economically viable when the region lost preferential access to European markets in the mid-1990s (although there has been renewed interest in recent years in a number of niche agricultural products)[36].

Promoting clusters and the networks associated with them is one way to link firms into a wider ecosystem[37]. Guyana and Belize have enjoyed success creating coordination mechanisms in their tourism and aquaculture industries. In both countries' aquaculture clusters, the establishment of industry associations has enabled the successful implementation of environmental standards, increased the availability of technical assistance, and facilitated policy dialogues between industry and government[38]. Governments can increase coordination capacity and can target policies at specific sectors and value chains[39].

34 Rabellotti et al.

35 Ruprah et al.

36 Rabellotti et al.

37 Ibid.

38 Ibid.

39 Nurse.

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II. Key challenges for private sector development

This section provides a summary of the key private-sector development challenges noted in the abbreviated PSARs. Although they are organized by category, these challenges are interrelated. For example, increasing innovation requires improvements to human capital, and increasing export competitiveness depends in part on upgrades to infrastructure.

Energy costs

The high cost of energy and the unreliability of electricity supplies together constitute one of the principal challenges impeding private-sector development in the Caribbean. High costs reflect both the logistics of providing energy to island nations, and also the limitations in terms of economies of scale owing to the small size of many Caribbean countries. The region's highest electricity tariffs are on small islands (43 US cents/kWh in Antigua and Barbuda, for example), while the lowest are in Suriname (5 US cents/kWh) and Trinidad and Tobago, a major energy producer (6 US cents/kWh). According to the Inter-American Development Bank (IDB), in 2012 retail electricity prices in the Caribbean averaged 33 US cents/kWh (see Table 3)[40]. By way of comparison, US electricity prices averaged 12 US cents/kWh in late 2014[41], and EU electricity prices averaged 20 US cents/kWh in the middle of that year[42]. The region's high per-capita energy costs are a contributory factor behind the fiscal stresses that many Caribbean economies are facing.[43,44]

[40] Barton, C. et al., 2013. "The Caribbean has some of the world's highest energy costs—now is the time to transform the region's energy market". IDB. http://blogs.iadb.org/caribbean-dev-trends/2013/11/14/the-caribbean-has-some-of-the-worlds-highest-energy-costs-now-is-the-time-to-transform-the-regions-energy-market/

[41] Data is an average of residential, commercial, industrial, and transportation. US Energy Information Administration, 2015. Electric Power Monthly. http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_5_6_a

[42] EU data is an average of medium-size industries and medium-size households for 2014. EIU used the June 30, 2014 exchange rate to calculate US cents/kWh. Eurostat, 2014. "Electricity prices by type of user". http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=ten00117&language=en

[43] Barton et al.

[44] Oil prices fell significantly in 2014 and are forecast to remain low through the end of 2015. As of end-January 2015 The Economist Intelligence Unit forecasts that prices will rebound over the medium term, based on rising extraction costs and other supply-side factors

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Table 3: Average retail tariffs per utility, 2012

Antigua and Barbuda	$0.43
Bahamas	$0.26
Barbados	$0.32
Dominica	$0.43
Dominican Republic	$0.21
Grenada	$0.40
Guyana	$0.32
Jamaica	$0.36
Haiti	$0.38
St. Lucia	$0.38
St. Vincent and the Grenadines	$0.36
Suriname	$0.05
Trinidad and Tobago	$0.06
All-country average	$0.33

Source: Inter-American Development Bank.
Notes: Data for Bahamas is for 2010. Data for Guyana, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago is for 2011.

Data from a 2014 firm-level survey[45] funded by Compete Caribbean provide information regarding the reliability of electricity supplies. In all countries in the region, a large majority of the firms surveyed cite problems with power supply as an obstacle to their business operations—only in Suriname is the proportion below 70%. A far smaller proportion of enterprises report that power problems are the biggest difficulty that they face; however, the proportions are unusually high in Barbados (with 21% of companies saying that electricity supply shortcomings are the main obstacle to their activities), Jamaica (18.6%) and Guyana (15%). In Guyana, nearly 35% of power is sourced from generators shared or owned outright by companies, while in Barbados the figure is around 30%; in most other Caribbean countries, firms obtain a much smaller proportion of their electricity from generators. Poor energy infrastructure has a disproportionately harmful effect on small firms[46]. The unreliability of the power grids in many Caribbean countries means that a larger proportion of small firms own generators than in small economies globally.

[45] Compete Caribbean, http://competecaribbean.org/category/micro-level-data/

[46] Ruprah et al.

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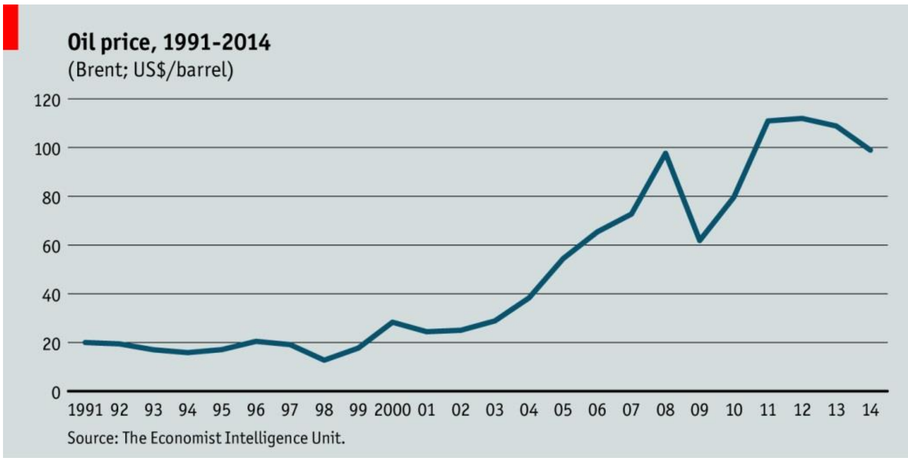
Figure 10



Tapping the Caribbean's natural energy resources, such as solar, wind and geothermal power, would help to address some of these problems. With regulatory frameworks that facilitated private sector participation in the renewable energy sector, the sector could attract private capital and promote public-private partnerships[47] Until Caribbean countries rebalance their energy mix, the region will be vulnerable to oil price shocks, as well as to specific threats such as the potential withdrawal of the supplies of cheap oil that they currently obtain from Venezuela under the PetroCaribe arrangement.

