



REGIONAL PRIVATE SECTOR DIAGNOSTIC (RPSD)

PROMOTING PRIVATE SECTOR-LED GROWTH TO FOSTER RECOVERY AND RESILIENCE IN THE CARIBBEAN

Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago

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2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
www.ifc.org

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EXECUTIVE SUMMARY

The World Bank Group prepared this Regional Private Sector Diagnostic (RPSD) for 12 Caribbean states (CARI-12) as part of its ongoing efforts to boost private sector participation in key sectors and accelerate economic growth and development over the next three to five years. The CARI-12 states are Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.¹ These countries have similar cultures, languages, and geographies, and they face comparable development challenges. These similarities create opportunities for collaboration and mutual learning such as through the regional cooperation agenda of the Caribbean Community (CARICOM), of which the CARI-12 are members. As in other small states, trade has historically been critical to growth in the CARI-12. However, economic diversification has proved elusive, making the CARI-12 vulnerable to external demand shocks and heightening volatility in growth, investment, and consumption patterns. Moreover, as a result of their geographic location and features, the CARI-12 are highly exposed to natural disasters and the attendant repercussions on growth and fiscal health. In this context, CARI-12 countries can accelerate private sector development, support economic recovery, and create jobs by addressing their key sources of vulnerability and improving the investment climate.

Per capita incomes in the CARI-12 are well above the Latin American and Caribbean average and have been growing slowly since 2005, while progress in social development outcomes has been mixed. The CARI-12 economies rely overwhelmingly on tourism (the Bahamas, Barbados, Belize,² and the six CARI-12 countries that are members of the Organization of Eastern Caribbean States [OECS])³ and on commodities exports (Guyana, Suriname, and Trinidad and Tobago). Overall, gross domestic product (GDP) per capita in the tourism-dependent countries is above the levels recorded in the commodity-dependent peers. The regionwide average GDP per capita peaked at US\$13,877 in 2019 (US\$16,369 in tourism-dependent countries; US\$10,196 in commodity-dependent ones), compared with the Latin American and Caribbean average of US\$8,700.⁴ Poverty rates in the CARI-12 are comparable to those of other emerging markets and developing economies (EMDEs), but progress toward the living standards of advanced economies has slowed down in recent decades and youth unemployment is very high.⁵ As of 2019, the average GDP per capita in the CARI-12 had risen by 7.0 percent since 2005—mainly thanks to progress in the commodity-dependent countries—versus a rise of 19.5 percent in the wider Latin America and Caribbean over the same period. High youth unemployment in most CARI-12 economies prevents them from reaping the demographic dividend and prompts the migration of talent. Although many of the CARI-12 have greatly expanded access to basic education—including for women—within the past 20 years, issues in the quality of education persist, and tertiary education levels are lower than in countries at similar stages of development. Consequently, the private sector has noted a continued increase in skills mismatches in the region. In addition, progress toward gender parity in education has not been matched by a comparable increase in economic opportunities for women.

Small geographic size and high economic concentration make the CARI-12 countries susceptible to economic shocks, resulting in low and volatile levels of growth. The CARI-12 comprise small states and microstates, with populations that range from 52,000 in St. Kitts and Nevis to 1.4 million in Trinidad and Tobago. For comparison, their combined population of 4.5 million is approximately equal to that of Panama. Among the CARI-12, the six OECS countries rank in the bottom 15th percentile globally by population, land area, and GDP. As noted previously, tourism is responsible for a significant share of economic activity in nine of the CARI-12, where it accounts for 29 percent of GDP on average; on the other hand, the rest of the CARI-12 depend on a few agricultural or mineral commodities, such as gold, bauxite, other precious metals, oil, and gas. High economic concentration has made the CARI-12 vulnerable to external demand shocks and has stymied their rate of growth, which has been 3.4 percent lower than the emerging-market average over the past 20 years. The region suffered a noticeable and prolonged slowdown in the aftermath of the Global Financial Crisis of 2007–08, as falls in foreign direct investment (FDI) and tourism activity compounded fiscal challenges, and the region has also been slow to recover after subsequent shocks. In this context, the COVID-19 pandemic, which has affected education and other key sectors such as tourism, is likely to have a negative impact on long-term growth.

The CARI-12 countries are also highly vulnerable to the impacts of climate change and natural disasters, because of their geographic location, size, and topography. Six of the CARI-12 are among the 20 countries globally that suffered the largest economic losses (as a percentage of GDP) from extreme weather events between 2000 and 2019.⁶ The concentration of economic activity in sectors that are highly sensitive to climate change—such as tourism and agriculture—is likely to further undermine economic growth and development outcomes. Tourism is especially affected by hurricanes and coastal inundation, with 95 percent of accommodation facilities and 80 percent of tourist attractions in the region located at sea level along the coast. Agriculture is mainly rain fed and subject to the vagaries of changing patterns in rainfall and temperature. Recurrent natural disasters inflict direct damage on physical assets, disrupt economic activity, and increase the public spending necessary for disaster recovery and business continuity efforts. As the effects of a rapidly changing climate continue to build⁷—exacerbating natural disaster risks with more extreme temperatures, sea level rise, and changes in rainfall patterns—the social and economic development of the Caribbean countries will be further threatened. In addition to the impact of natural disasters, the region’s blue economy could be affected by the inadequate protection of its rich natural endowments.

