Regional Policy Dialogue

Innovation In The Service Sector: Opportunities For The Caribbean

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Executive Director of the Compete Caribbean Program
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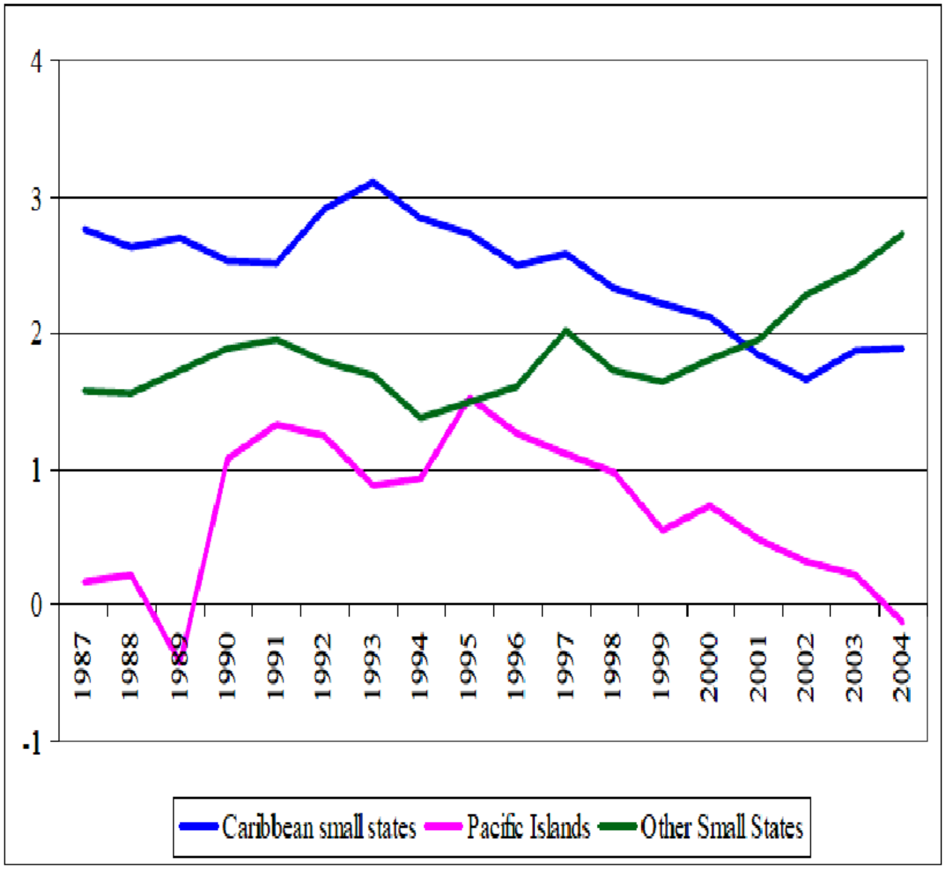
Belize City, December 5th , 2011

Caribbean Economic Growth



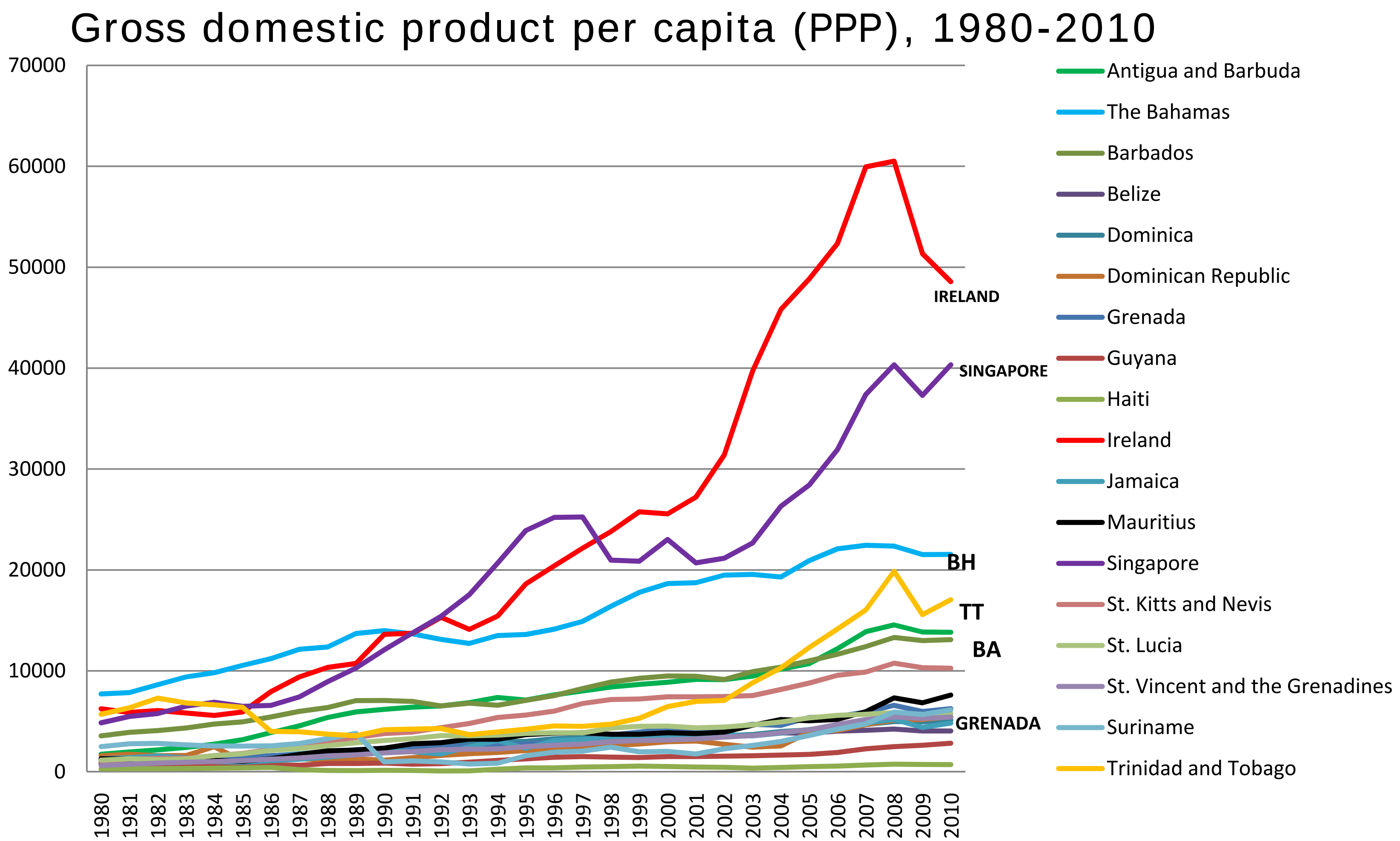
Source: WDI. Note. Average GDP per capita growth rates, ten-year moving averages, 12 countries in the Caribbean Small States, 11 countries in Pacific Islands, and 26 countries in Other Small States.

- The Caribbean is the world's largest group of small states
- The three countries with the fastest growth between 1974- 2004 were St. Kitts and Nevis, Antigua and Barbuda, and Grenada with an average per capita growth of 4 percent.
- The service sector has been the main contributor to growth in the Caribbean, the industry sector grew just as fast as the services sector but due its smaller share to GDP its contribution to growth was limited.

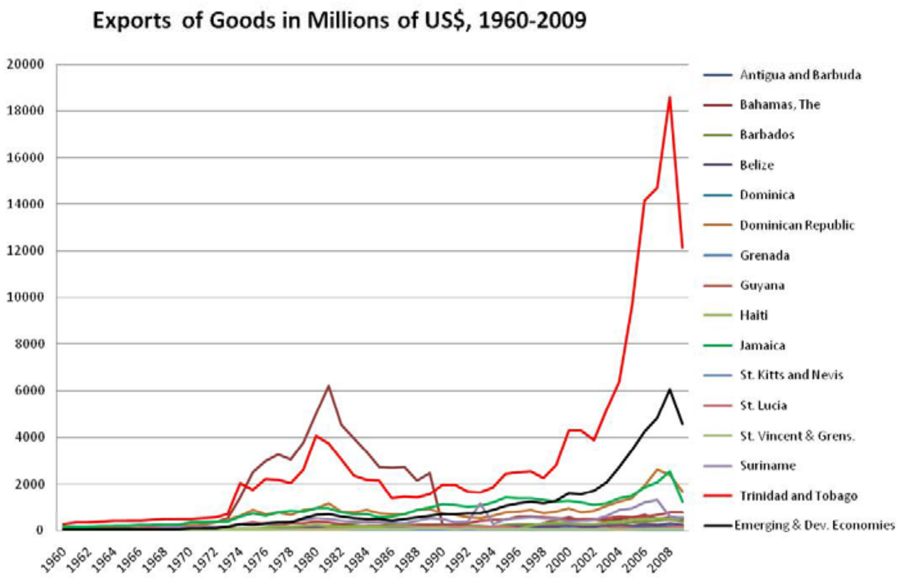
Source: Caribbean Small States-Growth Diagnostics, World Bank 2005

The region experienced low economic growth with an average of 2.4% between 1960-2010

COMPETE CARIBBEAN

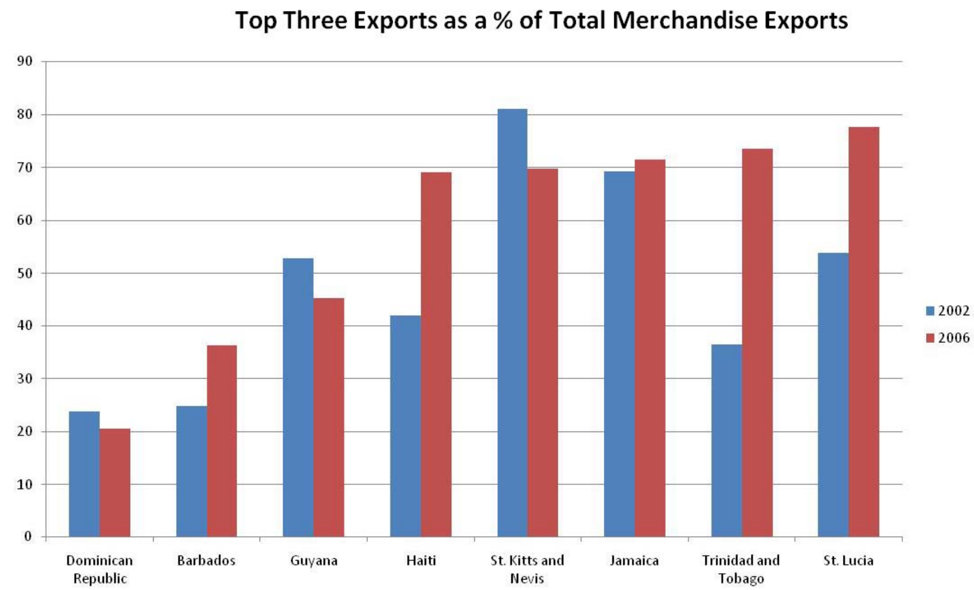


Source: International Monetary Fund, World Economic Outlook, September 2009



Except for Trinidad and Tobago exports are low

High concentration of exports



Source: International Monetary Fund, International Financial Statistics

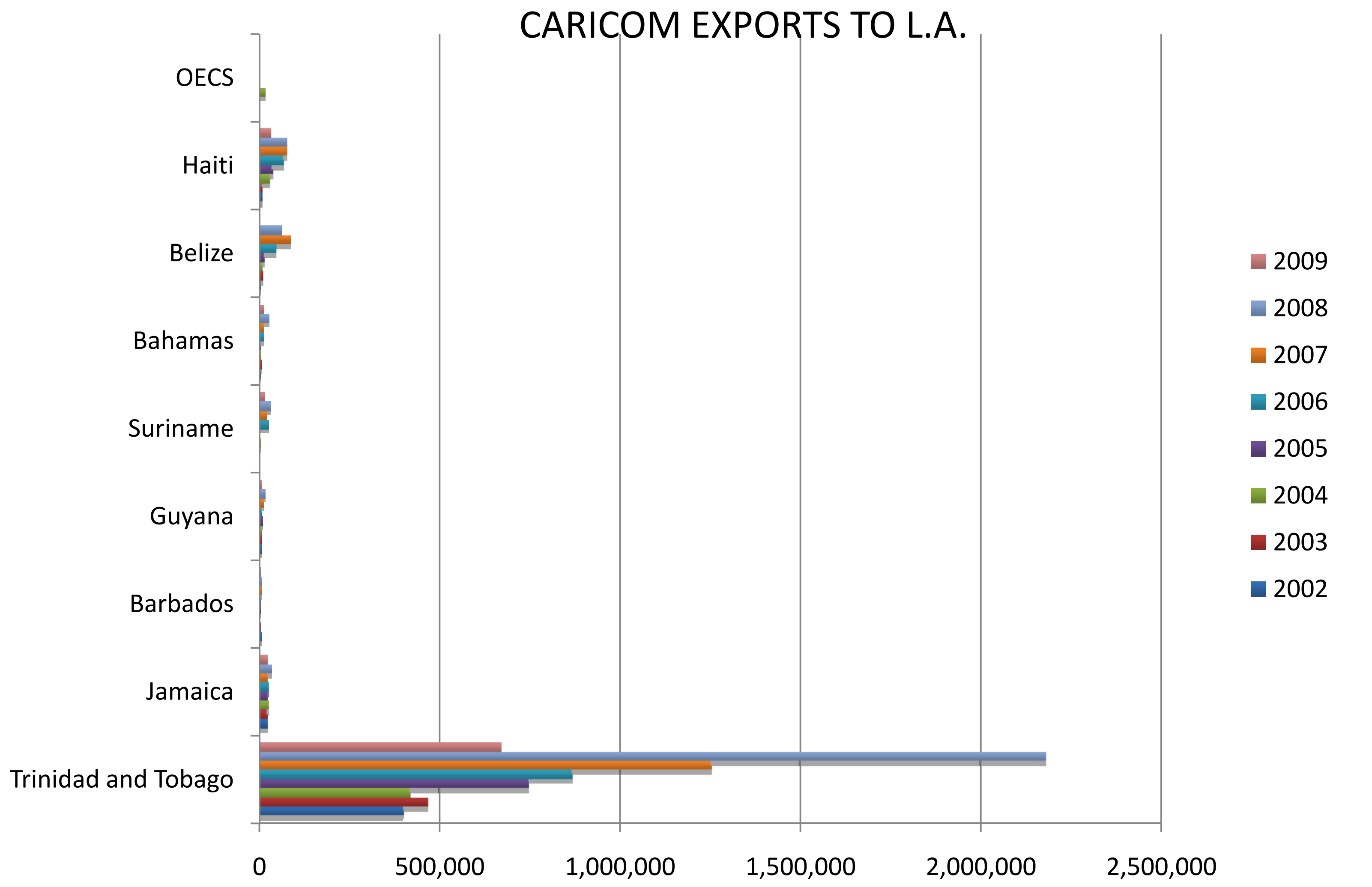
Caribbean Trade Data

Country	Population (thousand, 2009)	GDP (million current US$, 2009)	Current account balance (million US$, 2009)	Trade per capita (US$)**	Trade to GDP ratio**	Rank in world merchandise exports, 2009	Rank in world commercial services exports, 2009
Antigua & Barbuda	88	1,132	-262	17,271	128.6	180	132
Bahamas	342	7,234	-864	22,056	105.8	155	84
Barbados	256	3,682	-309	17,194	127.7	164	95
Belize	333	1,359	-94	5,020	127.4	166	145
Dominica	74	378	-123	5,584	111.8	188	173
Dominican Republic	10,090	46,598	-4,437	2,723	60.9	95	63
Grenada	104	627	-175	5,716	92.7	189	166
Guyana	762	1,159	-192	2,793	203.3	151	155
Haiti	10,033	6,693	-232	338	52.4	158	144
Jamaica	2,700	14,681	-3,038	4,834	92.5	132	79
St. Kitts & Nevis	50	545	-185	11,877	107.6	185	168
St. Lucia	172	946	-187	7,285	128.7	173	142
St. Vincent & The Grenadines	109	583	-198	5,552	105.7	184	163
Suriname	520	3,033	353	6,109	123.3	128	152
Trinidad and Tobago	1,339	21,087	5,364	15,338	110.2	78	114