Infrastructure and logistics

Caribbean economies need to improve their transportation infrastructure. Inadequate transportation infrastructure imposes high costs on the private sector, and small firms rely more heavily than large ones on public infrastructure, and thus bear a greater burden in this area. According to a 2014 firm-level survey funded by Compete Caribbean, in all countries other than Suriname a majority of firms identify transportation difficulties as a constraint on their business activities. In Belize, fully 86% of companies say that transportation problems are a hindrance to their operations, while in Trinidad and Tobago the figure is 71% and in both Barbados and Jamaica it is 69%. In Trinidad and Tobago, the volume of traffic has exceeded the capacity of the road network, and congestion and related delays are common in and around the country's principal cities.[48]

Limited connectivity also constrains cross-border trade, thus presenting a challenge for private-sector firms looking to venture beyond their small home markets. Infrastructure challenges in Antigua and Barbuda relate largely to intra-regional travel and freight logistics. Firms in the country reported difficulties related to business travel, which constrain investment owing to the fact that they make site visits challenging. In addition, companies noted that in some

[47] Ruprah et al.

[48] Compete Caribbean, 2014. Private Sector Assessment of Trinidad and Tobago. IDB. http://competecaribbean.org/wp-content/uploads/2014/12/2014-Trinidad-and-Tobago-Private-Sector-Assessment-Report.pdf

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cases freight routes make it more viable to send intra-regional exports via Miami in the US, instead of shipping them directly within the region[49]. The Caribbean Growth Forum hosts a working group on logistics, which has identified constraints relating to regional air and sea connections that constitute hurdles to efficient intraregional logistics; these obstacles include high costs, and the limited number of shippers and routes.

Access to finance

Facilitating small and medium-sized enterprises (SMEs)' activities and development is key to a healthy private sector[50]. Access to finance is a principal challenge faced by SMEs worldwide, but in most of the Caribbean the challenge is particularly acute (see Table 4). Data from a 2014 firm-level survey funded by Compete Caribbean show that difficulty in obtaining finance is a leading impediment to doing business, with 30% of firms in the region mentioning it as a moderate obstacle and 26% citing it as a major or severe obstacle. The problem is greatest in Belize, where 58% of enterprises say that difficulty accessing finance is a major or severe obstacle, while in Dominica the proportion is also high, at 45% of firms. In Antigua and Barbuda, by contrast, only 6% of companies report that obtaining finance is a major or severe obstacle, while access to finance is also relatively easy in Trinidad and Tobago.

Table 4: Access to finance as an obstacle
(percentage of firms surveyed identifying obstacle)

	No obstacle	Minor obstacle	Moderate obstacle	Major obstacle	Severe obstacle
All-country average	12%	30%	30%	15%	11%
Antigua and Barbuda	15%	41%	39%	2%	4%
Bahamas	7%	39%	28%	9%	17%
Barbados	27%	22%	19%	23%	10%
Belize	7%	17%	18%	40%	18%
Dominica	4%	33%	18%	17%	28%
Grenada	9%	34%	33%	9%	15%
Guyana	33%	13%	18%	21%	14%
Jamaica	19%	26%	25%	23%	7%
St. Kitts and Nevis	10%	40%	29%	5%	17%
St. Lucia	5%	35%	44%	13%	4%
St. Vincent and the Grenadines	5%	34%	26%	14%	21%
Suriname	32%	33%	11%	18%	6%
Trinidad and Tobago	4%	31%	52%	10%	4%

Source: 2014 firm-level survey funded by Compete Caribbean.

The survey also shows that only 16.5% of firms in the region use banks as a source of investment funds (see Figure 11), and that only in Dominica is the proportion above 20%. The proportion of enterprises using banks to obtain working capital is far higher, at over 55%, with the highest proportions reported in Barbados (at 87%) and Belize (83%); however, in the Bahamas, Guyana and Suriname the proportion is well below the average regional level (see Figure 12).

[49] Compete Caribbean, 2014. Private Sector Assessment of Antigua and Barbuda. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/EIU-Antigua-Barbuda-Final.pdf

[50] Public Society for the Management of Tourist Innovation and Technologies (SEGITTUR) and Centre for Cooperative Research into Tourism (CICtourGUNE), 2014. Improving Competitiveness in the Caribbean Tourism Sector through ICT-based Innovations. http://competecaribbean.org/resources/private-sector-development/improving-competitiveness-in-the-caribbean-tourism-sector-through-ict-based-innovations/?preview=true&preview_id=3266&preview_nonce=9a3ee7aa7c

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Thus, the survey data indicate that numerous firms in the region do not use banks to fund investment, while a substantial minority do not use such institutions as a source of working capital.

Figure 11

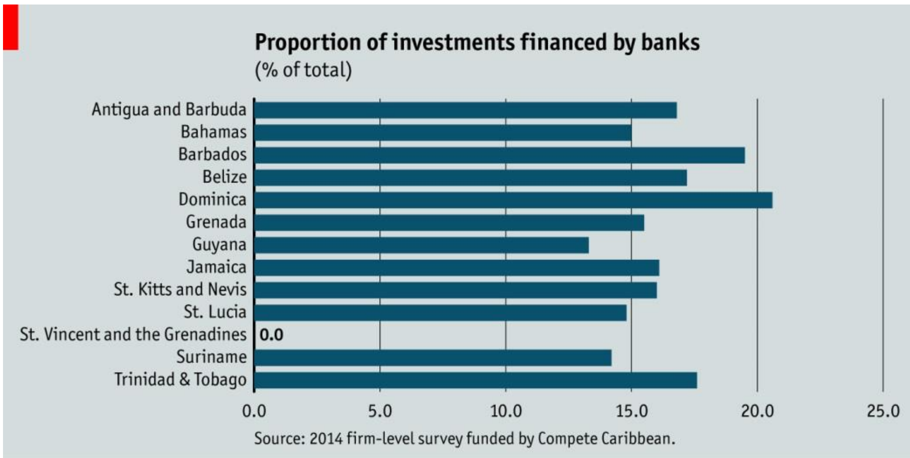
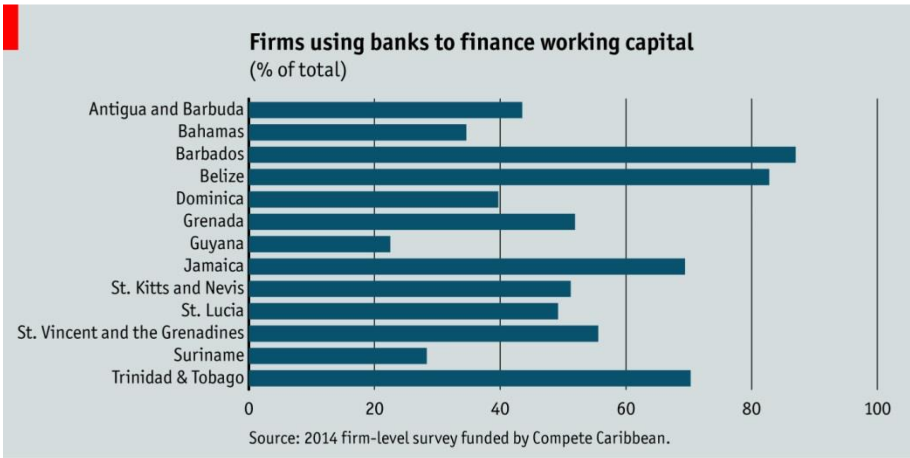