A lack of fiscal space constrains the ability of CARI-12 governments to develop adequate infrastructure and build resilience to economic and climate shocks, affecting the prospects for long-term growth. Debt levels in the CARI-12 are high, due to successive demand- and climate-related shocks and to poor management of available resources. Although debt levels had stabilized in certain countries, public debt levels across the region were already elevated pre-pandemic (averaging 73.9 percent of GDP as of 2019), and they limited investments into much-needed infrastructure. This dynamic thwarts the development of the private sector in the CARI-12 countries and, in a vicious cycle, exacerbates their vulnerability to economic shocks. In the wake of the pandemic, public debt has further risen by almost 20 percentage points, to an average of 93.5 percent of GDP.

This RPSD comes at a crucial time, in the aftermath of the pandemic, as the region seeks new opportunities for the private sector to drive long-term growth and development. With the exception of Guyana, the pandemic has caused a severe economic contraction, a rise in already-high unemployment rates, and a deterioration of fiscal positions across the CARI-12. GDP contraction was especially acute (10 percent or more) in the tourism-dependent economies as international arrivals plunged by more than 65 percent in 2020. A modest GDP recovery followed in 2021 as borders slowly reopened and economic activity restarted. On the other hand, commodity exporters recorded mixed results influenced by fluctuations in oil and gas prices. GDP levels in Trinidad and Tobago tumbled in 2020 and recovered in 2021, while Guyana was one of the world's fastest-growing economies in 2021 as a result of its first full year of oil production. Overall, the Caribbean's recovery from the pandemic is set to be slow, and real GDP in the tourism-dependent CARI-12 economies is not expected to reach pre-pandemic levels before 2024.

By addressing their key vulnerabilities and implementing a more favorable investment climate, the CARI-12 can accelerate the development of the private sector, support economic recovery, and create jobs. The CARI-12 have abundant natural resources, which they have been relatively successful in leveraging to drive economic growth and development over the past two decades. The geography and natural assets of the region's tourism-dependent countries have made them top global tourist destinations. They are also exploring opportunities in other services, in particular finance and business processing services, that are not constrained by scale. Advancing the development of the private sector is critical to sustainable and inclusive growth. Currently, the private sector in the region is predominantly composed of low-productivity small and medium enterprises (SMEs) with average productivity levels lower than the Latin American and Caribbean average. About 90 percent of firms are micro, small, and medium enterprises (MSMEs) and are mostly domestically owned and lack strong links with the international economy that could provide the potential for positive spillovers. These MSMEs are two to three times less productive than large enterprises. In the smallest CARI-12 countries, MSMEs are largely concentrated in the low-skilled services sector—mainly tourism—which is highly susceptible to economic shocks. In the larger CARI-12 countries, although SMEs are engaged in a more diverse set of activities in the services, manufacturing, and agricultural sectors, productivity is also low. Trade offers firms the opportunities to expand scale of production by tapping larger foreign markets, to gain access to new technologies, and to satisfy local demand for products that are not produced within the region. Yet, except for Trinidad and Tobago, the CARI-12 countries have consistently recorded negative trade balances, which reflect their narrow export base and low productivity. The potential for intraregional trade, which accounts for only 9 percent of the region's total exports, remains largely untapped. Considering the small size and limited resources of the CARI-12 economies, regional integration could greatly enhance development outcomes. In particular, the regional harmonization of investment codes, which has been supported by CARICOM but has had slow progress to date, would help foster investment and attract FDI.

Cross-cutting constraints to private sector growth

The private sector in the CARI-12 faces major cross-cutting constraints and addressing them would foster an environment more conducive to trade, investment, and growth.

These constraints are (a) gaps in trade policy, trade facilitation, and connectivity; (b) skills mismatches; (c) limited access to finance, especially for SMEs; and (d) vulnerability to climate change. The findings of an Innovation, Firm Performance and Gender (IFPG) survey and the private sector consultations conducted for this report corroborated these constraints and pointed to the high cost of electricity and gaps in digital infrastructure as additional key constraints. COVID-19 accentuated the importance of adequate telecommunications infrastructure and digital payments, as well as the need to boost the prospects for medium- and long-term growth by reducing key drivers of cost and improving business efficiency—hence the selection of renewable energy and the digital economy for sector assessments. Governments in the region have been working in many of these areas to enhance competitiveness, but much remains to be done, including at the regional level. Greater regional integration and collaboration will be crucial in helping overcome these constraints and achieving more viable and effective solutions in the medium to long term. The development of the University of the West Indies and the establishment of the Eastern Caribbean Currency Union (ECCU) are strong examples of regional integration that can motivate further progress.