**most recent 3-year average

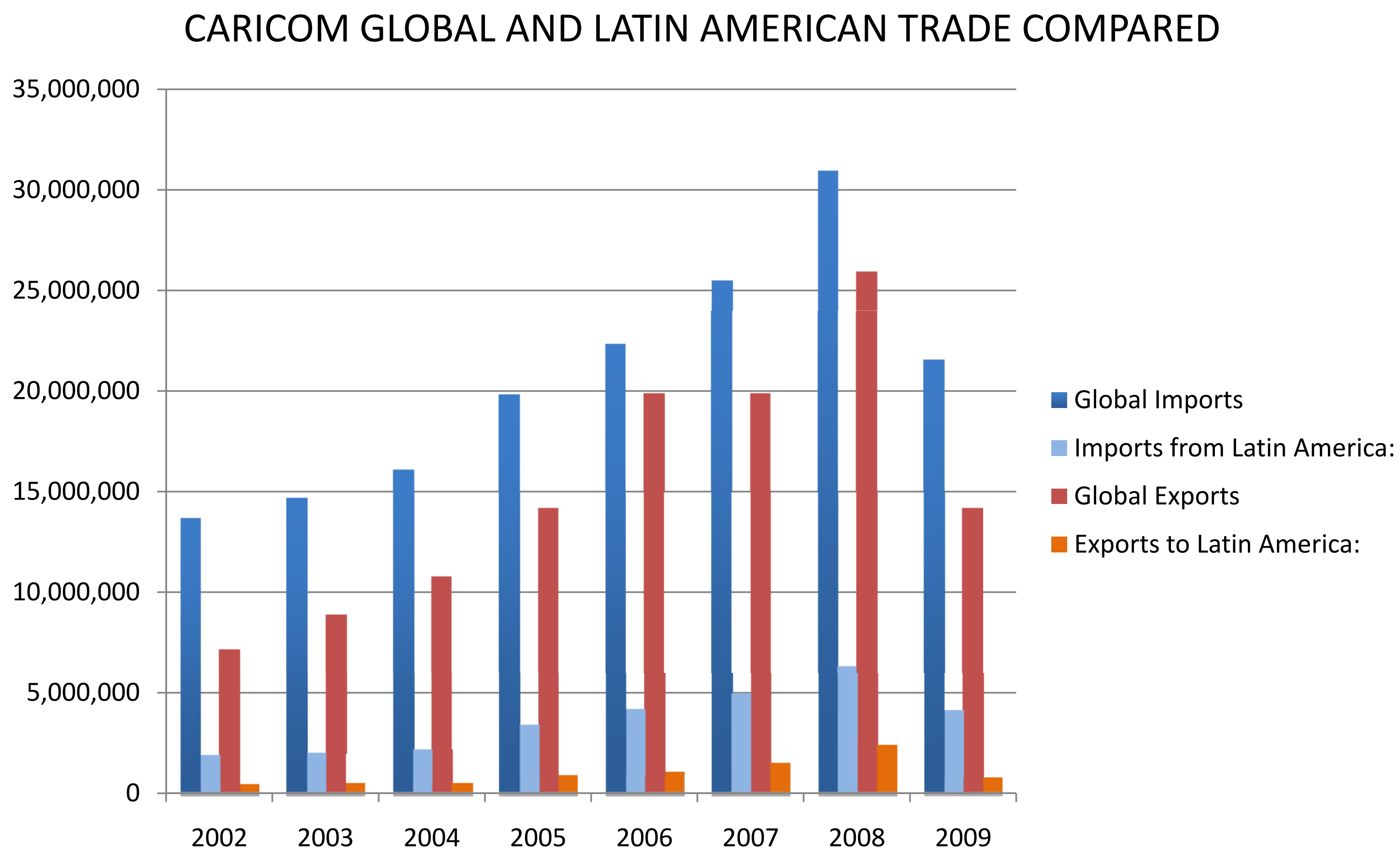
Source: WTO *Trade Profiles 2010*

TRADE FLOWS WITH LATIN AMERICA

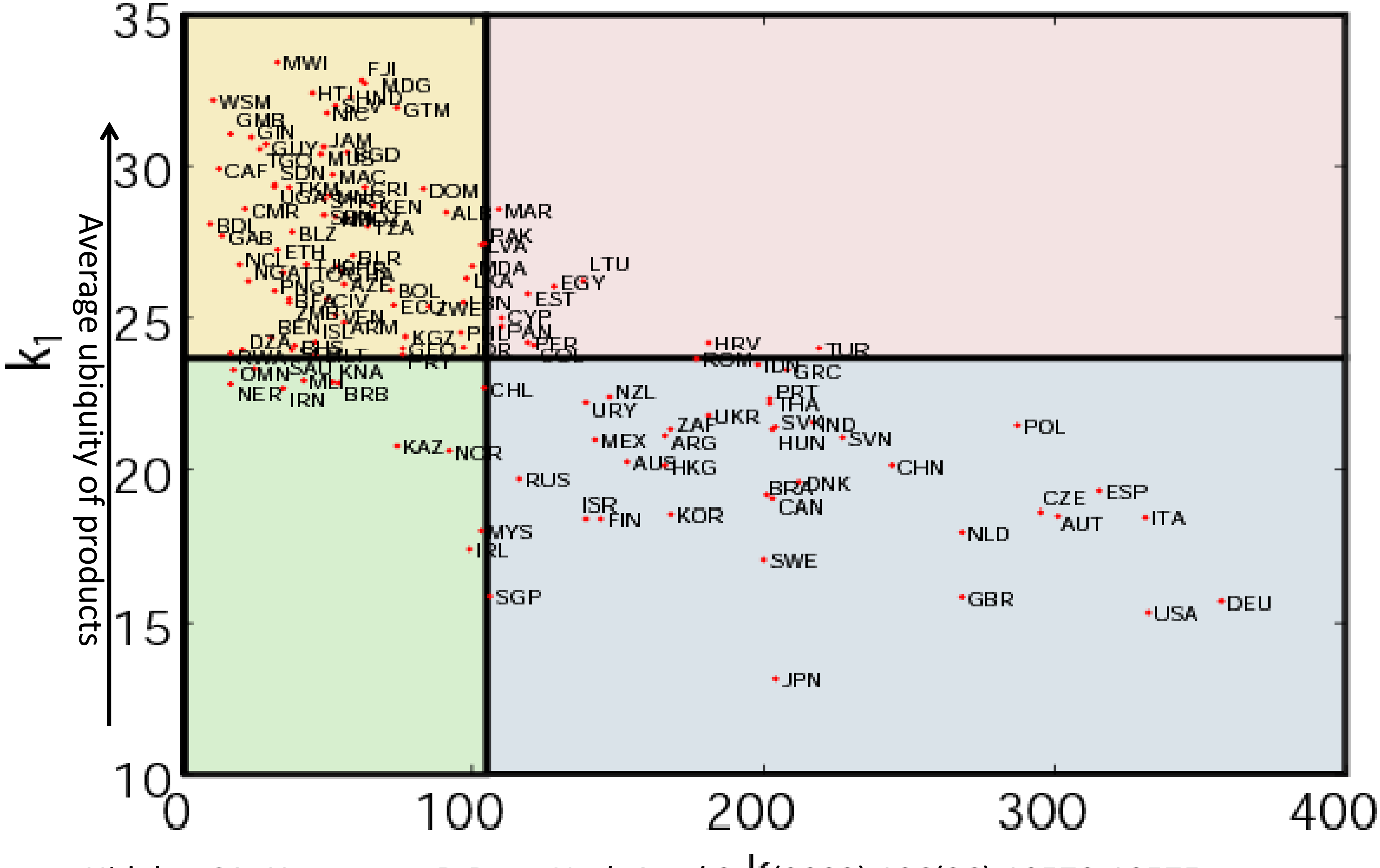


TRADE FLOWS WITH LATIN AMERICA

COMPETE CARIBBEAN

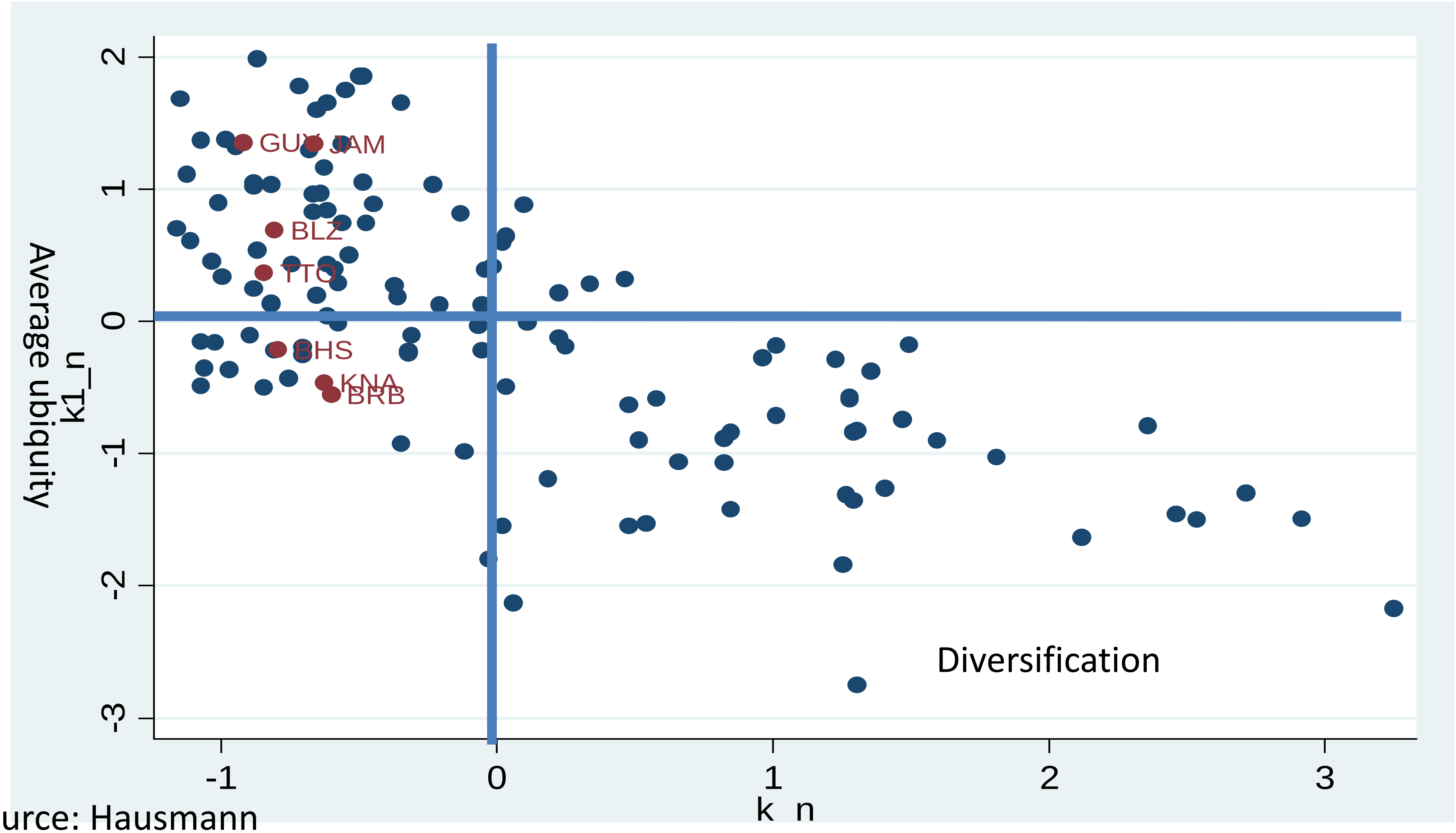


Diversification and average ubiquity



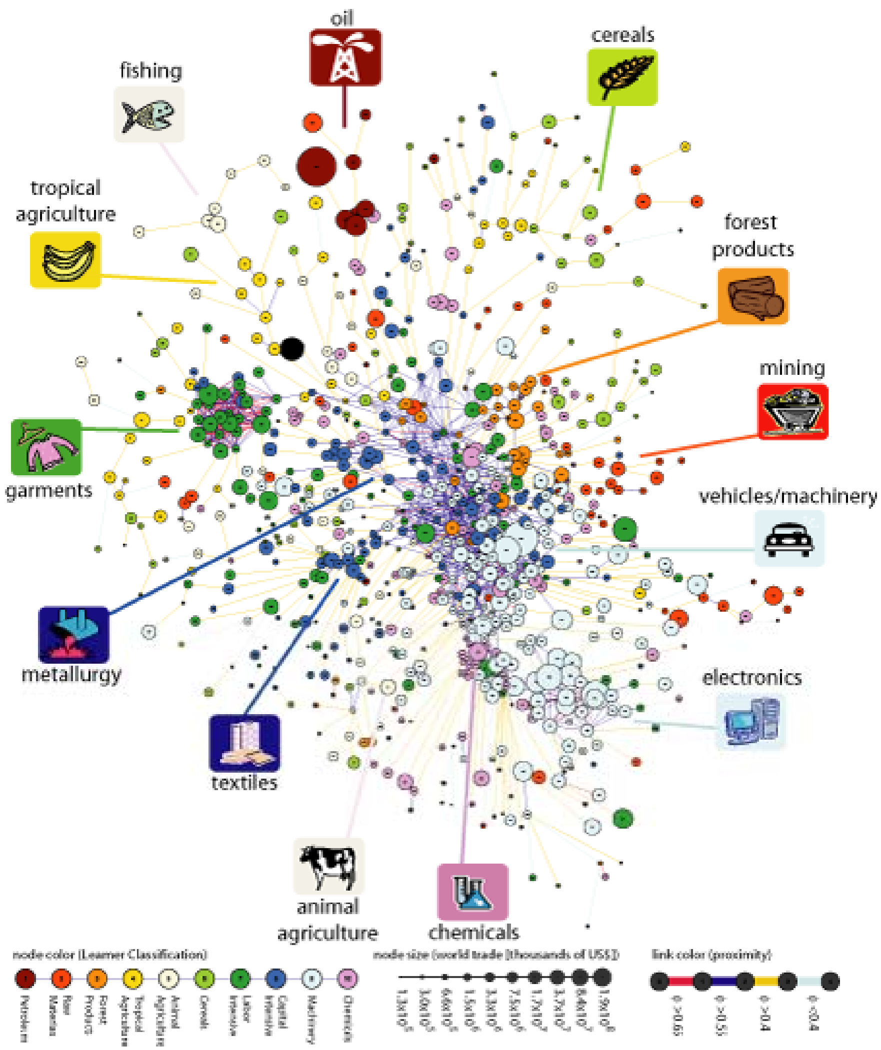
Source: Hidalgo CA, Hausmann R *Proc. Natl. Acad Sci.* (2009) 106(26):10570-10575

The Caribbean is poorly diversified and specializes in ubiquitous products



Source: Hausmann

The Product Space



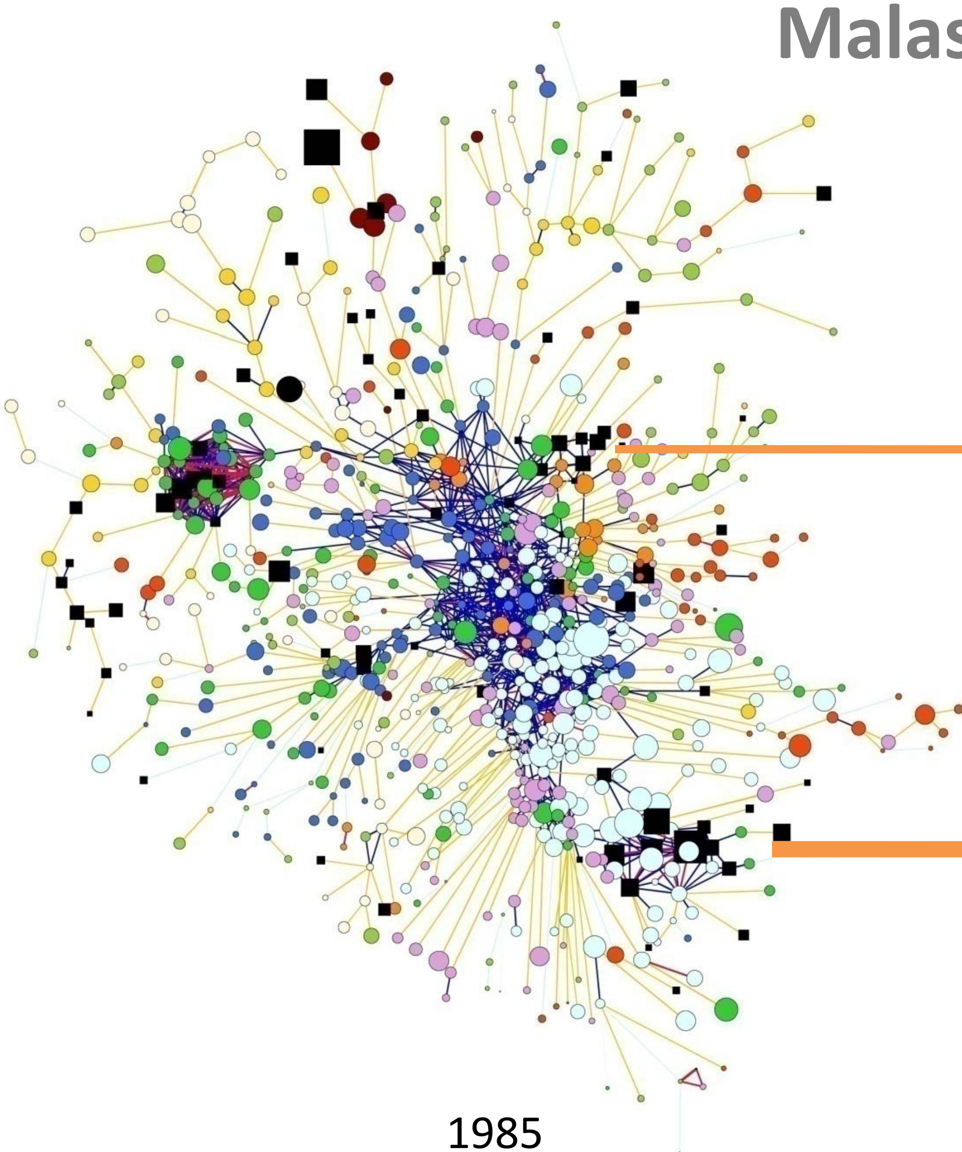
The product space argues that nations develop by moving from production of low-value goods to high-value goods.

The product space is highly heterogeneous, there are peripheral products that are only weakly connected to other products, located on the outer edges of the space, and there is a core of closely connected products in the center of the network, mainly of machinery and other capital intensive goods.

This heterogeneous structure of the product space has important implications for structural transformation. If a country is producing goods in a dense part of the product space, then the process of structural transformation is much easier because the set of acquired capabilities can be easily re-deployed to other nearby products.