Figure 12



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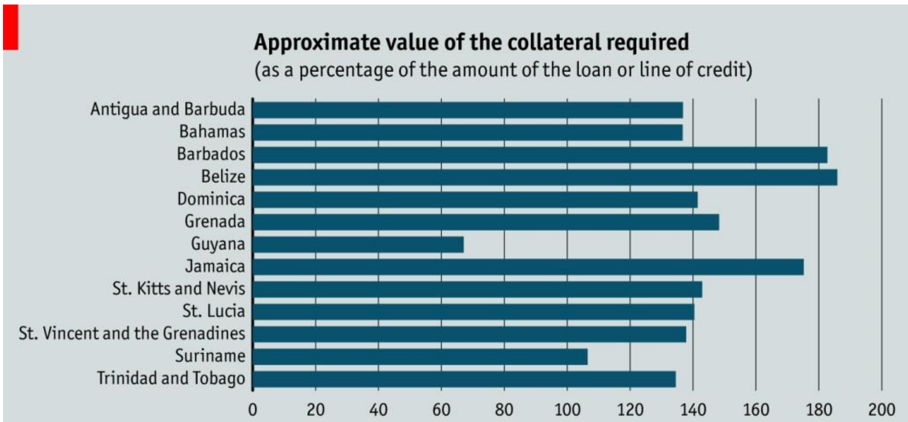
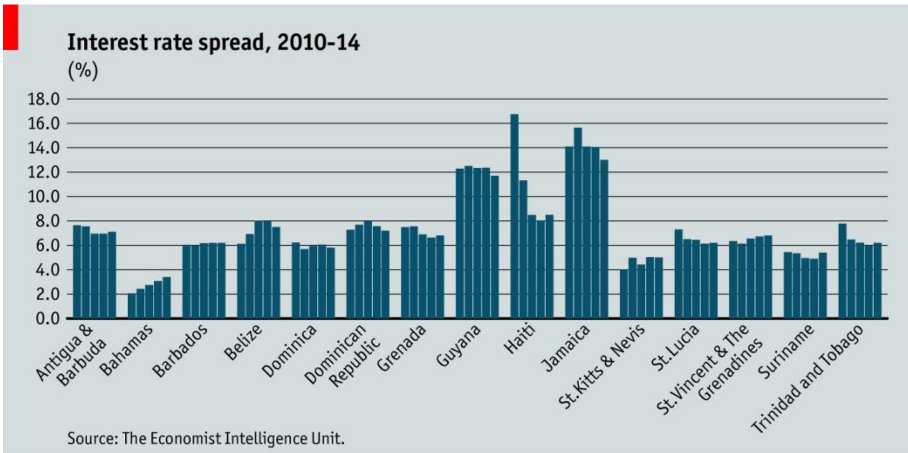
This is partly owing to the fact that credit bureaux do not exist in many countries and interest rates tend to be high. It is also because banks in the region require high levels of collateral. In most countries in the region it is well over 100% and in Barbados, Belize and Jamaica it exceeds 170% (see Figure 13).

Figure 13



Source: 2014 firm-level survey funded by Compete Caribbean.

Figure 14



Source: The Economist Intelligence Unit.

Human capital

There are two notable challenges in the area of human capital that affect private-sector development in the Caribbean: first, firms' difficulties in finding and hiring workers with the right skill sets for the jobs available, and second, the struggle of highly educated workers to find appropriate employment. Medium- and long-term human capital strategies must ensure that educational outputs meet private sector needs. According to the World Bank, enrolment in tertiary education is underperforming in most Caribbean countries compared with the global average of 32%. Notably, for those countries with available data, only Grenada and Barbados have tertiary enrolment rates above the average, at 52.8% and 60.8% respectively[51]. Indeed, in 2008 65% of heads of households had

[51] Latest available data for Grenada is from 2009; Barbados data is from 2011. World Bank, World Development Indicators.

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just primary education and only 19% had achieved secondary education[52]. More can be done across the region to boost vocational and on-the-job training, which may improve labor market mobility and flexibility. For example, in order to address the mismatch in skills demanded by the economy and outputs from the educational system, the IMF recommended that the Guyanese government step up training opportunities, including vocational training in secondary schools, skills training, and on-the-job training[53].

The well-educated in the Caribbean sometimes struggle to find suitable employment opportunities. A shortage of suitable employment opportunities and relatively low wages leads many skilled workers to emigrate from the region (see Table 5), depressing population levels and also, in the view of some experts, resulting in monetary losses that outweigh the value of the funds remitted home by emigrants[54]. In recent years the Caribbean region appears to have experienced economic growth without the creation of additional jobs[55]. Encouraging the formation of dynamic clusters is crucial in terms of generating skilled jobs in innovative new enterprises that will keep talented workers in the Caribbean[56]. Public-sector investment is vital to creating such clusters because it can support collaboration and coordination that might not occur otherwise, which then can lead to more sophisticated joint actions involving a number of firms[57]. Beyond collaboration and coordination, many clusters require specific public inputs, such as infrastructure, training in specific skills or sector-specific regulatory changes.

Some researchers have pointed to the economic benefits that diaspora economies and entrepreneurs can provide to their home countries. Compete Caribbean has funded research and analysis in this area to determine how to support diaspora entrepreneurs, in order to promote the "brain circulation" and "brain gain" associated with the emigration and subsequent return of members of the diaspora, as well as the investments that such people often make locally after coming home[58].

[52] Compete Caribbean, 2014. Private Sector Assessment of Antigua and Barbuda. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/EIU-Antigua-Barbuda-Final.pdf

[53] IMF, 2014c. Guyana 2013 Article IV Consultation. http://www.imf.org/external/pubs/ft/scr/2014/cr14294.pdf

[54] Mishra, P., 2006. Emigration and Brain Drain: Evidence from the Caribbean. IMF Working Paper 06/25. Washington, DC: IMF. https://www.imf.org/external/pubs/ft/wp/2006/wp0625.pdf

[55] Ibid.

[56] Rabellotti et al.

[57] Ibid.

[58] UWI Consulting.

