

Going for Growth

Pilot Benchmarking in the Caribbean

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Country Department Caribbean
Group

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Abstract¹

Sustainable economic growth has reemerged as a subject of Caribbean policy discussions, given the region's relatively lackluster performance in recent decades. However, most policy discussions still focus on the region's fiscal and macroeconomic constraints instead of on the analysis of underlying productivity drivers. This is due in part to the persistence of fiscal and debt crises across the region since the 1980s, and inadequate data available to perform basic productivity analyses. This brief adapts a benchmarking framework originally developed by the Organization for Economic Co-operation and Development to identify constraints to growth and help policymakers prioritize actions to address them. It summarizes the original technical background work and presents the results of initial exercises, using this framework, for The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

JEL codes: B41, O10, O20, O43

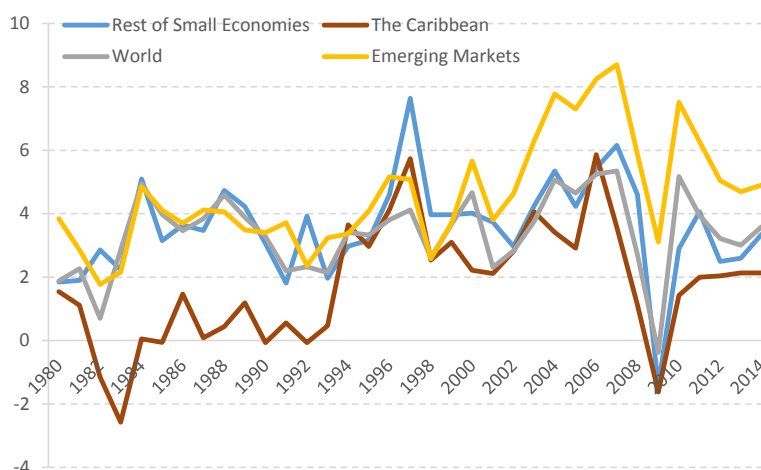
Keywords: benchmark, economic growth, comparison, small economies

¹ cet@iadb.org. This brief was prepared while the authors were at IDB's Caribbean Department. The authors are grateful to the country economists of the Caribbean Economics Team (Cherran O'Brien, Chrystol Thomas, Jeetendra Khadan, Juan Pedro Schmid, Mark Wenner and Camilo Gomez Osorio) for contributing to the analysis of the country-specific results, and to Musheer Kamau for his comments. We are also grateful to Michael DaCosta for useful comments.

Introduction:

Weak growth performance in Caribbean countries in the past few years has reinforced interest in how to increase productivity and address underlying long-term structural barriers to sustainable growth in the region. In the past 25 years, annual real GDP expanded by only by 1.7 percent in the Caribbean², compared with a growth of 3.7 percent of world GDP and 4.6 percent in emerging markets. During this period, the Caribbean countries continued to be highly exposed to fluctuations in the international environment (Figure 1). Moreover, despite significant differences among the countries of the region, there is a common concern about how to increase and sustain growth in the long term.

Figure 1. GDP Real Growth, 1980–2014



Source: World Economic Outlook, April 2014.

In this policy brief, we consider a new method for understanding and discussing growth constraints in the Caribbean adapted from the Organization for Economic Co-operation and Development (OECD)’s ‘Going for Growth’ exercise. The technical work of the method is described in detail in DaCosta, Melgarejo, and Mercer-Blackman (2013); this policy brief performs the first pilot simulations. The proposed framework considers indicators of key micro drivers and related structural policies that could help explain differentials in productivity and real GDP per capita across the region, as well as between the region and a larger set of similar countries. This method simplifies the growth analysis in a manner amenable to policy discussions without losing the framework’s theoretical underpinnings. Moreover, it facilitates comparison among countries, moves away from a simplified ranking exercise, and provides a sound and systematic starting point for further discussions with the authorities of each country.

The benchmarking exercise is aimed at collecting, presenting, and disseminating basic indicators and demonstrating how Caribbean countries compare with each other and with the rest of the small economies (ROSE). In our analysis, we consider various indicators-

² Refers to The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

-labor productivity, labor utilization, and the business environment--that could determine the areas in which a country has underperformed relative to its benchmark or peers. The main results show that business climate, distortions in the tax structure, and quality of infrastructure are the greatest barriers to growth in the Caribbean. Other priorities identified include the need to reduce the cost of energy and tackle crime and violence. Policies to address these issues could increase labor productivity and investment opportunities. Many of these determinants of sluggish growth were also found to be important in recent studies (for example, see Ruprah, Melgarejo, and Sierra, 2014), so this finding is not surprising. The difference with the proposed analysis in this paper is that the results were arrived at through a different framework that makes them more amenable to discussion at the policy level.

Following the OECD, we also consider the qualitative analysis of the results, where country experts (in this case, country economists from the Inter-American Development Bank) analyze, discuss, and contextualize the nuances of the results. This step allows for greater context and specificity in the debate among policymakers in the countries.

This policy brief is structured as follows: first, we describe the benchmarking method and its relevance to the Caribbean. Second, we discuss the results for The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago using this method. Then, we conclude and analyze future steps that could complement this study.

Why Benchmarking in the Caribbean?

The most common approach to understanding barriers to growth in Latin America and the Caribbean has been the *growth diagnostic methodology* presented by Hausmann, Rodrick, and Velasco (2005), which interprets the lack of growth as a fundamental lack of investment. In turn, investment is weak because of low levels of capital or low returns to capital (where *capital* is broadly defined). By reviewing all the possible sources, the method uses an induction process to identify and characterize barriers to growth. A recent study³ that applied this method to the Caribbean region identified the main constraints to growth as follows: the legacy of government as a master strategist that supports specific industries through distortionary tax policies that are not always the most competitive for the country; and a fragmented private sector with limited or no innovation and entrepreneurship capacity. Other constraints identified were: a narrow export base; low labor productivity, partly because of the significant brain drain of qualified labor to advanced economies; and high public indebtedness. However, this method does not allow for full comparability across countries—partly because of data constraints—nor does it allow a ranking of the barriers to growth into *most constraining* or *least constraining*.

In this policy brief, we consider a different and more structured method to understand which factors limit growth in the region. We follow the method developed by the Organization for Economic Cooperation and Development (OECD) that is published in their Going for Growth annual report.⁴ This approach has the advantage of keeping the policy indicators simple, comparable, and easily transferrable into specific policy recommendations.

³ See “Binding Constraints in The Caribbean.” DfID Department of International Development and OTIF, May 2008.

⁴ <http://www.oecd.org/eco/growth/going-for-growth-2013.htm>

The implicit model behind the benchmarking exercise is the standard growth model. The method conceptually disaggregates output per worker of a country into labor productivity and labor utilization. The exercise has three steps. First, it identifies a set of policy indicators over which the authorities can have influence and can have an impact on the growth process. Second, it maps each of the policy indicators to the performance indicator (or indicators) that it is designed to target or influence. Last, the policy and performance indicators are compared against a benchmark. The comparison allows us to identify gaps in the countries regarding their performance in key micro drivers of real incomes, and differences in their policy stance relative to benchmark countries.

The benchmarking framework can help overcome some of the data comparability difficulties that are present when we analyze the Caribbean countries. A general concern of government authorities is that the overall process does not always work for the region's countries because their vulnerabilities and contexts differ from those of countries outside the region. Benchmarking in the Caribbean gives us the opportunity to look at the specific features of each country and analyze its performance with respect to comparable small economies inside and outside the Caribbean region. In addition, this framework can facilitate discussion about long-run productivity issues in the Caribbean and move away from the traditional discussions of growth that focus on macro variables such as investment or exports.

Benchmarking itself also has some risks that must be considered. First, there is the risk that benchmarking can be used not only as a diagnostic tool that identifies differences in performance, but also as a basis for prescribing similar policy solutions to all countries. The Going for Growth method addresses this risk by tailoring policy approaches to the circumstances and constraints in each country and by continuous dialogue with country officials. A successful policy in Country A can help inform the discussion of possible options for consideration by Country B, and that policy option is not necessarily transferrable. Also, there may be a tendency for countries to resort to score maximizing of standard indicators provided globally, in which policymakers attempt to boost an indicator to improve their ranking without thoughtful discussion of the underlying weakness. To avoid this risk, in this exercise there is no ranking, only a focus on the main barriers to growth.