Source: Hidalgo CA, B Klinger, A-L Barabasi, R Hausmann, Science (2007)

Malasia



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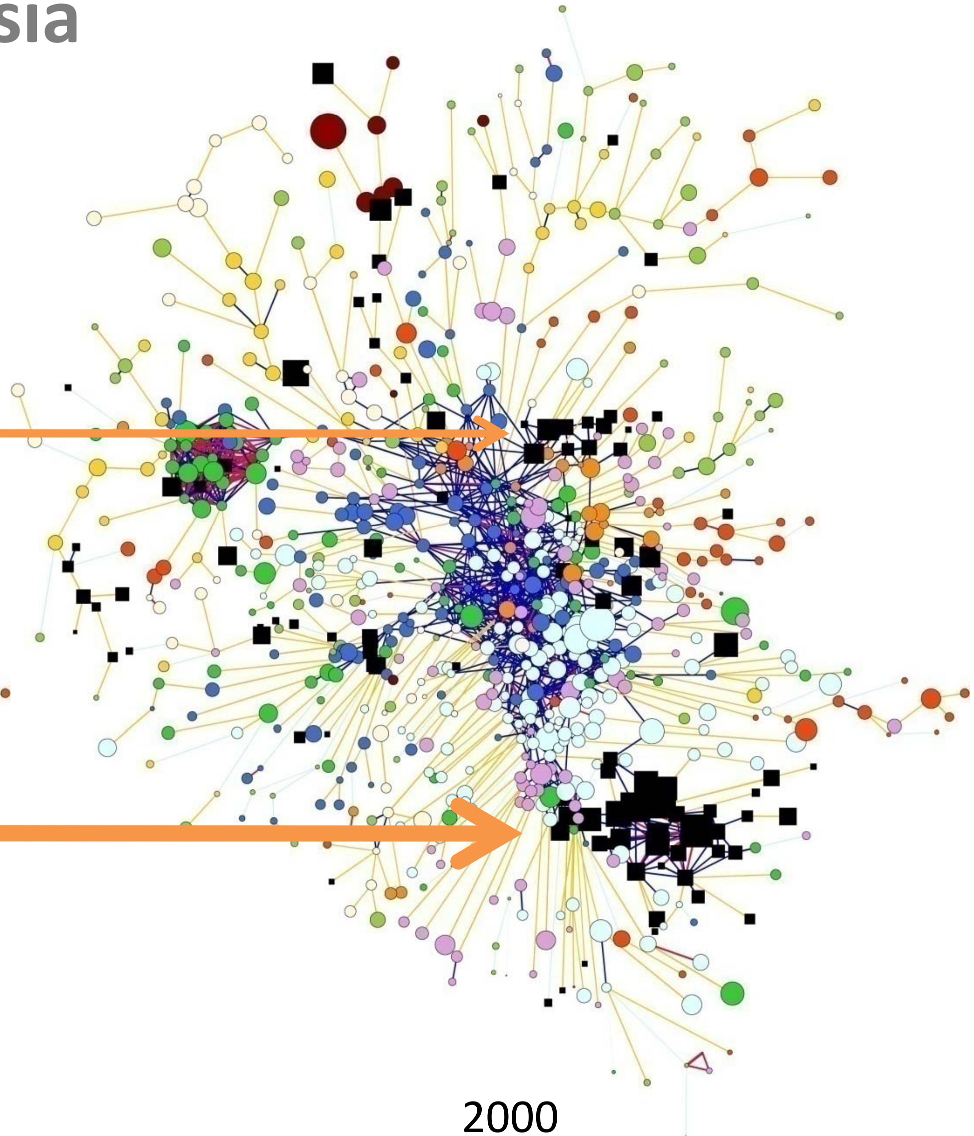

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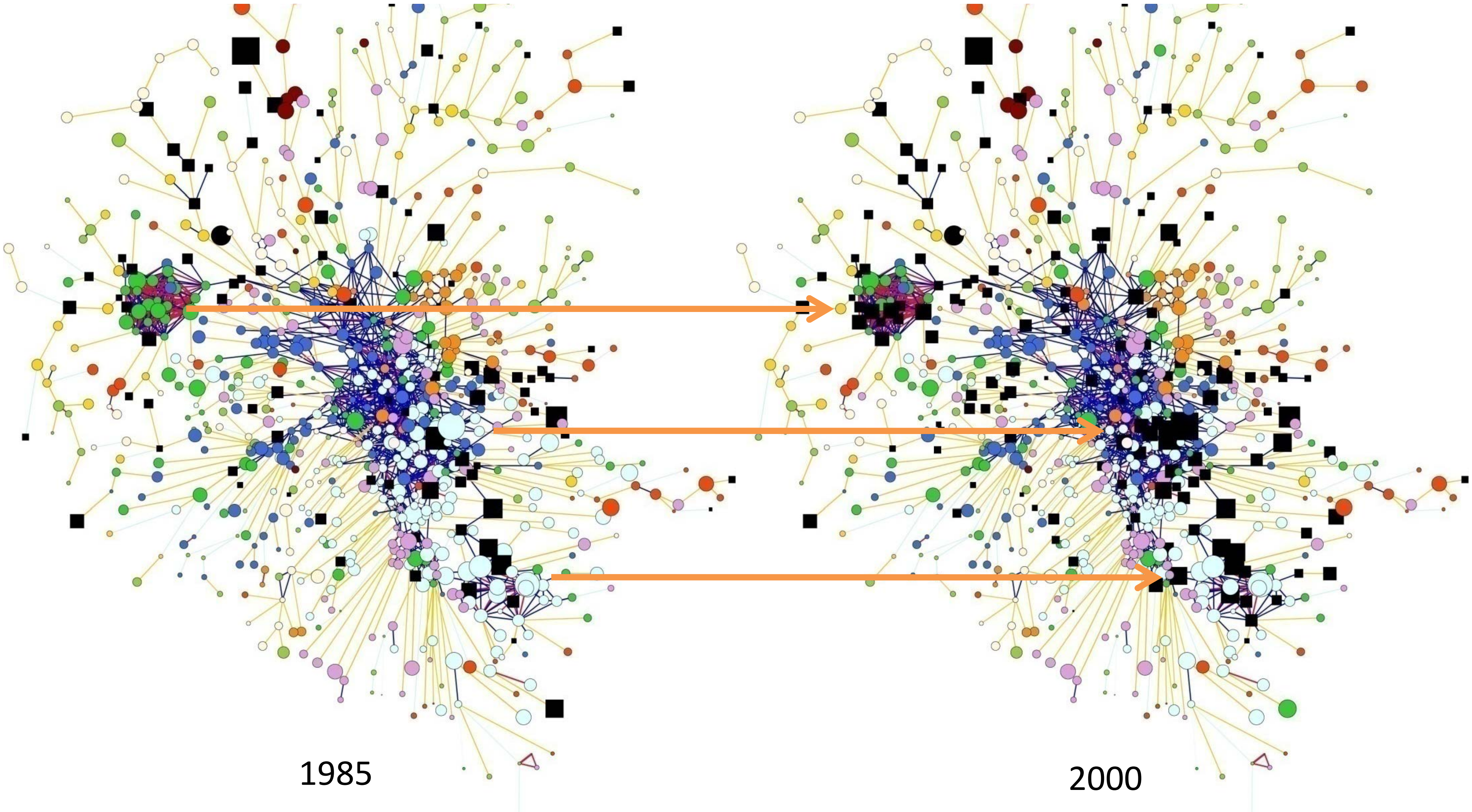
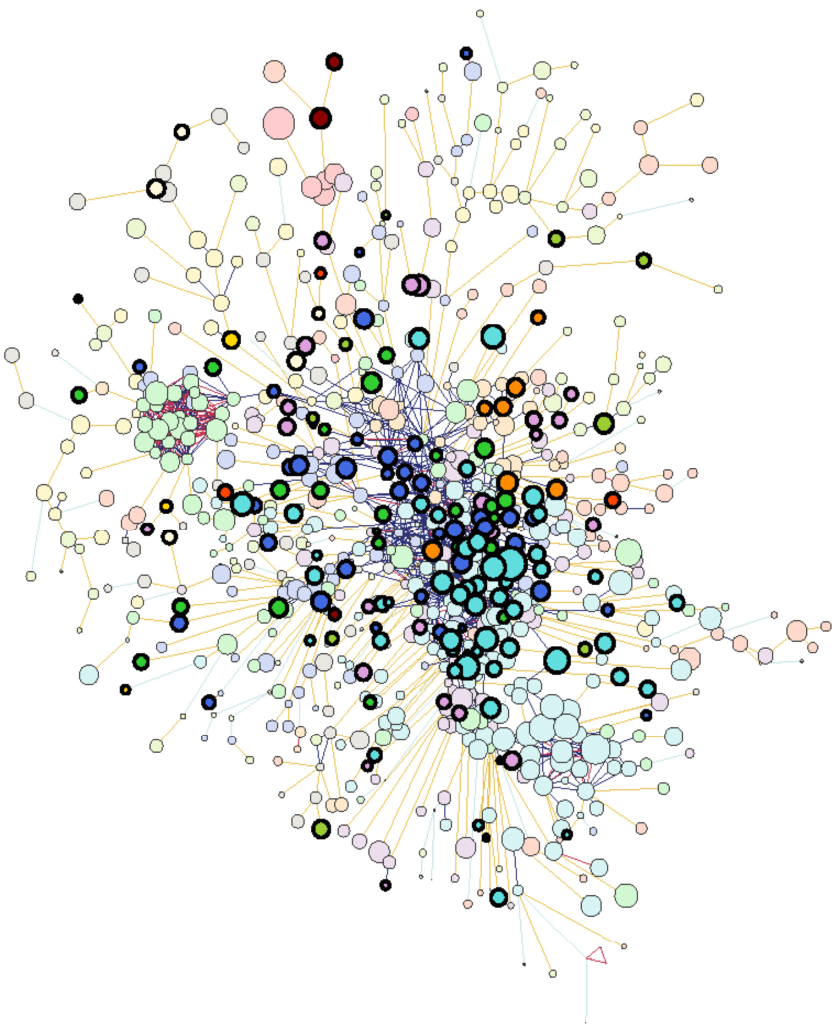
Mexico

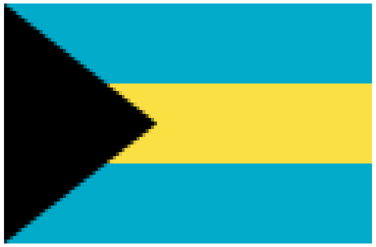


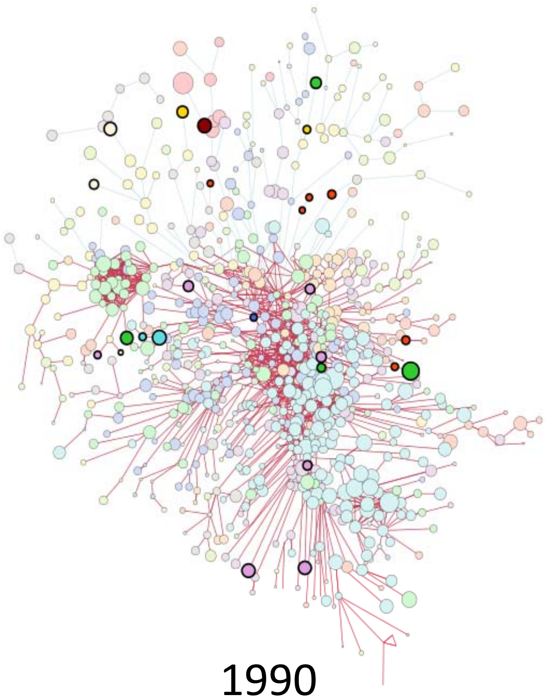
Antigua & Barbuda



2009

Bahamas





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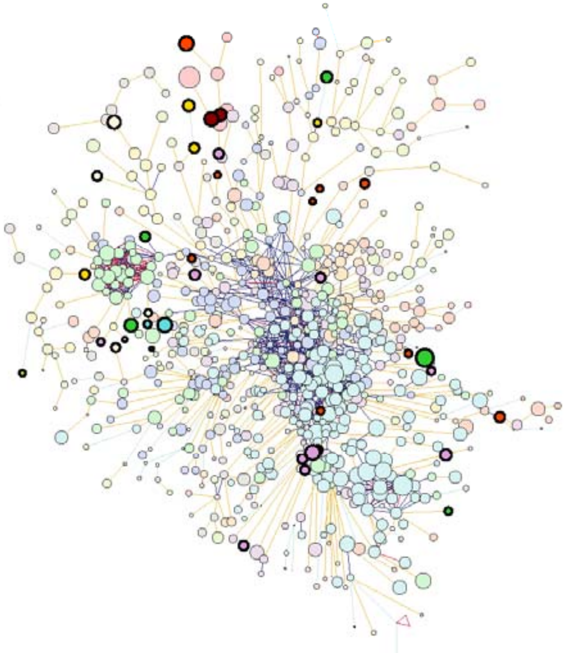

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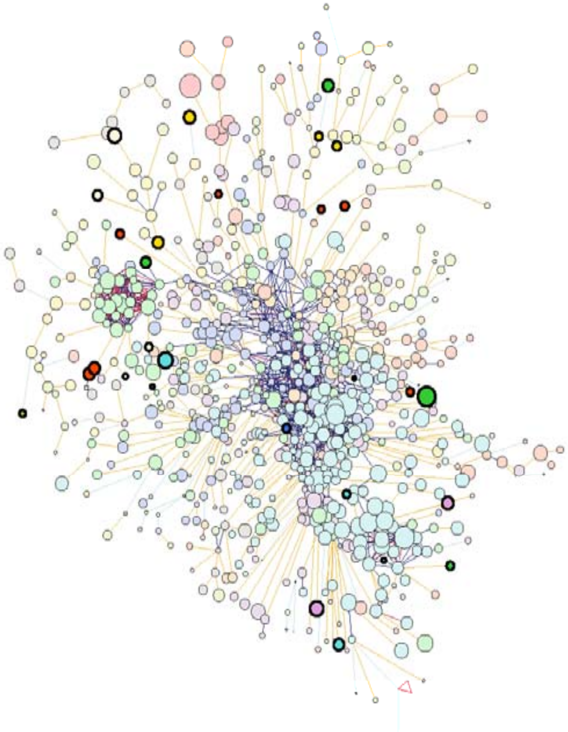

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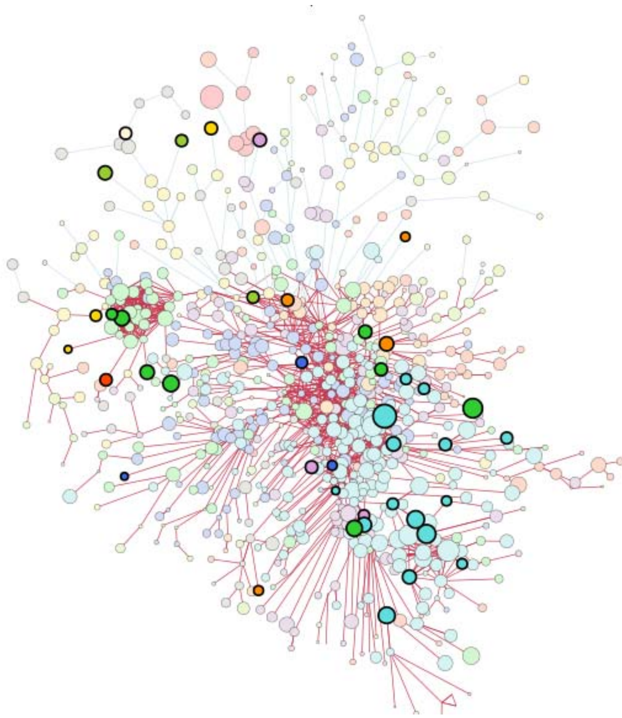
Barbados



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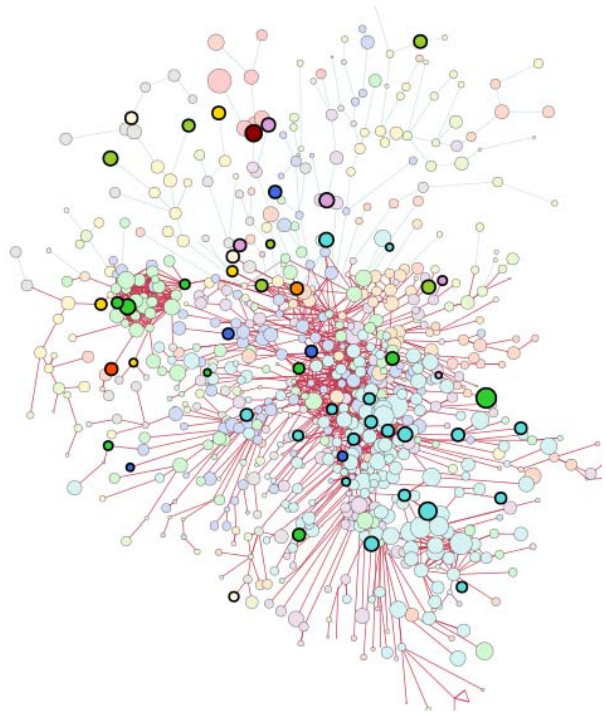

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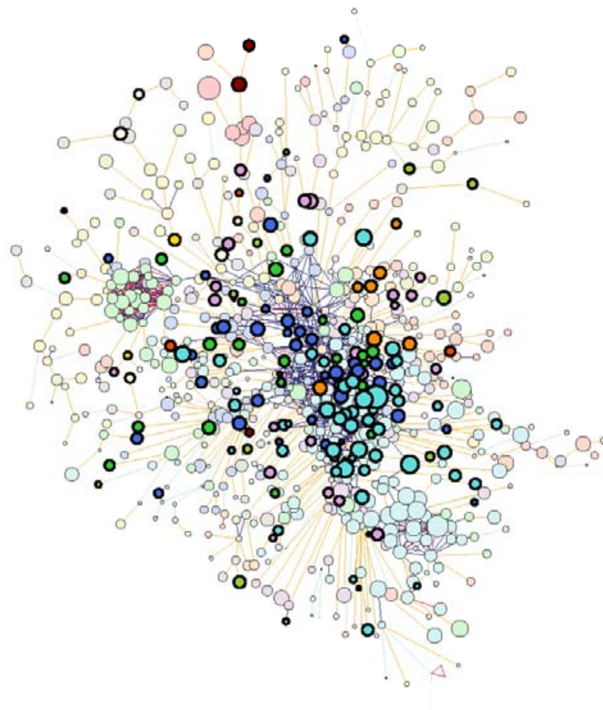

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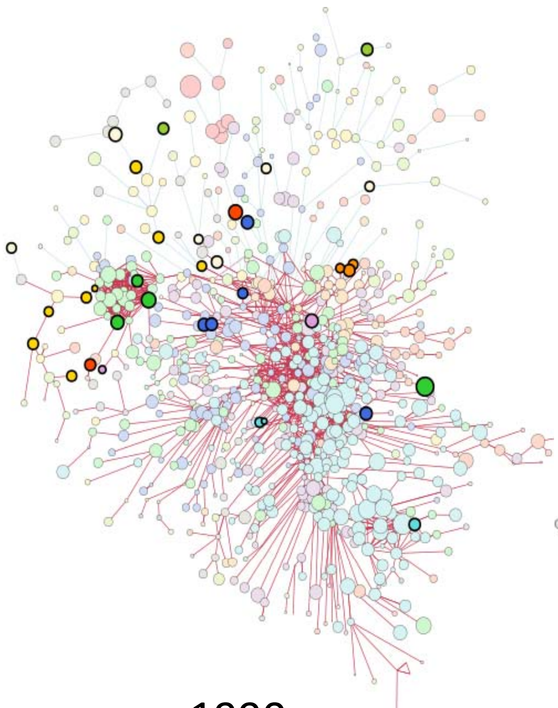
Belize



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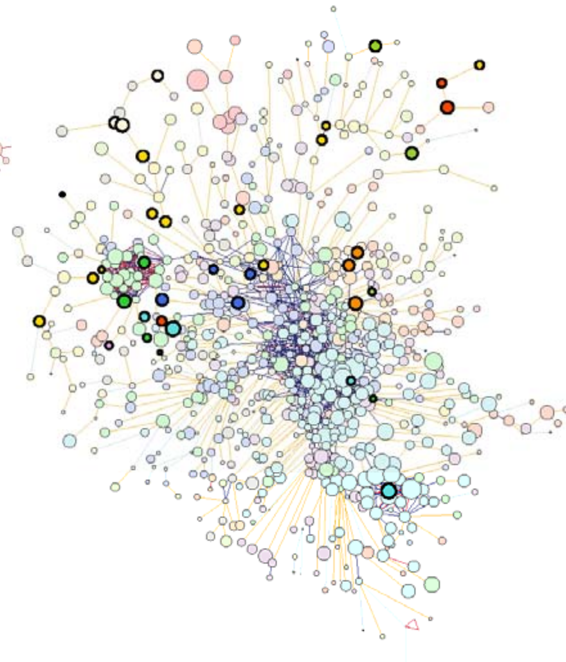

