Guide for Private Sector Assessment Report (PSAR) in the Caribbean Countries

Version 1.0

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The guide was created for the Compete Caribbean Program and remains the property of the Program.
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DRAFT

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I. Introduction

This document presents a guide to perform a Private Sector Assessment Report (PSAR), designed specifically for the beneficiary countries of the Compete Caribbean program: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominican Republic, Dominica, Grenada, Guyana, Haiti, Jamaica, St Lucia, St Kitts and Nevis, St Vincent and the Grenadines, Suriname and Trinidad and Tobago. The PSAR is only an initial step in the process of Private Sector Development (PSD) policies and strategies in each one of these countries, under the umbrella of the Compete Caribbean program and its sponsors: the Inter American Development Bank (IDB) in conjunction with the UK's Department for International Development (DFID) and the Canadian International Development Agency (CIDA).

The PSAR is a report meant to provide a comprehensive framework to identify market failures concerning the development of the private sector and prioritize them in terms of their need for an urgent solution. These outcomes are the result of a process that involves the use of descriptive and analytical tools to assess the state of the private sector and the economy as a whole, as well as consulting with firms in strategic sectors of the economy to prioritize issues. The PSAR can be decomposed in two big parts: first, it compiles and analyzes information from different sources in order to provide a snapshot of the state of the private sector in the country, and second, it brings the information to relevant stakeholders – such as firms in the economy – to establish priorities on all the identified issues affecting further growth in the private sector.

This process is intended to be an initiating point of a permanent multi-sectorial discussion on what the problems facing the private sector are and how should they be incorporated into the national agenda. The framework to create such forum is also provided in the PSAR as well, and this guide delineates it. Finally, this document also introduces the use of a framework to evaluate the policies and interventions that will come as a result of this joint PSD effort between the private and public sectors.

The PSAR presents quantitative and qualitative indicators with a proper analysis of all relevant dimensions for PSD, and compares it to benchmark countries, which share similar initial characteristics. The PSAR should use several international and local public data sources as well as interviews with local officials and the business community. Among the data sources to be used are the World Bank's World Development Indicators, Enterprise Surveys and Doing Business datasets [1-3]; the World Economic Forum's Global Competitiveness Report and Travel and Tourism Competitiveness Report [4, 5]; Yale University's Environmental Performance Index [6]; among others local and international datasets.

This guide carefully describes the process of writing such PSAR, specifying the different sections, the data sources to be used in each section and even the specific indicators and ways to present them.

The guide is divided as follows: Section II carefully describes each one of the chapters, sections and subsections that are to be included in the PSAR with the corresponding methodology. Section III presents concluding remarks of this guide. References and Appendices are presented at the end of the document.

II. Sections in the PSAR

Chapter I – Identifying Market Failures

Next are all the sections that should be included in a PSAR. Each section will have an specific goal and should incorporate the analysis suggested here. Most of these analyses will require the comparison to other benchmark countries (see Appendix I).

A. Goal of PSD in the country and current programs

The goal of this section is to identify and describe what the goal of developing the private sector in that specific country is. The emphasis on designing policies that will develop the private sector is based on the idea that a strong and improving business environment will generate investment, employment and exports, increase competition and in turn enhance economic growth.

However, there might be countries with very distinct initial conditions. For instance, fast growing countries often run current account deficits by borrowing capital to invest more. These countries might want to eventually reduce their dependence on external finance by expanding their export base. Some other countries might be lacking of enough employment generating industries, and despite growth and investment, persistent high unemployment rates are increasing inequality within the country. A coherent PSD strategy should be meant to fix the existent market failures in the business environment such that firms will emerge and grow partially addressing the main objective.

The task of defining what is the main goal of PSD in the country is a qualitative one. It involves researching the National Economic Strategy or the country's Budget and interacting with government officials, private sector and the civil society. In many cases, this should be easily available given that it should be of great concern of all parts in society. A typical question that will lead to this answer is: "What is the most relevant problem in the economy that could be alleviated with a stronger private sector?". For instance, if unemployment were to be unusually high, then this would come up easily.

However, if there is no consensus on what is the main objective behind developing the private sector, it should be then stated that the main goal is part of the general strategy for economic growth, and the emphasis should be in improving the business environment to enable the creation of new firms and the grow of existing firms in the overall economy.

It is important to emphasize two points about this section. First, the definition of an overall goal or "raison d'être" it is not a diagnostic of the main problem of the economy. It just meant to understand at a very high level what are the main concerns of the government, the private sector and the civil society and be able to state the common understanding of why is PSD necessary in the country. Second, this is not, and should not, be used as a lonely motivation to promote a particular policy or specific sectors in the economy. It might well be that the perception on what is wrong in the economy, after an extensive analysis, is not an urgent problem or might has nothing to do with the business environment. Hence, the report should be very clear that stating the goal for PSD does not come from an extensive analysis, but rather from perceptions in both government and society.

In addition, this section of the PSAR should include whether there are currently running programs (or recently abandoned) with the goal of developing the private sector. These programs, if any, should be mentioned and be accompanied by a short explanation of each, on who runs them and what are the main goals and achievements so far.

B. Overview of the Overall Economy

The goal of this section of the PSAR is to give an overview of the macroeconomic condition of the country. It should look into aspects such as GDP levels and recent growth patterns, investment and debt, inflation, external accounts and its compositions, exports and imports patterns (products and destinations), productive structure and others.

This section will use data from several sources: the World Development Indicators [1], the United Nations COMTRADE Dataset [7], World Bank's Doing Business [3], World Bank's Enterprise Surveys [2], the Global Competitiveness Report [4] and the CARICOM Regional Statistics [8]. In order to study the productive structure of the countries the use of the Product Space methodology [9, 10] is encouraged. While some of the suggested indicators might be missing in some of these sources for specific countries and/or years, the authors should be able to find some of the recent indicators in other data sources such as the National Statistical Office of the country, or other international sources. All the data sources should be specified throughout the report.

This part of the report should focus in four subsets of indicators:

1. The Domestic Economy: Indicators for recent GDP growth, GDP levels (total and per capita), decomposition of the GDP, interest rates and investment, population, labor force participation and unemployment, inflation, budget deficit, and others that are specifically important for that particular country.
2. The International Economy: openness of the economy, major exports and imports, major trade partners, current account dynamics and its composition, capital inflows and debt, remittances and FDIs, exchange rates dynamics, etc.
3. The Productive Structure: Indicators measuring the diversification of the economy and the complexity of the products it exports using a Product Space analysis [10]. This analysis is in order to understand what are the future paths of diversification of the economy in the industry and agricultural sectors. Also, this section will look at indicators of the services sectors through a suggested methodology.
4. The Institutions: Indicators measuring the *overall* the business and institutional environment of the country.

Next we present deeper explanation for each one of the above presented subsets of indicators.

1. The Domestic Economy

The goal of this subsection is to summarize the main dynamics of the macroeconomic indicators at the domestic level. This subsection should be able to explain with 5 to 10 graphs the overall state of the economy answering questions such as:

- What is the current income and income per capita in the economy? What other countries have similar levels? Where does it stand among its peers? What has been the growth rate in the past two decades? Is there grow or recovery?
- How does the GDP can be decomposed in consumption, investment, government expenditure and net exports?
- How does the GDP can be decomposed in sectors (industry, agriculture, services, etc.)?
- What has been inflation in the recent years?
- What is the budget deficit, if any?
- What is the size of the country and the labor force decomposition? What is the female labor force participation?
- What are the dynamics of other relevant indicators in the context of this particular country?

When using income measures, it should be used always in PPP terms. For consistency purposes, when the comparison is across time (i.e. a time series) then income measured in constant US$ should be used. When the comparison is across countries, then current US$ should be used.

To begin, the PSAR should have a graph describing the GDP dynamics, such as in Figure 1 for Antigua and Barbuda. Using the data shown in the figure, it can be computed that Antigua and Barbuda grew at a steady pace with a Compound Average Growth Rate (CAGR)[1] of approximately 5% from 1980 to 2008. As for 2008 it stands as the second richest country among it peers, just behind Trinidad and Tobago. Further analysis in this direction will include comparing the growth rate in the last 10 or 20 years across all peer countries and present some hypotheses (it could well be from other research) on what are the different explanations for this presented path.

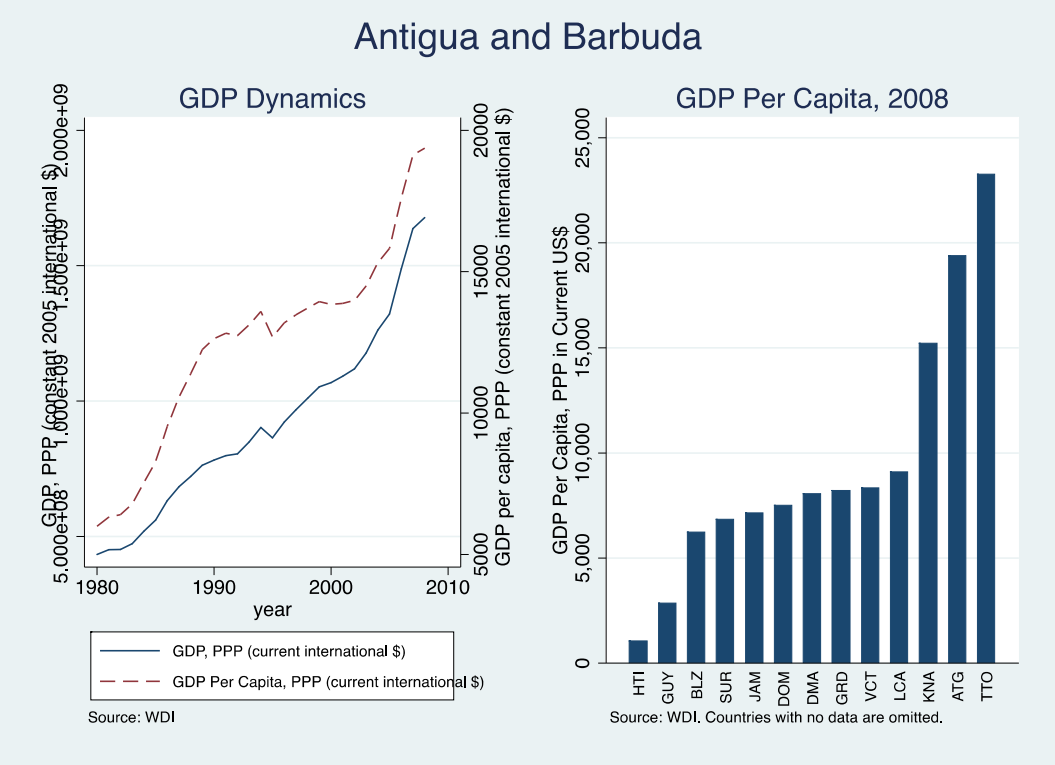


Figure 1 – GDP Dynamics in Antigua and Barbuda

To get a sense of the economy it is useful to decompose this GDP in Consumption, Investment, Government Expenditure and Net Exports across time in the last 10 to 15 years to understand how have this decomposition changed. An example of such information is in Figure 2, also for Antigua and Barbuda. In our example this simple analysis shows how the investment has been consistently growing in the last ten years, and the trade balance deficit has increased, which is possibly an important relationship. Government expenditure and households consumption has remained steady in proportional terms, but it has been increasing due to the growth in the economy.

[1] The CAGR can be computed as $\left(Y_t/Y_0\right)^{1/t} - 1$.