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Table 5: Stock of Caribbean emigrants by country, 2010

Country	No. of emigrants	% of population
Bahamas	1,000	0.90%
Barbados	18,000	7.00%
Belize	6,000	1.90%
Dominican Republic	1,070,000	11.30%
Guyana	374,000	49.20%
Haiti	994,000	9.80%
Jamaica	803,000	29.40%
Saint Lucia	22,000	12.40%
Suriname	4,000	0.70%
Trinidad and Tobago	301,000	22.40%

Source: UN Economic Commission for Latin America and the Caribbean.

Innovation and competition conditions

If Caribbean economies are to avoid remaining trapped in low-value-added activities and the production of commodities, they will need to implement innovation-driven plans for growth[59]. Productivity gains and competitiveness are closely linked to innovation as economies move up to higher development stages. The World Economic Forum noted in its *Global Competitiveness Report 2013-2014* that "The traditional distinction between countries being "developed" or "developing" will become less relevant and we will instead differentiate among countries based on whether they are "innovation rich" or "innovation poor."' The Latin America and Caribbean region underperforms in terms of productivity and innovation compared with other regions[60]. Weakness in the area of innovation means that productivity is lower than potential, given that innovative firms in Latin America and the Caribbean are more productive than non-innovative ones[61]. As argued by many business leaders in the region, a few large business groups dominate economic activity, thereby reducing the degree of competition[62]. In an environment of weak competition, firms tend not to invest in innovation sufficiently to drive increases in productivity[63]. One possible solution to this problem is the introduction of more effective competition policies. Overall, firms that export are more innovative[64], but only 31% of Caribbean firms exported (directly or indirectly) in 2013, according to the 2014 firm-level survey funded by Compete Caribbean.

In this context, institutional support is necessary to drive innovation in the private sector. Coordination between business, academia and government is essential, but government funding for innovation policy is generally low in the Caribbean, and thus most innovation and competitiveness strategies are funded by international donors[65]. Ideally funding should come from the private sector,

[59] Nurse.

[60] Rabellotti et al.

[61] Ibid.

[62] Ruprah et al.

[63] Ibid.

[64] Rabellotti et al.

[65] Nurse.

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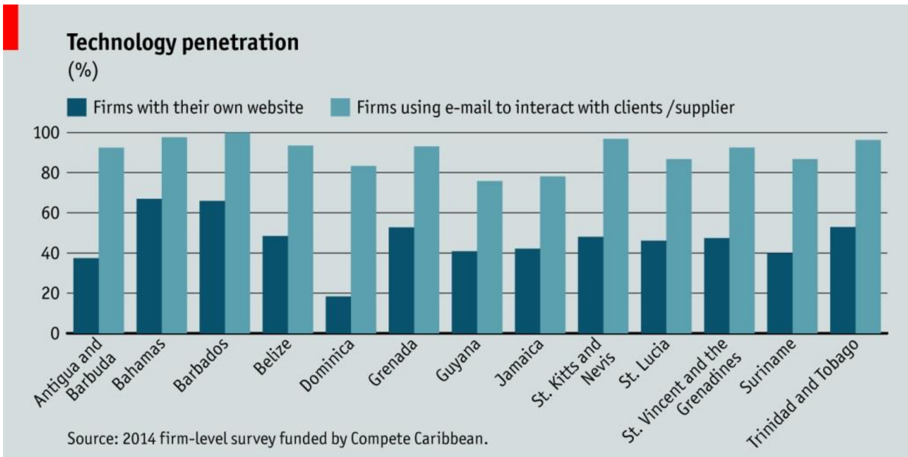
which is more efficient in stimulating applicable innovation than public funded research and development. The UN Educational, Scientific and Cultural Organization (UNESCO) notes that agencies dedicated to science, technology and innovation are lacking in Antigua and Barbuda, Belize, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and Suriname[66]. Given the small size of many Caribbean economies, a regional innovation system could prove an effective solution[67]. The IDB is funding a project to jump start a regional hub, the Caribbean Regional Entrepreneurial Assets Commercialization Hub, to share effective strategies for managing and monetizing intangible business assets for Caribbean entrepreneurs, thereby helping firms to increase their market value, market their products and find business partners[68]. Whatever the chosen approach, such a system needs to promote cooperation between research institutions and the business sector in order to increase the rate of return on research investments and ensure innovations are applicable to industry. Numerous sectors, including agriculture and tourism, would benefit from such cooperation. The agricultural sector faces a technology gap in the Caribbean, while tourism firms could benefit from advances in areas such as knowledge management[69].

Figure 15



A strategy to promote Internet connectivity and use in the region is an important precondition of any innovation agenda given Internet is a key infrastructure for the adoption of new technologies[70]. According to the World Bank, 49% of the Caribbean population are Internet users (compared with 43% globally and 81% in the OECD) and 11% have fixed broadband connections, on par with the global average but well below the OECD average of 29%. Although the vast majority of firms in the region use email to interact with clients and/or suppliers, the number of firms with their own website is relatively low in many

66 Rabellotti et al.

67 Nurse.

68 IDB, 2014. "RG-T2536: Caribbean Regional Entrepreneurial Assets Commercialization Hub". http://www.iadb.org/en/projects/project-description-title,1303.html?id=RG-T2536

69 SEGITTUR and CICtourGUNE.

70 Rabellotti et al.

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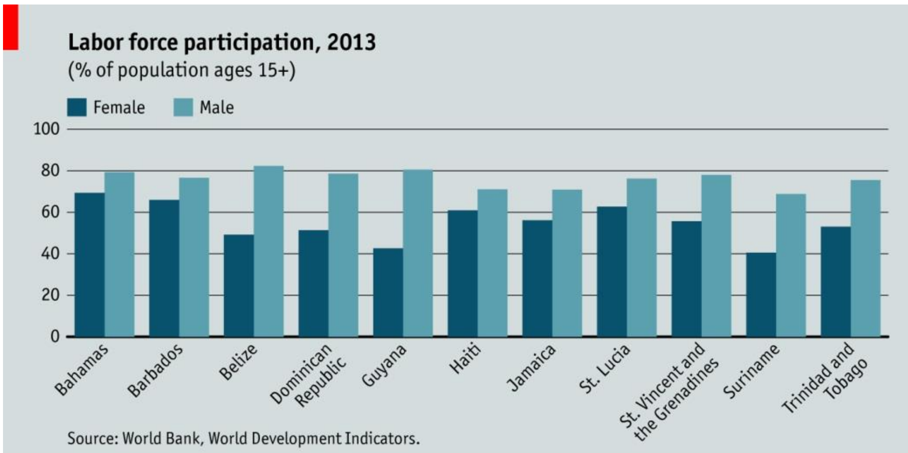
countries (see Figure 15). Fast, reliable internet access improves the efficiency and productivity of enterprises, according to the World Bank[71].