Gaps in trade policy, trade facilitation, and connectivity

The CARI-12 suffer from frictions that raise their cost of trade and hamper their competitiveness. Tariff and nontariff measures, weak trade facilitation, and poor transport connectivity make trade expensive and depress export volumes. The CARICOM Common External Tariff underpins a regime of high tariffs on consumer goods (especially food, which attracts tariffs in excess of 20 percent), as well as on intermediate and capital goods, that affects the performance of export industries, including tourism. Scarce and poorly enforced regional guidelines allow CARI-12 authorities to apply numerous and inconsistent nontariff measures, which further raise the costs and diminish the transparency of trade. Shortcomings in market intelligence and quality-control infrastructure (with the partial exceptions of Barbados and Trinidad and Tobago)⁸ inhibit exporters' ability to meet technical requirements imposed by foreign markets and cut the chances of survival for new exporters. Cumbersome processes and insufficient automation in border controls disturb the flow and timeliness of trade, while seaports and airports are not equipped to support efficient cargo handling. The pandemic's disruption of global maritime and air transport and the ensuing collapse in tourism exacerbated the region's preexisting challenges in logistics and connectivity.

Reducing trade costs and logistics frictions can spur trade-led growth in the Caribbean.

First, common external tariffs and nontariff measures must be simplified to lower the costs and improve the predictability and transparency of trade. Second, trade facilitation can be greatly enhanced through streamlined, digitized processes and better access to information, achievable via national single windows, maritime single windows, and trade information portals. Establishing National Trade Facilitation Committees (NTFCs) (or strengthening them where they exist) and improving their coordination with the CARICOM Regional Trade Facilitation Committee could help accelerate such reforms. Third, the enabling environment for connectivity and logistics needs to become more robust, including through greater coordination at the regional level and participation from the private sector. For example, expanded ferry services are much needed across the Eastern Caribbean, while digital logistics platforms could help match the demand for and supply of air and sea shipments. In a region highly dependent on trade, enhancing trade performance is critical to both short-term recovery and long-term growth.

Skills gaps stifle the productivity of firms

An acute skills gap compromises the productivity of the labor force and, in turn, the competitiveness of firms in the region. A structural shift from agriculture to services has altered the mix of skills needed across the CARI-12, but the region's educational system has not adjusted quickly enough. As a result, there is increasing but unmet demand in the CARI-12 for workers with both technical and soft skills (such as critical-thinking, problem-solving, and socio-emotional skills). High rates of migration among the most educated people have exacerbated the skills gap in several countries, especially Guyana.

The CARI-12 suffer from gaps in the quality of secondary education and from insufficient access to tertiary education. Although secondary enrollment and completion rates in the CARI-12 are generally above the Latin American and Caribbean average (except in the Bahamas, Belize, Trinidad and Tobago, and Suriname), major gaps in quality limit the opportunities for advancement to tertiary education. Indeed, tertiary-school enrollment rates in the region are below the Latin American and Caribbean average of 46 percent, except in Barbados, Grenada, and St. Kitts and Nevis. Insufficient academic readiness among students can be compounded by high costs and limited financial support for tertiary education. In addition, few graduates are trained in science, technology, engineering, and mathematics (STEM), the fields that offer access to the most promising pipeline for both current and future job opportunities. The COVID-19 pandemic has likely widened the skills gap. The shift to online learning in the wake of school closures proved challenging, owing to the shortage of time for training teachers and offering equipment and broadband service access to lower-income students.

Developing a productive labor force requires improvements to the quality and market relevance of secondary and tertiary education, as well as greater access to the latter. Improving the quality of secondary education hinges on attracting and retaining well-trained teachers, paying competitive salaries, establishing retention procedures based on satisfactory performance, and providing special incentives to teachers in underserved communities. Better-quality secondary education would make students more academically ready to transition to higher education or the job market. At the same time, greater access to tertiary education will entail the expansion of needs- and results-based financial assistance for students from disadvantaged backgrounds. Proper planning will be critical to avoid an influx of students who are not academically ready or the introduction of measures that are not fiscally sustainable. In addition, the CARI-12 region needs to forge stronger partnerships with the private sector to inform and shape the educational offering and to put in place robust quality-assurance mechanisms to monitor the quality and relevance of educational services.