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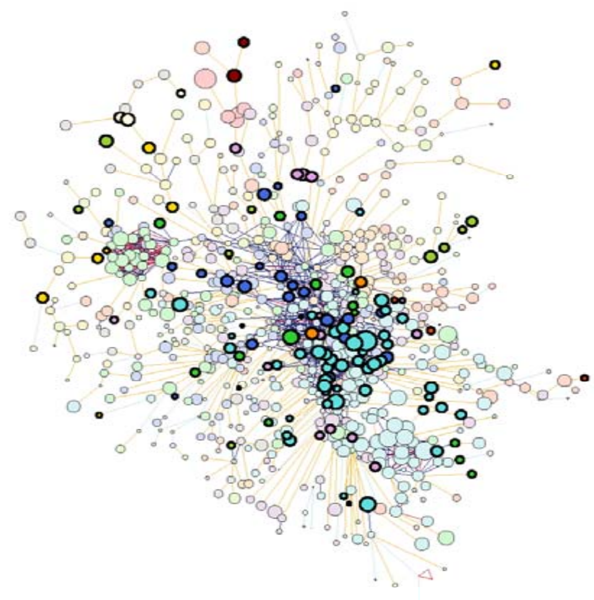

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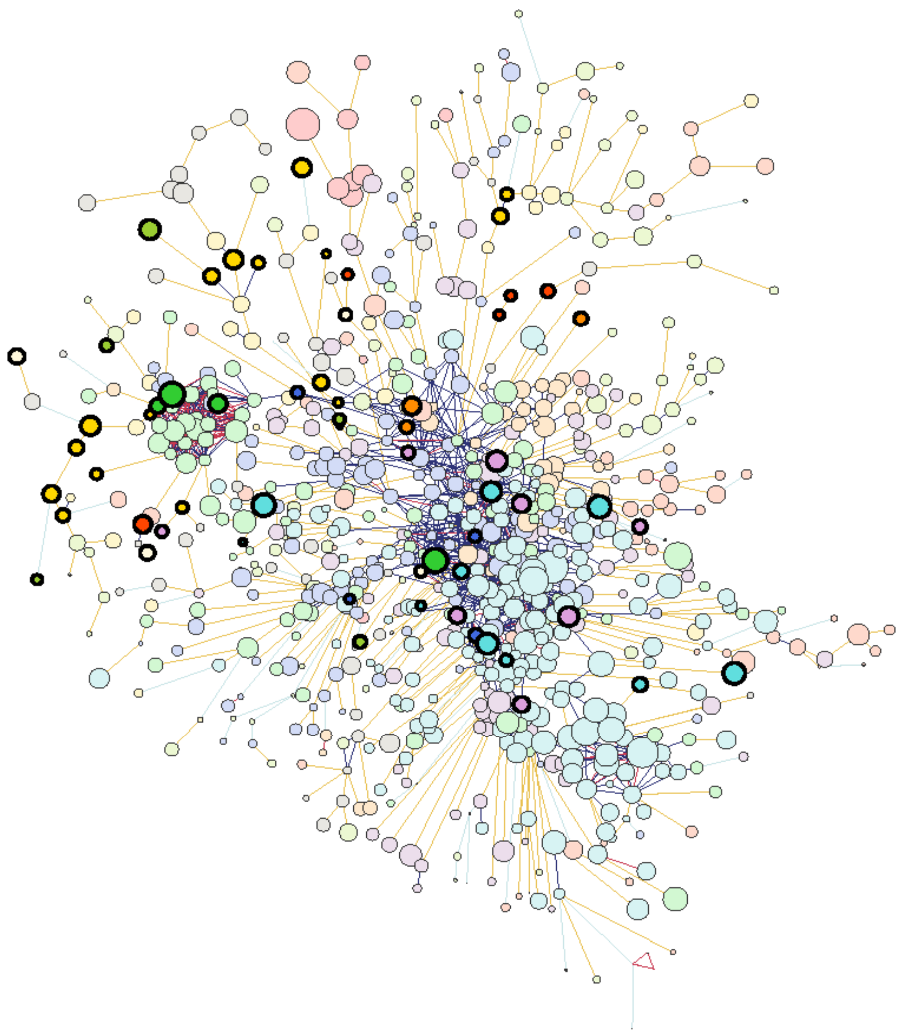
Dominica



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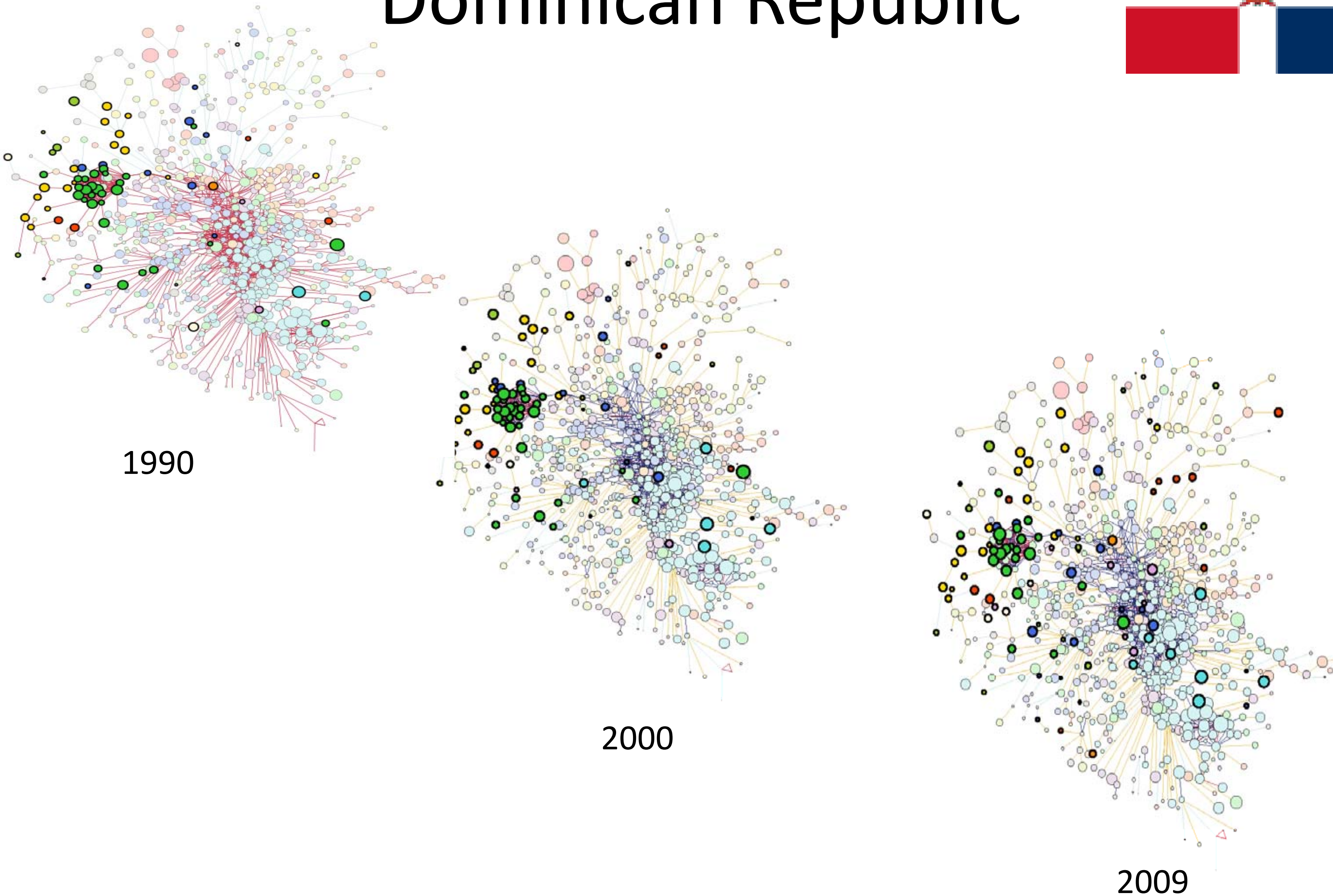
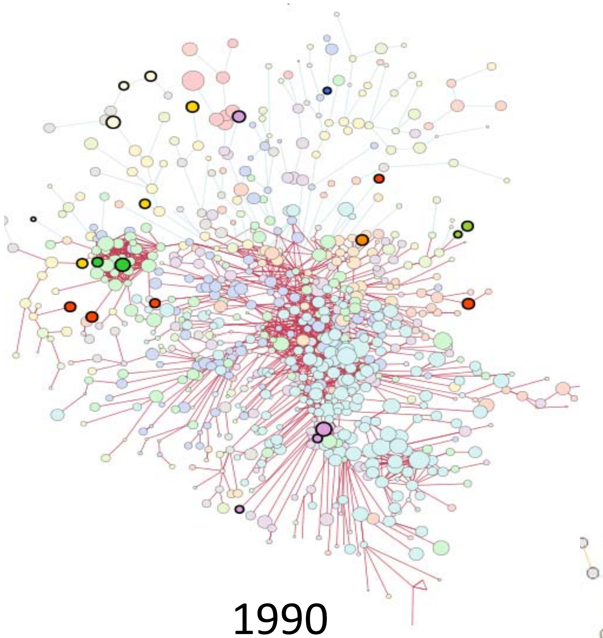
Dominican Republic



Guyana



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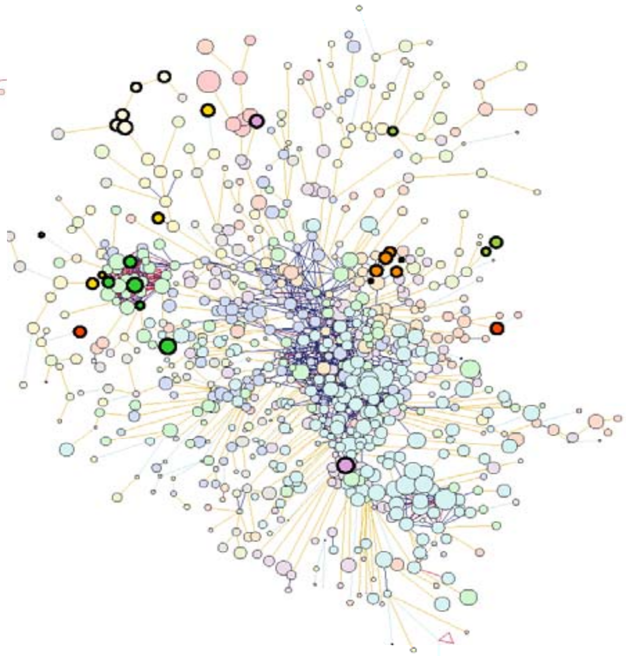

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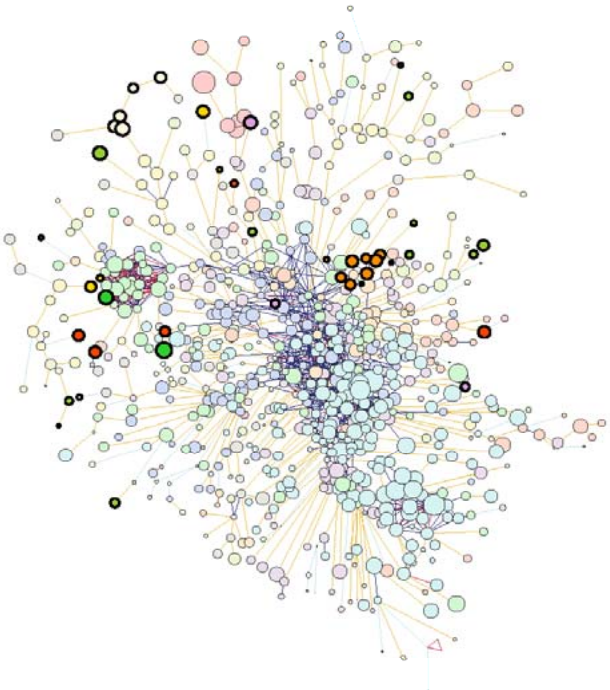

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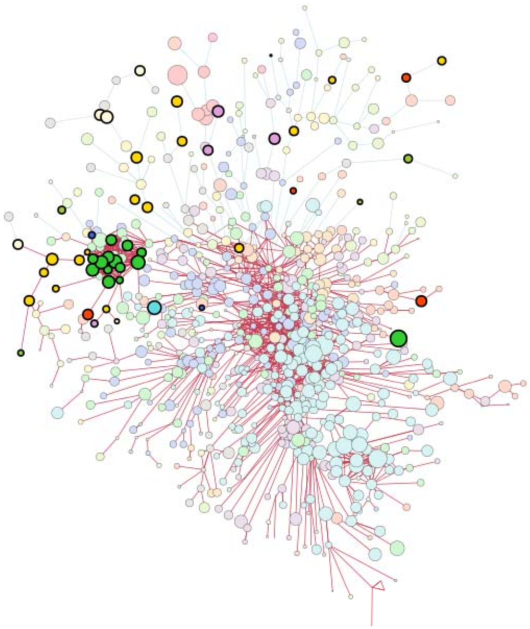
Jamaica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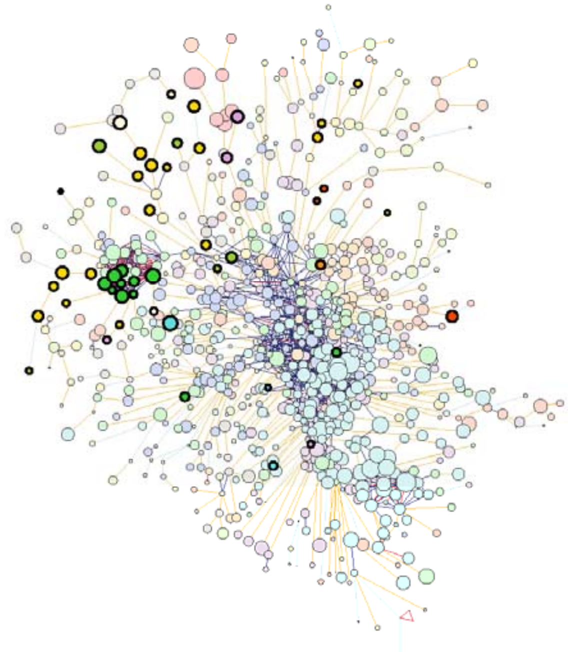
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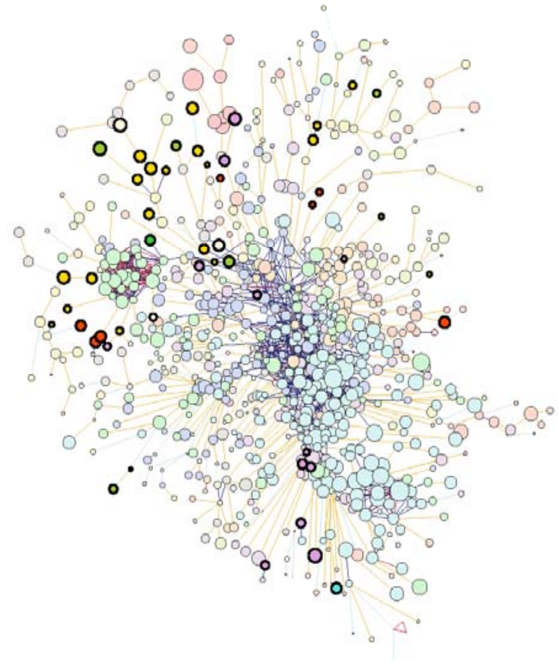
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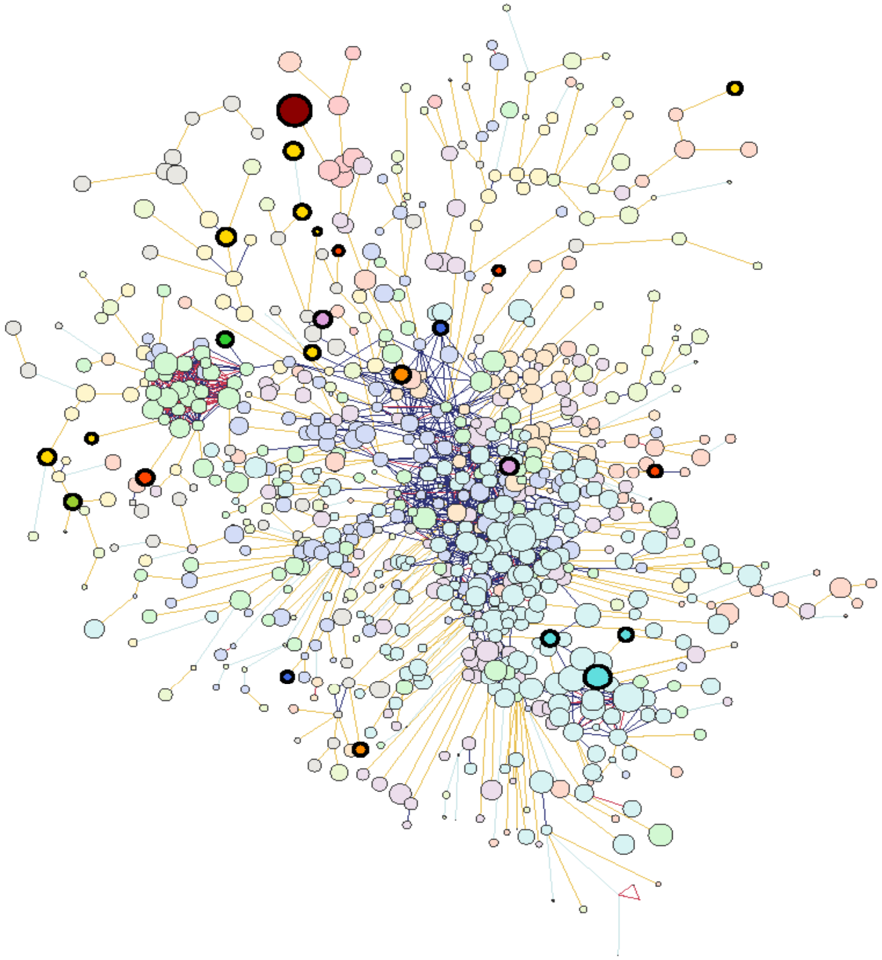
Saint Lucia