Another major risk is that the severe information constraints experienced in the Caribbean pose a challenge for this exercise, particularly the lack of reliable, consistent, and detailed data.⁵ Many of the data used in this initial analysis are based on opinion surveys and not on factual data, which is not ideal and can impact the results. With the exception of Jamaica, national accounts statistics are scarce and sometimes outdated in the Caribbean as a result of underfunding of data-gathering activities. Some governments may not gather certain data, or they severely restrict its dissemination. To reduce the risk of under- or overestimation of constraints, we include in our analysis barriers to growth that were identified by the Inter-American Development Bank's Caribbean Department economic team. They are presented as other priorities in Section II.

⁵ This can also affect the method for choosing comparators. The K-means cluster analysis (Backer and Jain, 1981) is a method for clustering countries in an objective fashion according to certain characteristics, but this generally requires a vast amount of data, and the choice of what number of countries to include in each cluster, or variables selected, can make a significant difference on the outcome.

Policy and Performance Indicators for the Caribbean

The benchmarking exercise is based on two types of indicators: performance indicators and related policy indicators. These indicators have been modified from the original set chosen by the OECD to better reflect the structure and other characteristics of Caribbean countries. Moreover, the choice of indicators depends on the extent to which their inclusion is supported by the literature, as well as by the availability and comparability of indicators across countries. For these reasons, some structural policy indicators used in the OECD Going for Growth exercises are not included in the list of proposed indicators for the Caribbean, while some new indicators have been added. For example, Internet access in schools and measures of brain drain, crime, informality, and reliability and cost of electricity. These performance indicators have been shown to be related to labor productivity in the economic literature for developing countries.

The two types of indicators are as follows:

- **Performance indicators**, which satisfy two conditions. These are variables closely related to the main drivers of real income and are available for the Caribbean region. For example, GDP per worker was selected as a performance indicator given that it is one of the two main determinants of per capita output (labor productivity); we did not include any measure of total factor productivity given that it is not reliably measured in the Caribbean region.
- **Policy indicators**, which consist of those variables that reflect the policy stance in the economy. These indicators have an important impact on economic activity—or on some of its determinants. Examples are tax rates, cost to import and export, and procedures to start a business. We also included some subjective measures of business regulations and environment, such as those available in the World Bank *Doing Business* report and the *Global Competitiveness Report*. Examples are quality of electricity supply, quality of the educational system, and quality of roads. Ideally, opinion survey data would be avoided, but in the case of the Caribbean, these are the only data available for many outcomes that one would want to measure.

The exercise requires that each performance indicator be mapped with one or a group of policy variables. The mapping relies on whether the relationship between both types of indicators is supported by their correlation and the literature. For example, the performance indicator *labor productivity* was matched with education enrollment and quality of electricity supply, given that these two indicators are considered productivity drivers and their correlation was positive for the Caribbean region. The list of matching pairs used in our analysis is described in Appendix A.

The Choice of Benchmark Countries

The benchmark choice makes an implicit judgment about the potential performance and policy achievements of a given country. It is not useful, for example, to use Singapore as a comparator because Singapore began its trajectory with a manufacturing base and has a very different institutional framework and growth strategy. For our purposes, the ideal benchmark is a country that has similar characteristics, structure, and constraints. Because the approach is

based on a standard conceptual framework for growth, the notion of convergence is taken into account in this method: one expects that a poor country will have relatively more indicators below the benchmark but also have more growth and development potential. In our analysis, we consider two benchmarks for each country. First, we considered Mauritius as an appropriate initial comparator because it has been a successful example of development of a small economy: Mauritius is a small island economy with a population of 1.3 million, dependent on tourism and primary commodities, but with constraints similar to those in the Caribbean (i.e., vulnerability to climate change, infrastructure bottlenecks, scarce human resources, low labor participation rates, and large public companies).

The results presented lead us to the second benchmark which itself is comprised of two sets of benchmarks. From a set of almost 60 small economies,⁶ we develop a group called “rest of small economies (ROSE)” defined as countries with fewer than 3 million people. From this group, we create two subgroups: the commodity-exporting and the tourism-dependent ROSE. The first group consists of economies in which exports of nonmanufacturing goods or commodities are higher than their exports of services. The normalized average value of each indicator for the commodity-exporting ROSE is the comparator for the three commodity-exporting Caribbean economies: Guyana, Suriname, and Trinidad and Tobago. The second subset refers to the ROSE that depend on the services sector, and their normalized average value is the benchmark comparator for the tourism-dependent countries: The Bahamas, Barbados, and Jamaica.⁷

How Do We Identify the Barriers to Growth?

Following the selection of indicators, we identify the performance indicators in the Caribbean that are lagging behind the benchmark and the corresponding worst-performing policy indicator. In this way, we are addressing those policies that are affecting growth and need to be improved in order to boost real income. The lag for each indicator is measured by computing the difference between the considered country and the benchmark and is normalized using the cross-country standard deviation for that indicator. The detailed method is described in DaCosta and colleagues (2013).

Results are illustrated in Figures 2 and 3, summarized in a two-dimensional graph for each country with performance on the y axis and policy on the x axis. Each point (*blue*) represents the lag (for each pair of policy and performance indicators) with respect to the benchmark. The problematic performance/policy pair (*red*) is contained in the lower-left quadrant for every country graph. This quadrant indicates that the country is below the benchmark in both performance and the degree of policy progress for that indicator, and thus gives a first clue about the problematic areas requiring attention.

⁶ Excluding the six Caribbean countries that are analyzed in this study.

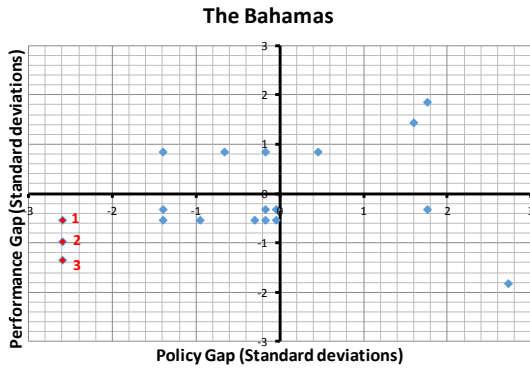
⁷ Future benchmarking exercises in the Caribbean could consider other benchmarks with specific characteristics for each country. For example, Trinidad and Tobago could be compared to Qatar, which is also highly dependent on natural gas production for certain purposes. One could also consider “the neighborhood” when selecting the correct benchmark (i.e., countries within the North American sphere of influence).

The Results Are Not Unexpected

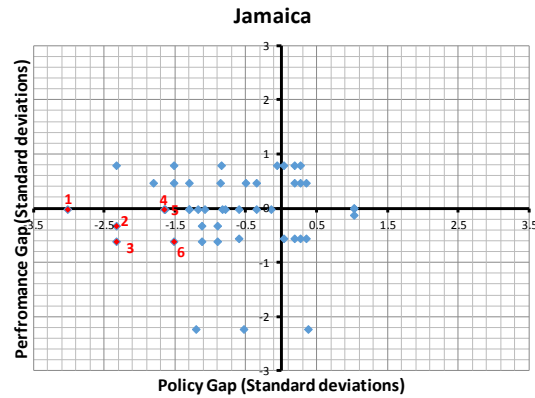
The first results suggest that the business climate (particularly the tax structure and the quality of infrastructure) are the greatest barriers to growth in the Caribbean. These variables could be affecting labor productivity, which is consistent with recent literature on growth in the Caribbean that considers labor productivity as the key determinant of sluggish growth and adverse income differentials⁸. We observed that the high tax burden on businesses is a common factor detrimental to investment and economic growth among tourism-dependent countries in the Caribbean. There are many activities that are legally exempt from the highest tax rates. However, not all businesses are on the same level playing field if some are paying more taxes than others, which creates incentives for firms to seek exemptions or waivers, which in itself magnifies the distortionary business environment. In The Bahamas and Barbados, another main problem detected was high transactional barriers that affect new investments and the business environment. Jamaica and Trinidad and Tobago also need to tackle the high level of crime and violence (although other Caribbean countries are not immune to this problem). In the case of Jamaica, this will be necessary; if there is to be a significant effect on growth, there has to be a drastic reduction of perceptions of insecurity.

