CHALLENGE AND OPPORTUNITY
AN INVESTMENT OVERVIEW OF
CARIBBEAN COMMUNITY COUNTRIES
ADDRESS
by
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I. Introduction

I am honoured and pleased to address this Euromoney Conferences/Latin Finance Caribbean Investment Forum. The Caribbean Development Bank (CDB) as part of its normal operations monitors and appraises the situation and prospects of its borrowing member countries (BMCs). I thought it may be useful to kick off the deliberations in the Conference by sharing my views about the investment environment based on the information generated by the Bank.

The focus of my address the Caribbean Community (CARICOM) member countries. Among the distinguishing characteristics of these countries are the following: (i) many of them have small land mass; (ii) most of them are islands; (iii) they have small populations, usually less than half a million and only 752 thousand for Guyana, 1.3 million for Trinidad and Tobago, and 2.7 million for Jamaica. Haiti is a strong exception with a population of 9.3 million.

Although there are many elements constituting the investment climate or environment, I will restrict my remarks to just a few major ones.

II. Socio-Economic Situation

Despite their small land mass and small population size, most of CARICOM members are classified by the United Nations as Medium or High Human Development countries. Per Capita purchasing power parity (PPP) GDP for 2004 ranged from USD5643 to USD8021 in the nine medium human development index (HDI) countries, and from USD12,182 to USD17843 in the high HDI countries. Haiti which is low HDI had a per capita PPP GDP of USD1892. Adult literacy is high and the combined gross enrolment ratio for primary, secondary and tertiary schools ranged between 60 percent and 89 percent in 2004.

However, there are weaknesses in the socio-economic situation which are both challenges and opportunities for investment. The housing stock is inadequate, especially for low income and lower middle income households who comprise the majority. Addressing this deficiency can assist with solutions to the problems of concentrations of the poor in urban areas and informal housing settlements and with associated problems of urban crime, urban congestion and vulnerability of the poor to environmental pollution and natural hazards. Furthermore, there are deficiencies in access to several infrastructural services such as improved water supply, sanitation, telephones and electricity. They are perhaps more due to production and distribution capacity limitations than to inadequate household purchasing power. Whatever the reasons, these deficiencies can impinge negatively on productivity and output and on personal wellbeing. Another infrastructural weakness pertains to the network of roads and public transportation which entails such long commuting time that they impose significant transactions costs and capital costs to users. CARICOM governments have been doing much to alleviate these difficulties but there is evidently scope for expanded and accelerated investment by both the public sector and the private sector separately and in partnership.

III. Macroeconomic Performance

CARICOM sub-region, subject to natural hazard occurrences which shall be addressed later, exhibited solid macroeconomic growth between 2002 and 2006. With the exception of Dominica which regressed by 4% in 2002, annual rates of increases in GDP in constant prices varied between 1% and 12 %, with most countries clustered in the 3% - 7% range. Trinidad and Tobago whose annual growth rate varied between 7% and 12.6% is a positive outlier, while Jamaica whose growth rate varied between 1% and 2.6%, Haiti (-3.5% to 2.5%), and Guyana (-3.0% to 1.6%) are the negative outliers. Grenada's economic performance has been distorted by the occurrence of Hurricane Ivan in 2004.

Inflation has not been a major problem for most countries within the sub-region. Average annual rates of inflation for 2002-2005 ranged between 1.3% to 2.5% for 8 countries, between 2.9% to 6% in 2 countries, but was 11.6% in Jamaica, 14.3% in Suriname and 21.6% in Haiti. However, in 2006 most countries began to experience inflationary surges to which monetary policy has been directed.

IV. Fiscal and Debt Management

Macroeconomic stability and growth are contingent upon sound fiscal and debt management. Fiscal capacity deteriorated in banana and sugar exporting countries as a consequence of structural downturns in agricultural and agro-industrial export markets and tropical storm inflicted losses of production and taxable capacity. In many cases, deficient tax administration also resulted in slow revenue growth. In contrast, public expenditure budgets became buoyant as governments engaged in contra-cyclical expenditures and natural disaster relief and rehabilitation programmes funded only partially from foreign grants. The overall result was larger fiscal deficits and unsustainable external debt. The most heavily indebted CARICOM countries in 2005 were Guyana (143% of GDP), St. Kitts and Nevis (66%), St. Vincent and the Grenadines (81%), Grenada (79%), Belize 84%), and Jamaica (54%).

With the assistance of the Caribbean Development Bank (CDB), the Caribbean Technical Assistance Centre and other development partners, there has been a widespread programme of capacity building in tax administration, public expenditure management and fiscal restructuring. In relation to external debt, several countries have recently benefited from debt restructuring and debt relief. The sub-region, therefore, shows clear signs of improvements in fiscal management and debt management. These augur well for potential investors.

V. An Outward Looking CARICOM

CARICOM economies have historically exhibited acute foreign trade dependence. Paradoxically, that dependence co-existed with restrictive trade control regimes and capital controls on the balance of payments. Exports were dominated by preferential market arrangements and imports were controlled by oligopolistic merchant houses. Cross-border investments emanating from the Caribbean were rare.

Within the last decade, there has been a distinct shift towards an outward orientation. Foreign trade has been liberalised within the framework of regional integration as well as within the global movement for freer trade. Many new actors are appearing on the scene. In relation to financial market transactions, countries as they have adopted floating exchange rate systems or as they fulfil their obligations under the CARICOM Single Market and Economy (CSME) are removing restrictions on capital movements and international payments. Furthermore, as the Caribbean Trade and Investment Report 2005 documents there is strong growth of cross-border direct investments and portfolio capital flows by CARICOM enterprises in other member countries and in Latin America and the Caribbean. There is also strong inward direct foreign and portfolio capital inflow to CARICOM countries by North American, European and Latin American and Caribbean entities. And of course there is accelerating trend of Caribbean development finance institutions (DFIs) in Europe and North America as Caribbean enterprises exploit opportunities for asset portfolio diversification and seek means to circumvent barriers to access to overseas markets.