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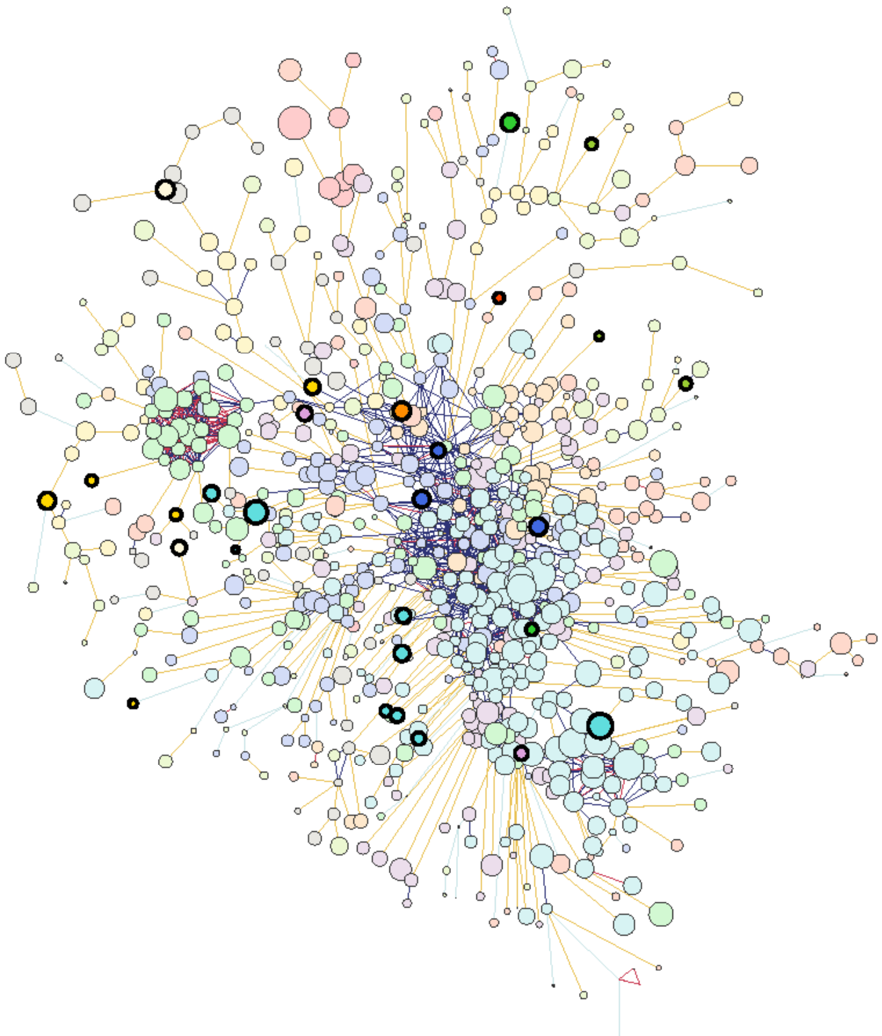
Saint Vincent & The Grenadines



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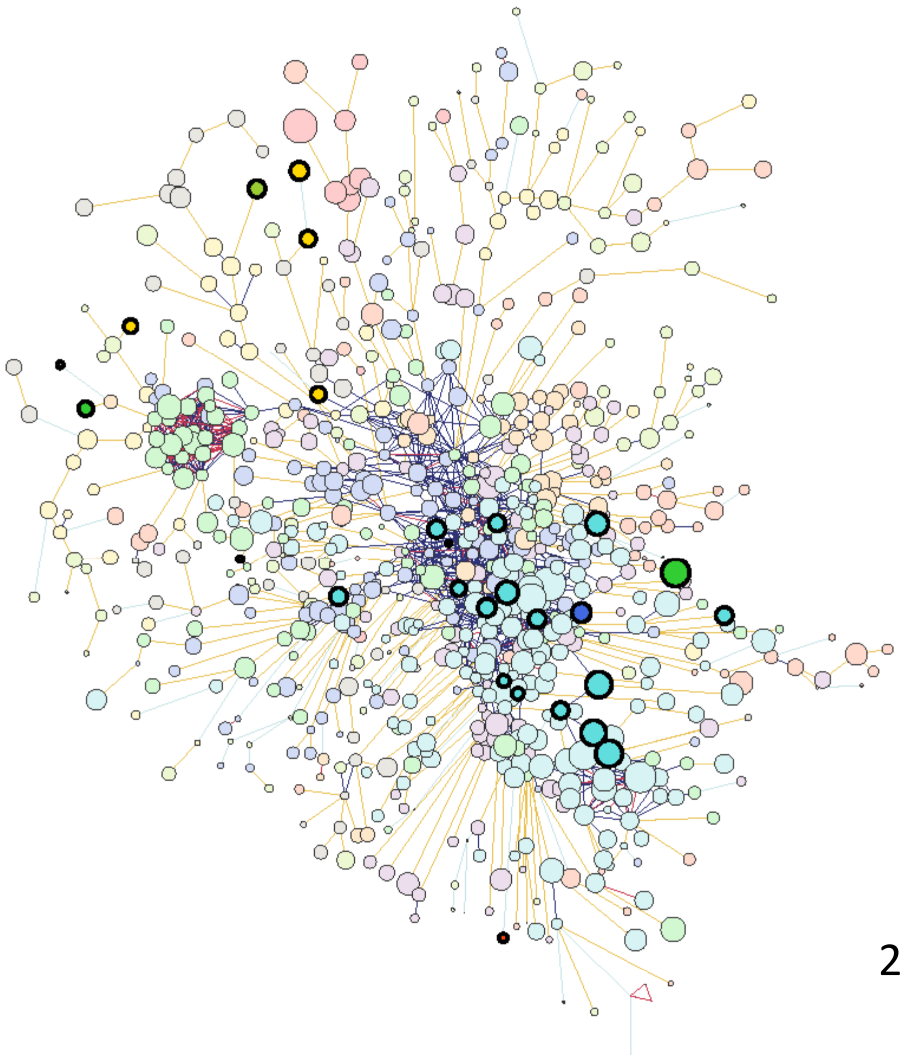
Saint Kitts & Nevis



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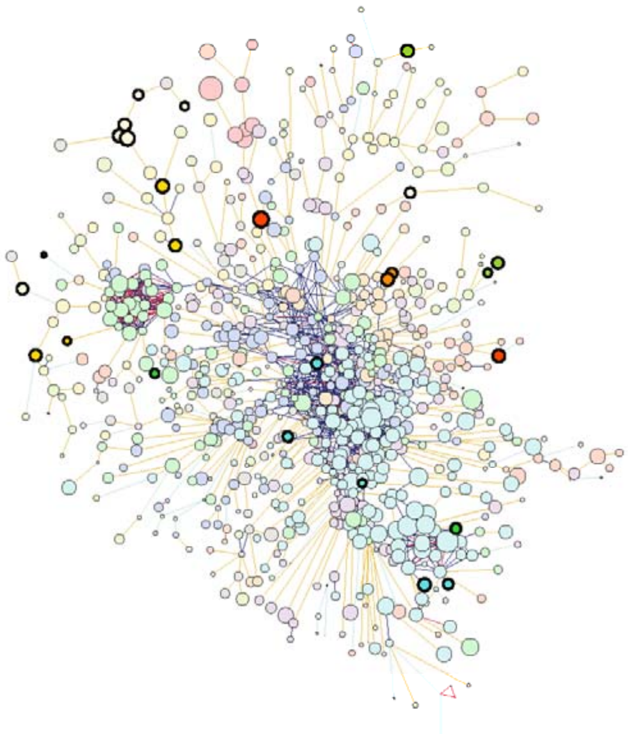
Suriname



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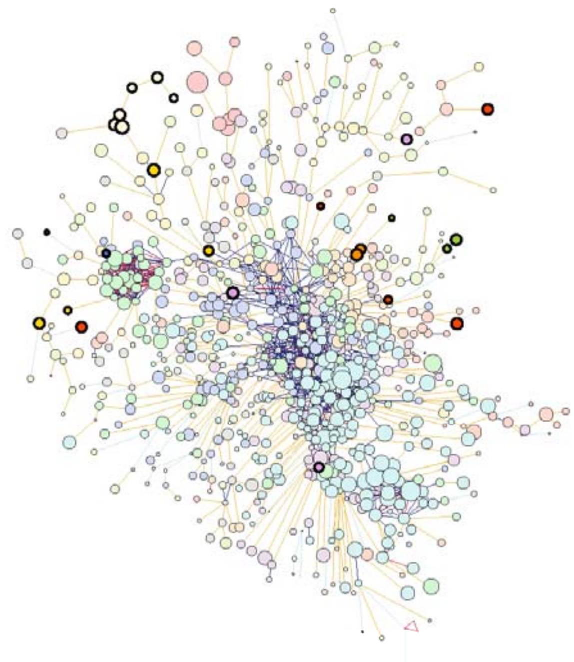

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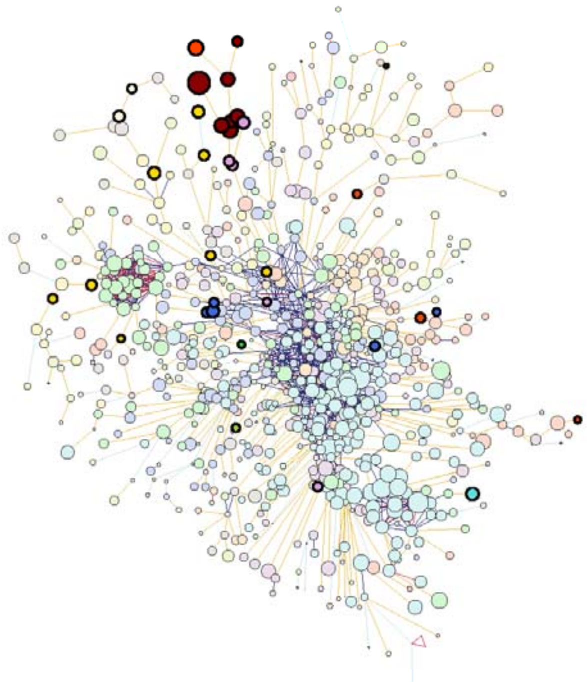
Trinidad & Tobago



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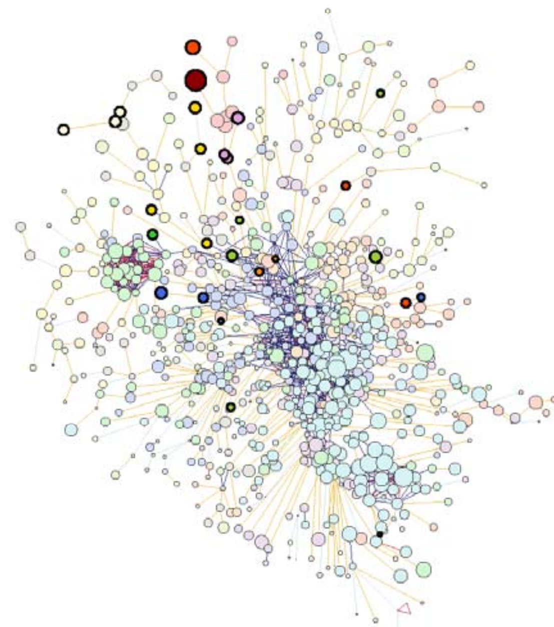

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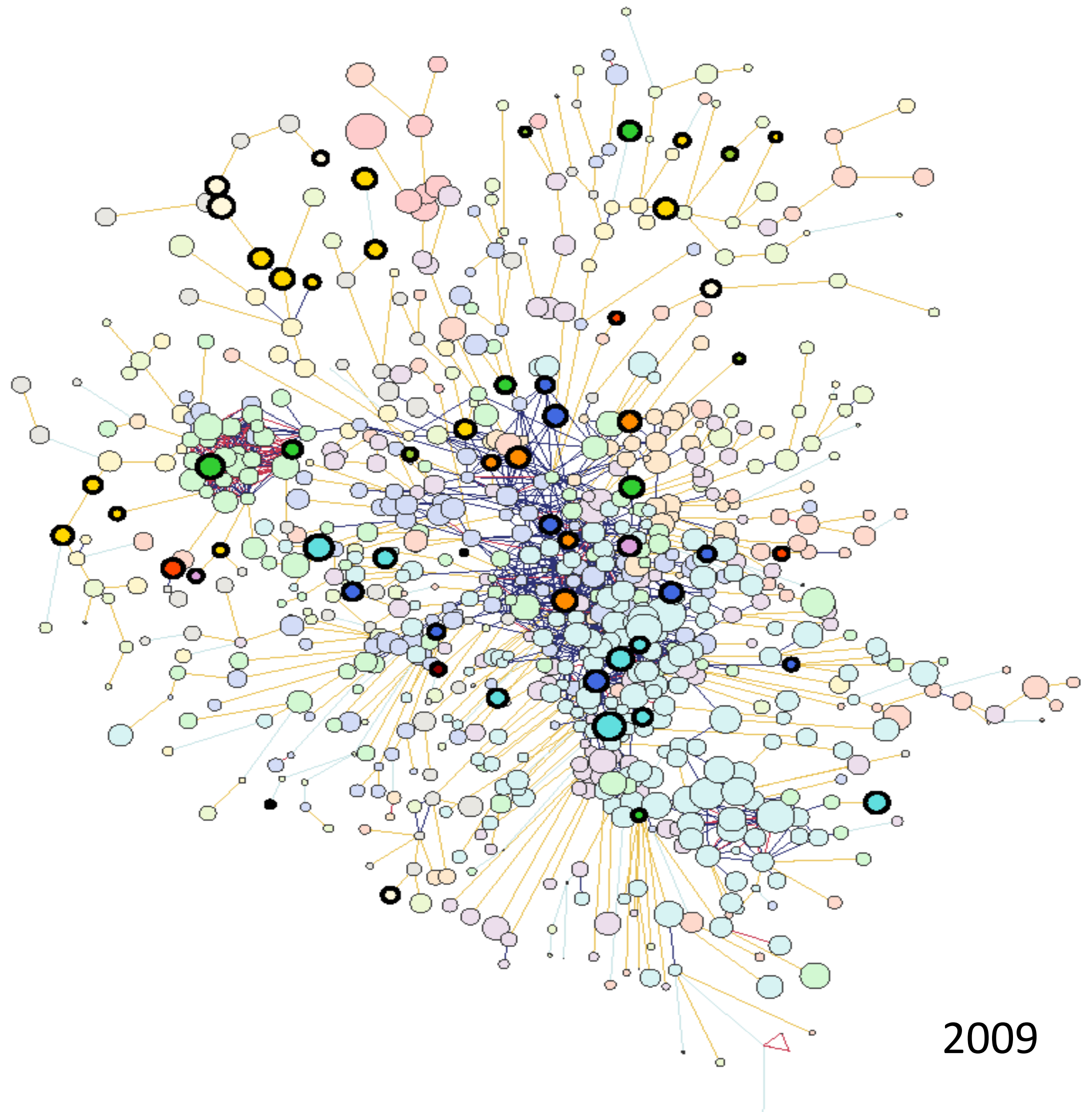
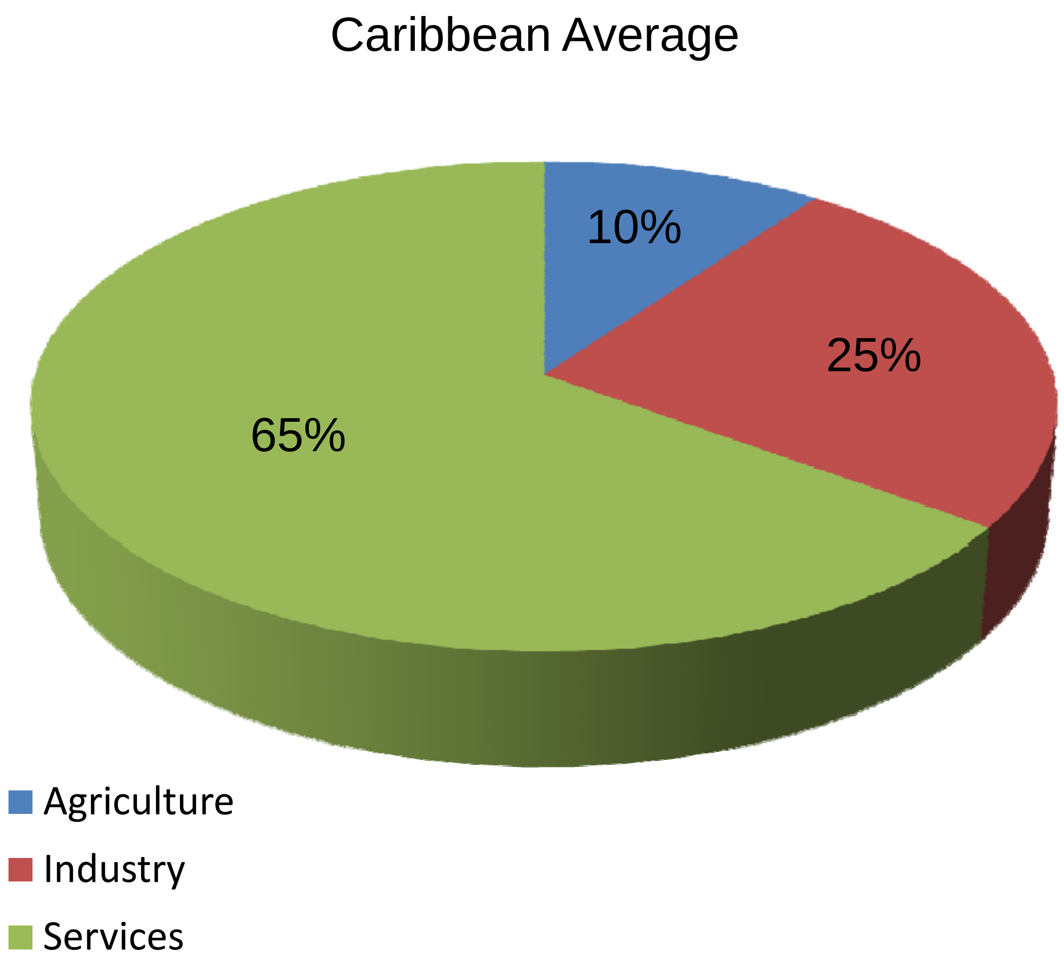
Grenada



2009

What about services?