Limited access to finance by SMEs

Although financial systems in the CARI-12 region are generally large relative to the local economies, the growth of credit to the private sector, and especially to SMEs, has been lackluster. The banking sector, which dominates the system, has become more concentrated and less competitive as foreign banks have exited smaller countries, especially in the ECCU,⁹ and have reduced operations in several others. This trend—combined with undeveloped credit infrastructure and high rates of loan delinquency in the wake of the Global Financial Crisis—has contributed to the historically low growth in new lending to the private sector, despite high bank liquidity. Slow economic growth in the region, exacerbated by the pandemic, has also dampened credit demand. In addition, private sector credit has primarily focused on corporates, mortgages, and consumers, while access for SMEs has been far more restricted. The availability of alternative sources of financing for SMEs and the use of digital financial services (DFS)

are also very limited. Asset-based lending (such as factoring) is underdeveloped and has not been recognized in several jurisdictions, such as in the ECCU. Digital payments and the financial technology (fintech) infrastructure are in their infancy in most countries, as will be further discussed. In addition, several Eastern Caribbean countries and Belize have lost correspondent banking relationships because of their inclusion on international anti-money laundering and combating the financing of terrorism (AML/CTF) watch lists, with negative implications for cross-border trade and finance.

Insurance penetration in the CARI-12 (except Guyana) is above the Latin American and Caribbean average, but coverage varies widely across countries and there is ample scope to better meet the insurance needs of SMEs, including for climate-related risks. Deeper insurance markets are hampered by a combination of demand- and supply-side impediments. On the one hand, limited understanding of insurance among potential clients hinders uptake. On the other hand, the significant losses suffered by insurance companies due to adverse weather events and the lack of economies of scale and regulatory harmonization across jurisdictions complicate the operational environment.

Expanding access to finance, especially for SMEs, will require a multipronged approach. Resolving the long-standing problem of legacy nonperforming loans (NPLs) will provide stronger foundations for banks to lend to the private sector. In this vein, the role of asset management companies in addressing NPLs could be further explored. Regulatory tools and capacities need to be updated to better understand and manage the risks of climate change and to foster a greener banking system (as discussed in the next section). The implementation of the Eastern Caribbean Credit Bureau needs to be accelerated. The development of the Eastern Caribbean Partial Credit Guarantee Corporation, still in its early days, is welcome and can potentially represent a best practice that sets an example for the rest of the region. A review of the impact of state-owned development banks could provide new ideas on how to enhance their effectiveness, incorporating lessons from the reform of other development banks in the Latin America and Caribbean region. Development banks could also play a greater role in fostering new green finance instruments in a nondistortive manner. The insurance sector could be further promoted, especially with products that insure farms, fisheries, and other businesses against climate risk. Finally, a stronger AML/CTF compliance regime would promote better connections with the international banking system, which is essential for cross-border trade.

High vulnerability to climate change

The growth potential of the CARI-12 is tied to economic sectors that are highly sensitive to climate change, such as tourism, fishing, and agriculture. Vulnerability to climate change has a statistically and economically significant impact on international tourism revenues across the Caribbean. On average, a 10 percentage-point increase in climate change vulnerability is associated with a 9 percentage-point decline in tourism earnings per visitor, or a 10 percentage-point reduction in tourism revenues as a share of GDP.¹⁰ Agriculture in the region has been severely affected by extreme events, including hurricanes, droughts, flooding, and major landslides; moreover, its rainfed nature makes the region's agriculture especially sensitive to effects from climate change such as alterations in temperature and precipitation patterns. Although agriculture is not a major contributor to many CARI-12 economies, it does account for 16.9 percent of GDP in Guyana, 11.5 percent in Belize, and 8.2 percent in Suriname.

Although the CARI-12's contributions to global emissions are minimal, adapting to climate change is critical for them. To address current and future climate risks, the CARI-12 governments are focusing on building resilient infrastructure and landscapes (which includes investing in the climate resilience of energy and transport infrastructure), supporting the adoption of climate-smart approaches and technologies, and leveraging finance to enable the green transition. Considering their limited fiscal spaces, governments will need to lean on the private sector for investments in adaptation and mitigation measures.

Given the scale of the upfront capital investments required, small countries such as the CARI-12 need to incentivize private financing of the transition to climate-friendly technology. The initial costs of adopting climate-smart approaches in key sectors, such as tourism, may be prohibitive in such small markets. The CARI-12 need instruments to enhance access to green finance, especially for MSMEs, as well as de-risking and credit-enhancement tools to crowd in the private sector. Green or blue bonds, which offer access to a wider pool of institutional investors while benefiting from slightly lower interest rates than conventional bonds, are proving attractive to many countries. However, significant barriers to green finance persist in the CARI-12, including misalignment of financial sector policies and incentives with climate and environmental objectives, poor transparency and labeling of green assets, and low penetration and availability of relevant insurance products.

Policy changes to encourage private sector investment in climate adaptation and mitigation should include (a) developing fiscal policies that offer appropriate incentives for moving to cleaner production models; (b) adopting financial sector regulations that enhance disclosure of climate risks and encourage investment in green technologies; (c) advancing the work on green taxonomies, environmental, social, and governance (ESG) regulations, and reporting and compliance guidelines; and (d) building capacity for green finance in the financial sector, including through the development of new instruments by national development banks and the issuance of sovereign green bonds that could promote the bonds' adoption by corporate issuers.