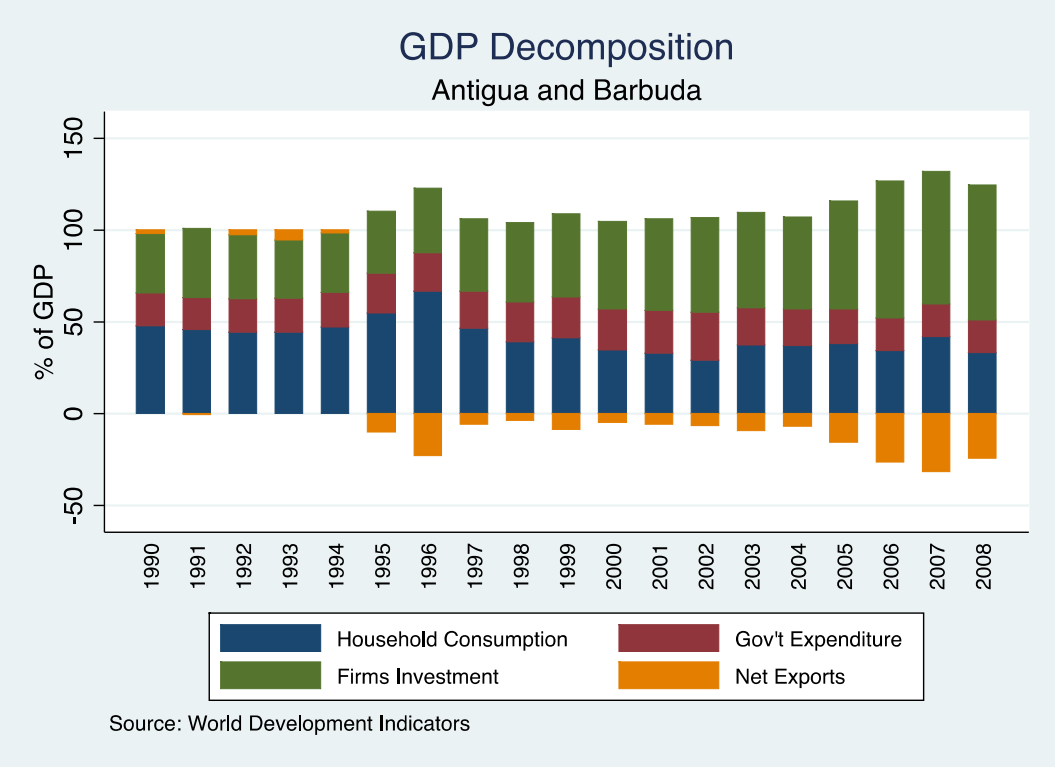


Figure 2 - GDP Decomposition (1990-2008), Antigua and Barbuda

An example of a graph showing the decomposition of the Jamaican economy in terms of its activities is presented in Figure 3. It is clearly visible, and it will probably be so for all the Caribbean nations, that services represent a very significant portion of the local economy. If there is data available on the share of employment of each of these sectors, then it is encouraged to report it in order to understand whether there are large discrepancies between the share of each sector in the overall economy, and the share of employment in that sector out of the total labor force. All these data should be taken into account when analyzing important sectors and throughout the report.

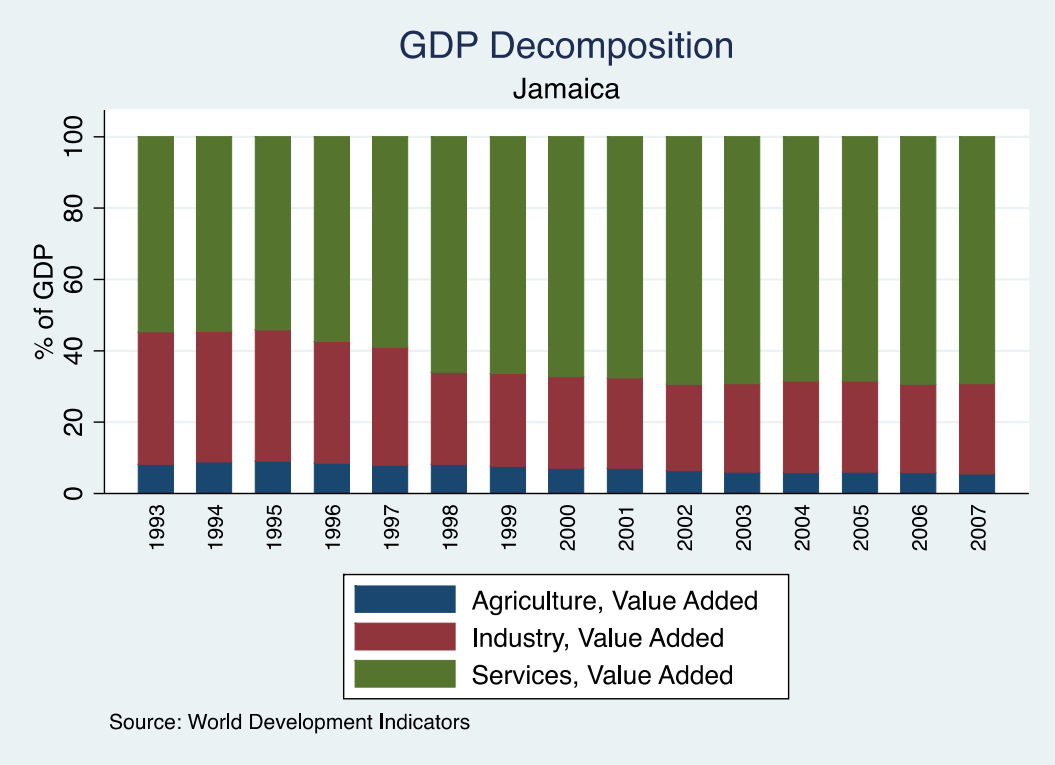


Figure 3 - GDP Decomposition (1993-2007), Jamaica

Next, the PSAR should include a figure with an inflation (CPI) time series (yearly, quarterly or monthly) and also a figure about the budget deficit/surplus in the past few years. A higher budget deficit means greater taxes in the future in the absence of spending cuts or growth, and if this is the case, it should be mentioned at the closing remarks of this subsection.

The importance of this quick analysis is crucial for the private sector. It gives an initial sense on how fast is the domestic market growing (directly influencing domestic demand) and how fast is the private sector growing (using as a proxy investment as a % of GDP). Also, the reader has a sense of the positioning of the country among its peers.

Next, we study the labor market, which is an important macroeconomic element for the Private Sector. Figure 4 provides an example of a quick analysis of the state of the labor force in Barbados using data up to 2007. Unfortunately, the WDI is not always up-to-date with data, but macroeconomic data of this kind can be easily found in the local Statistical Office or Central Bank of each country.

The data shows how in the recent years the unemployment rate has gone down considerably, but there is an important and persistent gap between male and female unemployment, being the latter considerably higher. A case like this represents an

important issue when analyzing further the private sector. Comparisons with other countries are strongly encouraged.

On the domestic financial side, figures on the level of the domestic debt should be presented. If these are unusually high (as compared to the benchmark countries), this could be taken into account in the analysis in order to understand the impact of this in the interest rates, and whether investment is being crowded out due to this phenomenon.

In sum, this subsection of the report should allow the reader to have an overview on the macroeconomic conditions of the country, how rich or poor is it and what are important concerns in the economy coming from these indicators. Other forms of analysis of this kind are encouraged in this section.

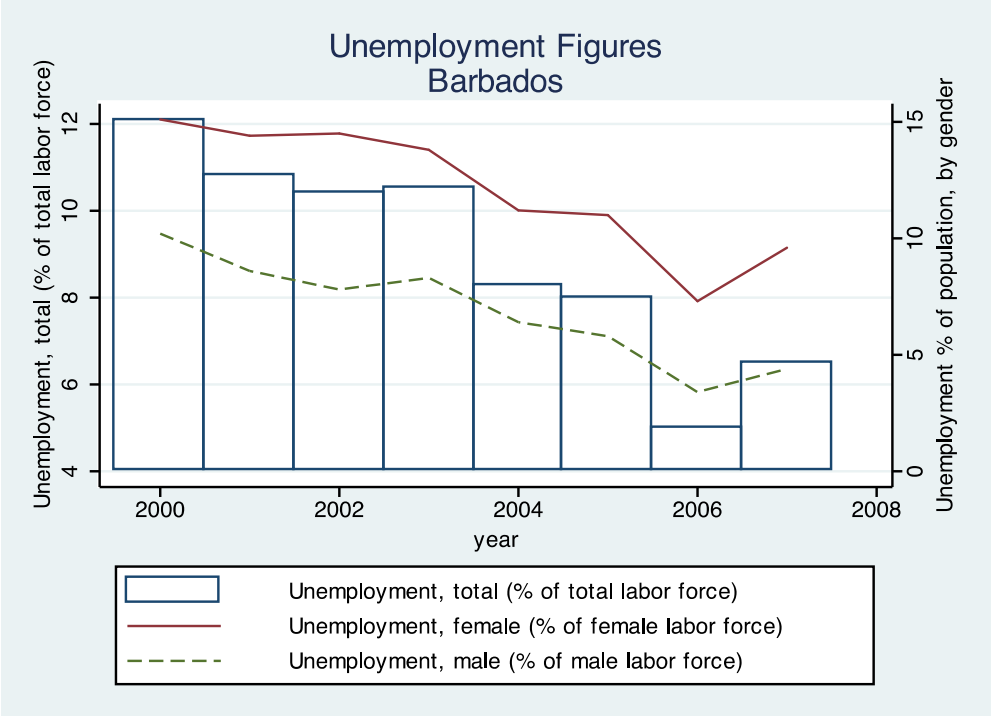


Figure 4 - Labor Market Figure (2000-2007)

Analysis: At the end of this subsection, as well as in all the others, it is necessary to "put the pieces together" and provide a short analysis of the indicators that have been presented so far. The author can refer to the most recent Country Profile of the Economist Intelligence Unit to complement the analysis. These two to three paragraphs analysis should include an answer to the general question: *at the domestic level, what are the most worrying economic indicators that present risk for present and current economic stability and growth?* This will require from the author to present an overview of the risks that may be materialized in the near future if there is no "fix" to the low-performance indicators.

2. The International Economy

The goal of this subsection is to understand what is the relationship of the country with the rest of the world from an economic standpoint of view. This is an important issue for PSD, given that the openness of the economy directly affects the access to credit for private firms (in international markets) and its current trading partners are natural markets with which firms can keep doing business. In 5 to 10 graphs this section should answer questions such as:

- What is the current account dynamics and, if there is a deficit, how is it covered? What is the debt dynamics?
- What is the exchange rate dynamics? Are there any hints of overvalued or undervalued currency?
- What are the main exports and imports? What are the main trading partners?
- How large are FDIs and where are they coming from or flowing to?

First, the PSAR should include a graph describing the Current Account (as a % of GDP) time series in the last 20 years. If there is a consistent and growing Current Account deficit, this can be a matter of concern, given that if mostly financing is used to cover the deficit, this can generate future uncertainty and it might be reflected in increased interest rates, directly affecting investment. Hence, the report should include a decomposition of this deficit. In order to do so in a simple way a graph can be produced describing the how the deficit of the net trade in goods and services[2] plus changes in net reserves[3] is decomposed in remittances net inflows[4], FDI inflows[5] and foreign aid receipts[6], all in current US$. The gap must be net financing. An illustrative example is drawn in Figure 5. In this example it can be seen that most of the capital inflows is increasing debt which can become a risk in the future. The point of this exercise is to understand how is the country financing itself, to understand what could be the repercussions in the future.

[2] Net trade in goods and services (BoP, current US$) in WDI
[3] Changes in net reserves (BoP, current US$) in WDI
[4] Workers' remittances, receipts (BoP, current US$)
[5] Foreign direct investment, net (BoP, current US$)
[6] Net official development assistance and official aid received (current US$)

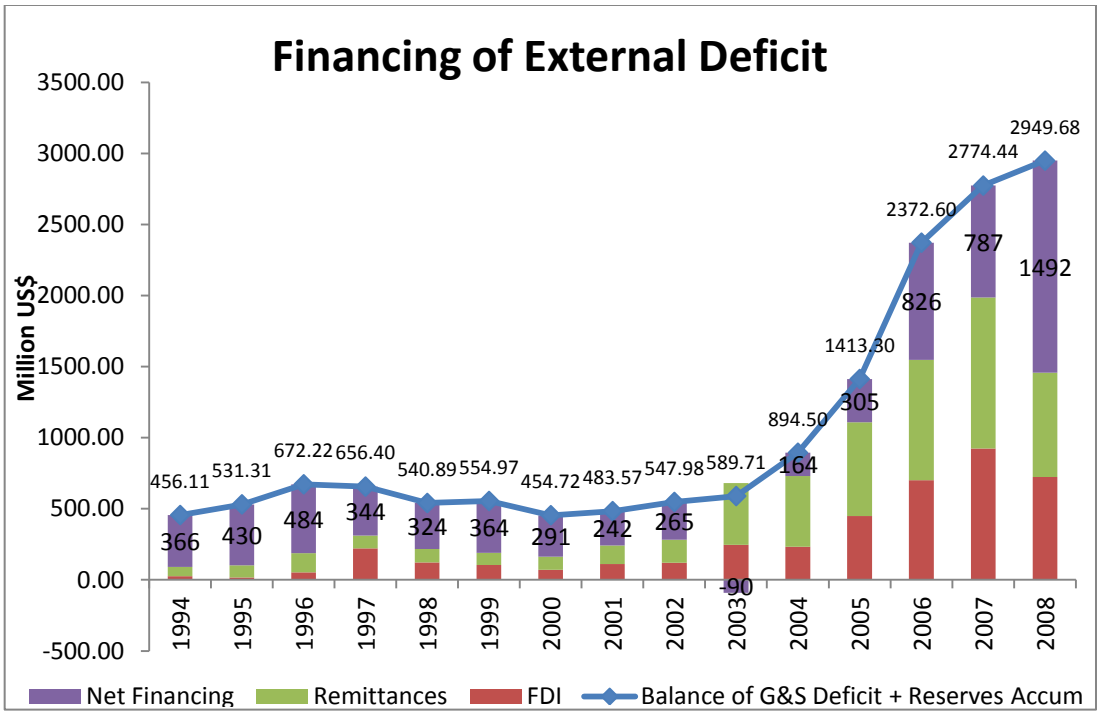


Figure 5 - External Accounts Analysis, Armenia (1994-2008)