Contribution to GDP by sector



Source: CIA Fact book 2011

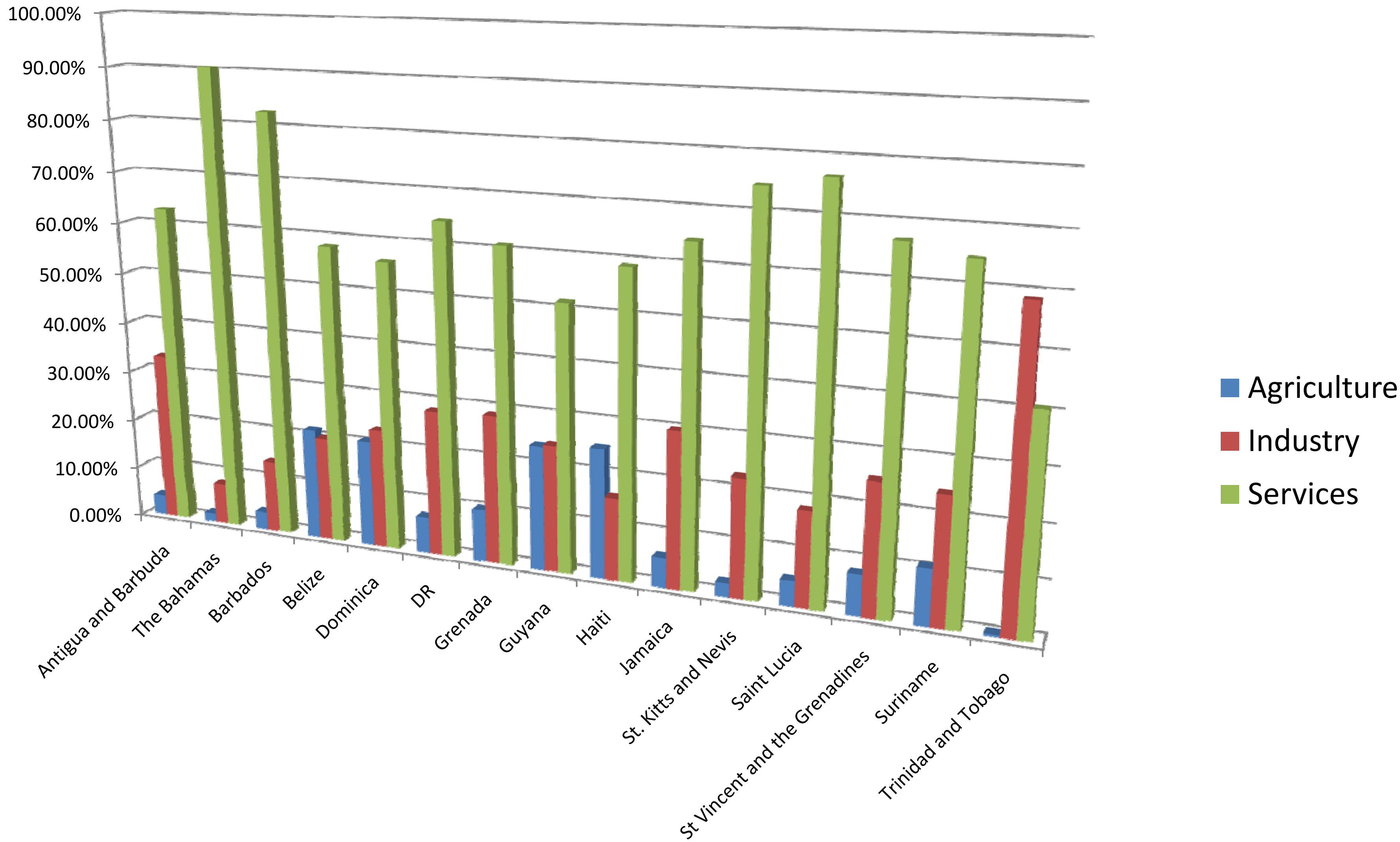
This entry gives the percentage contribution of *agriculture*, *industry*, and *services* to total GDP.

Agriculture includes farming, fishing, and forestry.

Industry includes mining, manufacturing, energy production, and construction.

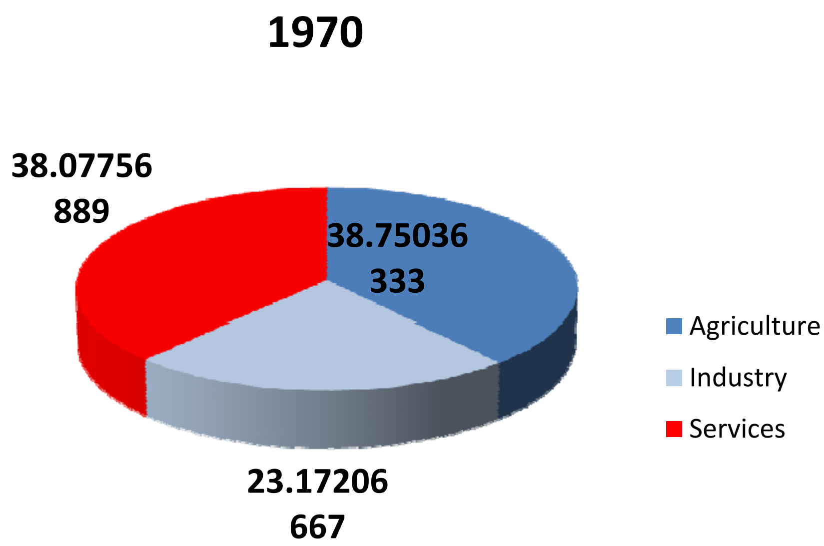
Services cover government activities, communications, transportation, finance, and all other private economic activities that do not produce material goods.

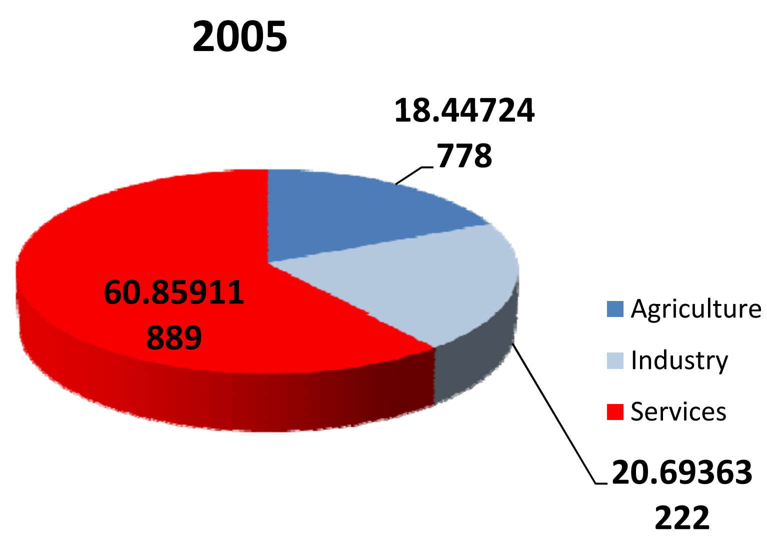
Contribution to GDP by sector



Source: CIA Fact book 2011

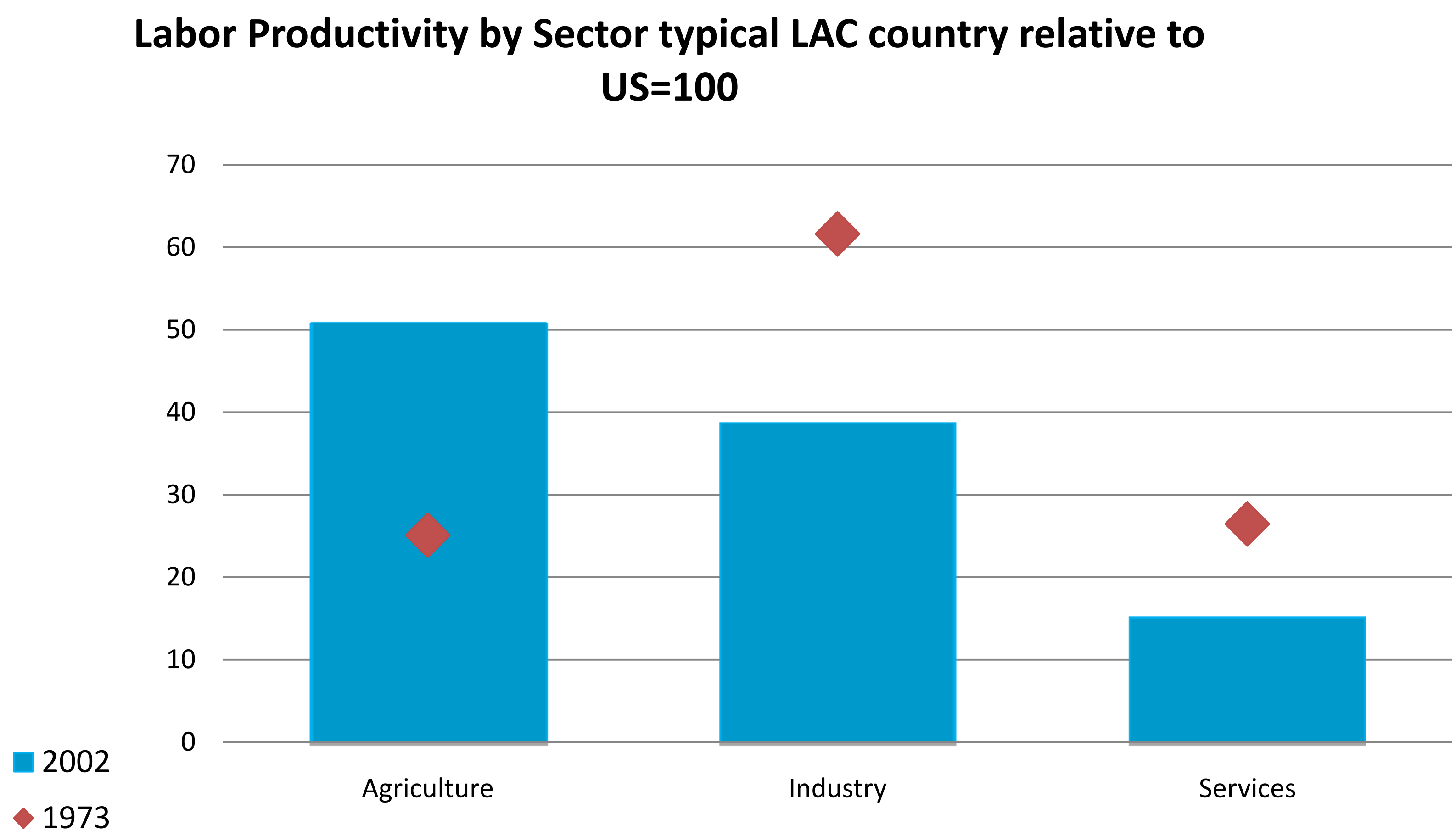
Services Sector Employment





Source: IDB calculations based on Timmer and de Vries (2007)

Services Sector Productivity



Source: Authors' elaboration based on Duarte and Restuccia (2009)

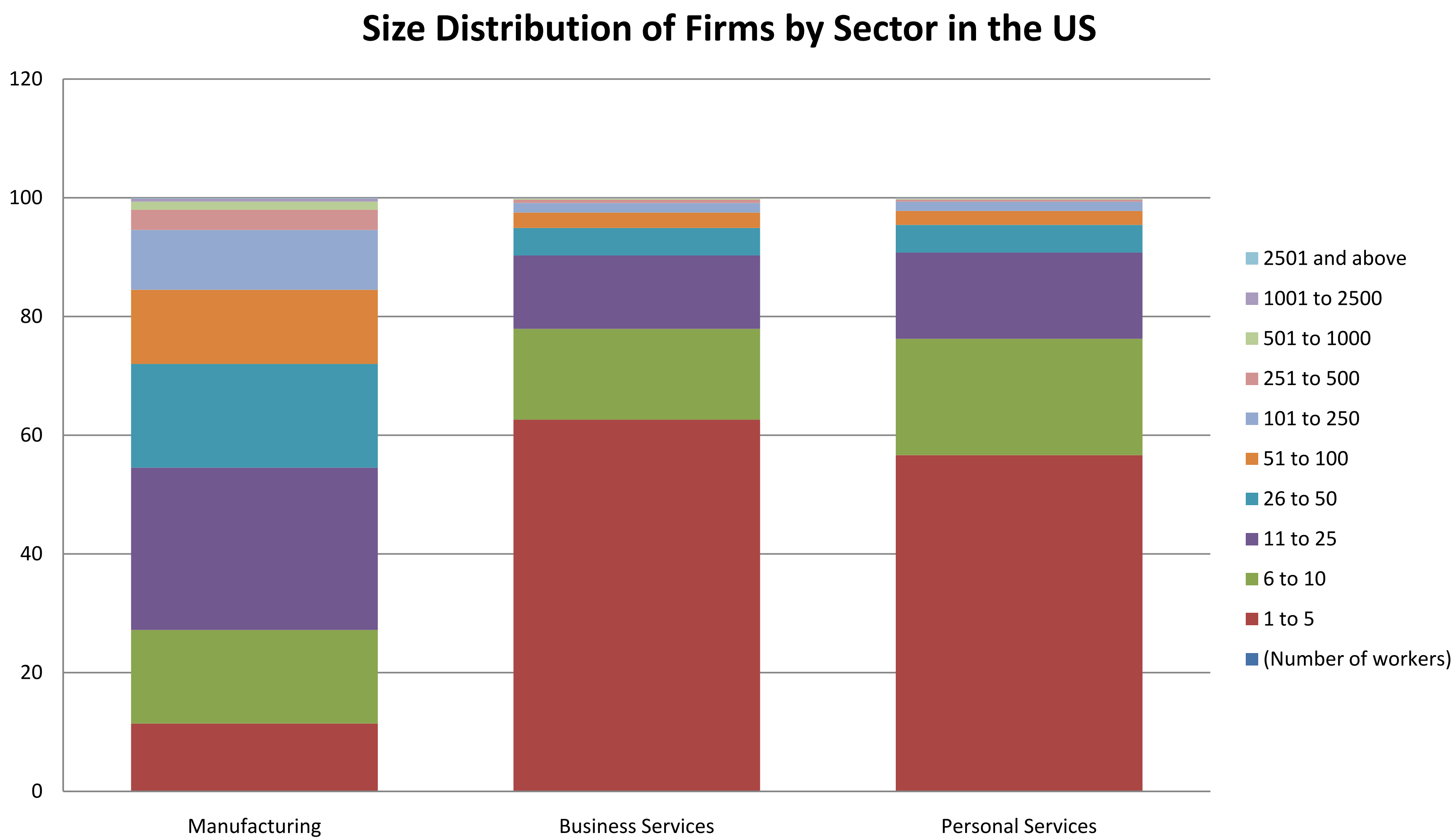
Firm Size in Manufacturing and Services

Business Services	Personal Services
• Information • Finance and Insurance • Real Estate, Rental and Leasing • Professional, Scientific and Technical Services • Management of Companies • Administrative and Support	• Educational Services • Health Care and Social Assistance • Arts, Entertainment and Recreation • Accommodation and Food Services • Other

Source: Jensen, Global Trade in Services 2011

Firm Size in Manufacturing and Services

COMPETE CARIBBEAN



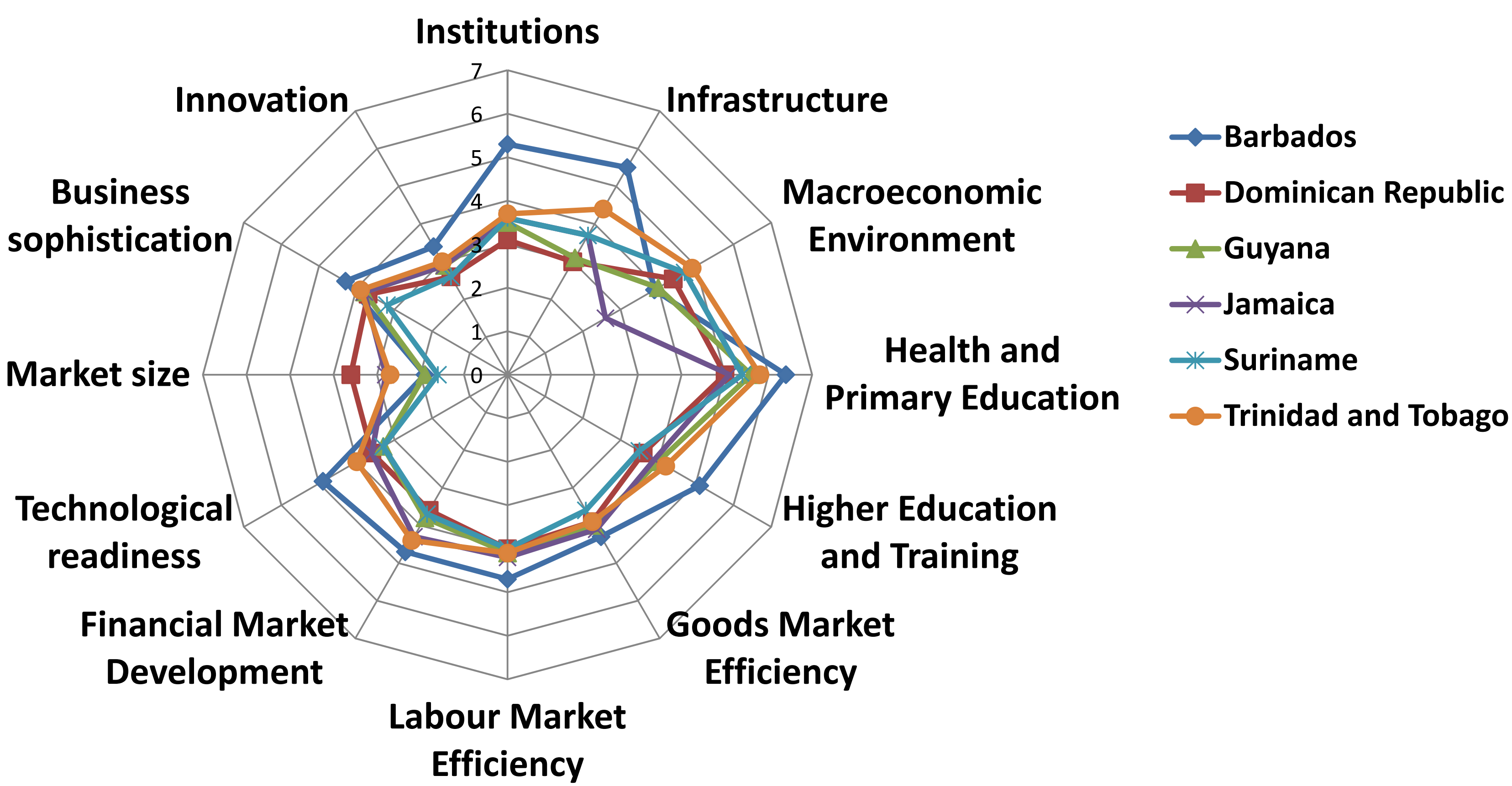
Source: Jensen, Global Trade in Services 2011

What are the main constraints that limit firm level productivity?