⁸ See for example DFID (2008) and Thacker and Acevedo (2010). For a thorough literature review and discussion see Fuentes, Mercer-Blackman and Melgarejo (2015)

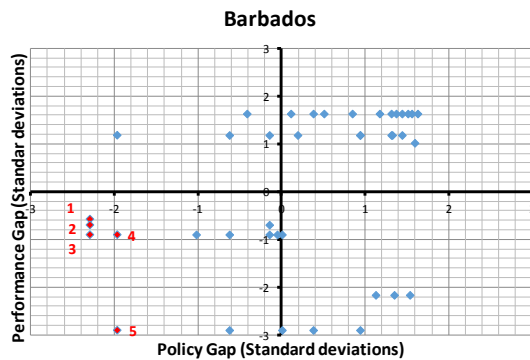
Figure 2. Performance and Policy Indicators: Tourism-Dependent Countries



Note: Numbers correspond to the following ordered pairs: 1.- (Total Tax rate; Total investment growth in 10 years) / 2.- (Total Tax rate; Per worker GDP growth in 10 years) / 3.- (Total Tax rate; Per worker GDP growth in 5 years)



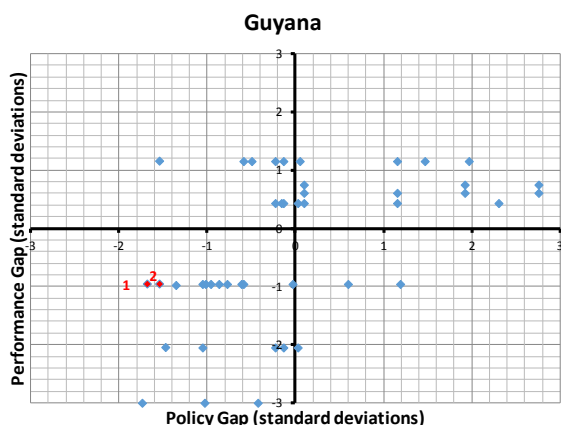
Note: Numbers correspond to the following ordered pairs: 1.- (Business costs of crime and violence; GDP per worker 2010) / 2.- (Total Tax rate; Per worker GDP growth in 10 years) / 3.- (Total Tax rate; Per worker GDP growth in 5 years) / 4.- (Quality of math and science education; GDP per worker 2010) / 5.- (Fixed broadband Internet subscriptions; GDP per worker 2010) / 6.- (Company spending on R&D; Per worker GDP growth in 5 years)



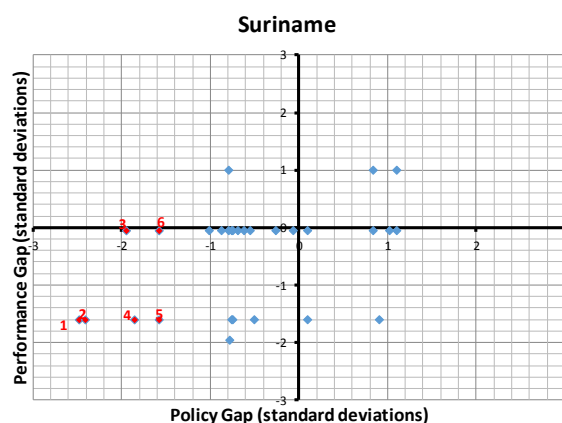
Note: Numbers correspond to the following ordered pairs: 1.- (Total Tax rate; Per worker GDP growth in 10 years) / 2.- (Total Tax rate; Per worker GDP growth in 5 years) / 3.- (Total Tax rate; Total investment growth in 10 years) / 4.- (Time to register a property; Total investment growth in 10 years) / 5.- (Time to register a property; Total investment-to-GDP ratio in 20 years)

Another issue identified in the three tourism-dependent countries was the high cost of energy. The region needs a strong focus on renewable sources of energy and energy efficiency measures that could offer a long-term solution and facilitate investments. In The Bahamas, other priorities detected were the need to reduce crime and insecurity and improve transport infrastructure. In Barbados, the importance of improving coastal zone management with better environment infrastructure was evident. In Jamaica, it was shown that the procedures to start a new business required more efficiency and transparency.

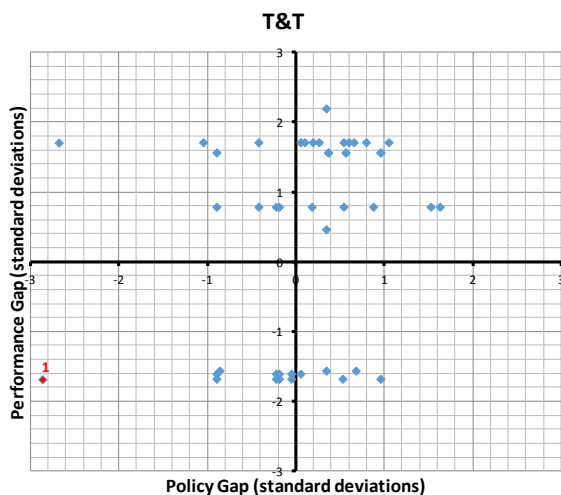
Figure 3. Performance and Policy Indicators: Commodity-Exporter Countries



Note: Numbers correspond to the following ordered pairs: 1.- (Quality of electricity; GDP per worker 2010) / 2.- (Business costs of crime and violence; GDP per worker 2010)



Note: Numbers correspond to the following ordered pairs: 1.- (Procedures to Start a Business; FDI growth in 10 years) / 2.- (Time to register a Property, FDI growth in 10 years) / 3.- (Internet access in schools; GDP per worker 2010) / 4.- (Business impact of rules on FDI; FDI (% GDP) in 10 years) / 5.- (Company spending on R&D; FDI (% GDP) in 10 years) / 6.- (Company spending on R&D; Per worker GDP growth in 5 years)



Note: Numbers correspond to the following ordered pairs: 1.- (Procedures to register a Property; Total investment growth in 10 years)

The results for the three Caribbean commodity-exporting countries show an underperformance in the quality of transport infrastructure when compared with the average of ROSE commodity exporters. In particular, *procedures* and *time to register a property* impact the level of foreign direct investment in Suriname. Guyana's labor productivity has been impacted by the low quality of electricity supply and high cost of crime on business. *Procedures* and *time to register a property* were found to negatively affect private investment in Trinidad and Tobago.

Other priorities for Guyana include more sustainable practices in mining, fisheries, and forestry. In the case of Suriname the lack of innovation and competition has been affecting productivity,

especially in public enterprises. In Trinidad and Tobago, policies should be directed at reducing fuel subsidies and improving the quality and transparency of public institutions.

As mentioned earlier, the starting point (in terms of income per capita) will determine a country's average performance relative to the benchmark. It is not surprising therefore that Trinidad and Tobago performs relatively well compared with that benchmark given that most of its policy/performance pairs are in the top-right quadrant (see Figure 3). The opposite is the case for Guyana and Suriname. In each, the lower-left quadrant is heavily populated, indicating more constraints on growth, but also indicating that each is at an earlier stage of development. Hence, higher growth rates are expected as they catch up with their wealthier peers.

The detailed results for each country and the derived recommendations are presented in the following section, which mirrors the presentation of the method used in the OECD's Going for Growth publications. We also analyze the three most problematic policy indicators when compared with the ROSE subgroup. We include other policy indicators that may be lagging and that are based on the IDB Caribbean Department economic team's country analysis.

Our objective is to complement the benchmarking results with field-level knowledge and existing information in the literature, which will also serve as a way to compensate for the lack of detailed, non-survey data in the Caribbean. As in the Going for Growth exercise, we show that some countries have already identified major constraints and have started working on this issue. We also include some of the actions taken regarding our recommendations.