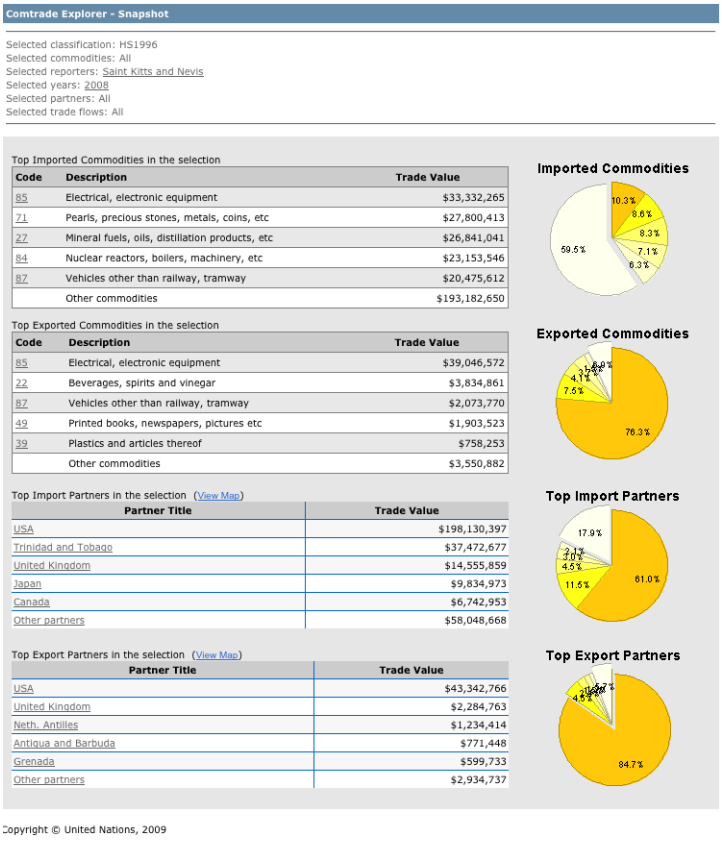
A figure of External Debt (% of GDP) will corroborate findings given that it takes into account the growth of the economy. If external debt is increasing also as a % of GDP, then this might be a matter of concern into the future and it should be noticed. An additional indicator within this short analysis is a country's sovereign debt credit rating and how has it evolved over time.

In analyzing the debt dynamics it is important to understand the international credit rankings, at least for the sovereign debt. This could be a good indicator of the future expectations on debt repayment and the ability of the country to further finance their debt in the near future.

In addition to all this it is particularly important to understand the exchange rate dynamics by creating a time series graph of the real exchange rate over time, in order to understand whether the currency has been appreciating or not, and if this movement is consistent with the surplus or deficit in the current account.

a) Trade

Next, we study the trade patterns of the country by creating a snapshot[7] in the United Nations Commodity Trade Statistics Database website [7]. Figure 6 presents such snapshot for Saint Kitts and Nevis. This figure presents the main trading commodities and the main partners. Some written explanation is required to facilitate the reading, including the main exports and imports, and the main trade partners of the country.



Comtrade Explorer - Snapshot

Selected classification: HS1996
Selected commodities: All
Selected reporters: Saint Kitts and Nevis
Selected years: 2008
Selected partners: All
Selected trade flows: All

Top Imported Commodities in the selection

Code	Description	Trade Value
85	Electrical, electronic equipment	$33,332,265
71	Pearls, precious stones, metals, coins, etc	$27,800,413
27	Mineral fuels, oils, distillation products, etc	$26,841,041
84	Nuclear reactors, boilers, machinery, etc	$23,153,546
87	Vehicles other than railway, tramway	$20,475,612
	Other commodities	$193,182,650

Imported Commodities

Top Exported Commodities in the selection

Code	Description	Trade Value
85	Electrical, electronic equipment	$39,046,572
22	Beverages, spirits and vinegar	$3,834,861
87	Vehicles other than railway, tramway	$2,073,770
49	Printed books, newspapers, pictures etc	$1,903,523
39	Plastics and articles thereof	$758,253
	Other commodities	$3,550,882

Exported Commodities

Top Import Partners in the selection (View Map)

Partner Title	Trade Value
USA	$198,130,397
Trinidad and Tobago	$37,472,677
United Kingdom	$14,555,859
Japan	$9,834,973
Canada	$6,742,953
Other partners	$58,048,668

Top Import Partners

Top Export Partners in the selection (View Map)

Partner Title	Trade Value
USA	$43,342,766
United Kingdom	$2,284,763
Neth. Antilles	$1,234,414
Antigua and Barbuda	$771,448
Grenada	$599,733
Other partners	$2,934,737

Top Export Partners

Figure 6 - Trade Snapshot, St. Kitts and Nevis. Source: UN COMTRADE Website

An additional way to present this information in a more disaggregated way is by presenting the treemaps of exports and imports for the country in question from The Economic Complexity Observatory[8]. This figure provides an idea on how diversified is the economy, and also what are the main tradable goods that have a high share in the total export basket of the country. Figure 7 – Treemap of Exports, Barbados 2009 shows this graph for Barbados using data from 2009. A similar treemap can be constructed for imports, using the same tool.

[7] In the UN Comtrade website click on "Metadata and Reference" -> "Country List" -> "Snapshot" (of the selected country).

[8] http://macroconnections.media.mit.edu/featured/economic-complexity-observatory/

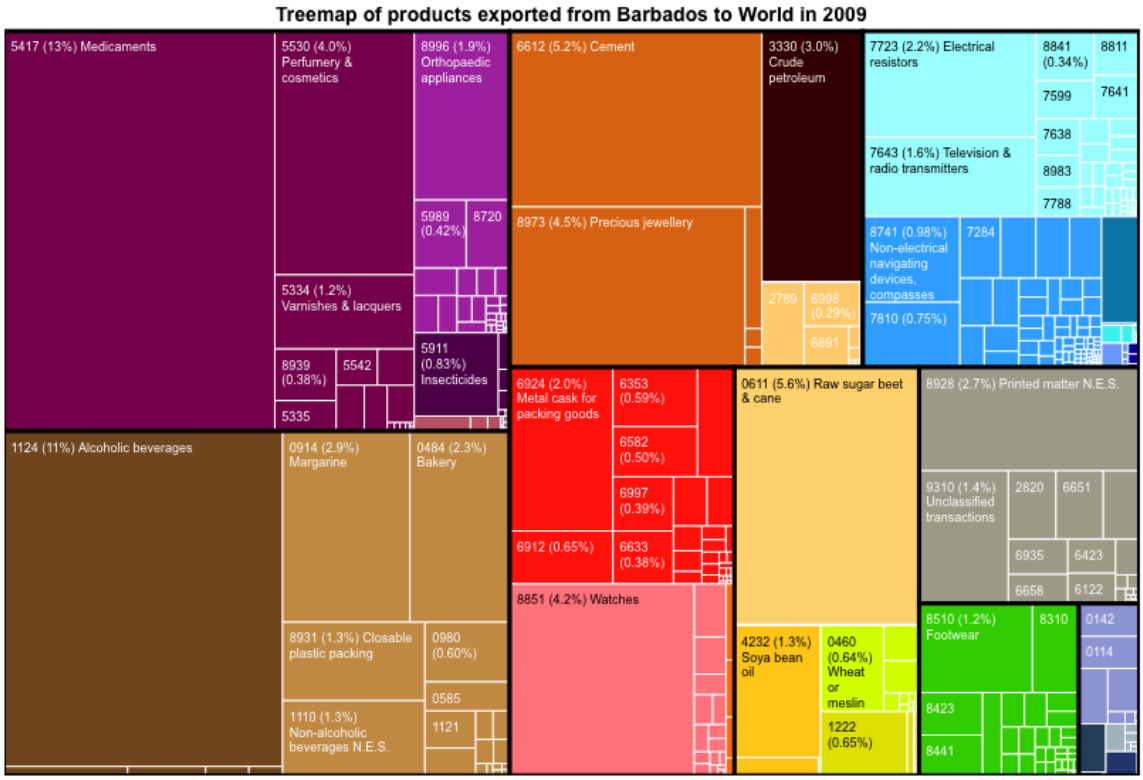


Figure 7 – Treemap of Exports, Barbados 2009

b) Foreign Direct Investments

A similar snapshot regarding Foreign Direct Investment should be included in the PSAR, as in Figure 8, for Jamaica. Data on FDIs is often hard to find readily available sources, but they are very often available in the local government agencies: the Central Bank, the Ministry of Economy or Ministry of Trade and Commerce. A possible source of FDI outflows and inflows per industry is the Investment Map website by the International Trade Center (http://www.investmentmap.org/) [11]. However, further research in the local agencies retaining data on FDI will most probably be required.

The more disaggregated data is terms of industry the better. This will provide an idea on what are the main industries that are attracting capital and have potential of keep growing.

Select Country: Jamaica

Select Year: 2009

values in US$ million / World Investment Directory

Industry	Inflow 2009	Per capita in US$
Total (merchandise & services)	540.9	202
Hotels and restaurants	155.4	58
Business activities	136.6	51
Mining and quarrying	30.8	12
Unspecified secondary	23.5	9
Non-metallic mineral products		
Finance		

Country-specific notes on FDI:

- FDI inward flows:
  - Source: Bank of Jamaica.

Notes on FDI data, broken down by industry:

- FDI inward flows:
  - The category "Non-metallic mineral products" also includes "Chemicals and chemical products".
  - The category "Unspecified computer and related activities" also includes "Communications".
  - The category "Unspecified Total (merchandise & services)" also includes reinvested earnings.
  - The category "Unspecified secondary" refers to "Agriculture", "Manufacturing" and "Distribution".
  - The category "Hotels and restaurants" refers to "Tourism".

Figure 8 - FDI Snapshot, Jamaica. Source: Investment Map Website

Analysis: Similarly, it is necessary to provide a short analytical thought about the indicators regarding the international economy answering the question: *at the international level, what are the most worrying economic indicators that present risk for present and current economic stability and growth?* These factors might have something to do with high dependence on external finance, possibility of defaulting on the external debt which might harden the access to international finance, or high concentration in export partners or goods, for instance.

3. The Productive Structure

The goal of this subsection is to provide the reader with an overview of the current productive structure of the country, and identify a number of large and/or fast-growing sectors both under the industry and service categories.

a) Industry and Agriculture

To study the productive structure of Industry and Agriculture, this subsection should provide a one page Product Space analysis [9] with its mapping in order to understand the dynamics of exports and its repercussions in the development path. The mapping of the Product Space of the country across time (see Figure 9 - Product Space map for Jamaica, in 2000 (left) and in 2009 (right). for example on Jamaica) should come together with a short analysis, which will help the reader to understand whether the country is in high risk of coordination failures, that will primarily affect the ability of the private sector to go into new industries and sectors.

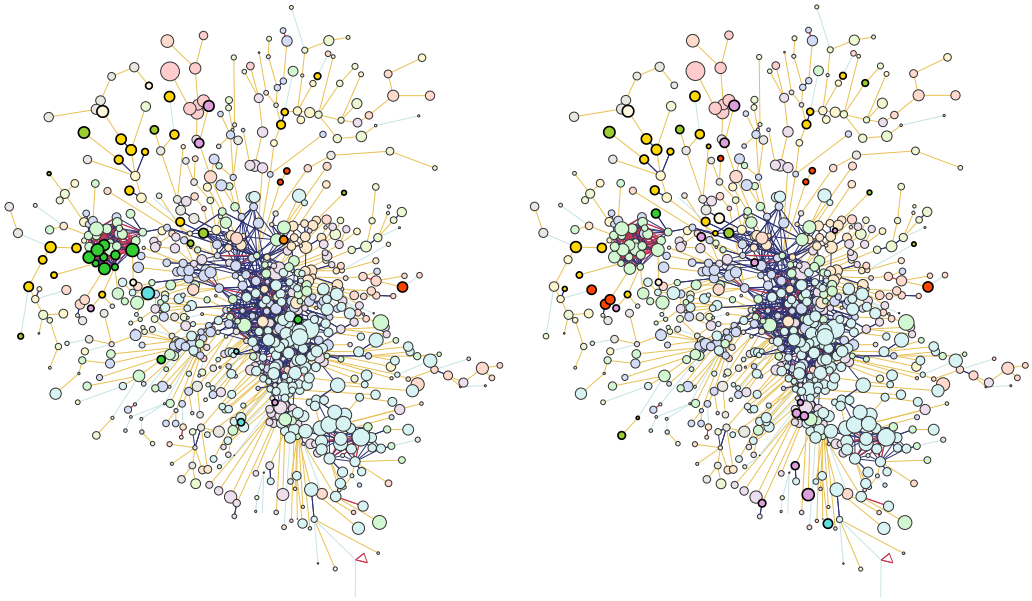


Figure 9 - Product Space map for Jamaica, in 2000 (left) and in 2009 (right).