HIGH COST OF DOING BUSINESS

LIMITED BUSINESS UPGRADING

Global Competitiveness Report Scores Caribbean, 2011-2012



Source: Global Competitiveness Report 2011-2012

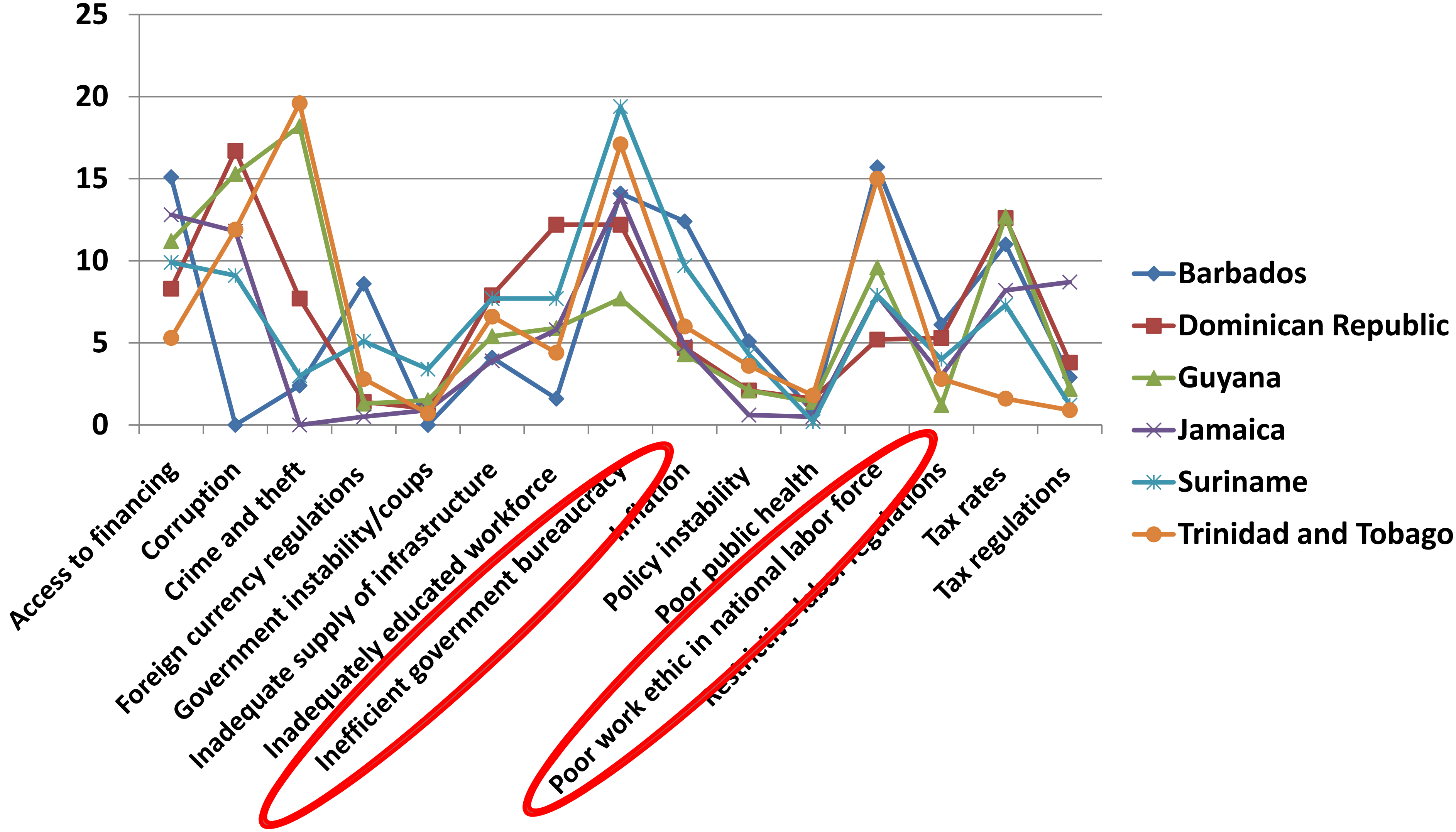
Doing Business Ranking 2012

COMPETE CARIBBEAN

	Antigua and Barbuda	Bahamas	Belize	Dominca	Dominican Republic	Grenada	Guyana	Haiti	Jamaica	St. Kitts and Nevis	St.Lucia	St. Vincent and the Grenadines	Suriname	Trinidad and Tobago
Doing Business Ranking	57	85	93	65	108	73	114	174	88	95	52	75	158	68
Starting a business	80	73	152	48	140	60	87	180	23	64	53	58	173	74
Dealing with construction permits	21	79	9	18	105	11	28	139	49	16	13	6	98	93
Getting electricity	16	105	53	65	123	39	144	75	112	33	13	21	38	24
Registering property	124	177	137	116	105	154	104	131	103	164	115	141	170	175
Getting credit	98	78	98	78	78	98	166	159	98	126	98	126	159	40
Protecting investors	29	111	122	29	65	29	79	166	79	29	29	29	181	24
Paying taxes	135	56	55	73	94	91	115	118	172	133	52	73	34	65
Trading Across borders	71	48	107	88	45	40	82	145	97	44	110	38	105	52
Enforcing contracts	70	123	168	167	83	162	73	96	126	114	165	101	178	169
Resolving insolvency	81	34	29	98	154	119	138	162	26	183	58	183	157	133
	37	Top 20%	38-108	Between 21%-59%	109-183	Bottom 40%								

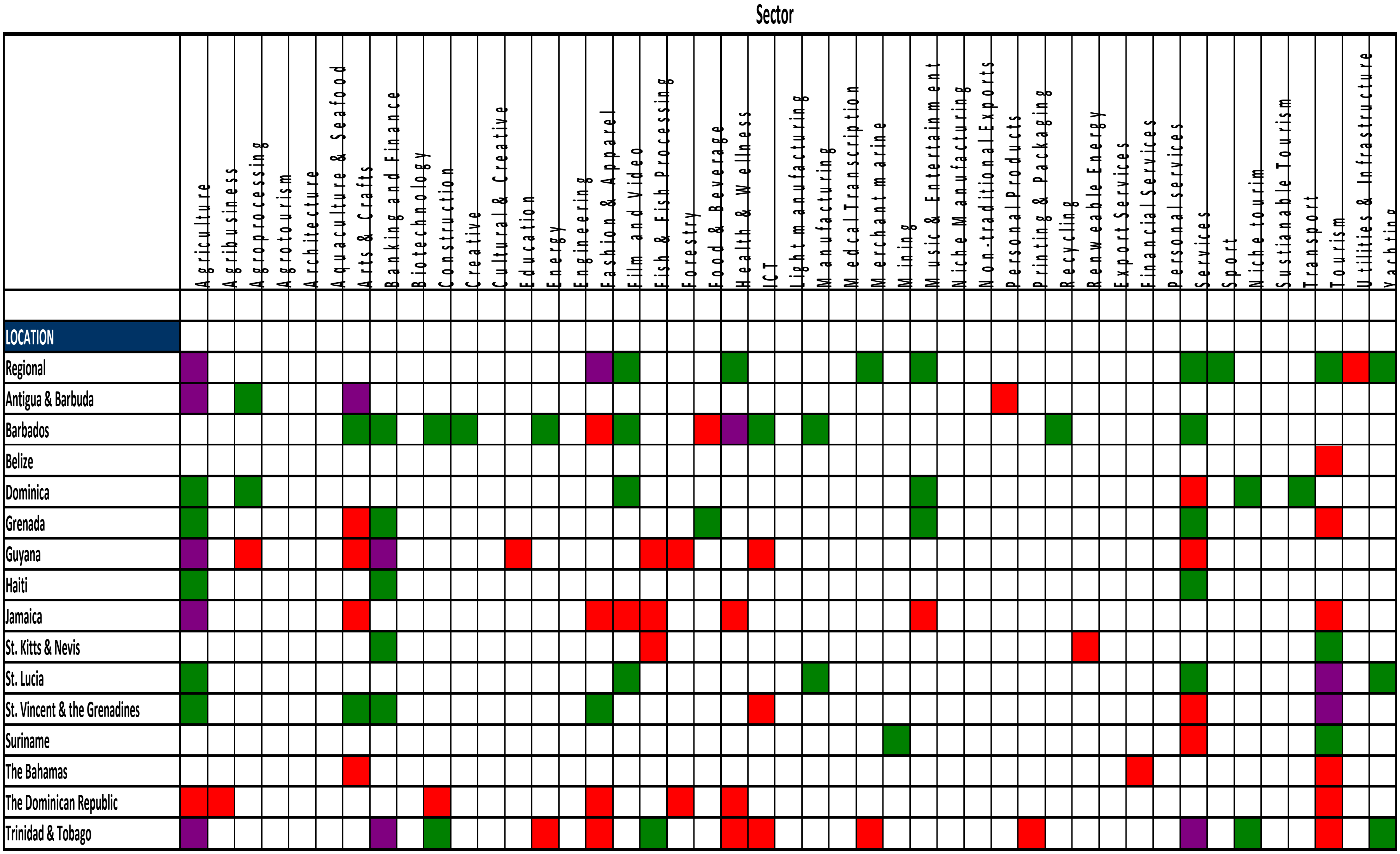
Source: Doing Business Report 2012 (183 countries)

Constraints to Doing Business

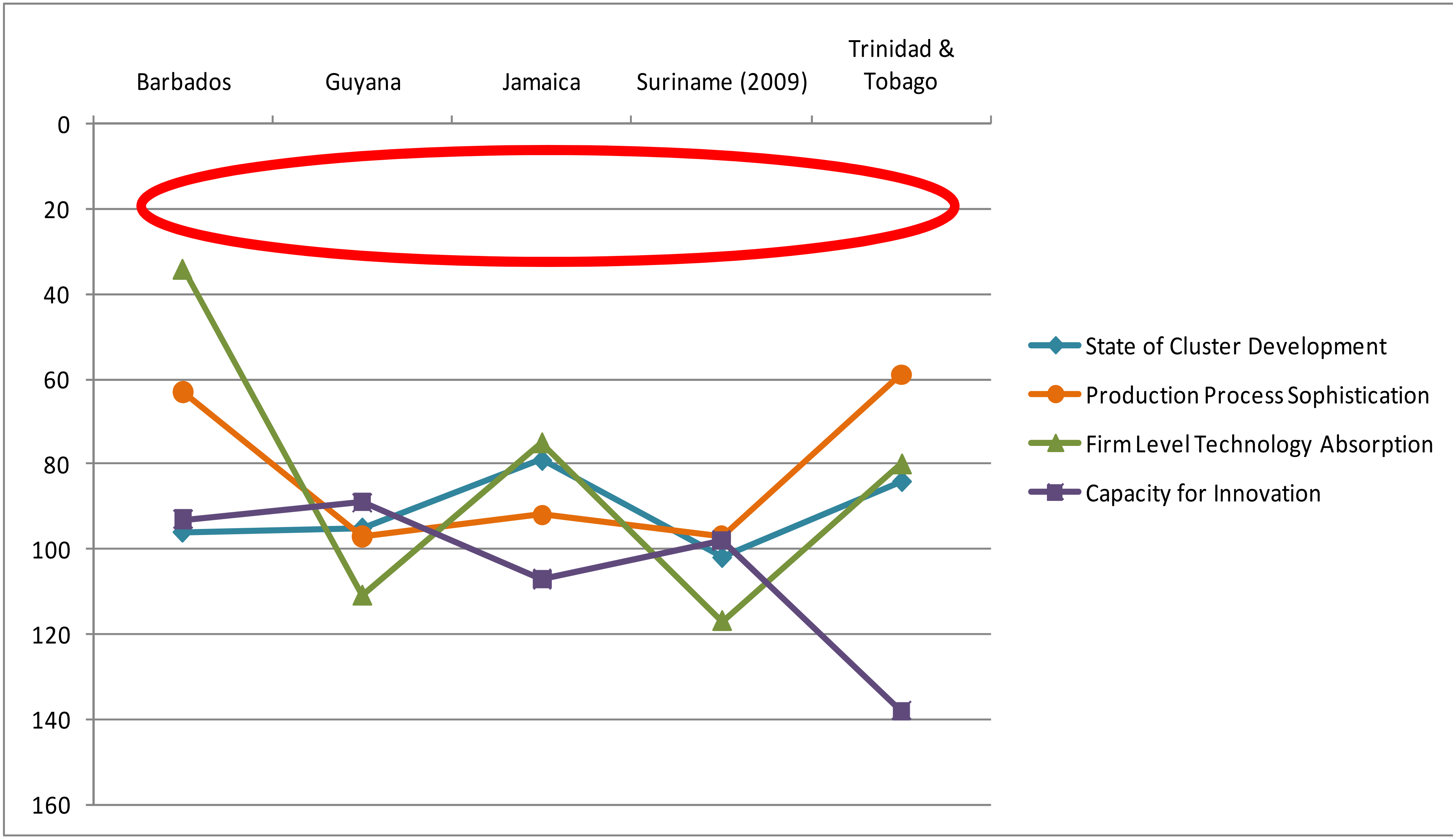


Source: Global Competitiveness Report 2011-2012

Cluster Mapping



Firm-Level Competitiveness Ranking 2010-2011



Source: GCR and DB 2010-2011

Traditional PDP Approach in the Caribbean

Multiplicity of policies, agencies and instruments that produce overlapping efforts, confusion, inflexibility and inefficiencies.

- An absence of quantitative evaluation programs.
- Lack of accountability of programs and of governmental agencies.
- Programs tend to target to entrepreneurs and businesses not necessarily involved in new activities.
- Support to firms because of their size rather than their innovative capacity which is the true market failure.
- State as "master strategist", limited real public-private dialogue
- Implementation is the key failure

To foster structural transformation and economic growth our countries need:

1. Stronger enabling environment
2. More sophisticated businesses
3. Better work ethic of the labor force
4. Investment in R&D and better linkages between academia and firms to foster innovation.

Fan, Qimiao., Criscuolo, Alberto., Ilieva-Hamel, Iva. (March 2005). A Better Investment Climate for Everyone: “Whither SME Policies?”

Private Sector Development and Competitiveness in the Caribbean

Compete Caribbean is a private sector development program that provides technical assistance grants and investment funding to support productive development policies, business climate reforms, clustering initiatives and Small and Medium Size Enterprise (SME) development activities in the Caribbean region.

The program, jointly funded by the Inter-American Development Bank (IDB), the United Kingdom Department of International Development (DFID) and the Canadian International Development Agency (CIDA), supports projects in 15 Caribbean countries.

The program's estimated value is US$40.0 million, of which DFID and CIDA contributed US$32.55 million.

Participating Countries

- Antigua and Barbuda;
- The Bahamas;
- Barbados;
- Belize;
- Dominican Republic;
- Dominica;
- Grenada;
- Guyana;

- Haiti;
- Jamaica;
- Saint Lucia;
- St Kitts and Nevis;
- St Vincent and the Grenadines;
- Suriname;
- Trinidad and Tobago.

Structure

Comprehensive Framework for Private Sector Development

Business Climate and Competitiveness Enhancement Facility

- Public Sector

Enterprise Innovation Challenge Fund

- Private Sector

Comprehensive Framework for Private Sector Development

COMPETE CARIBBEAN

PSD-KM

Knowledge Generation

- Data (Enterprise Surveys)
- PSD Reports + Donor Matrix
- Studies

Knowledge Sharing

- Caribbean Competitiveness Center at UWI
- Seminars and Conferences
- Training
- CC Portal
- Publication of books and papers

Business Climate and Competitiveness Enhancement Facility

COMPETE CARIBBEAN

BCCE

Business Climate

- Focused on public sector reforms:
  - Enabling environment
  - Institutional Strengthening

- Finances TA and small goods
- Implementation can occur over 2 year period
- 80% of funds provided up to $500,000 USD

Public Private Dialogue

- Grants include TA allocation and support for:
  - Private-private dialogue
  - Public-public dialogue
  - Public Private dialogue
  - Competitiveness councils and their technical units
- Finances TA and small goods
- Implementation can occur over 2 year period
- 80% of funds provided up to $500,000 USD

Enterprise Innovation Challenge Fund

EICF

Support to Clustering Initiatives (SCI)

- Targets smaller firms and linked businesses:
  - Vertical integration
  - Horizontal integration
  - Geographic association
- Includes TA allocation to develop comprehensive proposal
- Implementation can occur over 2 year period
- 80% of funds provided by EICF, up to $500,000 USD

Direct Firm Support (DFS)

- Targets firms with high potential to generate income and employment
- Grants include TA allocation and support for:
  - New product development
  - New business model implementation
  - New market entrance
- Targets export focused projects with high potential for social and commercial benefits
- 50% of funds provided by EICF, up to $500,000 USD

Results

•20 Knowledge Products completed

•16 CC funded projects in execution (US$ 5,208,793)

•19 projects in the pipeline (US$4,169,500)

•Projects in development in AI, BA, BH, BL, DO, DR, GY, JA, SU, SX and TT

•EICF call for proposals opened July 1, 2011

•133 EICF-Direct Firm Support project applications received

20 Knowledge Products completed

1. Measuring the Competitiveness of Selected CARICOM Countries – World Economic Forum
2. Policies for Achieving Structural Transformation in the Caribbean - Hausmann & Klinger
3. Institutions and Legal Frameworks for Business Development in the Caribbean - Holden & Howell
4. Enhancing Access to Finance in the Caribbean - Holden & Howell
5. Public-Private-Partnerships in the Caribbean – Nicholas Livingstone
6. Private Sector Assessment in Belize - Ben Rowland, Juan José Durante and Dougal Martin
7. Report on Access to Finance in Jamaica
8. Regional Study on Regulations for the Microfinance Sector in the Caribbean
9. Increasing Private Sector Linkages Between Latin America and the Caribbean
10. Supply and Demand Side Assessment of Impact Investment within the Caribbean
11. Economic Growth and Social Protection in the Commonwealth of Dominica

Execution

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16 CC funded projects in execution (US$5,208,793)

Regional Consultation of Priorities to Foster Private Sector Development in the Caribbean (RG-CC2001)

Roundtable on Private-Public Dialogue in the Caribbean (RG-CC2002)

Policy and Institutional Framework for SME Development in the Bahamas (BH-CC2003)

Restructuring and Institutional Strengthening of BELTRAIDE (BL-CC2005)

Assessment and Implementation of Business Climate Reforms in Jamaica (JA-X1002).

Investment Promotion and Economic Development Framework in Jamaica (JA-CC2006).