Identifying sector-specific opportunities

The COVID-19 crisis has highlighted the limitations of the Caribbean economic model as well as the need to bolster regional links and economic diversification and to contribute to greener and more inclusive growth. In this context, this RPSD identified the following criteria for selecting sectors for deeper assessment: (a) sectors that contribute to export diversification and job creation across most countries or clusters of countries, (b) sectors with the potential to enhance productivity while contributing to economic diversification, and (c) sectors with the potential to strengthen resilience to climate change and natural disasters. The feasibility of implementation in the medium term (three to five years) is an added consideration for RPSD sector selection. On the basis of these criteria, building the foundations for the digital economy was selected for deeper assessment, followed by transitioning to renewable energy. Leveraging digital services could be transformational in the region, repositioning the region in newer and more complex services, increasing the productivity of traditional sectors, and enhancing the quality and inclusiveness of public services. Transitioning to renewable energy could generate green growth, jobs, and diversified income, while also mitigating the region's dependence on imported heavy fuels and reducing costs for key sectors such as tourism (between 2015 and 2020, the average price of electricity in the CARI-12 was US\$0.277 per kilowatt-hour, compared

with US\$0.165 per kilowatt-hour in Latin America and the Caribbean). This transition would also help the CARI-12 comply with commitments under the Paris Agreement of 2015. Moreover, digital services and renewable energy are mutually reinforcing: lower electricity costs and higher energy stability can provide more fertile ground for the digital economy, while climate-smart grid technologies require well-developed and affordable digital networks. Finally, developing these sectors would allow the region to enhance its resilience and better manage external risks.

Building the foundations for vibrant digital economies

The digital economy can open major growth opportunities, but digital development in the CARI-12 is falling short of its enormous potential, despite its progress during the pandemic. The digital economy can increase productivity in the public and private sectors, forge new businesses (especially in services), and allow firms to further integrate into regional and international markets. Digital technologies can reshape traditional sectors—tourism, agriculture, mining, and logistics—as well as help develop new export niches in digitally enabled services. Importantly, such technologies can improve the quality and coverage of public services, from health and education to regulatory compliance. Spurred by the pandemic, the CARI-12 have accelerated the adoption of digital services. Yet, several indicators show that the region is still lagging. For example, the 2020 UN E-Government Development Index (EGDI) for online services ranked all the CARI-12, except the Bahamas, Barbados, and Trinidad and Tobago, below the 122nd position of 193 UN member states, and the share of the population with access to fixed broadband is lower than 25 percent in 8 out of 12 countries.

Building strong foundations for the digital economy will require a robust digital infrastructure, a larger pool of talent with advanced digital skills, and well-functioning digital payments. Widespread, reliable, and affordable broadband connectivity forms the “rails” for the digital economy. While the Bahamas and Barbados have done relatively better, the rest of the region has major ground to cover (albeit to varying degrees) on speed, coverage, and penetration of both fixed and mobile broadband. Data services and devices are expensive; for example, only in the Bahamas do prices for both fixed and mobile broadband services remain within the affordability threshold of 2 percent of gross national income per capita. The number of service providers is small and they tend to be vertically integrated, which limits competition. Cybersecurity—an important enabling element—is weak across the region. Expanding the pool of talent with digital skills, especially advanced skills, is another challenge. Some progress has been made; for example, the Caribbean Examinations Council has designed programs to expand basic digital skills education. However, schools in the region have not widely adopted such programs because of ill-equipped information and communication technology (ICT) labs and insufficient teacher training. Except for Trinidad and Tobago and, to a lesser degree, the Bahamas and Barbados, the number of secondary-level graduates in ICT tends to be low. Public and private universities are also expanding their teaching of advanced digital skills, but their offerings fall short of existing needs and their quality could be enhanced. For example, the number of STEM graduates (who have strong ICT training) as a share of all tertiary-level graduates ranges from 3.5 percent in Belize to 12.4 percent in Barbados, and the number is slightly higher in Dominica. These low figures are even more concerning when considering that the absolute number of tertiary-level graduates in the region is low. The private sector provides some training in digital skills but, while it remains a worthy effort, this contribution does not fill the current gap in the educational system.

The CARI-12 are lagging in digital financial services (DFS), including digital payments. The CARI-12 are largely cash centric, with limited use of and access to credit cards or online payments. Payment systems are fragmented within countries and their interoperability across the region is very limited, creating inefficiencies and constraining the wider development of e-commerce and DFS. Transaction costs for end-users of DFS are still high owing to the small number of active DFS providers and the low adoption rates.