For instance, it can be seen in the figure that Jamaica lost its trade comparative advantage on the textile industries in the last years, which might have been due to China's entrance to the WTO, as in many other cases; and it gained some world market share in chemicals. However, it seems like Jamaica's position in the Product Space has worsened since there are no new active industries in the heart of the network, and most of them are in the periphery, creating important challenges for coordination in the accumulation of capabilities for the future creation of new industries.

As an optional analysis it is encouraged to perform a diversification-ubiquity analysis with exports data on SITC4 (rev. 2) format, downloadable from UN COMTRADE dataset [7]. The analysis involves computing the diversification of the country (by counting how many good is the country exporting – usually it is done by setting a threshold of Revealed Comparative Advantage (RCA) above one[9]). For this analysis it is also important to compute the average ubiquity of the country, which is the mean of the ubiquity measure for all the products exported by the country. Ubiquity for product p is defined as the number of countries exporting that product (also usually setting a threshold of RCA above one).

[9] RCA of country c for product p is defined as: $RCA_{cp} \equiv \frac{x_{cp}}{\sum_p x_{cp}} \Big/ \frac{\sum_c x_{cp}}{\sum_{c,p} x_{cp}}$ where $X_{c,p}$ represents exports of product p by country c.

For example, Figure 10 shows a graph for such diversification-avg. ubiquity analysis for Turkey, in which we can see both variables as a function of income per capita, as compared to all countries in the world.

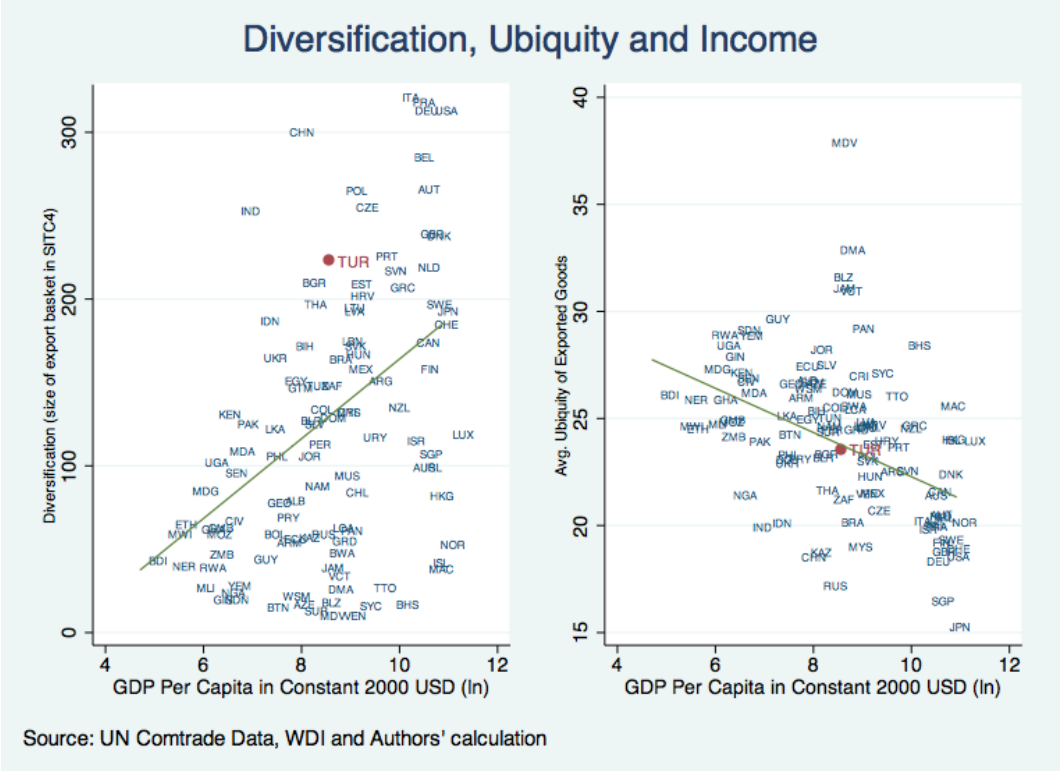


Figure 10 - Diversification, Ubiquity and Income, Turkey in 2008

As can be seen in Figure 10, Turkey is highly more diversified than countries with similar income, but the average ubiquity of its goods is just average compare to its peers. This means that even though country is highly diversified, it is still exporting goods that are not as complex.

There is flexibility in the way the author wants to perform this Product Space analysis and what the focus should be, as long as the main goal of the subsection of providing an overview of the productive structure of the country is achieved.

In order to identify large and/or fast growing sectors, the analysis is straightforward. The product space analysis will provide the largest sectors in the economy as those with the largest RCA. The fast growing sectors can be identifying by those sectors that went from an RCA lower than 0.1 to an RCA above 1 in the past 10 years. It is required to identify three sectors: one large sector (i.e. the one with the largest RCA) and two fast-growing sectors (the two sectors with a larger change in the past 10 years) within industry and agriculture. It must be mentioned whether any of these sectors have a lower ubiquity than average, hinting that these sectors are more "complex" than the average.

A density analysis to identify potentially emerging sectors is encouraged, but optional.

b) Services

The fact that disaggregated data on services is often unavailable makes it unrealistic to generate a similar analysis as the one suggested above with industry and agriculture. However, the PSAR should include an overview of the services sector in the economy with the available data even at a more aggregated level. The data suggested in order to do such analysis are the services indicators as measured by the World Development Indicators or local statistical agencies. Given the importance of the services sector in the Caribbean – as was probably reflected in the GDP decomposition of the previous section – an overview of the different sectors providing services in the economy is required.

The analysis should start by showing a graph, like the one in Figure 11, with the decomposition of services exports. As in the vast majority of the Caribbean countries, tourism related activities represent the largest sector among all the services. In the case of Dominican Republic, even though Tourism (Travel) is the largest sector, other sectors such as transportation and financial services have been growing in the past 5 years, hinting about the potential future growth of the industry.

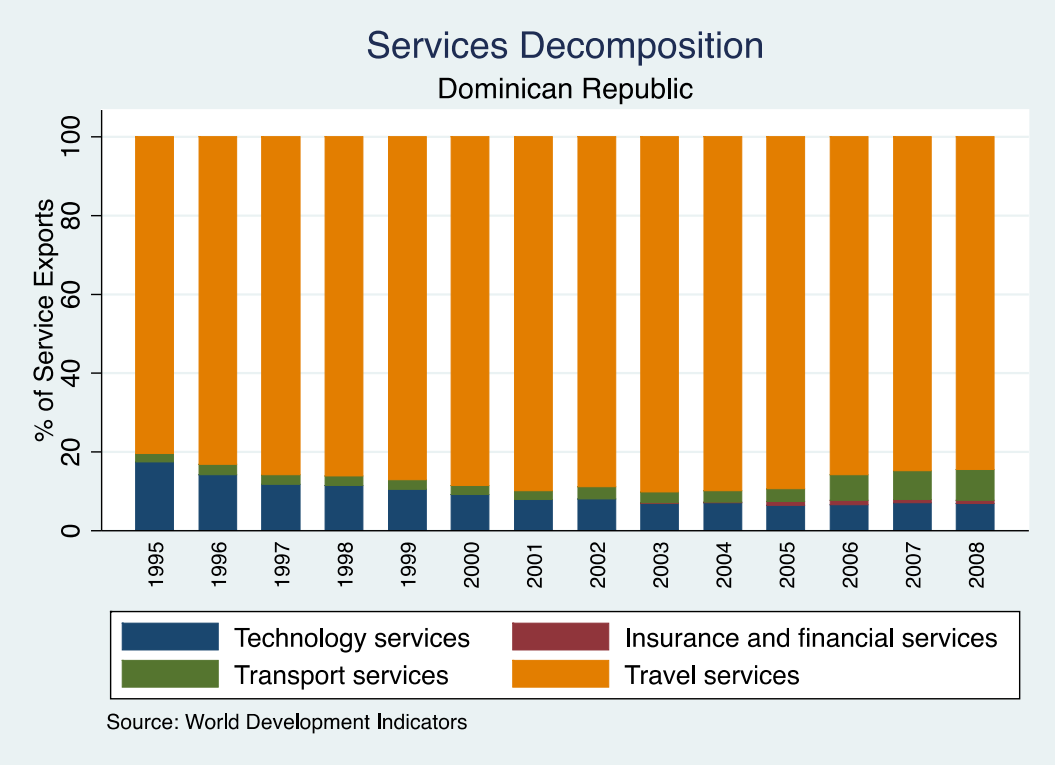


Figure 11 - Services Decomposition, Dominican Republic (1995-2008)

In this section it is important to identify a large and a fast-growing sector. In almost all cases in the Caribbean, a large service sector will be Travel and Tourism. A fast-growing sector can be defined as one with the largest growth rate in the past 5 years[10]. In this example, it can be seen in Figure 8 how Transportation fits that category for Dominican Republic. This hints that this sector has potential for future growth.

It is especially important to gather disaggregated data on services when possible. This will provide a better understanding on what specific industry whether the four categories mentioned above are the ones driving the growth in the industry.

The identified sectors will be analyzed further later on in the PSAR.

Analysis: The analysis in this section requires to describe the changes in the productive structure of the country in the previous years, both in industry and services, mentioning the sectors that grew and also those that disappeared, linking it to possible reasons for those development. Also, this section should include, in general terms, whether the government has set up in its national budget or current strategy any plans to "develop" a particular sector through policies.

[10] By computing a 5-year CAGR for each one of the services with available data.

4. The Institutions

The goal of this subsection is to provide an overview of the institutional framework of the country.

First, it requires a short introduction on the type of government (presidential, parliamentarian, etc.) and basic information on it. This information should include insights on the stability of the government. In addition, this subsection should include names and roles of the high-level government officials that are or can be involved in activities regarding the development of the private sector. An quick written analysis on the effectiveness of government in this country should be provided in this subsection. For this the author can rely on own research, or the country profile from the Economist Intelligence Unit or data from the World Governance Indicators. No specific format is recommended for presenting these results.

Second, this will require an overview of the institutions relevant for PSD. This part of the PSAR will use the World Bank's Ease of Doing Business indicators [3]. A more detailed analysis will come later in the report including data from surveys on firms. However, this part requires from the author to read the Ease of Doing Business' Country's Economy Profile and synthetize the main findings. This data is quite important given that country's government do strongly pay attention to their Doing Business rankings year after year. It can also be accompanied by some self-explanatory graphs in order to provide the reader a general idea of the country's standing in the world. An example is in Figure 12.

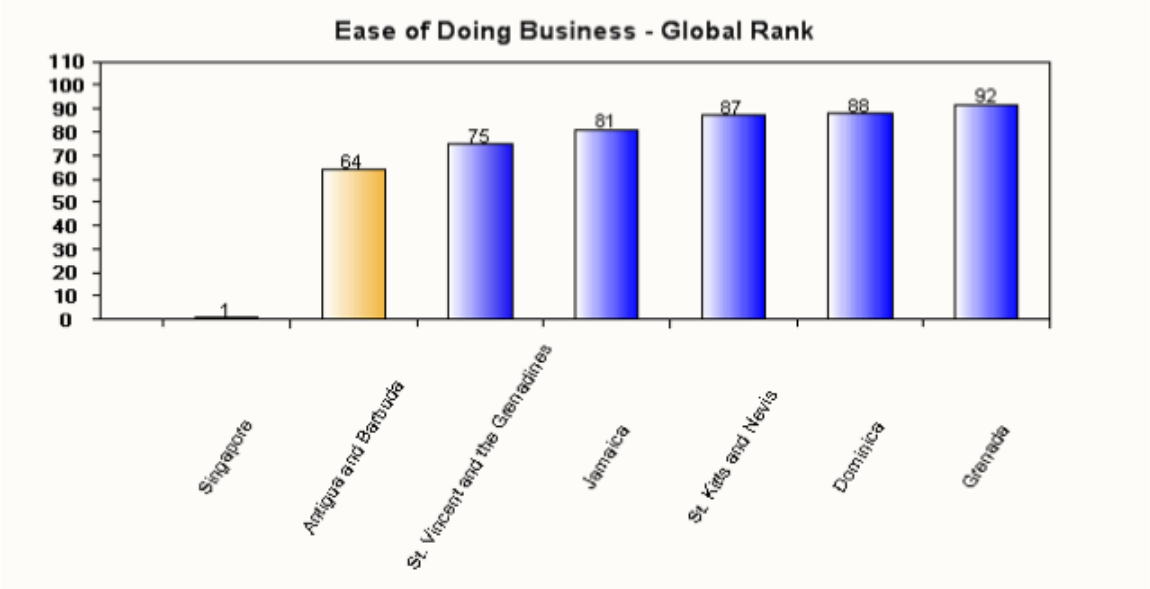


Figure 12 - Overall Ease of Doing Business Rank, Antigua and Barbuda.