An important parallel set of developments within the CSME is the liberalisation of movement of labour, rights of business establishment, mutual recognition of educational qualifications and skills certificates, and the inter-linking of national equity exchanges.

The productivity and market enlargement implications of all these developments especially within the context of the CSME are perhaps intuitively obvious but bear repetition: more efficient use of factors of production; more cost-efficient sourcing of supplies; larger target markets; lower transactions costs, and greater scope for entrepreneurship, among others. All of which should assist in improving the international competitiveness of Caribbean enterprises.

VI. Natural Hazard Vulnerability

The exposure of Caribbean countries to natural hazards is well known as is the fact that the frequency of occurrence and intensity of tropical storms have increased with global warming. Business disruption, destruction of capital assets and reallocation of scarce public financial resources to disaster relief and rehabilitation can be repetitive negative factors in the investment environment. It is incumbent on governments, the business sector and civil society to adopt improved policies and practices for natural hazard risk reduction and management. In this latter regard, regional and sub-regional development banks, multilateral financial institutions and bilateral donors have sought to provide assistance with advocacy, training, institutional capacity building and policy development.

A particularly significant recent development at risk management for CARICOM countries is the establishment of the Caribbean Catastrophe Risk Insurance Facility (CCRIF) in 2007. It is a facility to provide catastrophe insurance on the pooled risk basis against government losses up to a predetermined limit. Because the insurance contract is based on parametric variables, e.g. the intensity of a tropical storm or earthquake, rather than post-event assessment of actual losses, payouts are expected to be swift thereby minimising the financial difficulties of affected governments and enabling faster post-event relief and rehabilitation. Although the scope of CCRIF is presently limited to hurricanes and earthquakes, a good case can be made for extending it to include floods which typically result from storms of lesser intensity than hurricanes but which nonetheless are in the general nature of natural hazards. Caribbean residents know well that floods frequently reduce agricultural output, damage physical property and occasionally cause of loss of life.

VII. Cost of Doing Business

An overview of the investment climate or environment should include some observations of the cost of doing business. The World Bank and IFC publication ***Doing Business 2007*** reports that of 175 economies including advanced industrial economies ranked in 2007, four (4) CARICOM countries ranked between 27th to 50th of the aggregate ease of doing business; four (4) between 56th to 73rd, and one (1) at 85th. Suriname was ranked 122nd, Guyana 136th and Haiti 139th. Thus, most CARICOM countries were in the top half of the rankings. The same cannot be said for many other developing country regions.

However, disaggregated analysis of the components of the composite rank reveals that much remains to be done to reduce the costs of doing business. First, starting a business is an extremely protracted process in some countries with costs amounting to anything between 12% to 34% of per capita income in the least costly jurisdictions and as much as 100% to 154% in the highest cost jurisdictions. Second, in respect of labour market costs, redundancy payments per worker are high, ranging between 52 to 67 weeks of salary per worker in 8 of the 12 countries reported. Third, registering property is another time consuming process – typically between 40 to 81 days, but could be as long as 162 days (Trinidad and Tobago), 193 days (Suriname) and 683 days (Haiti) – which can cost anywhere between 7% to 13% of property value. Fourth, while tax rates are not out of line with some economically advanced countries such as Canada, France and the United Kingdom, high transactions and monetary costs are associated with paying taxes. The time consumed in paying taxes is a function of the complexity of the tax structure, i.e., how many different kinds of tax liabilities, required frequency of payment, as well as the documentary requirements. With reported hours per year between 140 and 528, simplification seems an obvious good. Fifth, with respect to contract enforcement, archaic documentation requirements and arcane legal processes might explain why there may be as many as 30 to 52 procedures, and 297 to 1340 days from start to finish of litigation and settlement. Certainly a barrier of significance is the estimate that court-sanctioned costs and attorney fees might comprise anywhere between 11% and 33% of the claim.

Much public attention, usually negative criticism, is directed at many aspects of government administration. The inefficiency of judicial administration seems to escape such scrutiny, perhaps because of our respect for the sanctity of the rule of law and a reluctance to appear to be breaching the convention of non-interference in the administration of justice. However, high transactions costs and extreme delays can make a mockery of the rule of law and are often tantamount to a denial of justice. Too often, it appears, there is a conspiracy of convenience between judicial officers and attorneys which results in repeated adjournments, delays and postponements of matters before the courts. The concern is not the quality of judicial decisions for which there is justifiably high regard. The concern is with the efficiency of administration of the judicial process. It is time that legal administration be subject to critical review and reform where warranted to raise the quality of administration not only in respect of civil law but also in matters of criminal law. In those countries where the legal profession has not displayed a willingness or the capacity for reform, the initiatives must come from the executive arm of the State.

VIII. Conclusion

I will end by stating the essence of my conclusions on the general investment climate or environment. CARICOM countries despite their small individual geographical and demographic sizes offer a conducive investment environment. The strong positive factors are - (i) their moderately high per capita incomes and human development status; (ii) the solidity of their macroeconomic performance; (iii) the return to sound fiscal management and debt management; (iv) a genuine international opening of goods, capital and labour markets (to a lesser extent) and strongly outward looking government leadership; (v) progress in natural hazard risk reduction and management. The cost of doing business while not excessively prohibitive on a global scale is not competitive with economically advanced economies but could be significantly reduced by process-engineering and regulatory reforms to reduce transactions and financial costs of business registration, labour force redundancy costs, tax payments, and contract enforcement.