To seize on the momentum achieved during the past two years, governments across the CARI-12 need to design and implement far more ambitious digital economy strategies. Improving affordability, quality, and coverage of digital infrastructure will require additional public and private investments within a more competitive environment. The degree of regulatory reform needed to enhance the enabling environment varies across countries. Certain countries may focus on promoting nondiscriminatory access, active and passive infrastructure sharing, and modern spectrum management. The least connected countries, on the other hand, may need more fundamental reforms that adapt legal frameworks that have been rooted in voice communication to the requirements of broadband-based electronic communication. Public-private partnership models could support the expansion of high-speed broadband connectivity and help close the digital divide. Institutional strengthening, such as ensuring the independence of ICT regulators, is also a priority to enable investment in infrastructure.

Governments and the private sector could do more to promote digital skills. Digitizing public services would, by itself, incentivize citizens to improve their digital skills.

Furthermore, investment is needed at both the secondary and tertiary levels of education. At a minimum, secondary schools should offer the Caribbean Examinations Council's Digital Literacy course to all students, which would entail technological upgrades to school facilities and teacher training. At the university level, ICT programs need enhanced curricula and an increased allocation of merit- and needs-based scholarships. In addition, the private sector can partner with the public sector and training institutions to support a pipeline of talent, such as by offering internships to students and trainees.

Reforms to the regulatory framework for digital payments could go a long way in fostering competition, promoting open banking, and boosting innovation within a safeguarded environment. Importantly, regulatory frameworks need to facilitate access to financial infrastructure for new typologies of payment service providers if they meet minimum technical criteria. The Eastern Caribbean Central Bank is in the process of modernizing the bloc's Payment Systems Act, and other jurisdictions should follow suit. In addition, public authorities could actively promote access to and usage of DFS through multiple means, including fostering digital payments to and from government agencies; simplifying customer due diligence processes for the opening of basic, low-value transaction accounts; and encouraging the channeling of the region's sizable remittance flows into e-money wallets (e-wallets). Efforts to establish well-functioning national digital ID systems—essential for DFS—need to accelerate.

Unleashing the power of renewable energy

The CARI-12's vast renewable energy potential is currently overshadowed by the states' heavy dependence on expensive fossil fuels. Most of the CARI-12 satisfy less than 16 percent of their energy needs through renewable energy, with only Dominica (27 percent), Suriname (35 percent), and Belize (56 percent) exceeding this threshold. At least 85 percent of the 311 megawatts of installed, utility-scale energy capacity for renewable energy in the CARI-12 countries was financed by the public sector, and more than half of it comes from a single 189-megawatt hydropower plant in Suriname. Although households and firms generally enjoy high electrification rates, electricity costs in many of the CARI-12 are much more elevated and volatile than in the rest of Latin America and the Caribbean. A shift to renewable energy would provide the region with a greener development path, greater resilience, stronger energy independence, and more competitive exports, especially in the tourism-dependent economies. In this context, Guyana started commercial production of oil in 2020 and recent oil discoveries in Suriname will likely increase the country's dependence on fossil fuels—unless the windfall from oil earnings boosts investments in renewable alternatives.

The region's abundant renewable energy resources—biomass, geothermal, hydropower, solar, waste-to-energy, and wind—offer opportunities to change the energy mix. Many CARI-12 countries can deploy renewable energy solutions such as wind farms, solar water heating, solar photovoltaics, geothermal, and hydropower plants. However, the role of the private sector can be expanded if countries work toward renewable utility-scale independent power producers, renewable distributed generation, and energy efficiency.

The renewable energy sector needs reforms that boost its attractiveness and competitiveness. The sector faces technical and physical barriers (such as the lack of long-term system planning), commercial barriers (such as financing challenges), policy and regulatory barriers (such as the lack of independent regulation and the ability to set cost-recovery tariffs), and institutional barriers (such as the lack of technical capacity in the public sector for renewable energy procurement, structuring, and development). Strong coordination—both within governments and between the public and private sectors—is needed to develop more renewable energy generation capacity, with clear action plans and well-defined roles and responsibilities. Notably, regional solutions exist that can help achieve greater economies of scale, reduce costs, and improve the bankability of projects (for example, through viability gap funding).

Key recommendations

This Caribbean RPSD is forward looking and focuses on effective action to address key issues and boost private sector development over the next three to five years. This analysis highlights starting points where policy intervention can contribute to breaking the region's current low-growth and low-productivity trend. Table ES.1 highlights a subset of priority recommendations to support the role of the private sector as an engine for greater inclusion, innovation, and resilience in the region.