Section II: Country Results and Recommendations

The Bahamas: Economic Policy Reforms for Growth

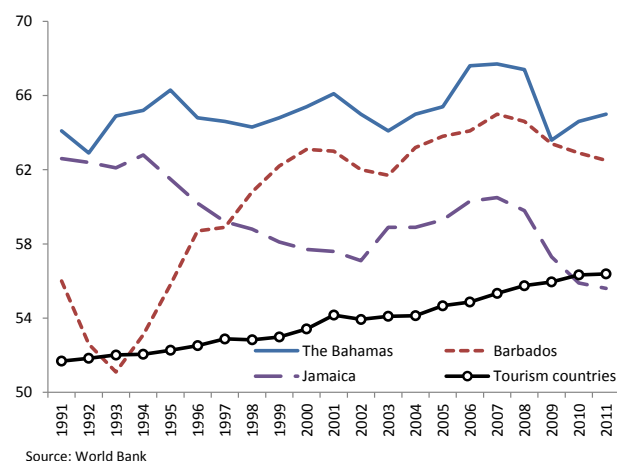
- In 2014, economic activity showed weak signs of recovery. Real GDP growth is estimated at 1 percent, higher than the 0.7 percent reported in 2013, still well below pre-crisis levels. In 2015 real GDP is expected to continue recovering and expand by 2.3 percent.
- An improvement in tourism investment projects (such as the Baha Mar project), and infrastructure modernization (such as airport and roads) are expected to continue contributing to the recovery in the economic activity.
- Fiscal sustainability is still a major concern. The fiscal deficit is estimated to have narrowed to 3.3 percent in FY 2013/14 (according to the IMF), from 5.4 percent and 4.3 percent in the previous two fiscal years. Central government debt was estimated at 65.8 percent of GDP at end 2014, an increase of 32 percentage points from its 2008 value.
- Over the medium term, downside risks are related to high exposure to U.S. economic performance, which accounts for 80 percent of the country's tourist arrivals.

Performance Indicators

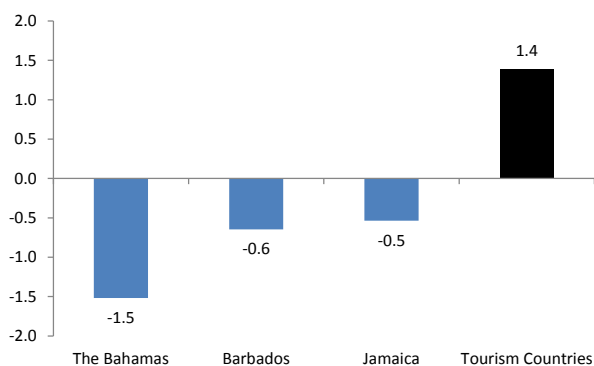
Good: Bahamas has the highest number of people participating in the workplace, not only among the region but also relative to its benchmark country-group. Furthermore, purchasing power parity income levels have been the highest in the region over the past 32 years.

Not So Good: Labor productivity has decreased 1.5 percent over 2002–11, in line with other tourism countries in the region, but in sharp contrast with an increase of 1.4 percent achieved by its benchmark country-group. Total investment remains below benchmark countries.

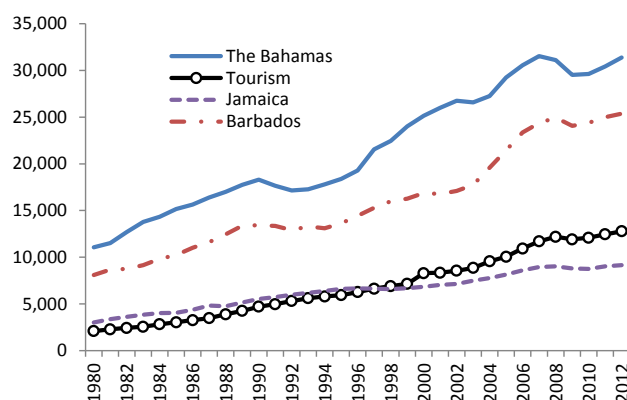
Employment to population ratio, 15+, total (%)



GDP per worker (Growth 2002-11)



GDP per capita (Current international dollar - PPP)



Priorities Supported by the Indicators:

- ***Improve tax structure.*** Tax rates are higher not only relative to the region but also to the benchmark country-group (in the latter case the difference is more than 20 percentage points).
Recommendations: Set up a more progressive tax system that could boost labor productivity and investment growth. Institutional strengthening to integrate revenue collection agencies and enhance public management practices is also key to support possible reforms in the tax structure. The recent introduction of the value-added tax in January 2015 is a major achievement in the right direction.
- ***Reduce transactional barriers and costs to improve business environment***
Recommendations: Reducing transactional costs such as the time to register a property could help to increase the share of investment in the GDP.

Other Key Priorities:

- ***Reduce energy costs.*** The use of fossil fuels to generate energy is outdated and expensive. This has increased the cost of doing business as well as the cost of tourism products through the addition of an energy surcharge.
Recommendation: The government has to support long term policies that could reduce energy cost, for example by incorporating renewable sources. Some ongoing initiatives include the CHENACT project, slated to be completed in 2015 with energy audits of 24 small- and medium-sized hotels. The Ministry of Environment has some interest in a SMART Fund to help finance the implementation of the investments recommended under these audits.
- ***Upgrade transportation infrastructure***
Recommendation: As a tourism-based economy, it is important to have an adequate and updated transportation infrastructure. Better port infrastructure could facilitate trade and travel among islands.
- ***Reduce crime and concerns about insecurity.*** Increased crime has been affecting the growth of the tourism industry and investment.
Recommendation: The government needs to promptly address crime concerns, particularly by introducing a clear plan and actions that could reduce international investors' and tourists' concerns. A Citizen Security program is being developed with support from the Inter-American Development Bank for consideration in 2015.

Barbados: Economic Policy Reforms for Growth

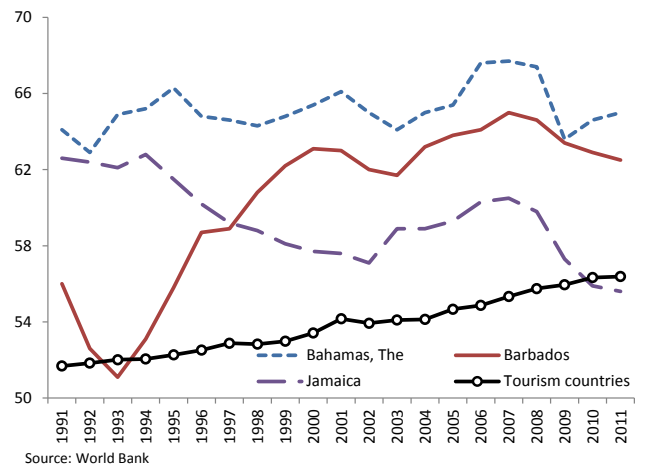
- Economic activity is still suffering from the consequences of the last financial crisis. Over the past 5 years, the country has seen average real GDP growth at 0.3 percent annually. The economy grew by 0.2 percent in 2014 and 0.6 percent at the end of the first quarter 2015. However, GDP per capita grew by 1.3 percent in 2014 after decreasing 1 percent the previous year. In 2015, IMF estimates real GDP to rise by 1 percent, driven by stronger tourism inflows.
- Fiscal indicators continue to lag: By the end of fiscal year 2014/15, the fiscal deficit reduced to 7.2% of GDP from 11.2% of GDP in 2013/14, following the ambitious fiscal consolidation measures announced by the authorities aimed to strengthen the fiscal position and stop the slide in reserves. The general government debt-to-GDP ratio reached 101 percent (134 percent inclusive of holdings from the National Insurance Scheme) in March 2015 and could start declining in the next five years but only under the assumption of a positive fiscal balance.
- Over the medium term, the GDP is expected to grow by 1.7 percent in average over the next five years.