Further, governments should target support for innovation (funding and training) toward newly forming clusters: a targeted approach focused on specific industries is likely to have greater impact than broader support initiatives.[72] Finally, the promotion of creative thinking will fuel the innovation process[73]. Doing so means confronting rote-learning systems in the education system, command-and-control management techniques, risk-averse business practices and excessive government bureaucracy[74].

Gender

A scoping study of gender and enterprise development in the Caribbean was carried out in 2009 by the UK Department for International Development (DFID). The study notes that the Caribbean is characterized by low levels of labor market participation by women. Moreover, where women do participate in the labor market, it is mainly as employees and in low-growth, low-status and low-paying sectors. The suggested reason for this is the high level of gender stereotyping in the Caribbean, which has led to women being segregated educationally and consequently also occupationally and sectorally; this is despite the fact that women dominate tertiary education enrolment across the region.

Figure 16



Source: World Bank, World Development Indicators.

At 76% in 2013, the average labor force participation rate for men in the Caribbean is considerably higher than that for women (55%; see Figure 16)[75], while the average unemployment rate is higher among women, at 15% in 2013,

[71] World Bank, Broadband Toolkit. http://broadbandtoolkit.org/1.3

[72] Rabellotti et al.

[73] Nurse.

[74] Ibid.

[75] These averages include the 2013 labor force participation rates according to the World Bank in the Bahamas, Barbados, Belize, the Dominican Republic, Guyana, Haiti, Jamaica, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

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than among men (9%)[76]. Outside of the hotel and restaurant industry and the education sector, many of the employment activities in which women tend to be involved are in small, often informal, firms. Despite the major barriers to female participation in the labor market, the percentage of firms with women in top management positions averages 22% in the region, slightly above the 2010 global average of 18% (see Figure 17).

Figure 17

Environment

The small island states of the Caribbean face increasing threats from climate change and pressure on ecosystems. Many of these countries are dependent on marine, coral reef and other natural habitats for economic activities, ranging from tourism to agriculture and industry. Environmental pressures include deforestation, wetland destruction, removal of sea grass and coral reef degradation. In some countries population growth, coupled with agricultural, industrial and commercial expansion, has resulted in intense competition for land, leading to encroachment on and fragmentation of natural habitats. Biodiversity is also impacted by natural processes and events, such as erosion and hurricanes, the effects of which are often exacerbated by human activities and practices. Climate change is likely to amplify the negative effects of these natural events. Many countries have sought to address these challenges through the development of policies and programs to protect their biological resources. In addition, regional institutions and initiatives dealing with these problems exist in the region: they include the Caribbean Community Climate Change Centre, the Caribbean Region Climate Adaptation Partnership Initiative, the International Union for Conservation of Nature Caribbean Initiative and the Caribbean Risk Management Initiative.

[76] Average unemployment rates by gender are calculated using International Labour Organization (ILO) estimates for the Bahamas, Barbados, Belize, the Dominican Republic, Guyana, Haiti, Jamaica, Suriname, and Trinidad and Tobago.

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III. Large and emerging sectors

The Private Sector Assessment Reports (PSARs) analyze existing sectors of regional economies that contribute significantly to economic activity and growth, as well as emerging sectors that have the potential contribute to increased economic growth. These sectors have been identified based on their size, importance to the local economy and growth potential.

Business-process outsourcing and business services

The business-process outsourcing (BPO) sector is growing in a number of Caribbean countries. These economies are ideal locations for BPO, given their English-speaking populations, low labor costs and geographical proximity to North America, where many clients for such services are based. Jamaica, for example, has promoted BPO (and, more broadly, the information and communications technology sector) as a strategic growth industry by providing tax incentives.[77] International firms have responded with investments in BPO centers in the country, while local software-development firms have also been established. A US$6m facility has also been constructed to provide office space for BPO firms looking to set up operations on the island[78]. In addition, Compete Caribbean has contributed a US$500,000 grant to set up a call-center incubator in collaboration with the Jamaican national BPO industry association[79].

Trinidad and Tobago hosts 3,000 BPO jobs in businesses such as Scotiabank and RBC Royal Bank (both of Canada) and US-based Pan-American Life Insurance[80]. The country is a low-cost location for BPO providers, with highly competitive energy costs and average annual salaries in the range of US$14,000-18,000[81]. In addition, the government has invested almost US$2bn in tertiary education since 2000[82]. Belize, too, hosts a number of BPO companies and trades on the fact that its workforce is fluent in both English and Spanish.

Outside the BPO sector, other business and financial services make a significant contribution to economic activity in countries including Antigua and Barbuda, the Bahamas, Barbados, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. In Barbados, the business and financial services industry accounts

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77 Compete Caribbean, 2014. Private Sector Assessment of Jamaica. Inter-American Development Bank (IDB). http://competecaribbean.org/wp-content/uploads/2014/12/EIU-Jamaica-revised-final-12.4.14.pdf

78 Patterson, C., 2014. "US$6 M Invested in BPO Facility in Portmore". Jamaica Information Service. http://jis.gov.jm/us6-m-invested-bpo-facility-portmore/

79 McIntosh, D., 2014. "Compete Caribbean Program Gets US$500,000 Boost". Jamaica Information Service. http://jis.gov.jm/compete-caribbean-program-gets-us500000-boost/

80 invesTT, 2014. "Low costs, proximity to US bolster Trinidad's role in growing BPO sector". invesTT. http://www.investt.co.tt/blog/investt-blog/2014/may/low-costs-proximity-to-us-bolster-trinidads-role-in-growing-bpo-sector

81 invesTT, 2014. "ECLAC report examines Caribbean FDI trends". invesTT. http://www.investt.co.tt/blog/investt-blog/2014/may/eclac-report-examines-caribbean-fdi-trends

82 Nearshore Americas, 2014. "Trinidad and Tobago: Diversification Leads to Cost Savings for Financial Services Outsourcing". Next Coast Media and Marketing Services LLC. http://www.nearshoreamericas.com/ebook-trinidad-and-tobago-rediscovered/

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for more than 60% of corporate income tax and contributes around US$450m a year to the local economy.[83]

Tourism

Ecotourism is growing rapidly around the world—by some estimates, up to three times as fast as the broader tourism industry[84]. In 2012 the travel and tourism industry contributed 4.6% of GDP (US$15.7bn) and 3.9% of total employment in the Caribbean[85]. The industry's direct contribution to the economy is much higher in some individual countries: in 2012 it stood at 48.4% of GDP and 57.4% of employment in the Bahamas, and at 77.4% of GDP and 71.5% of jobs in Antigua and Barbuda[86]. Given the importance of tourism to the regional economy, the Caribbean needs to increase its competitiveness in this sector. The islands should develop more high-end tourism, which is more lucrative and typically environmentally friendly. This includes ecotourism but also cultural tourism and high-end gastro-tourism.