In addition, it is important to understand the time dynamics of these indicators. The same Country Economic Profile will provide a graph indicating the change in the Doing Business indicators across time. This can be included in the PSAR in a figure, such as Figure 13, also for Antigua and Barbuda.

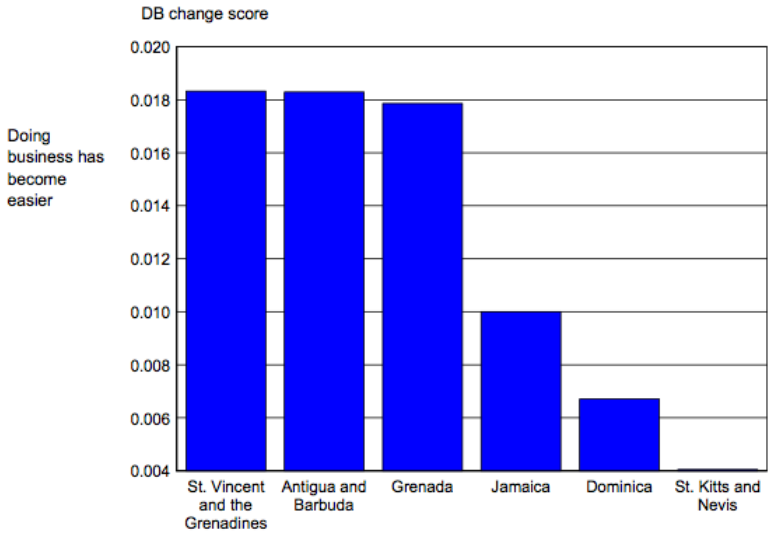


Figure 13 - Doing Business Change in Score 2006-2011, Antigua and Barbuda.

Since we have a specific "Business Environment" subsection in the PSAR later on, a very basic overview of the institutional framework relevant to the Private Sector will suffice. Comparison of any overall institutional indicator to the benchmark countries is highly encouraged.

Analysis: This short analysis should be based on the risks associated with a poor institutional framework for this particular country. For instance, in a country with strong dependence on trade, institutional constraints (such as the efficiency of customs, for instance) can deprive the private sector from investment in exporting activities.

C. State of the Private Sector

The goal of this subsection is to provide a wide overview of the composition of the private sector, and how relevant and developed is within the specific country.

Given that this data is not usually available in a "ready-made" dataset at the country level, the author of the PSAR will need to access the most recent economic census of the country. If there is no economic census, then possible sources of these data are in the Ministry of Industry, Ministry of Economy or the National Statistical Office. Other sources also include private chambers; labor unions or any private sector umbrella organization.

Even though the data that is envisioned to be collected in this subsection should not be very hard to find, it still can be very hard to get. If that is the case, the author has flexibility to look into variables that are believed to be good substitutes and perform an analysis with trying to focus on similar questions with the data that is available.

Some questions that needed to be addressed in this section are:

- What percentage of the working labor force is employed by the private sector?
- How is an SME defined in the country?
- What percentage of the working labor force employed by the private sector works for SMEs?
- What is the distribution of employment by main industries?
- What is the share in the economy of the largest firms? This will hint about big monopolies. This analysis, given availability of data, can be done by industry.

With the data available, the PSAR can include a number of figures to represent the information. For instance, when looking at employment distribution across firms, Figure 14 provides an example for the United States. In this example it can be seen how half of the employment is by big firms with 500 employees or more. The other half of the labor force is employed in SMEs.

Again, the objective of the section is to understand how big is the Private Sector in the country, and have an idea of the distribution of sizes of firms. Any disaggregation into sectors or industries could be great.

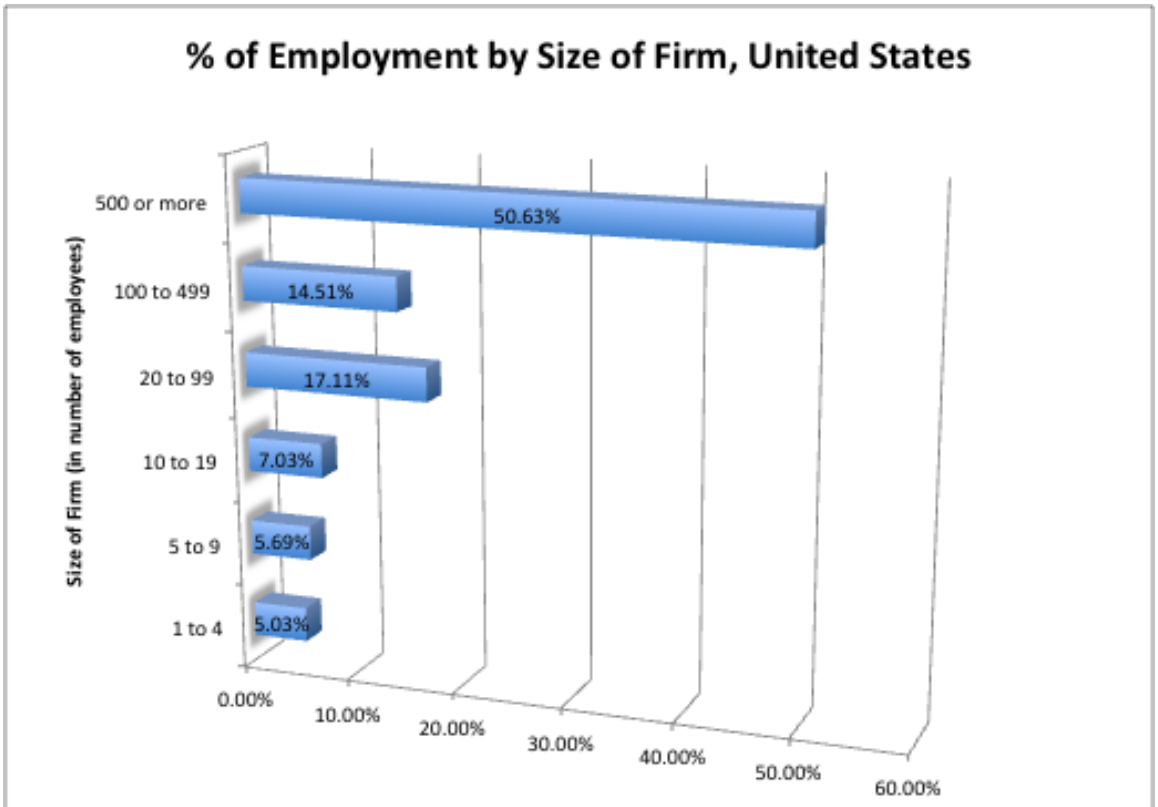


Figure 14 - % of Employment by Size of Firm, United States

In general, and with comparable data, in order to establish some comparisons or to understand where the numbers of that country stand, a world dataset with some limited info on SMEs is available [12], [13]. This dataset does not include Caribbean countries, but it can be use for reference purposes.

Analysis: As usual, a short analytical paragraph with insights on the structure of the private sector is encouraged to close this subsection. The analysis should aim to explain what stands behind the distribution of sizes of firms, the employment distribution, existence of monopolies, and other possible issues found in this subsection. Many of the issues that might be brought up in this short analysis will be studied later on in the PSAR.

D. Large and fast-growing sectors

The goal of this section is to analyze five large and/or growing sectors of the economy that were identified in previous section.

In this section the PSAR must provide an analytical study of each one of the identified sectors in the previous section. For each one of the sectors that were identified, there should be a sub-section with the following components:

- A brief description of the sector in the context of the country.

- What are the main firms active in this sector?
- How much employment is there in the sector as a whole?
- Are these industries competitive in the world, in terms of prices?
- Is this sector highly traded beyond national borders? Is this sector a recipient of foreign investment in the past years?
- Any other detail that is considered relevant for each sector.

Each one of the subsections will deal with all the possible descriptive information on each sector, with data from any government institution, other organizations such as chambers or unions, or the firms in sectors themselves.

Each sector also involves an analytical exercise in where the author, based on data and interviews, describes the potential of the sector for future growth and expansion, and the current risks and opportunities for each sector. This information can be based on a qualitative analysis after interviewing with representative firms in each sector and knowledge on the market. No particular framework to perform such analysis is suggested, and flexibility is given to the author. However, the analysis should take into account the size of the market, the potential of reaching new markets through trade, the (domestic and foreign) investment in the sector and the development of supporting industries for that sector, among others.

Analysis: This subsection requires an analysis on the potential of the identified sectors on future growth and how would the economy benefit from their further development. The analysis should incorporate whether the identified fast-growing sectors have a potential of keep growing, whether at first sight there are policies that can support the growth of these sectors and what could be the possible long-term effects on the overall economy would these sectors keep growing. For instance, a sector that belongs to a large international market has potential for more exports, or a sector that is labor intensive has potential for more employment. This should be linked to the overall goal for PSD in the country overviewed in a previous subsection.

E. Issues for Private Sector Development

This section of the PSAR will contain a number of issues relevant for the private sector. Sources for the report will come from private interviews in the country of interest, and data sources such as the World Development Indicators [1], World Bank's Enterprise Surveys [2] and the Global Competitiveness Report [4], among others. A comprehensive analysis will come at the end of this subsection, after all issues have been studied.

1. Business Supportive Institutions Structure

The goal of this subsection is to map the existent institutions that are representatives of the private sector at the national level, and bodies that involve private sector, government and other sectors of society.

This is more of a qualitative analysis based on interviews and research in the country, trying to understand the different bodies that work with private sector development at the national, and for larger countries also at the subnational level.

Examples of these bodies can be the Chambers of Industry and/or Chambers of Commerce, Trade/Exporters associations, major Labor Unions, Competitiveness Councils, autonomous bodies composed by business and government, governmental bodies with participation of the private sector, etc.

Each institution in the country should be accompanied with a short description on:

- What is the mission and vision? What are the goals for the upcoming period?
- How long has been the institution in existence?
- Who participates in it and how are the roles defined?
- How influential the institution is in the country?

It is important to emphasize that, more than enumerating the relevant bodies, it is necessary to provide some information about the relevance of the organization, the activities performed in it, the connections (either politically or economically) to other organizations, and the size of their budget. An example of the table that should be constructed with this information is in Figure 15.

Name	**Type and brief history**	**Reports to?**	**Vision, Mission and Goals? Assessment of their performance**	**Sector to which is affiliated?**	**Budget**	**Person in Charge and Title**	**Political Influence**	**Partner Organizations**	**Other Information**
Name	*Chamber, Labor Union, Government institution, etc. Brief history of the organization (when was it founded, by whom)*	*Does it report to a governmen t institution or to some "constituen ts"?*	*What are the mission, vision and goals of the organization?. An assessment of their performance: have they been able to accomplish their goals? Why or why not?*	*Is it work related to a specific sector or to the private industry as a whole?*	*What is the annual budget?*	*Who is in charge of the organizat ion, and what are their titles/role s?*	*Low, Medium, High or Very High, with a brief explanatio n.*	*What other organizations it works close with?*	*Other relevant information not covered in other categories.*

Figure 15 - Template Table for Institutional Analysis

This subsection is particularly important for the PSAR for several reasons. First, it gives a good insight on how organized is the private sector in the country. Second, any of these organisms can become a viable body to extract more information on policies needed to develop further the private sector.

The information in the table must be such that, once the reader studies it, he/she will have a good understanding not only on the existence of different organizations, but on their relevance in the national arena and their effectiveness.

2. Donors and other international entities

The goal of this subsection is to map the active donors (bilateral and multilateral organizations) that are currently active in the country and their activity is related to Private Sector Development.

This mapping will be for large organizations with relevance in the country that are currently sponsoring or managing large projects in the country. Some of these organizations can be regional development banks, international aid agencies, large NGOs, etc. The author will filter the information according to his/her criteria. The suggested framework for their mapping is presented in Figure 16.

Name	Brief description	Person in charge	Budget in the country	Projects in the area of Domestic Economy	Projects in the area of International Economy	Projects in the area of Productive Structure	Projects for Institutional Improvement	Assessment of performance and other information
Name	*If it is a bilateral organization provide the donor country. What the main objective of the organization is.*	*Provide name of person in charge or of high management.*	*Provide budgetary information if available. Also provide type of uses for the money (grants, loans, etc.)*	*Enumerate currently running projects of this organization meant to deal with domestic economic issues (such as macroeconomic stability, labor market issues like trainings, etc.) Explain and mention budget if possible.*	*Enumerate currently running projects of this organization meant to deal with international economic issues, such as projects dealing with exporters or importers, export zones, etc. Explain and mention budget if possible.*	*Enumerate currently running projects of this organization meant to deal with the Productive Structure, such as giving loans or grants to businesses, supporting a specific sector, etc. Explain and mention budget if possible.*	*Enumerate currently running projects of this organization meant to deal with Business Environment improvement, such as loans to government in exchange for regulatory reforms or alike. Explain and mention budget if possible.*	*Assess the performance of the organization, and provide other information that is considered relevant for the analysis.*

Figure 16 - Template Table for Donors and International Organization Analysis

With the information in the table, the reader should have an understanding of the different bilateral and multilateral organizations playing a role developing the country's private sector, their activities and insights on the effectiveness of their programs.