Performance Indicators:

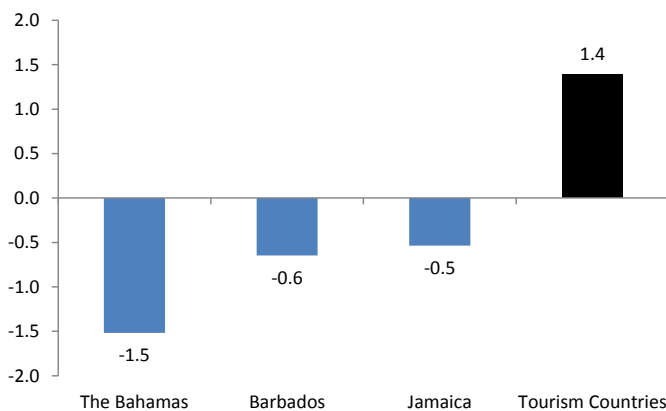
Good: Barbados has one of the highest numbers of people participating in the workplace in the region, and it is also higher than its benchmark country-group. Moreover, purchasing power parity income levels and literacy rates are among the highest in the region.

Not So Good: Labor productivity has decreased 0.6 percent over the past 5 years, in line with other tourism countries in the region but in contrast with an increase of 1.4 percent achieved by its benchmark country-group.

Employment to population ratio, 15+, total (%)



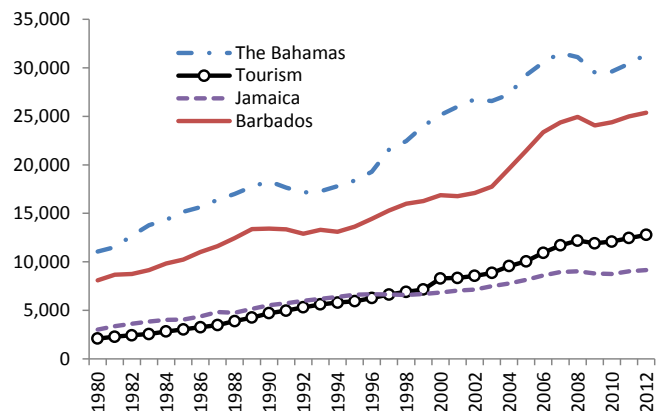
GDP per worker (Growth 2002-11)



Source: Penn World Table 8.0

Note: Workers are defined as persons aged 15 years and over who performed work.

GDP per capita (Current international dollar - PPP)



Source: International Monetary Fund.

Priorities Supported by the Indicators:

- ***Improve tax structure.*** Tax rates are among the highest in the region and are significantly higher than those of the benchmark country-group (the difference is almost 19 percentage points).
Recommendation: Labor productivity and investment growth could be boosted by setting up a more progressive tax system and broadening the tax base to include some sectors traditionally excluded, especially in services, as well as continue to reduce tax exemptions.
- ***Reduce transactional barriers/costs to improve business environment***
Recommendation: Reducing transaction costs such as the time to register a property, construction permits processes and contracts enforcement could improve the business environment and help to increase the low level of the investment-to-GDP ratio.

Other Key Priorities:

- ***Improve environmental infrastructure***
Recommendation: Sustainable coastal zone management is needed to ensure environmental stability and to combat climate change. The vulnerability of the coastal zone could be reduced with better land use regulation, more control, and improved construction standards. In addition, risk-based coastal planning, long-term shoreline protection, and investments in hazard-resilient coastal infrastructure could help mitigate future risks.
- ***Reduce energy costs***
Recommendation: Reduce the dependence on fossil fuels by promoting renewable energy and energy efficiency. High and variable cost of energy, in particular electricity, has affected old and new businesses. Moreover, the government should try to reduce the length of time taken to obtain an electrical connection.
- ***Improve business infrastructure***
Recommendation: Support business activity and encourage small and medium-sized enterprises to use new information and communications technology to increase competitiveness and productivity levels. Greater investment in trade-related infrastructure, such as transportation and logistics, as well as improving connectivity, both by air and sea, could structurally reduce production costs over the medium term and would increase tourist arrivals.
- ***Provide social assistance targeted to the poor and vulnerable.***
Recommendation: Strengthen and expand existing social protection programs to support the poor and most vulnerable. Unemployment averaged over 11% for the last 5 years, increased to 11.5% at the end of December 2014 as a result of weak internal demand and public sector retrenchment, and is projected to remain at the 2-digit level in the short to medium term.

Guyana: Economic Policy Reforms for Growth

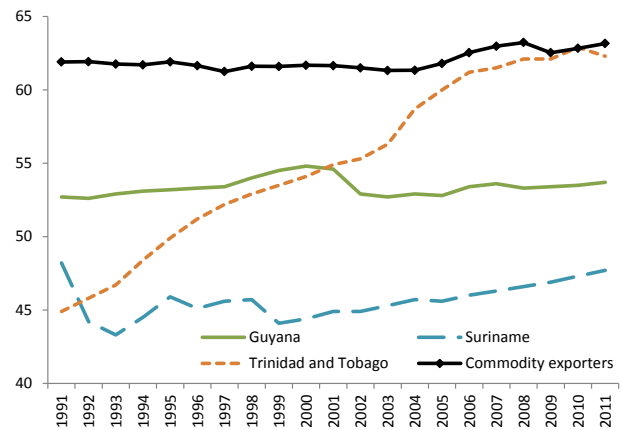
- GDP per capita expanded by 0.5 percent in 2014, lower than the 4.2 percent achieved in 2013. Real GDP growth slowed from 5.2 percent in 2013 to 3.8 percent in 2014, supported by favorable external conditions. Total investment as a percentage of GDP grew to 19.4 percent in 2014. In 2015, real GDP growth is estimated at 3.8 percent.
- Regarding the financial sector, banks remain liquid and prudential indicators have been strengthening but shallowness and high margins of intermediation persist.
- According to the International Monetary Fund, the macroeconomic outlook for the medium term remains positive and stable, with an expected average inflation rate of 1.2 percent in 2015.

Performance Indicators:

Good: It is one of the few countries in the Caribbean to have achieved relatively high growth of GDP per employed person.

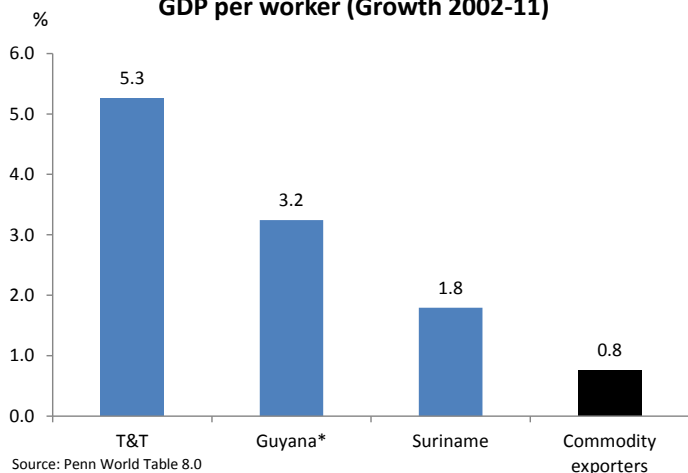
Not So Good: In the past 30 years, the number of people participating in the workplace has remained almost constant, below the benchmark level. Moreover, purchasing power parity income levels are still lower than those of the benchmark country-group and of its peers in the region; the gap continues to widen.

Employment to population ratio, 15+, total (%)



Source: World Bank

GDP per worker (Growth 2002-11)

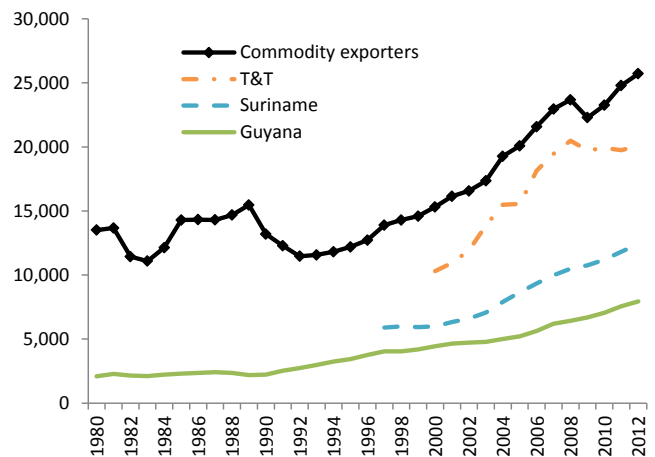


Source: Penn World Table 8.0

* Ratio corresponds to 2001-10

Note: Workers are defined as persons aged 15 years and over who performed work.