Ecotourism resources and attractions in the Caribbean include coastal and marine resources in the Bahamas and St. Kitts and Nevis, as well as forest, mountains, volcanoes and waterfalls in Trinidad and Tobago and Guyana[87]. Cultural and heritage tourism attractions are also being developed and promoted in Grenada, St. Vincent and the Grenadines, and Jamaica.

Higher education

Offshore higher education has been a significant activity in the Caribbean since 1976, when St. George's University in Grenada was founded as an offshore medical university[88]. St. George's currently has more than 6,000 students (most of them hailing from the US and the UK) enrolled in its undergraduate and postgraduate degree programs. The university contributes more than US$100m annually to the local economy[89]. The education sector in Grenada has grown consistently since 2001, and in 2011 it accounted for 19% of GDP and employed almost 8% of the labor force[90].

Other countries in the region also offer offshore education services. St. Lucia hosts six offshore medical schools, and is seeking to strengthen the sector by establishing an accreditation council and improving infrastructure by building and refurbishing hospitals[91]. In Antigua and Barbuda, the American University of Antigua has expanded as part of the country's strategy to increase the size of

83 Compete Caribbean, 2014. Private Sector Assessment of Barbados. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/EIU-Barbados_FINAL-with-cover.pdf

84 Wilson, S., 2014. Cariforum Ecotourism Industry Value Chain Analysis. IDB. http://competecaribbean.org/resources/private-sector-development/value-chain-analysis-ecotourism-industry/?preview=true&preview_id=3065&preview_nonce=ab4b71d841

85 Ibid.

86 Ibid.

87 Wilson.

88 Compete Caribbean, 2014. Private Sector Assessment of Grenada. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/Grenada-Final.pdf

89 Ibid.

90 Ibid.

91 Compete Caribbean, 2014. Private Sector Assessment of St. Lucia. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/EIU-St.-Lucia-FINAL-9.25.14.pdf

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the sector[92]. Meanwhile, in Dominica education services have been the second-largest economic sector in the past decade, contributing 14% of GDP on average; this trend has been driven mainly by the expansion of the private education subsector, which provides medical education to foreign students[93].

Agriculture and food processing

Agriculture has received renewed interest in the Caribbean recently, following two decades of decline in large-scale, export-oriented production of commodity crops such as sugar and bananas as the Caribbean's preferential access to major markets eroded. Indeed, the agricultural and food-processing sector receives the largest proportion of investment from the region's diaspora.[94]A focus on high-value niche products—such as organic vegetables, spices, coffee and specialty grains—is essential if the sector's decline is to continue to be reversed[95]. Agriculture accounts for around 16% of employment in the Caribbean overall, and for around 30% in Guyana, 25% in Dominica and 18% in Jamaica[96].. Small farmers in the Caribbean—around 30% of whom are women—typically work plots of 2 ha or less[97]. In addition to crop cultivation, farmers may raise livestock or practice small-scale aquaculture. According to the World Bank, agricultural value added stood at just under 5% of regional GDP in 2012. However, the proportion was higher in Guyana, at 21.5% of GDP, Dominica (14.9%) and Suriname (9.3%).

In Dominica, agriculture was the fastest-growing sector of the economy in 2008-12.[98] The contraction of the banana industry, beginning in 1992 as European trade preferences began to be withdrawn, presented challenges, but farmers began to market "fair trade" bananas to the EU in 2002, which lessened the shock[99]. The Dominican agricultural sector has received continuous investment and is more competitive than its regional counterparts. The government has supported the sector by rebuilding roads and supporting irrigation projects. Antigua and Barbuda, meanwhile, has used investment incentives to spur agricultural development, but the country requires an electronic market-information system and needs to increase economic links between the agricultural sector and rest of the domestic economy, including tourism[100]. In

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[92] Compete Caribbean, 2014. Private Sector Assessment of Antigua and Barbuda. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/EIU-Antigua-Barbuda-Final.pdf

[93] Compete Caribbean, 2014. Private Sector Assessment of Dominica. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/Dominica-Private-Sector-Assessment-Report.pdf

[94] UWI Consulting.

[95] Tandon, N., 2014. Strengthening Sustainable Agriculture Practices in the Caribbean. http://competecaribbean.org/resources/private-sector-development/strengthening-sustainable-agriculture-caribbean/

[96] Ibid.

[97] Graham, B., 2012. "Profile of Small-Scale Farming in the Caribbean". UN Food and Agriculture Organization. http://www.rlc.fao.org/fileadmin/templates/iniciativa/content/pdf/eventos/agric-fam-caribe-2012/profile-small-scale-farming-in-the-caribbean.pdf

[98] Compete Caribbean, 2014. Private Sector Assessment of Dominica. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/Dominica-Private-Sector-Assessment-Report.pdf

[99] UN Economic Commission for Latin America and the Caribbean, undated. "Wither the agricultural sector in the Caribbean?". http://www.cepal.org/portofspain/noticias/bolnoticias/9/26869/issue19.pdf

[100] Compete Caribbean, 2014. Private Sector Assessment of Antigua and Barbuda. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/EIU-Antigua-Barbuda-Final.pdf

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other Caribbean economies, economic links between agriculture and tourism need to be strengthened. This could entail supplying fresh foods to hotels and cruise ships or offering farm tours, among other options[101].

In Grenada, nutmeg production is a traditional industry. Before hurricanes struck in 2004 and 2005, a total of 6,570 nutmeg farmers were active on the island, but their number fell to 2,500 following the disasters[102]. However, continued global demand means that the crop is still attractive for farmers. In St. Vincent and the Grenadines more than 4,000 people work in the agricultural sector. Many of them are organized in alliances and cooperatives[103], and this has encouraged the development of agro-processors and also of links to the tourism sector, which is eager to purchase value-added products such as chocolate. However, agro-processing industries across the Caribbean could benefit from the further development of standards and improvement of testing practices to ensure quality.

Energy and mining

Many Caribbean countries depend on imported fuel to meet their energy needs. But some are exploring renewable-energy options in order to reduce electricity costs (high power prices are a frequently cited concern for businesses) and create jobs.

Barbados is a small-scale oil and gas producer, but its government is seeking to promote the transition to alternative energy sources for electricity production. Solar-panel and solar water-heating companies have emerged[104], and additional technologies include biomass and wind farms, so that it is estimated that renewables could produce 30% of the country's energy by 2029[105]. In Dominica a geothermal plant is under construction, and the country is investigating the possibility of exporting electricity to Guadeloupe and Martinique as its geothermal sector expands[106].