3. Access to Finance

The goal of this section is to understand how important is access to credit for the domestic firms and if credit is usually available for them. Access to finance is a vital component in the life cycle of a firm, and the availability of funds for investment in the country, or even from abroad, can be binding in their ability to grow.

The author of the PSAR should look at a number of indicators and analyze them. First, look at the efficiency of the credit markets. Second, look at indicators that can assess the supply of *domestic credit*. Third, look at indicators that measure the *international supply of credit* to that country. Finally, look at the existence of institutions that reduce the information asymmetries and hence reduce the cost of lending for banks, such as credit bureaus. As an important note, the goal of this short analysis is not to determine whether there is a "supply or demand" problem, but rather to give an overview of how developed are the credit markets in the country, and how is the access to finance for firms in general. Also, depending on the main sectors or industries existing in the country, and their dependence on finance [14] one can understand how important are the financial markets for the overall development of the private sector.

At first glance, the interest rate spread gives an idea of how efficient credit markets are. A large interest rate spread (lending minus deposit) can represent high transaction costs for banks or monopolistic behavior of banks. Figure 17 provides an example of a graph showing the trend of the interest rate spread over time and its comparison to benchmark countries. Bahamas' spread stands at less than 2% and is the lowest in the region, hinting of an efficient credit market (no arbitrage) and low banking transaction costs.

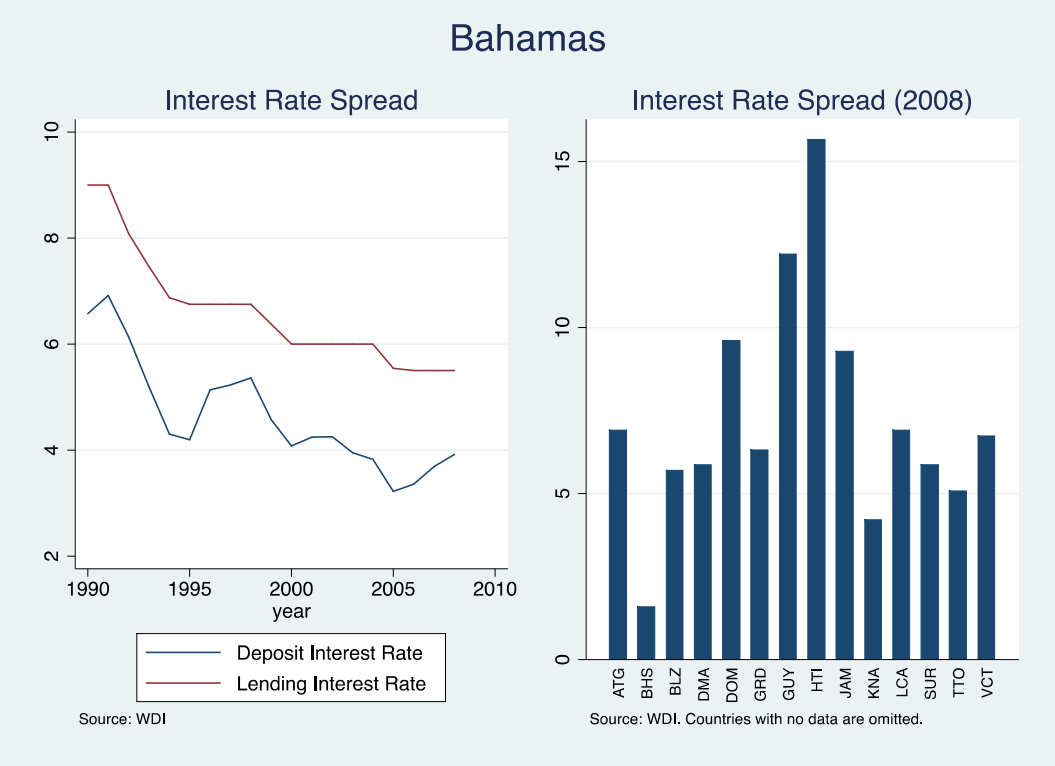


Figure 17 - Interest Rates Spread, Bahamas.

In a closed economy, the level of savings directly affects the availability of credit. From the banks' perspective, the reserves requirements together with other

regulation and their own considerations directly affect what proportion of those savings is available for lending. Hence, when looking at the availability of domestic credit, it is important to look at both the savings level of the economy and the ratio of lending to deposits. This can be studied by using the New Database on Financial Development and Structure [15]. There are two variables that can summarize these issues. The first one is the financial systems deposit to GDP, which measure the ratio of all checking, savings and time deposits to all economic activity. The second one is the bank credit to bank deposit ratio, which measures how much money is being loaned out as a percentage of total deposits in the economy. It is useful to compare these variables to benchmark countries and other some developed countries. An example of possible graphs with this data is in Figure 18.

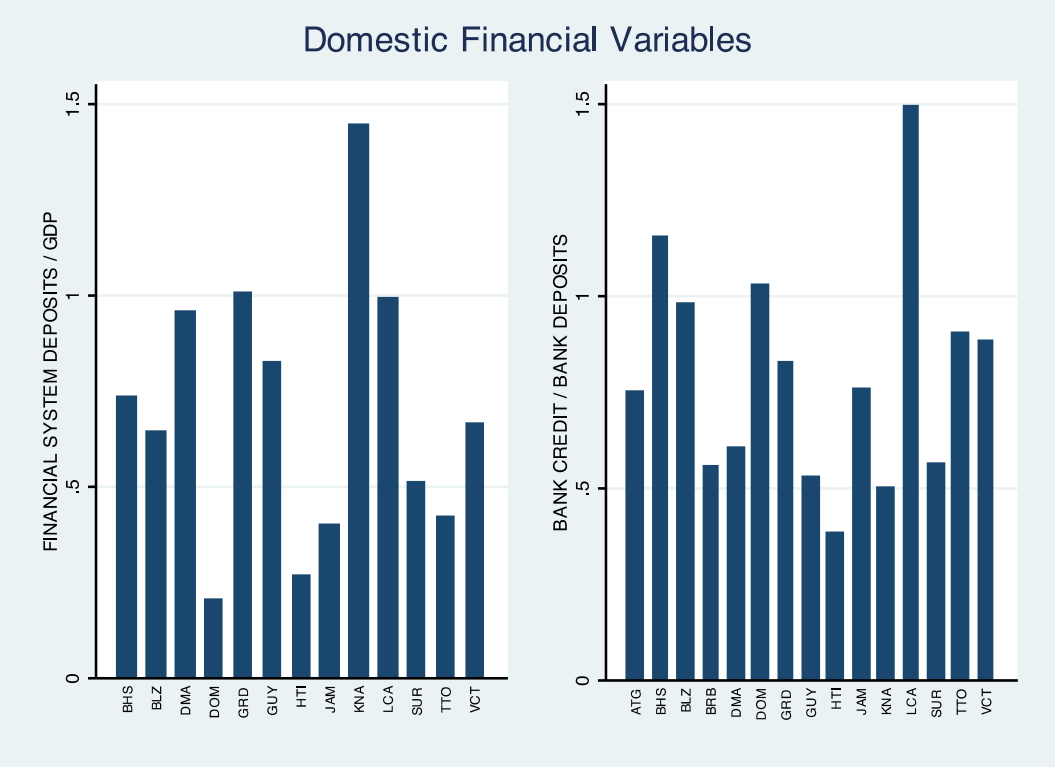


Figure 18 - Financial Variables

Yet, this amount of credit in an open economy is not bounded by domestic credit, and there is an analysis on this next. However, at this point, it is important to understand where the country stands in terms of availability of domestic credit as compared to its peers. Haiti, for instance, has the worst indicators in both graphs, hinting of what is already known: a poor an inefficient credit system.

The accessibility to international credit is often hard to track at the firm level. However, there are some indicators that measure the degree to which a country's financial system is linked to international financial markets. These indicators are also in the same dataset, and they are: *International debt issues to GDP*, which

measures the net flow of international bond issues relative to a country's economic activity; and *International loans from non-resident banks to GDP* which equals to international loans from banks to a specific country relative to economic activity, as reported by the Bank for International Settlements. In the case of unavailability of the data for the specific country, and its peers, it should be collected from the national statistical office.

In the absence of relevant data for this assessment, a good substitute could be the "Getting Credit" ranking of Doing Business Report, which involves a similar logic than the one this report suggests.

Finally, the PSAR should include an overview of the institutions available in the country that reduces efficiencies in credit markets, such as credit registries or rating agencies. The author of the PSAR, through interviews with private sector, banks, investors and government officials should map the existence of any institution that deals with reducing information asymmetries on credit markets. This mean, any institution that deals with providing information to the lender about the borrower, on the latter's credit history and his/her ability to repay the debt. The existence of this information in the system reduces risk premium in interest rates.

More quantitative measures for this purpose are provided in the Doing Business report, under the "Getting Credit" pillar: Public Registry Coverage (% of Adults) and Private Bureau Coverage (% of Adults).

The author of the PSAR is encouraged to include indicators from the Enterprise Survey from the Finance section to dig deeper into some of his/her analysis.

4. Corporate Taxation

The goal of this section is to answer the questions: Is the corporate tax rate particularly higher in this country? Is the tax administration efficient enough?

The authors should produce 1-2 graphs with comparisons on corporate tax rates and other indicators that deal with those questions with that of other benchmark countries.

A plausible indicator for the tax rate is the "Highest marginal tax rate, corporate rate (%)", from the WDI. In addition, there can be mention of two indicators from the Ease of Doing Business: "Labor tax and contributions (%)" and "Total tax rate (% profits)". All these indicators can be compared across several countries in the region or with the benchmark countries.

Putting some pieces together, a country that has no budget deficit has less of an incentive of having high corporate taxes, which might reduce investment. Connections of new data with previously done analysis are encouraged.

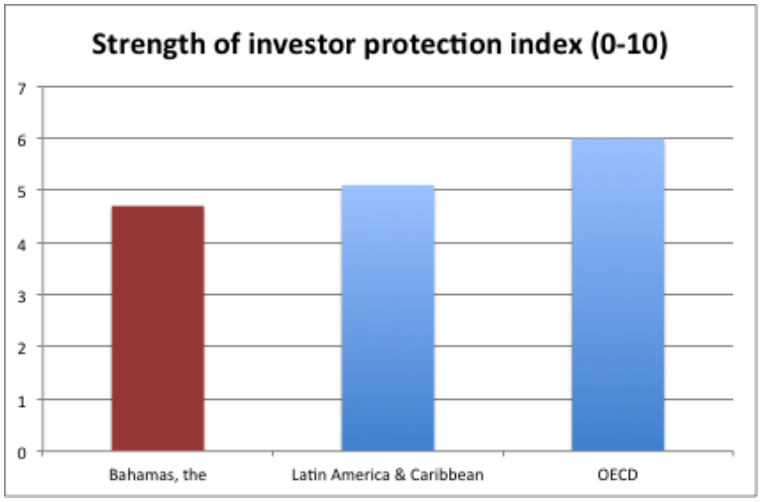
With respect to the tax administration, some indicators can be taken from the Enterprise Survey by looking at the results of the following two questions: "% of Firms Identifying Tax Rates as Major Constraint" and "% of Firms Identifying Tax Administration as Major Constraint", and comparing them to the regional average or to benchmark countries. Similar indicators from Doing Business can also be incorporated.

5. Business Environment

The goal of this subsection is to answer the question: how hard or easy is to do business in this country as compared to the region and other peer nations?

As a matter of fact, most of the sections in the PSAR can belong to the business environment category. However, this part will be particularly devoted to permits and regulation to start a business, and all the costs involved in maintaining it that are not specific to the firm itself.

First, the section should by reporting the "Strength of investor protection" indicators from World Bank's Doing Business. This will provide an idea on whether there are good institutions in place that can guarantee private property and return to private investment. Even though many reports present the data in terms of rankings, it is important to mention the numbers behind the ranking possibly in graphs. Figure 19 provides an example of a way to present the data including the regional average and the score for OECD countries. Protection of investors in Bahamas' is weaker than the regional average. It is convenient also to mention the ranking of the country, to have an idea of its standing in the world. For instance, The Bahamas' ranking for "Protecting Investors" is 109 according to the Doing Business Country Report 2011, worsening as compared from the previous year by one spot.



Source: Doing Business Website, The Bahamas.