**GDP per capita
(Current international dollar - PPP)**



Source: International Monetary Fund.

Priorities Supported by the Indicators:

- ***Improve electricity supply to boost labor productivity.*** The quality of electricity supply is significantly low relative to Guyana's regional peers and to its benchmark country-group.
Recommendation: Improving the quality of electricity service is important to increase the relative levels of productivity.
- ***Reduce the incidence of violence and crime to improve the business environment.*** High business costs of crime and violence constitute another important constraint for labor productivity. In this direction, The Inter-American Development Bank is working with the government of Guyana to finance a program on citizen security.
- ***Increase the quantity and quality of transport infrastructure.*** Given that the average openness ratio was 183 percent of the GDP in the past five years, sea and air infrastructure becomes a critical matter.
Recommendation: Efforts should focus on identifying measures to boost low levels of investment and improve the efficiency of public investments. Long-term infrastructure financing is more likely to be forthcoming once some of Guyana's transparency issues are addressed.

Other Key Priorities:

- ***Macro stability.*** Larger fiscal buffers, enhanced financial risk management, and diversification of the economic base are needed to cope with the serious short-term vulnerabilities such as sharp falls in the terms of trade and possible sharp falls in foreign direct investment, remittances, and loss of preferential trading and financing arrangements.
- ***Better management practices to promote sustainable mining, fisheries, and forestry developments.*** The country is rich in these resources, but weak policies in this area could risk the Low Carbon Development Strategy.
Recommendation: Stronger enforcement capacity and ability to adapt to new technology and better management practices are needed.
- ***Institutional stability.*** Political gridlock between the standing government and combined opposition is dampening economic confidence, thwarting the consideration and implementation of many reforms needed to enhance competitiveness and efficiency, and is reducing the overall efficacy of government.

Jamaica: Economic Policy Reforms for Growth

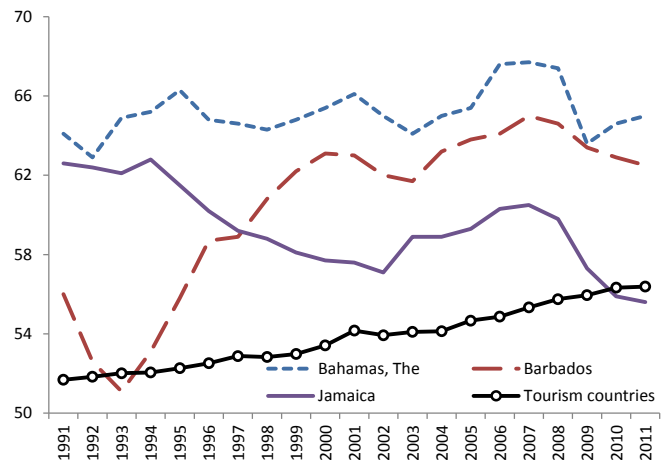
- Economic activity remained almost constant in 2013 and grew 0.5 percent in 2014. In 2015, real GDP is expected to increase by 1.7 percent
- Unemployment rate reached 14.2 percent in January 2015, after a peak of 16.3 percent at the end of April 2013, which was the result of an increase in the labor force. Annual average inflation was 7.1 percent in 2014 and is expected to moderate to 5.8 percent in 2015.
- The fiscal situation is still fragile, but important improvements have been achieved. The fiscal balance improved to 0.1 percent of GDP in 2014/15 from a deficit of 4.2 percent of GDP in 2012/13. Furthermore, the debt-to-GDP ratio is also expected to decline to 140 percent of GDP by the end of 2014/15 and it should reach 100 percent of GDP by March 2020.
- Over the medium term, the GDP is expected to grow at 2.3 percent rate on average from 2015 to 2019.

Performance Indicators:

Good: Despite having the lowest labor force participation rate in the region, the Jamaican diaspora is one of the most skilled and dynamic. Growing remittances—at 15 percent of GDP--contribute to higher income and poverty reduction.

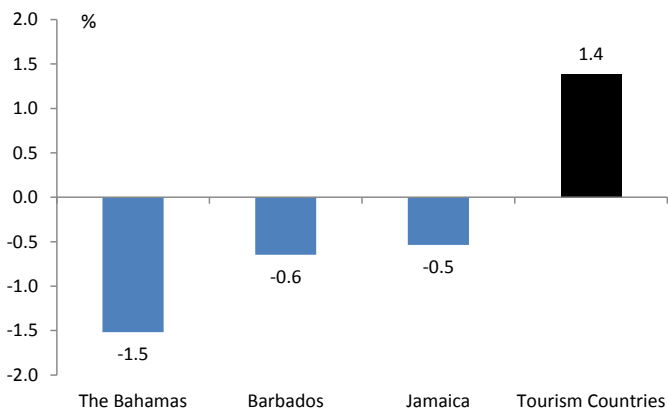
Not So Good: Income levels are also low relative to regional peers and relative to the benchmark. Labor productivity has decreased 0.5 percent in the past 5 years in line with regional peers, but in contrast with the growth achieved by the benchmark.

Employment to population ratio, 15+, total (%)



Source: World Bank

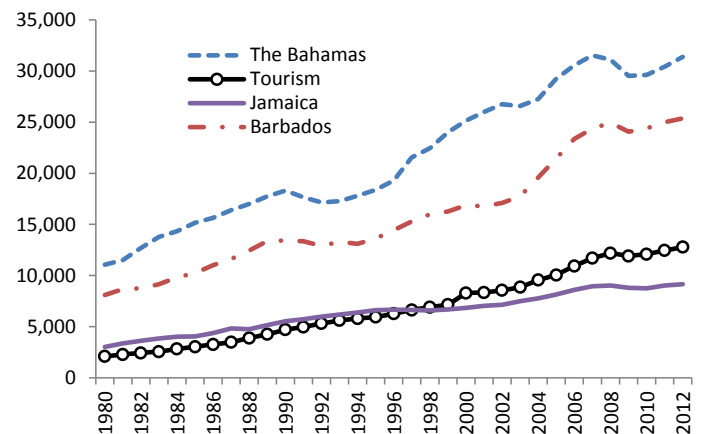
GDP per worker (Growth 2002-11)



Source: Penn World Table 8.0

Note: Workers are defined as persons aged 15 years and over who performed work.

**GDP per capita
(Current international dollar - PPP)**



Source: International Monetary Fund.

Priorities Supported by the Indicators:

- **Incidence of violence and crime.** High business costs of crime and violence constitute an important constraint for Jamaica's business environment and therefore for labor productivity. In the region, Jamaica has the worst indicator levels of crime and insecurity.
Recommendation: To have an effect on growth, crime needs to be reduced substantially. For example, the government has an ongoing citizen security program for almost 14 years and there are other initiatives targeting youth. Nonetheless, the impact may have to be significantly greater to have a noticeable effect on long-term productivity of businesses.
- **Tax structure.** Tax rates are among the highest in the region and are significantly higher than those of the benchmark country-group (the difference is almost 19 percentage points).
Recommendation: Labor productivity growth could be boosted by setting up a less distorted and more progressive tax system, while broadening the tax base. Progress in recent years in this area has included a reduction of discretionary tax waivers.
- **Low spending in research and development.** Jamaica shows one of the lowest levels of spending on research and development compared with other countries throughout the region as highlighted in the analysis of the data.
Recommendation: Incentivizing research and development could directly affect labor productivity.

Other Key Priorities:

- **Provide a stable macroeconomic environment:** Bouts of macroeconomic unsustainability had a negative impact on investor and consumer confidence. Continuing the fiscal consolidation even beyond the IMF's Extended Financing Facility is central to provide a stable macroeconomic environment that is required for investment.
- **Reduce energy costs:** Expensive energy has remained an obstacle for the development of new industries and projects in Jamaica. In particular, it has been affecting new investments.
Recommendation: There should be a long-term energy policy. New energy sources should be studied and their implementation given serious consideration to support investment and reduce vulnerability to changes in the external environment.
- **Improve the business environment:** Despite many reforms on this front, doing business in Jamaica remains a challenge given the high levels of bureaucracy and inefficient legal enforcement procedures.
Recommendation: To facilitate investments, the government should continue to reduce the entry costs to firms and red tape, facilitate contract enforcement and improve the efficiency of the regulatory system.