Trinidad and Tobago is a case on its own, being the region's largest oil and gas producer. The government has welcomed foreign investment in the natural gas sector and has promoted the production of liquefied natural gas (LNG) for export. In addition, the country hosts industries that require large amounts of inexpensive energy, such as the manufacture of methanol, ammonia and steel. A nascent energy-sector service industry is developing in Trinidad, with the ability to sell high-value-added goods and services to energy companies locally and overseas.

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101 Tandon.

102 Compete Caribbean, 2014. Private Sector Assessment of Grenada. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/Grenada-Final.pdf

103 Compete Caribbean, 2014. Private Sector Assessment of St. Vincent and the Grenadines. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/St.Vincent-the-Grenadines-FINAL.pdf

104 Compete Caribbean, 2014. Private Sector Assessment of Barbados. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/EIU-Barbados_FINAL-with-cover.pdf

105 Ibid.

106 Compete Caribbean, 2014. Private Sector Assessment of Dominica. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/Dominica-Private-Sector-Assessment-Report.pdf

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Suriname is another regional economy with a substantial extractive industry presence, with a well-established mining sector. However, the mining sector has few links to the rest of the economy. Gold mining companies purchase most of the value-added goods and services that they require from foreign suppliers. However, there is scope to expand the links between miners and domestic firms so as to enhance the contribution of mining activities to the wider economy[107]. Guyana's experience with mining has differed from that of Suriname; mining in Guyana is closely linked to other sectors in the economy, and most goods and services for the sector (with the exception of large machinery) are purchased in the domestic market[108]. These forward and backward links have increased investment and spending in the local economy, including large investments in real estate[109].

[107] Compete Caribbean, 2014. Private Sector Assessment of Suriname. IDB. http://competecaribbean.org/wp-content/uploads/2014/12/2014-Suriname-Private-Sector-Assessment-Report.pdf

[108] Compete Caribbean, 2014. Private Sector Assessment of Guyana. IDB. http://competecaribbean.org/wp-content/uploads/2014/12/2014-Guyana-Private-Sector-Assessment-Report.pdf

[109] Ibid.

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IV. Priority areas and action plans

The challenge for Caribbean economies is to create domestic industries that generate jobs and boost economic growth. Instead of focusing narrowly on individual sectors, policymakers need to examine the entire value chain related to new economic activities and promote the creation and growth of small- and medium-sized enterprises (SMEs), while also targeting increased productivity and export competitiveness of local firms[110]. Based on the PSARs for the 15 countries included in this research, together with additional research funded by Compete Caribbean and further secondary research, a number of policy recommendations can be made. These include prioritizing public-private partnerships (PPPs), promoting dialogue between the public and private sectors, and ensuring that economies leverage human-capital resources.

Dialogue between the public and private sectors and prioritization of issues

The next phase of economic development in the Caribbean region needs to be based on innovation-driven growth, in order to better weather external shocks (including financial instability, climate change, and volatility in food and commodity prices) and avoid the low-value-added and commodity traps[111]. To achieve this, countries will have to broaden the range of stakeholders that provide input during the development of growth-enhancing policies, sectoral strategies and investment programs[112]. Stakeholder groups must include a wide range of actors from the public and business sectors and from civil society, and should encompass women, young people, civil-society organizations and the Caribbean diaspora[113].

Private-sector assessment exercises conducted across the region have heard calls for collaboration and dialogue. In particular, it has been noted that a prerequisite for such collaboration is improved organization among business leaders, in order to enable the business sector to engage in effective dialogue with government[114]. The Social Partnership model established in Barbados is one example that has been proposed as a possible solution for other countries. The main measures that have been called for are:

- The establishment of committees comprising representatives of government, business and labor
- Simplification and improvement of governments' support systems for businesses
- The development of national strategic plans that prioritize private-sector development based on the issues identified by the committees

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[110] Ruprah et al.

[111] Nurse.

[112] Caribbean Growth Forum, undated. "Background". http://siteresources.worldbank.org/INTLAC/Resources/CGF_background.pdf

[113] Compete Caribbean, 2013. "Caribbean Growth Forum (CGF)". http://www.competecaribbean.org/projects/projects-reform/caribbean-growth-forum-cgf

[114] Special Studies Unit, 2013. Compete Caribbean OECS Project Private Sector Assessment and Donor Matrix Report for Antigua and Barbuda. University of the West Indies.

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Public-private partnerships

The Caribbean region faces a pressing need for infrastructure investment to enable the private sector to drive economic growth. Private investment is an important means of filling the infrastructure financing gap amid fiscal constraints governments face across the region. This approach has the benefits of spreading the high cost of infrastructure financing amid different stakeholders, as well as leveraging the private sector's expertise in infrastructure management and efficiency, gained from similar projects elsewhere. The International Finance Corporation (the World Bank's private-sector financing arm) has identified several steps that governments can take to facilitate PPP projects in the region:

- Explore the harmonization of PPP legislation in the region, especially among countries with similar legal systems
- Consider creating PPP units in countries that lack them
- Build project identification, selection, and development capacity through national training and sharing experiences at national level
- Establish a regional PPP center of excellence[115]
- Identify and plan for the fiscal impact of PPPs early on

Policy tools to stimulate private-sector development

Caribbean governments have a wide array of policy tools at their disposal as they seek to encourage innovation and enhance productivity in the private sector, ultimately boosting the competitiveness of their economies. Innovation drives higher productivity, and is a key element in the creation of new industries and jobs. Governments can support innovation directly via funding, as well as indirectly through policy incentives. A discussion of innovation led by the Caribbean Growth Forum in 2013 resulted in several recommendations that are applicable across the region:

- Facilitating industry associations and networks that could lead to an increase in partnerships and collaborations between enterprises. (Support for such networks should also consider the knowledge networks and links that exist in the diaspora.)
- Seeking alternative funding mechanisms for start-ups, including incubators, crowd funding and "shepherding"
- Promoting enterprise development with a focus on innovation-driven enterprises
- Offering entrepreneurial training in order to share new practices with Caribbean firms in areas such as risk management and the collateralization of intellectual property[116]

Ensuring the best possible environment for business is another area in which government intervention is desirable. The aim here is to ensure the ease of doing business and fair competition conditions.. To improve the business environment, governments should:

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[115] Ibid.

[116] Nurse.