Figure 19 - Strength of Investor Protection Index

Then, this subsection should look at the following components of the Enterprise Survey: Regulations And Tax, Permits And Licenses, Corruption, Crime, Informality and Infrastructure. The section should include 5-10 graphs and tables giving a snapshot of the conditions of business making as seen by the firms indicating in which ones the country is considerable worse than the region average or its peers' average, bringing it to attention of the reader. An example of a possible way to present the information is the graph generated by the Enterprise Survey website for a specific indicator within the "Regulation and Tax" pillar, in Figure 20. There should be graphs like these for the most relevant indicators in each pillar.

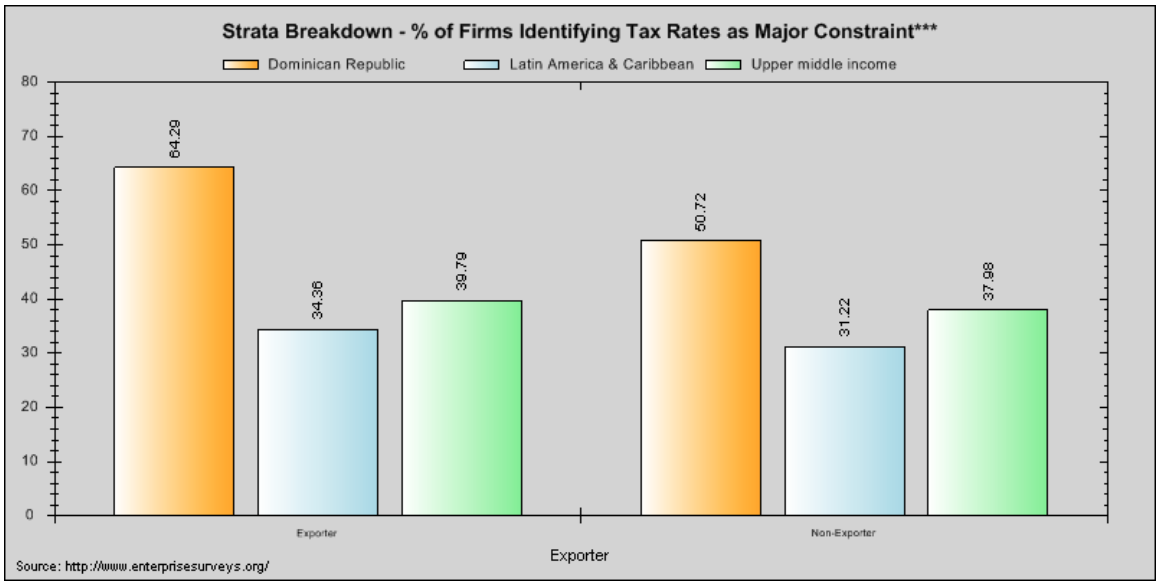


Figure 20 - –% of Firms identifying tax rates as major constraint, Dominican Republic

Other variables from the Doing Business indicators can also be used as complements.

6. Technology and Innovation

The goal of this subsection is to understand the private sector's readiness to adapt new technologies and innovate.

Technology and innovation are believed to be a strong determinant of economic growth. At the micro level, this implies firms adopting new technology in order to become more productive. At the macro level, it implies higher productivity and being able to do more with same amount of resources.

Also, the ability of a country to innovate is connected to its ability to create new and more efficient products and goods, sold by the private firms. In many cases, innovation is not about introducing a brand new product in the market, but also about adapting one from overseas, which also involves R&D costs. Successful stories of innovation and its connection to the private sector come from countries such as Taiwan, Ireland and Israel among others [16].

This subsection will look at two sets of variables. First, studying the access to technology for firms in the country. Second, studying investment on innovation (i.e. R&D expenditure) in the country.

First, in order to study technology, the Global Competitiveness Report's ranking on Technological Readiness should be presented compared to other countries, which is constructed based on access to Internet in the country. Indicators on the Technology and Innovation section from the Enterprise Surveys can also be used for this

purpose if data from the Global Competitiveness Report is unavailable. This can be reported in the form of a figure.

The second part can be presented by looking at the Innovation indicators of the Global Competitiveness Report, which is an index of utility patents in the country. In addition, this subsection can also include measurements for "R&D expenditure as a share of the GDP" in the country and "researchers in R&D (per million people)", and compare it to the benchmark countries. These indicators are available in WDI, or in the national statistical office otherwise. The use of figures is encouraged to present these indicators.

7. Trade and FDI Policies

The goal of this subsection is to understand how efficient is regulation in trading goods and capital across borders.

The regulation on Trade and FDIs might have a direct impact in the growth of firms that engage in international trade of goods and capital. Hence, an overview of the indicators on regulation in this area will be useful to understand at what extend exporters and importers are being constrained by regulation in their day-to-day activities.

We will look at three sets of indicators. First look at indices measuring the protection of the goods market. Second, look at indices measuring how is regulation on capital inflows affecting businesses. Finally, look at the efficiency of customs and the administration when it comes to trading across borders.

The first set will come from the Market Access Map of the International Trade Center website (http://www.macmap.org/) [17]. There proceed with the "Country Analysis" section, which will provide a list of all the average import tariffs, per industry, in the markets. An example of such output is in Figure 21. The values for other few benchmark countries can be mentioned for the purpose of comparisons. Which and how many other countries are used as benchmark is up to the authors' discretion.

Market Access Map
making tariffs and market access barriers transparent

WEB REPORT

Name	:	Country Analysis
View	:	Average tariff applied by the country
User Name	:	BAHAR, Mr. Dany
Date	:	09 August 2011
Country	:	Barbados
Year	:	2007
Harmonised System Nomenclature	:	Rev. 02

The average tariff applied for all products: **17.02 %**

The average tariff applied for agricultural products: **64.48 %**

The average tariff applied for industrial products: **10.35 %**

Figure 21 - Market Map Average Tariffs output, Barbados

If available, the "Trade Tariffs" ranking under the Goods Market Efficiency pillar of the Global Competitiveness Report should be reported. This index measures the level of protectionism of the country (constructed from the data of the International Trade Center).

The second set will be based in one ranking indicator, also from the Global Competitiveness Report, in the Goods Market Efficiency pillar: *Business impact of rules on FDI*. If this data is unavailable, the author can substitute it with data on capital inflows tax rates for the particular country, with comparisons to other benchmark countries. Similarly as before, which and how many other countries are used as benchmark is up to the authors' discretion.

Finally, in order to have a sense of the efficiency of the administration, indicators from the Enterprise Survey in the Trade section should be presented in figures. All indicators in this section should be reported for the country, and compare its peers. Indicators from Doing Business, Trading Across Borders section, can be incorporated to the analysis if necessary.

8. Labor Regulation

The goal of this subsection is to understand how efficient and flexible are the labor markets. This is particularly important given that in the present of very rigid labor markets, firms tend to under employ even in times of economic boom.

The Global Competitiveness Report provides a ranking for this very same question in the Labor Market Efficiency pillar. In the PSAR the overall ranking for this pillar should be reported, together with the ranking in all of its components (with comparison to benchmark countries): *Cooperation in labor-employer relations, Flexibility of wage determination, Rigidity of employment, Hiring and firing practices, Redundancy costs, Pay and productivity, Reliance on professional management* and *Brain drain*. Comparisons to benchmark countries are encouraged.

In the case of lack of data for the specific country in the Global Competitiveness Report, the analysis can be narrowed down to one indicator: *% of Firms Identifying Labor Regulations as a Major Constraint* from the Enterprise Survey under the Workforce pillar. Other indicators from this pillar can be introduced as well.

9. Infrastructure, Communications and Energy

The goal of this subsection is to understand the state of public infrastructure.

Appropriate variables for such task can be found in the Enterprise Survey. It is encouraged to report each one of the variables in the Infrastructure section of the report with comparisons to benchmark countries (see example in Figure 22, done with world regional data). This will provide insights about the availability of services to the firms (such as electricity, phone and internet) and the accessibility to public goods such as water, or infrastructure.

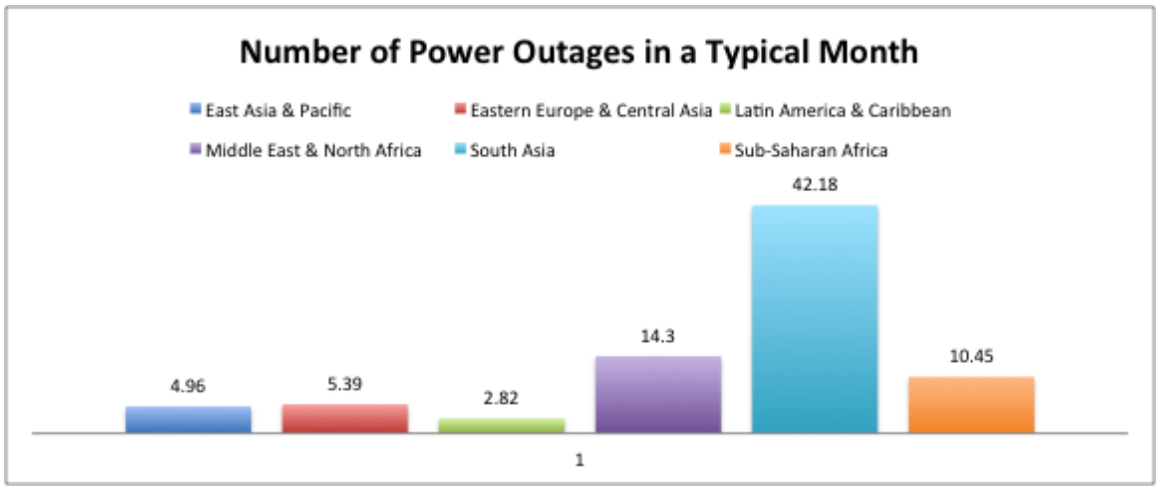


Figure 22 - Power Outages in a Typical Month. Source: Enterprise Survey 2011

In addition, if available, it is worth studying the Global Competitiveness Report rankings in the Infrastructure pillar, and report the values and/or rankings for the following indicators: Quality of overall infrastructure, Quality of roads, Quality of

railroad infrastructure, Quality of port infrastructure, Quality of air transport infrastructure, Available airline seat kilometers, Quality of electricity supply, Fixed telephone lines and Mobile telephone subscriptions.

10. Environment

The goal of this subsection is to provide the reader with a snapshot of the basic environmental condition of the country.

This subsection will use data form two different sources: First, the Yale University's Environmental Performance Index (EPI) [6], and second, if available, the Travel and Tourism Competitiveness Report [5]. As usual in these reports, often there will be not enough data in these sources for a country in question. If this is the case, then the author is encouraged to find the same indicators (or substitutes of such) in the local agencies. Given the difficulty of this task, the author has full flexibility on finding indicators that are proxies to the environmental situation of the country, such as CO2 emissions (and compare to other countries) or other variables.

The EPI dataset includes the calculation of an index for more countries in the Caribbean. If the data is available for the subject country, then report the EPI value and include both the index decomposition and the ranking graphs (see Figure 23). If the data is not available for the country in question, then the author should complement this subsection with available data/rankings on environmental performance available in local agencies.

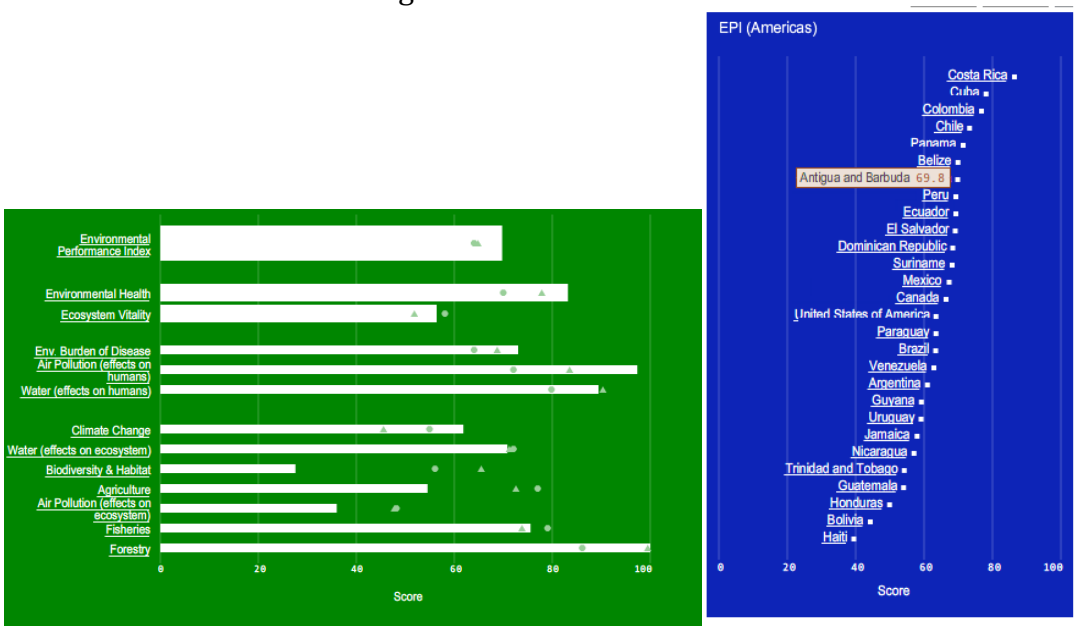


Figure 23 - Environmental Performance Index, Antigua and Barbuda

From the Travel and Tourism Competitiveness Report the PSAR should look at two indices selected in the Environmental Sustainability Pillar. These are: *Carbon dioxide*

emissions[11] and *Particulate matter concentration*[12]. If the relevant country is covered in the report, then the ranking should be provided. Otherwise, include the values with the respective comparisons to benchmark countries in a figure.