Suriname: Economic Policy Reforms for Growth

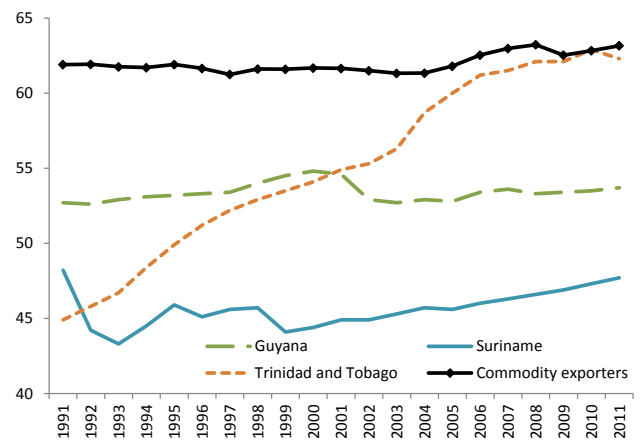
- Large investments in the extractive industries and political stability have helped Suriname attain economic growth rates of 4.7 percent since 2001. Recent developments in the commodity markets (lower oil and gold prices) have slowed real GDP growth to 2.9 percent in 2014 from 4.1 percent in 2013. Annual inflation was estimated at 3.4 percent in 2014 and is expected to decrease to 1.9 percent in 2015.
- The affirmations of Suriname's sovereign rating by major credit ratings agencies reflect the strong macroeconomic policies of Suriname. However, the country should continue its reform agenda such as strengthening policymaking institutions and adjusting policies to weather the end of the boom cycle in a sustainable way.
- In 2015, real growth is expected to remain below last year's value, recording a rate of 2.7 percent, in line with expected moderate declines in commodity prices.

Performance Indicators:

Good: Since 2000, Suriname has been able to increase the number of people participating in the workplace.

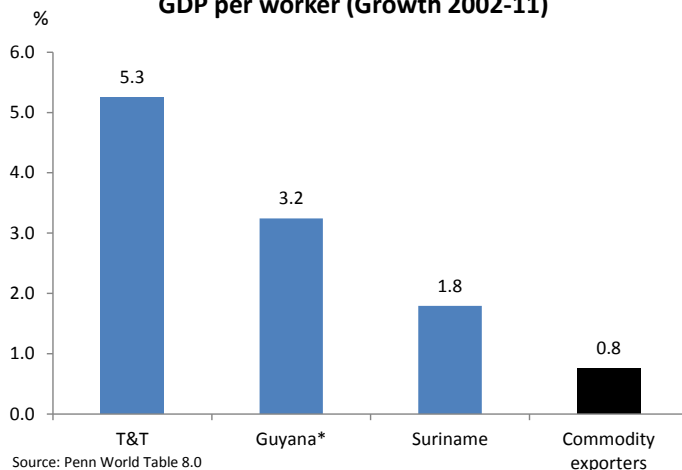
Not So Good: Actual levels of labor force participation are still well below the level achieved by regional peers and country-group benchmarks. Moreover, even though productivity growth is higher compared with the country-group benchmark, it is still low relative to Trinidad and Tobago and Guyana. Regarding purchasing power parity income, Suriname has achieved a fast and stable growth since 2003.

Employment to population ratio, 15+, total (%)



Source: World Bank

GDP per worker (Growth 2002-11)

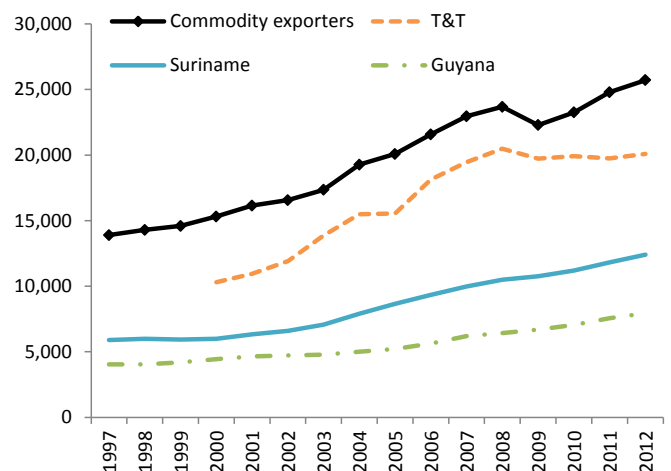


Source: Penn World Table 8.0

* Ratio corresponds to 2001-10

Note: Workers are defined as persons aged 15 years and over who performed work.

**GDP per capita
(Current international dollar - PPP)**



Source: International Monetary Fund

Priorities Supported by the Indicators:

- ***Reduce transactional barriers and costs to improve the business environment.*** The number of procedures to register a property and the time required to start a business are two variables related to transactional costs in which Suriname is dramatically lagging behind, not only relative to its regional peers but also relative to its benchmark country-group.

Recommendation: Reduce transactional costs, which may help to restore the net outflow of foreign direct investment registered from 2002 to 2011. In this direction, the government of Suriname has started drafting legislation to promote investment, improving the business climate and strengthening the quality of the institutions that support private sector growth.

- ***Improve access and quality of media and communications.*** Even with labor productivity levels close to the benchmark country-group, access to internet in schools is well below the levels of regional peers and relative to the country-group benchmark.

Recommendation: Improving access to media and communications may help to raise productivity levels.

Another Key Priority:

- ***Improve innovation and competition policy.*** In particular, this could increase productivity levels at state-owned companies.

Trinidad and Tobago: Economic Policy Reforms for Growth

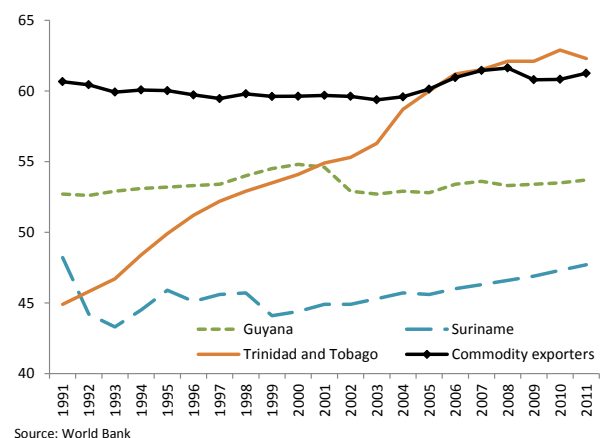
- Over the past two decades, GDP per capita has grown steadily, aided by investment and discoveries in oil and gas. More recently, GDP growth and productivity have been marred by lack of investment in the energy sector and sluggish growth in the non-energy sector, reflecting the effect of the global recession. Real GDP growth was 1.9 percent in 2014, driven by the non-energy sector performance. Recently, the energy sector has been negatively affected by the decrease in oil prices. Medium-term growth is expected to reach an average of 1.7 percent over the next five years.
- The government has announced some reforms, such as more private sector participation in infrastructure, public banks, and others, as well as value-added tax reform and reduction in transportation fuel subsidies. The government has advanced with some reforms to address issues relating to public procurement, bankruptcy and insolvency.
- The financial sector suffered from the CLICO insurance debacle in 2009 and has mostly recovered, although vulnerabilities are evident given the reluctance to quickly pass desperately needed regulatory reforms in the nonbank financial sector, particularly in pensions and

Performance Indicators:

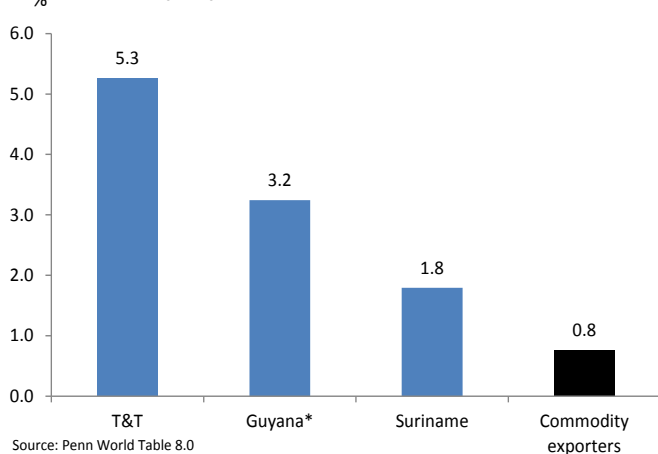
Good: Since 1990, Trinidad and Tobago has been able to increase the number of people participating in the workplace. Moreover, it is one of the few countries in the Caribbean to have achieved relatively high growth rates of GDP per employed person. Despite its volatile performance characterized by long cycles related to oil and gas prices, per capita GDP grew faster than its benchmark in the past 12 years.