TABLE ES.1 MATRIX OF POLICY RECOMMENDATIONS

RECOMMENDATION	DESCRIPTION	TIMELINE	AUTHORITY
CROSS-CUTTING CONSTRAINTS			
Reduce trade and investment frictions and enhance connectivity			
Harmonize investment regimes	Harmonize or establish a common regime for the promotion and facilitation of investments in the region.	Short to medium term	National/ regional
Reduce CETs	Reduce CETs to decrease the cost of importing capital and intermediate goods and enhance competitiveness.	Short term	National/ regional
Streamline and harmonize NTMs	CARICOM to help countries assess NTMs and develop a regional agenda to streamline and harmonize trade regulations.	Short to medium term	National/ regional
Establish NTFCs and the RTFC	Establish/activate National Trade Facilitation Committees and a Regional Trade Facilitation Committee.	Short term	National/ regional
Digitize and simplify trade procedures	Develop the regulatory framework for/activate national single windows and trade information portals.	Short to medium term	National/ subregional ^a
Increase the supply and efficiency of air and maritime cargo shipping	Develop a more efficient ferry system within the Eastern Caribbean.	Short to medium term	Subregional
	Promote digital logistics platforms through PPPs, focusing on less-than-container loads and airfreight.	Medium term	Regional/ subregional
Expand the coverage, quality, and relevance of the educational system			
Expand access to tertiary education	Design and implement need- and results-based tuition assistance programs for students from disadvantaged backgrounds.	Short to medium term	National/ subregional
Improve the quality of secondary education	Enhance teacher training and increase the number of well-trained teachers in schools through better incentives.	Short to medium term	National/ subregional
Reduce mismatch between skills in demand and those produced through the educational system	In partnership with the private sector, systematically collect information on skills in demand and job-search methods.	Short to medium term	National/ subregional
	Set up quality-assurance mechanisms to monitor and enhance the quality and relevance of services provided by educational institutions.	Medium term	National/ subregional

RECOMMENDATION	DESCRIPTION	TIMELINE	AUTHORITY
Facilitate access to finance for SMEs			
Foster credit products for SMEs	Reduce nonperforming loans through enhanced prudential regulation and the potential development of asset management companies.	Short and medium term	National/ subregional
	Activate the Eastern Caribbean Credit Bureau.	Short to medium term	National/ subregional
Expand insurance coverage	Encourage the development of the insurance sector, focusing on the supply of and demand for non-life insurance and expanding protection from climate change risks.	Medium term	National/ subregional
Enhance AML/CTF compliance	Bolster AML/CTF compliance to strengthen connections with the international banking system.	Short to medium term	National/ subregional
Accelerate private sector investment into climate resilience and mitigation			
Incentivize the private sector to invest in climate resilience and mitigation	Support and enable decarbonization with fiscal policies that encourage the move toward cleaner production models.	Short term	National
	Enhance financial sector regulation to encourage investment in green technologies, advance disclosure requirements for climate-related financial risks, and disseminate information on investment opportunities.	Short to medium term	National/ regional
Develop new financial instruments	Build capacity in the financial sector and expand the role of national development banks in providing green finance.		
	Stimulate long-term investment in green projects by issuing sovereign green bonds, which set an important precedent for corporate issuers.	Medium term	National/ regional
BUILDING THE FOUNDATIONS FOR THE DIGITAL ECONOMY			
Develop high-quality, affordable, and widely accessible digital infrastructure			
Enhance legal and regulatory framework for the telecommunications sector, and strengthen the capabilities of regulators	Adopt robust legal frameworks that are better suited to broadband- and data-driven communications sectors; enhance consumer protection and the independence of regulators.	Medium term	National
	Harmonize legal and regulatory frameworks across the Eastern Caribbean.	Medium term	Subregional
	Increase funding and human resources for institutions responsible for telecommunications regulation.	Short to medium term	National

RECOMMENDATION	DESCRIPTION	TIMELINE	AUTHORITY
Simplify rules for broadband deployment and infrastructure sharing	Simplify regulation of infrastructure sharing to lower costs and foster broadband deployment in underserved areas. Harmonize such rules across the Eastern Caribbean.	Short to medium term	National/ subregional
Foster access through PPP models	Design and implement PPP models to mobilize private investment into high-speed broadband connectivity, including in rural and other underserved areas.	Short to medium term	National/ subregional
Expand the pool of digital talent			
Increase the supply of digital skills at the secondary and tertiary levels	Enrich the ICT offerings at the secondary and tertiary levels.	Short to medium term	National/ regional
	Increase merit- and needs-based scholarships for ICT-related programs at the tertiary level.	Short term	National
Foster open, innovative, and efficient digital payment systems			
Foster competition, open access, and innovation	Amend the legal and regulatory frameworks for digital payment systems to encourage competition, open banking, and innovation. Enact the new Payment Systems Act in the Eastern Caribbean and issue complementary regulations.	Short to medium term	National/ subregional
Incentivize access and usage	Issue regulations permitting simplified customer due diligence for basic accounts.	Short term	National
	Issue regulations allowing e-money wallet payment service providers to channel inward remittances into the transaction accounts of recipients.	Short term	National
Develop national ID systems	Accelerate or initiate implementation of national ID systems.	Short to medium term	National
E-government			
Digitize key public services	Accelerate the digitization of key public services such as social transfers, tax payments, customs clearances, and the licensing of firms.	Short to medium term	National
TRANSITIONING TO RENEWABLE ENERGY			
Standardize and apply replicable transaction models that account for country-specific barriers			
Develop replicable transaction models for utility-scale independent power producers	Develop models that reduce transaction and development costs for replicable projects. Elements that could be standardized include contracts, procurement models, tender documents, and security packages.	Short to medium term	National