Strengthening the Financial Sector Regulatory and Supervisory Framework in Trinidad and Tobago (TT-CC2008)

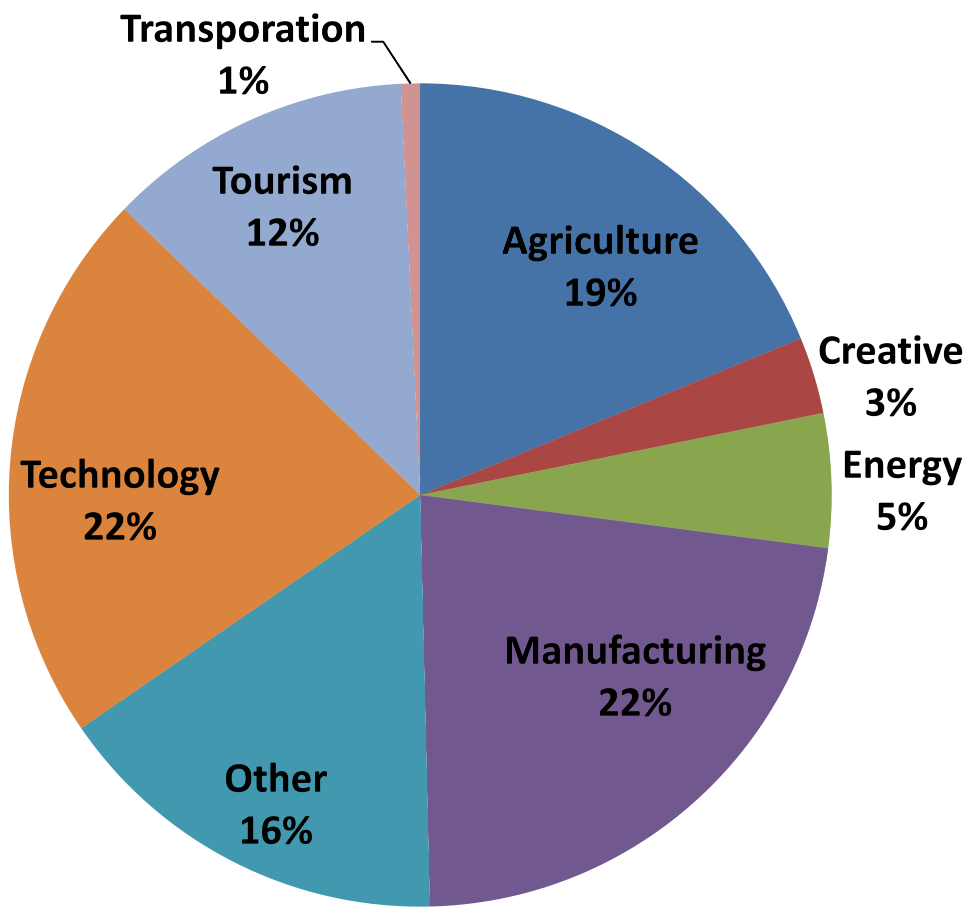
Framework for Public Offerings in Trinidad and Tobago (TT-CC2016)

Pipeline

19 projects in the pipeline (US$4,169,500)

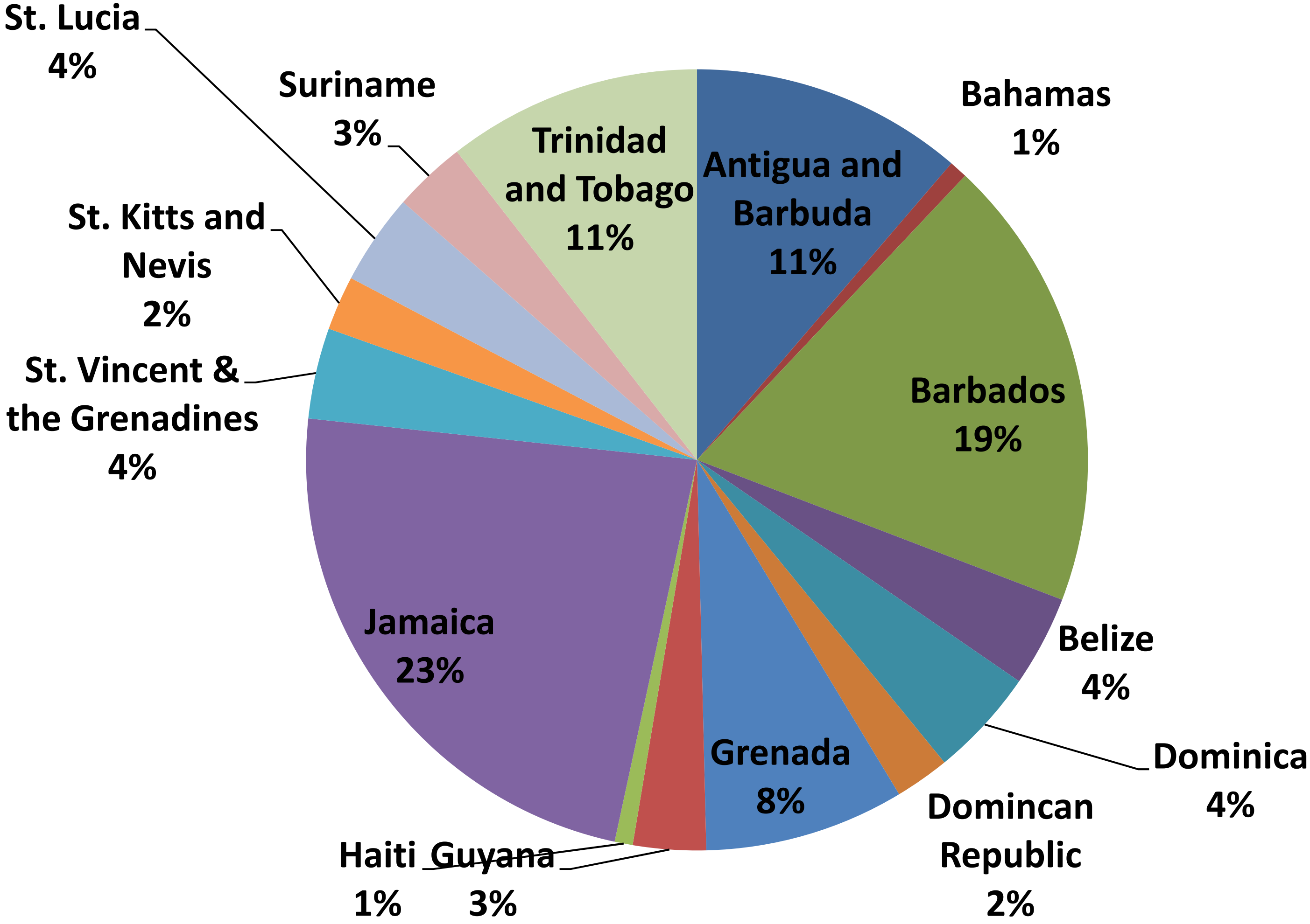
- Productive Development Policies in the Caribbean (RG-CC1003)
- **Identifying Sustainable Agricultural Initiatives in the Caribbean (RG-CC1004)**
- Improving the Regulatory Framework to Promote Competitiveness in Belize (BL-CC2004)
- **Strengthening Public-Private Dialogue in Saint Lucia (SX-CC2007)**
- Support to the Innovation and Competitiveness Council in Trinidad and Tobago (TT-CC2009)
- Institutions and Instruments to Promote Diversification, Innovation and Growth (TT-CC2010)
- Improving and Harmonizing Municipal Regulatory Framework to Facilitate Investments (DR-CC2011)
- Enhancing the Competitiveness and Growth of Guyana’s Services Sector (GY-CC2018)
- II Roundtable on Private-Public Dialogue in the Caribbean (RG-CC2019)
- **National Competitiveness Program of Suriname (SU-CC2020)**
- **Improving Trade Logistics and Trade Facilitation (AI-CC2022)**
- Policies and Instruments to Support Private Sector Development in Antigua and Barbuda (AI-CC2023)

Applications by sector (N=133)

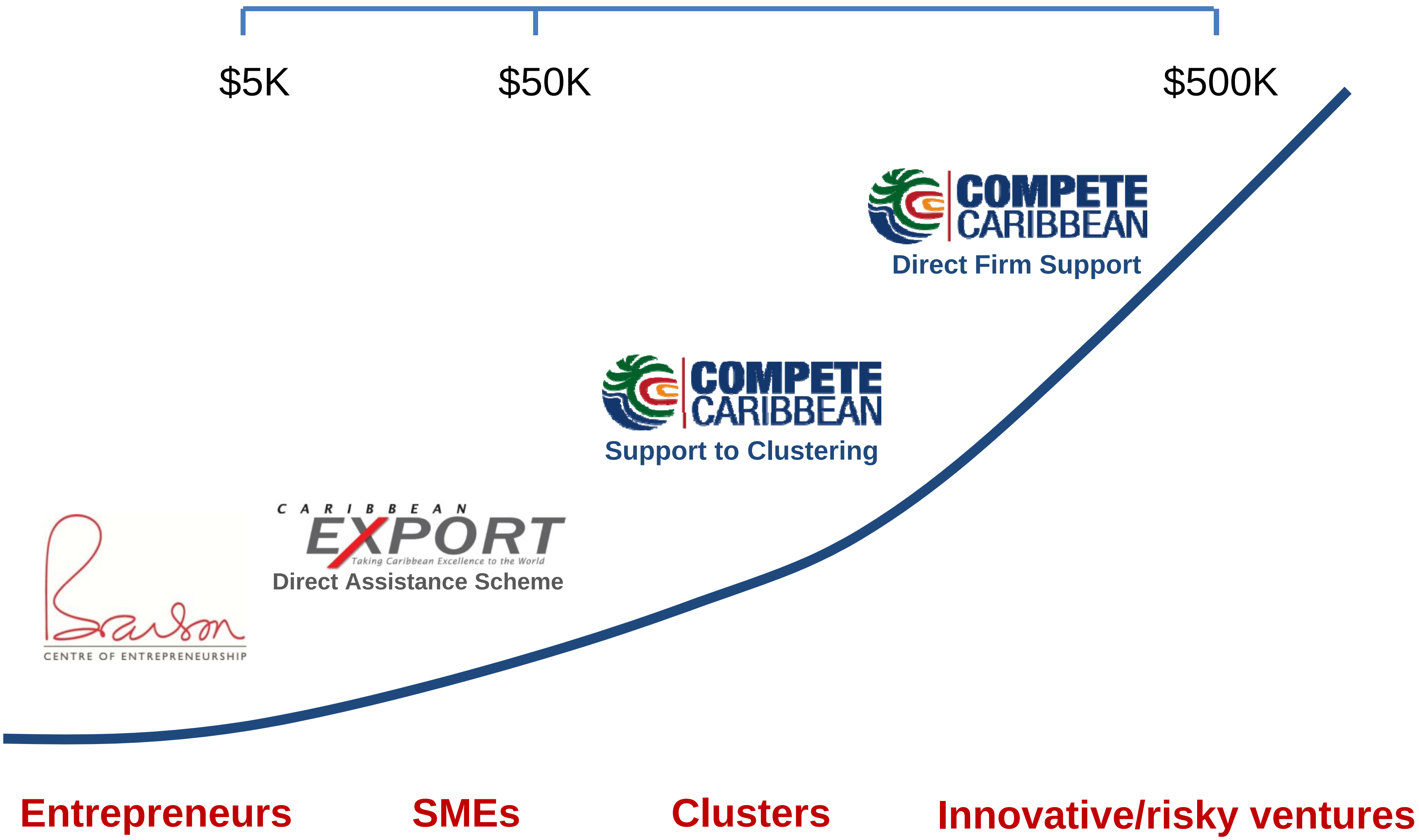


EIICF-Direct Firm Support

Applications by country (N=133)



Support by type of venture



Special Initiatives

COMPETE CARIBBEAN

CARIBBEAN CENTER FOR COMPETITIVENESS

To increase the effectiveness of productive development policies in the Caribbean, Compete Caribbean supported the establishment of the **Caribbean Center for Competitiveness** at the University of the West Indies, St. Augustine Campus in Trinidad and Tobago.

The Center will increase the institutional capacity of the region to generate and share world-class and Caribbean –specific knowledge products on private sector development and competitiveness; and upgrade the technical capacity of academics as well as public and private sector officials on cutting edge approaches to competitiveness, business climate reforms, clustering and SME development.

The Caribbean Competitiveness Centre (CCC) was officially launched by the Prime Minister of Trinidad and Tobago Mrs. Kamla Persad-Bissessar on Friday, March 25th , 2011 at the Hyatt Regency Hotel in Port of Spain. The ceremony took place during the Arthur Lok Jack Graduate School of Business Distinguished Leadership and Innovation Conference which featured the world-renowned thinker on competitive advantage, Professor Michael Porter.

Enterprise Surveys

An Enterprise Survey is a firm-level survey of a representative sample of an economy's private sector.

The surveys cover a broad range of business environment topics including access to finance, corruption, infrastructure, crime, competition, and performance measures.

Data is collected from face-to-face interviews with top managers and business owners in over 130,000 companies in 125 economies.

New data are available for Antigua and Barbuda, Barbados, Belize, Dominica, Dominican Republic, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

Source: http://enterprisesurveys.org/Data/ExploreEconomies/

Conversations on Growth

In order to accelerate economic growth, Caribbean countries need to promote the structural transformation of their economies, establish an inviting business climate, and actively promote innovation and business sophistication. The "Conversations on Growth (C-Growth)" initiative supports wide-ranging Public-Private-Dialogue on issues related to economic growth, facilitating high level consultations with men and women from the public and private sectors, labor unions and civil society.

The C-Growth initiative finances a series of studies and policy reviews, as well as workshops and conferences, bringing the world's top minds from inside and outside the Caribbean to share their thoughts and experiences sparking debate on new approaches and interventions to enhance economic growth.

Consultations under the C-Growth initiative started on July 21st, 2011 and will last two years and culminate with a regional conference and the publication of a book reviewing the Caribbean economies and outlining a roadmap for future economic development in the region. The initiative will be implemented in partnership with Caribbean Competitiveness Center and will seek strategic guidance from the Caribbean Community Secretariat, the Caribbean Development Bank and The University of the West Indies.

Special Initiatives

The mission of the Branson Centre of Entrepreneurship is to offer practical business skills, access to coaches to offer guidance, mentors to share their experiences and financing opportunities to enable growth.

Compete Caribbean and the Branson Center will partner to promote entrepreneurship in the Caribbean region by providing training programs, an e-learning platform, and providing entrepreneurs with technical assistance grants to help increase their productivity, adopt new business models and export.

Diaspora-The Caribbean Idea Marketplace

The Caribbean Idea Marketplace (CIM) is a business competition platform which aims to foster collaboration between local and global Caribbean diaspora entrepreneurs to develop and expand innovative projects that will generate employment and economic growth.

CIM will be implemented in the context of the International diaspora Engagement Alliance (IdEA), launched by the Secretary of State Hillary Rodham Clinton, May 17, 2011 in Washington, DC at the Secretary's *Global Diaspora Forum*.

In partnership with the US Department of State, Digicel, and Scotiabank, Compete Caribbean will take the lead in the design and management of the Caribbean Idea Marketplace (CIM) within its existing rules and guidelines and Launch it in the 4Q of 2011.

Special Initiatives

Impact Investment includes a wide spectrum of activity, ranging from socially responsible investment that seeks to create social value to financially focused investments that proactively seek to generate development impact. The Global Impact Investment Network (GIIN) defines impact investment as investments that help to address social or environmental problems while also generating financial return.

A Caribbean Impact Working Group has been established by a diverse group of interested organizations led by the Rockefeller Foundation to determine the benefits and risks of bringing full-scale impact investing to the Caribbean. This group includes the US Department of State, the Multilateral Investment Fund, Virgin Foundation, Portland Private Equity, and IDB through Compete Caribbean.

In order to foster the growth of impact investing in the Caribbean, Compete Caribbean is undertaking a demand and supply side assessment of current impact investment in the region, which will provide specific insights for and shape the future activities of the Caribbean Impact Group, in addition to other impact investment stakeholders in the region. Compete Caribbean and MIF organized the first meeting of the Caribbean Impact Working Group which was held in Washington DC on June 10th, 2011.

Special Initiatives

The Americas Competitiveness Forum (ACF) is an event unique in the Western Hemisphere where every year thousands of representatives from countries throughout the region participate in a continental dialogue on competitiveness. Within the framework of the ACF, every year the Inter-American Competitiveness Network (RIAC) holds the Meeting of the Americas Competitiveness Authorities and Councils and the Ministers for Economy, Finance, Industry, and Trade of the hemisphere, within the framework of the Meeting of Ministers of Economy, Industry, and Trade of the Americas.

The main objective of the ACF is to facilitate the development of businesses and permit the exchange of ideas and knowledge so that the countries of the Americas can be more innovative, productive, and competitive, and can thereby improve the standards of living of their inhabitants. CC support included:

1. **Caribbean participation in RIAC Meeting**: Compete Caribbean sponsored the participation of representatives of 14 CARICOM countries.
2. **Compete Caribbean Workshop:** For the second time Compete Caribbean organized a workshop dedicated to t Caribbean competitiveness, this year presenting a study on how to improve trade and investments between Latin America and the Caribbean.
3. **Americas Competitiveness Forum:** Compete Caribbean presented 8 knowledge products in the following panels; (i) innovation in services, (ii) education, (iii) renewable energy, (iv) business climate reforms and (v) trade facilitation.

Special Initiatives

COMPETE CARIBBEAN

FELLOWSHIP PROGRAM

The Compete Caribbean Fellowship Program brings talent to bear on the region's most pressing issues of private sector development. It does this by matching graduate students from the world's leading universities with government institutions and private firms in the Caribbean for short term, high impact consultancies.

For 10-12 weeks, Fellows work side by side with public and private sector counterparts in one of the fifteen Compete Caribbean beneficiary countries. During this period, they work with partners on issues of performance measurement, business development, strategic management, or one of the other skill-buckets identified by Compete Caribbean.

With the support of the Office of Outreach and Partnerships, Compete Caribbean launched the first round of the fellowship program with five Universities: Harvard University, Columbia University, Stanford University, University of California-Berkeley and The University of the West Indies

“Government is not the generator of economic growth, it is the enabler. Economic growth is the result of firms being able to foster human ingenuity, innovation, efficiency and creativity in the production of new and better products and services.

Successful firms are the product of visionary men and women, who invest their time, savings and hard work to build dreams for themselves, their workers and their communities.

Our responsibility as a society is to allow and encourage people to dream; to provide training so that they can be productive in what they do; to open the doors to the world so that they can compete internationally; and relentlessly ask ourselves how we can make the Caribbean one of the best places on earth to invest and do business and be willing to forge a public-private alliance to implement the necessary reforms to achieve it.”

COMPETE CARIBBEAN

Thank you.

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