Not So Good: Purchasing power parity income levels are still lower than those of the benchmark country-group, and its growth has slowed over the past four

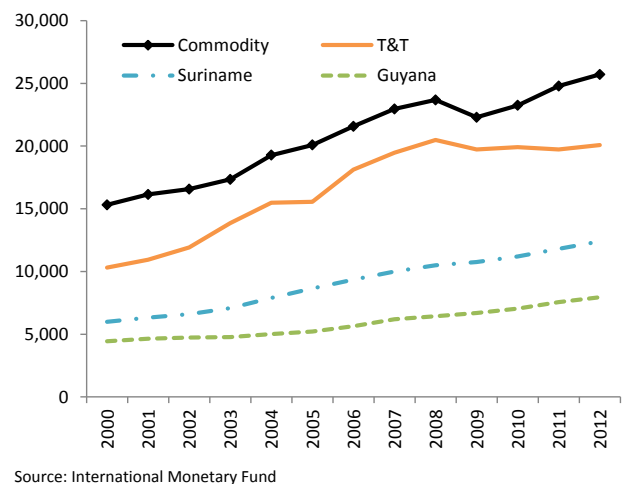
Employment to population ratio, 15+, total (%)



GDP per person worker (Growth 2002-11)



GDP per capita (Current international dollar)



years.

Priorities Supported by Indicators:

- **Reduce transactional barriers and costs to improve business environment.** The number of procedures to register a property and to start a business are two variables related to transactional costs in which Trinidad and Tobago is currently lagging.
Recommendation: Facilitate and speed up the procedures required to start a business, which could increase the share of investment in GDP.
- **Increase quantity and quality of port infrastructure.** With an average openness ratio of 101 percent of the GDP over the past five years, improving port infrastructure becomes a critical matter. This issue may also be related to unionization of construction workers in the sector.
Recommendation: Increase the efficiency of public investment in sea ports and other transport infrastructure.

Other Key Priorities:

- **Reduce subsidy on transportation fuels:** The subsidy encourages excess driving, resulting in congested roadways which in turn become an additional burden to businesses and to individuals.
Recommendation: Reduce the transportation fuel subsidy and improve public transportation. This will have an important effect on worker productivity. In this regard, in the last budgets, the government has been promoting the conversion to a cheaper and cleaner fuel (CNG).
- **Reduce crime and violence:** Crime concern has been increasing in Trinidad and Tobago, affecting business costs and thus reducing investment.
Recommendation: As in other countries of the region, Trinidad and Tobago needs a long term and credible policy to tackle crime and violence. Specifically, surveys show that the cost of crime for businesses is very high, so programs that target those specific crimes could help boost productivity of firms.
- **Improve the quality and transparency of public institutions.** During the past few years, there have been repeated scandals regarding corruption in the public sector. To increase foreign investment, in particular in the non-energy sector, more transparent institutions and clear fiscal renditions are needed.
- **Improve the administration and targeting of social programs:** The lack of evaluation and follow-up of many social programs has been affecting the workforce participation rate, and discouraging productive employment in the private sector.

Section III: Conclusions

This policy brief proposes a new method for analyzing growth in the Caribbean that would be practical for policymakers across the region. The method developed in this paper is derived from the OECD's annual Going for Growth exercise-- which has proven useful to that organization for many years—but it is more tropicalized to take into account the structure of Caribbean economies. While it would be necessary to gather more data to make the exercise more objective and less survey-based, we have nonetheless obtained useful preliminary results.

Many of the main barriers to growth identified in this paper are also noted in other growth studies, so they should be of no surprise, as the same data are being used. The innovative element of this brief is the proposed method for considering the data, classifying it and presenting it in a systematic way that is useful for entering into meaningful dialogue with policymakers. Moreover, for the case of the Caribbean, it moves away from the typical dialogue of macro-fiscal constraints and focuses the discussion on more structural, long-term micro drivers of growth.

After considering, classifying and presenting the data, the next step would consist of dialogue with government, private sector and other representatives on the priorities put forth by this exercise. The country results at this stage indicate preliminary findings to be discussed and considered. If adopted, eventually we believe that the benchmarking exercise could promote knowledge sharing and sharpen the analysis of differentials in productivity and real incomes within the Caribbean Community, as well as between the Caribbean Community and benchmark countries.⁹

It should be noted that at this stage, the exercise highlights areas where the country performs worse relative to comparator countries, but it also highlights areas where either policy efforts have been lacking, or where initiatives have not been far-reaching enough to significantly improve the associated performance indicator or proximate causes of productivity (such as investment, employment per worker, etc.--see appendix 1).

In the future, the contribution of this exercise will depend on the extent to which concerns in the literature about the application of benchmarking can be addressed, as well as a marked improvement in the quality and quantity of data. A discussion among policymakers is still essential. Nonetheless, the credibility of the exercises and their results will depend on the availability of indicators, their comparability with those of other countries outside the region, and the extent to which their association with productivity is established. This is an important area for future work: in our case, the indicators are based in large part on opinion surveys, which is not ideal and can impact the results.

⁹ For these discussions it would be helpful to share with each country details of how it compares with ROSE benchmarks, and also with the top performers included in the ROSE set. The latter because some policymakers might prefer to focus on one-on-one comparisons (with countries that are performing well) rather than on an average of several countries. It is helpful also to highlight those areas in which countries are performing well relative to benchmarks (the points in the top right hand quadrant).

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Appendix A. Matching Performance Indicators to Policy Indicators

Performance Indicator 1: GDP Per Worker, 2010

- Secondary education enrollment, gross (value)
- Tertiary education enrollment, gross (value)
- Internet access in schools
- Brain drain
- Quality of the educational system
- Quality of math and science education
- Percentage of Internet users
- Fixed broadband Internet subscriptions (%)
- Quality of electricity supply
- Quality of roads
- Business costs of crime and violence (value)
- Interest rate spread (2009)

Performance Indicator 2: GDP Per Worker (Growth), 2000-2010

- Total tax rate (% profit)
- Primary completion rate: male (2009)
- Primary completion rate: female (2009)

Performance Indicator 3: GDP Per Worker (Growth), 2005–2010

- Total tax rate (% profit)
- Company spending on research and development
- Primary completion rate: male (2009)
- Primary completion rate: female (2009)

Performance Indicator 4: Total Investment (Growth) 2002–2012

- Total tax rate (% profit)
- Company spending on research and development
- Cost to import (US\$ per container)
- Procedures to start a business (number)
- Time to start a business (days)
- Procedures to register a property (number)
- Time to register a property (days)

Performance Indicator 5: Total Investment (% GDP) 1993-2012

- Interest rate spread (2009)
- Quality of port infrastructure
- Procedures to start a business (number)
- Time to start a business (days)
- Time to register a property (days)

Performance Indicator 6: Foreign Direct Investment (% GDP) 2002-2011

- Quality of electricity supply
- Quality of roads
- Company spending on research and development

Business impact of rules on foreign direct investment
Cost to export (US\$ per container)
Time to export (days)
Quality of port infrastructure
Procedures to start a business (number)
Time to register a property (days)

Performance Indicator 7: Labor Force, by Level of Education (Secondary)

Female percentage of labor force (2009)

Performance Indicator 8: Labor Force, by Level of Education (Tertiary)

Female percentage of labor force (2009)

Performance Indicator 9: Employment-to-Population Ratio

Female percentage of labor force (2009)

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