RECOMMENDATION	DESCRIPTION	TIMELINE	AUTHORITY
Improve system planning and grid infrastructure capacity to integrate renewable energy and climate resilience			
Develop/update and publish integrated resource plans	Develop and publish integrated resource plans to prepare for future electricity demands, including expected grid investment, to inform the private sector and policy makers.	Medium term	National/ regional
	Undertake variable renewable energy integration studies to determine the grid investments needed to achieve both the optimal amount of renewable generation and system stability. Develop vulnerability maps to manage climate risks.	Medium term	National/ regional
Modernize the policy and regulatory environments			
Set cost-recovery tariffs	Allow utilities to set cost-recovery tariffs that enable them to maintain grid infrastructure, and to invest to accommodate a large uptake of variable renewable energy.	Short to medium term	National
Improve the technical environment			
Invest in grid stability	Invest in grid stability, including firm power capacity or fast-acting reserves such as spinning reserves and battery-energy storage systems, as well as other infrastructure that can support distributed energy.	Medium term	National
Bundle infrastructure	Exploit opportunities for shared infrastructure or bundling of renewable energy projects across countries to achieve economies of scale and reduce costs.	Medium term	Regional/ subregional

Note: AEO = authorized economic operator; API-ZF = Agence de Promotion des Investissements—Zone Franche; Note: AML/CTF = anti-money laundering/combating the financing of terrorism; CARI-12 = the 12 Caribbean countries covered in this report; CARICOM = the Caribbean Community; CET = common external tariff; ICT = information and communication technology; NTFC = National Trade Facilitation Committee; NTM = nontariff measures OECS = Organization of Eastern Caribbean States; PPP = public-private partnership; RTFC = Regional Trade Facilitation Committee; SMEs = small and medium enterprises.

- a. Subregional refers to the six OECS countries within the CARI-12: Antigua and Barbuda, Dominica, Grenada, Saint Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines.

Notes

1. Country Private Sector Diagnostics have been recently published for Jamaica (2022) and Haiti (2021), while one for the Dominican Republic is in progress.
2. Belize has a more diversified export base comprising both tourism services and commodities, but for ease it is grouped here among the tourism-dependent countries.
3. Antigua and Barbuda, Dominica, Grenada, Saint Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines. Unless noted otherwise, this group is referred to as “OECS countries” in this report. The wider OECS also includes Montserrat, while Anguilla, the British Virgin Islands, Guadeloupe, and Martinique have associate member status.
4. World Bank Group, World Bank Open Data, 2021, <https://data.worldbank.org>.
5. Trevor Alleyne et al., “Unleashing Growth and Strengthening Resilience in the Caribbean” (Washington, DC: International Monetary Fund, 2017).
6. David Eckstein, Vera Künzel, and Laura Schäfer, “Global Climate Risk Index: Who Suffers Most from Extreme Weather Events? Weather-Related Loss Events in 2019 and 2000–2019” (Germanwatch, Bonn, Germany, 2021). Based on data from MunichRE NatCatSERVICE. https://germanwatch.org/sites/default/files/Global%20Climate%20Risk%20Index%202021_1.pdf.
7. IPCC, “Summary for Policymakers” in Climate Change 2021: The Physical Science Basis (Geneva, Switzerland: IPCC, 2021), <https://www.ipcc.ch/report/ar6/wg1/>; IPCC, “Summary for Policymakers” in Climate Change 2022: Impacts, Adaptation and Vulnerability (Geneva, Switzerland: IPCC, 2022), <https://www.ipcc.ch/report/sixth-assessment-report-working-group-ii/>.
8. Excluding Barbados and Trinidad and Tobago, UNIDO (2017) rated the national quality control infrastructure systems in the region as having low maturity. UNIDO (United Nations Industrial Development Organization), “Quality Infrastructure of the Americas: Strategic Roadmap” (UNIDO, Vienna, Austria, 2017), https://www.unido.org/sites/default/files/files/2018-01/NQI_Americas_Report_EN.pdf.
9. The ECCU comprises Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines.
10. Results from an International Monetary Fund (IMF) study of 15 Caribbean countries, controlling for conventional macroeconomic and social factors. Serhan Cevik and Manuk Ghazanchyan, “Perfect Storm: Climate Change and Tourism” (IMF Working Paper 243, IMF, Washington, DC, 2020), <https://www.elibrary.imf.org/view/journals/001/2020/243/article-A001-en.xml>.

IFC

2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433 U.S.A.

CONTACTS

Denny Lewis-Bynoe

dlewisbynoe@ifc.org

Esperanza Lasagabaster

elasagabaster@worldbank.org

ifc.org



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