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- Make all aspects of doing business easier. This includes reforms in the areas of starting businesses, dealing with permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing businesses
- Invest in infrastructure, particularly transportation systems and information and communications networks
- Resolve investment applications quickly and fairly
- Facilitate exports. This includes helping enterprises to obtain finance, making available transparent customs information, providing efficient customs procedures, and educating businesses about how to take advantage of free-trade agreements[117].

Government investment in information technology infrastructure brings the digital highway to firms nationwide. Promoting increased technology use by SMEs can accelerate their growth and raise their success rates. Globally, small firms that use the Internet export twice as much on average as those that do not[118]. In industries such as agriculture, technology is underexploited in the Caribbean. With the proper training and investment, farmers can use technology to increase the efficiency of business transactions, improve communication, market their products, reduce the costs associated with record-keeping, check market prices and access mobile finance. In manufacturing, better use of technology can translate into improved manufacturing techniques that increase efficiency. Technology transfers through partnerships with foreign firms, as well as with academia, are one means of introducing these technologies into the private sector.

Assessments of the region's private sector have routinely highlighted the difficulties that firms—and particularly SMEs—encounter in obtaining finance, and World Bank statistics show that the proportion of their funds that businesses in the Caribbean obtain from the commercial banking system is small. Governments can implement policies to address this problem. However, financial institutions must also make changes in order to improve access, including the following:

- A regional development institution with a remit similar to that of the International Finance Corporation could fill funding gaps faced by the private sector, including farmers, manufacturers and other businesses[119].
- Economies could benefit from the establishment of credit bureaux and collateral registries at national or regional level[120].

[117] Ruprah et al.

[118] Ibid.

[119] Compete Caribbean, 2014. Private Sector Assessment of Barbados. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/EIU-Barbados_FINAL-with-cover.pdf

[120] In 2014 Jamaica enacted legislation that allowed firms to use a broader range of assets as collateral and also established a notice-based collateral registry. These changes supported a marked improvement in Jamaica's rankings in the annual Doing Business 2015 report.

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- Financial institutions should increase their adoption of technologies that have the potential to increase efficiency and reduce costs, resulting in savings that can be passed on to borrowers in the form of lower interest rates and other charges[121].
- The Eastern Caribbean Enterprise Fund is an example of a tool that can provide equity financing as well as debt financing to promising SMEs, but more mechanisms and incentives to make both types of financing available are needed in the region[122].
- Business people need more training in order to increase firms' formality and to enable them to improve the collection and organization of the information that lenders require when considering loan applications[123].

The agricultural sector, in particular, requires specific actions to improve access to finance, including increasing the affordability of loans, designing credit products to match specific crop cycles and developing customized insurance products for smallholders[124].

Finally, building and supporting entire value chains is essential to creating lasting economic growth in Caribbean economies. These chains will include clusters at various economic levels that will need different types of support. In innovative clusters, actions should target projects that will keep these clusters on the knowledge frontier. Sluggish clusters, by contrast, will need to receive support to enhance innovation, for example by creating networks and increasing their access to technology[125].

Talent for the 21st century

Promoting the development of the private sector requires talented staff in public bodies to implement new policies, as well as capable managers and workers to make businesses successful. Experts observe that, even in a sector as well established in the Caribbean as tourism, businesses lack qualified personnel because universities and training programs do not teach the requisite skills. Companies face talent shortages due to candidates' high salary expectations and a shortage of candidates with the appropriate skills. In order to hire the top people, firms and governments must make talent management part of their overall strategy, ensuring that formal qualifications offered by educational institutions are aligned with organizations' needs. To increase the efficiency of the Caribbean tourism sector, educational programs need to incorporate skills development in business-management models, online marketing and customer-relationship management[126]. More broadly, training programs need to be matched with emerging economic clusters. Education in

[121] Compete Caribbean, 2014. Private Sector Assessment of Antigua and Barbuda. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/EIU-Antigua-Barbuda-Final.pdf

[122] Compete Caribbean, 2014. Private Sector Assessment of St. Lucia. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/EIU-St.-Lucia-FINAL-9.25.14.pdf

[123] Compete Caribbean, 2014. Private Sector Assessment of Grenada. IDB. http://competecaribbean.org/wp-content/uploads/2014/10/Grenada-Final.pdf

[124] Tandon.

[125] Rabellotti et al.

[126] SEGITTUR and CICtourGUNE.

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the areas of science, technology, engineering and mathematics should also be improved.[127] In agriculture, farmers need to receive training on more sustainable methods of cultivation, including practices that will allow them to obtain organic and other types of value-added certification.[128]

In terms of human capital and entrepreneurship, relevant actors within Caribbean economies should:

- Identify and disseminate core technological and market knowledge to entrepreneurs, and train high-level personnel who will act as trainers in local networks
- Promote entrepreneurship via marketing and communications campaigns
- Identify the needs of specific clusters, and implement innovation and business-training programs that improve their competitiveness
- Develop and implement a school entrepreneurship program to engender an entrepreneurial culture from a young age
- Provide opportunities for networking with entrepreneurs in other countries, including those within the diaspora, and invite foreign entrepreneurs to participate in the local economy
- Create flexible higher-education programs that promote project-based, multidisciplinary education[129]
- Tap into the knowledge and networks of the diaspora

Conclusion

Stimulating sustainable growth led by the private sector must be a priority in the Caribbean. In the short term, the region will face a more difficult economic environment, reflecting the still-challenging global economic climate and a series of local constraints, including stretched public finances, over-reliance on the public sector and a deficit of skilled labor. These challenges are, however, surmountable Private-sector-oriented solutions will be essential, including improved firm-level productivity, economic diversification, greater engagement of diasporas, and deeper involvement with local educational institutions.

The challenge for Caribbean economies is to create domestic industries that generate jobs and boost economic growth—and to rely less on government as a source of employment and growth. Policymakers must examine the entire value chain related to economic activities and promote the creation and growth of small- and medium-sized enterprises, while also targeting improved export competitiveness of local firms. Key to achieving these goals is prioritizing public-private partnerships (PPPs), promoting dialogue between the public and private sectors, and ensuring that economies leverage human-capital resources. All of these steps will take time; overcoming longstanding constraints will not be easy. But governments can do much to streamline operating conditions, including

127 Ruprah et al.

128 Tandon.

129 Vicens, L. and Grullón, S., 2011. Innovation and Entrepreneurship: A Model Based on Entrepreneur Development. IDB. http://www.competecaribbean.org/wp-content/uploads/2013/06/Vicens_and_Grullon_final_Innovation-and-Entrepreneurship-A-Model-based-on-Entrepreneur-Development-english.pdf

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improving the business environment, providing training and networking opportunities, investing more in infrastructure and approving investment applications quickly. With focus and commitment, measurable progress is possible.

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