11. Gender

The goal of this subsection is to understand if there exist significant inequalities in terms of gender with respect to participation and ownership in the private sector.

First, it is relevant to report the ranking of the indicator *Female participation in labor force* from the Labor Regulation pillar of the Enterprise Survey for the country in question, to have a sense of the standing of the country in world standards.

In addition to this, appropriate indicators to dig deeper into the female participation in all aspects of the private sector are to be found in the Enterprise Survey under the Gender section. There should be one graph per each indicator with proper comparisons to peer countries in the same format as Figure 20. The indicators of interest are: *% of Firms With Female Participation in Ownership, % of Full Time Female Workers, % of Female Permanent Full-time Non-production Workers, % of Firms With Female Top Manager.*

12. Others (Optional)

This section is open for the author to bring to the attention of the reader other particular issues that were not covered in all the other sections and that are relevant to the private sector.

13. Analytical Remarks

This subsection is meant to "put together" all the issues for PSD studied above and explain what are the biggest risks, and opportunities for the country. While this analysis is not meant – at this stage – to prioritize all the problems discussed above, it should mention the risks associated with the most relevant and obvious problems that have been identified throughout the chapter.

This will be an important outcome when it comes to prioritize the identified market failures, for which a strategy is outlined in the next section.

[11] Usually found in World Bank's World Development Indicators.
[12] Also, usually available in World Bank's World Development Indicators.

Chapter II – Selecting and Prioritizing Issues

A. Identifying Critical Issues

So far, this report has provided a good understanding of the state of the private sector and of economy as a whole. Moreover, it has mapped the different market failures concerning PSD present in the economy.

The tasks of this section involves taking all the descriptive and analytical information presented in previous chapter, and – through the methodology delimited next –define priorities on addressing the most relevant issues to the private sector. Thus, this section will be complementary to the previous chapter by defining between three to five issues that, if solved, can considerably alleviate the problems the private sector faces for its further development.

Prioritizing issues is a matter of lack of information. Firms have concerns and problems that often are not fully understood or recognized by the government, and hence, they hardly get solved. This section suggests a process that involves information flow to and from the private sector in order to understand what, out of all the market failures identified in the previous chapter, are critical to them. Thus, the methodology presented next is based on direct conversations with firms in lead sectors about the issues that have been identified so far in this report, and allowing them to provide input on new issues that – perhaps – were not identified so far. This interaction will, first of all, allow the authors to update Chapter I of the PSAR if needed, and second, find consensus on the issues slowing down the private sector from further development.

In the previous chapter, the PSAR identified and analyzed five large and/or fast-growing sectors in the economy. The authors of the PSAR should identify three to five firms and/or association of firms (as per judgment of the researchers) in each one of these sectors, and engage in a conversation with each of their high-level management teams. These meetings will have two objectives:

- The Compete Caribbean team will present to the management an overview of the identified problems detected in the previous sections of the PSAR.

- The management will be asked to provide feedback on the findings and define – out of that list – the three most binding problems for their firms currently. If the management suggests other critical problems that were not identified in the PSAR, incorporate them into the list whenever the data supports their claims.

With all the compiled information from all firms and sectors in hand, the authors of the PSAR should analyze the list created with the input of the firms and select three to five issues that are being repeated in conversations with most firms and sectors (if any). In the case that over five issues are being repeated, the PSAR authors can shorten the list to the issues that, according to the data and international comparisons, are the most problematic in the economy.

However, in the unlikely situation where there is no overlap at all, then the authors should perform further research on the issues that were brought by the firms, by looking at relevant data and make proper comparisons to other countries. Here, the researchers will have two possible results: either the firms' claims are backed by the data, or they are not. The ones that are not backed by the data should be taken off the list. With the new list of issues that are backed by the data, the researches should update the first chapter of the PSAR and proceed to a new round of meetings with the private sector: same sectors but, this time, with other three to five representative firms or association of firms (as per judgment of the researchers) and present the updated results.

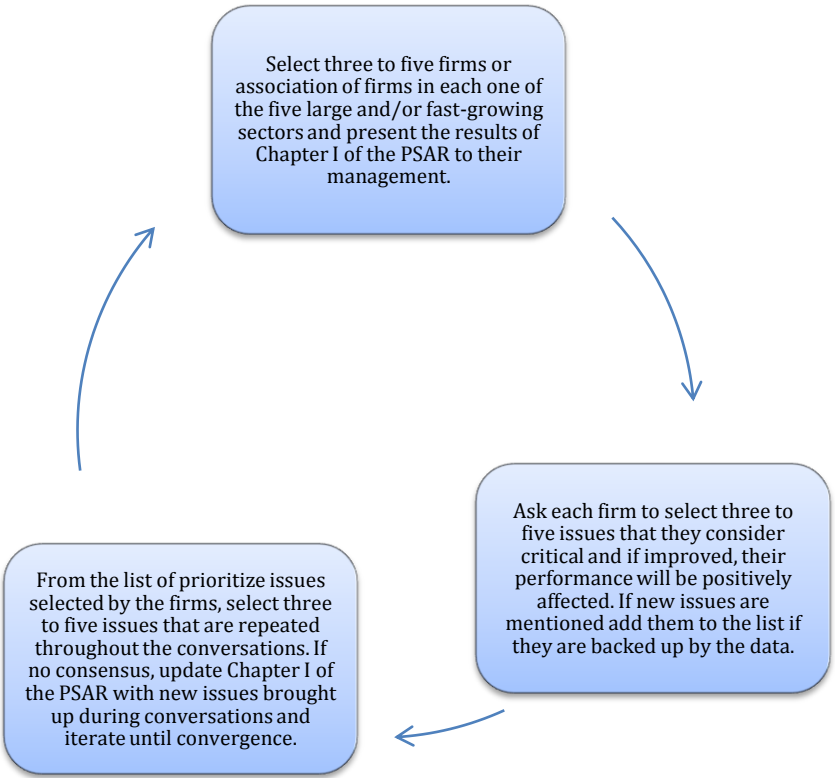


Figure 24 – Methodology to Identify Critical Issues

After this new round of meetings, the authors of the PSAR should select the three to five issues that are being repeated in the conversations. If still there is no overlap at

all, then a new iteration as just described should be performed. There should be iterations until there is convergence on the identification of three to five issues that are backed by the data, and jointly agreed as relevant and critical by the researchers and the private sector representatives. The methodology is synthetized in Figure 24.

This section of the PSAR should describe the process and present the three to five issues that were found as critical for most firms and sectors. There should be an analysis deeply studying each issue, explaining why is it so critical, and provide possible solutions based on the experiences of other countries or suggestions by the researchers or local actors. After this point, conversations with the private sector and government can be started in parallel in order to design and implement solutions to these issues in the framework of the Complete Caribbean Program.

This methodology brings also the possibility to identify issues that are a matter of concern for each sector separately. While it is important to document whether some issues are particularly important for specific sectors after several iterations, at this stage, the methodology is meant to identify issues that are common in the private sector as a whole. The specific issues per sector will be expanded in the long-term strategy delineated in the next section.

B. Establishing a Long Term Action Plan

The methodology described above presents an important opportunity to put together a long-term strategy to create a forum between the private sector, the government and other relevant actors, in order to get information flowing for a more prosperous private sector.

In the long term, the sustainable process of finding (and then fixing) market failures that are impeding the private sector from flourishing is a process of solving information asymmetries. An information asymmetry can be a coordination failure [18] in which, for instance, public goods are not being provided because there is no demand for them, and specific industries in need of those public goods do not exist because the latter are not there either. In fact, it is more accurate to define a public good as a capability [10], which not only can refer to what is known a public good per se, such as infrastructure, but also – for instance – to issues like regulation or to the supply of certain skills in the labor force. Hence, any action plan that deals with private sector development must start with gathering of all the sectors in society in order for them to share with each other their own private information on their needs and ability to supply the demands of each other.

In this section a methodology to build a pilot for a long-term sustainable solution is presented. The action plan has three stages (see Figure 25).

The first stage involves selecting a forum to form a round table (in case there already exists an appropriate body which involve both private and public sector

officials, or otherwise invoke one sponsored by the Compete Caribbean program) in which representatives of the private sector and high level government officials from the head of the state office and/or a relevant ministry can sit together to discuss the main issues raised in the PSAR. Selecting this Public Private Dialogue (PPD) body (or organizing a new one) involves a process of reaching out to different sectors of society to define several issues. First, which is (if any) the appropriate forum to engage in this discussion? Second, who should be the participants from each sector? Third, establishing an executive body to run these meetings, and in turn defining basic issues such as goals and number of sessions. This stage can take from 3 to 6 months.

The second stage are the meetings themselves, which should aim to discuss the findings of the PSAR and allow for the participants from both the private and public sector to discuss the relevance and urgency of the issues to be fixed. The discussions can also involve what other actors should be included in the round table in future meetings (such as banks, labor unions, legislators, etc.). The discussions on this stage should be aimed in *defining and prioritizing* the main issues that affect the private sector and agree upon them to be included in the national agenda, by making information flow among all relevant actors. Solving these issues is not to be addressed in this stage. The executive body of this round table should formalize the discussions by defining milestones and timelines on issues that have been agreed upon. This stage should last for up to 12-18 months.

The third stage, which can run in parallel to the second stage, is about finding permanent or temporary solutions to the prioritized issues discussed so far. This is a non-trivial task. Some of the "solutions" to the previously identified market failures might involve issues such as the government providing certain infrastructure, which requires budget and time; or changing regulation, which requires in most cases the involvement of the legislative branch; or providing training to the labor force in certain skills through the education system, which can take long time to be accomplished. It is not possible to establish in this guide, nor in the PSAR, the means that the different actors in society involved in this process will choose to perform the different needed reforms. However, in prioritizing the issues to be addressed (in the second stage) it is useful to take into account the feasibility (politically, administratively and technically wise, among others) of a possible solution in such prioritization. If the prioritization of issues end up in bringing to the top of the national agendas issues that cannot be easily addressed by the government or the respective institution, then the process has a higher risk of failing. It is not possible to define ex-ante how long will this stage last.

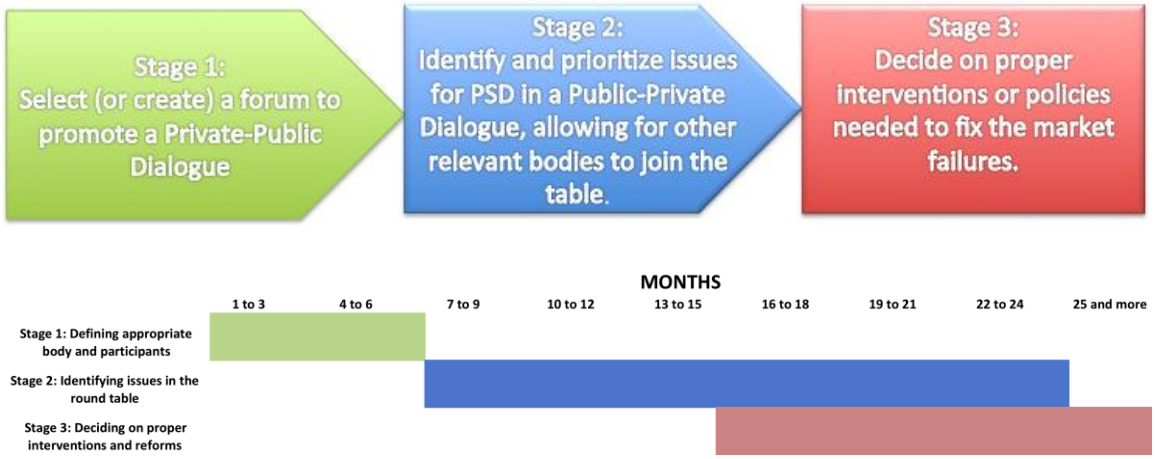


Figure 25 - Stages of framework to achieve PSD reforms

This process should be seen as a pilot of a permanent PPD that will maintain a constant flow of information between all relevant actors to identify new problems and find solutions to them. In addition, this process will allow for the private sector to identify issues that are relevant to specific sectors in the economy, and to the government to provide specific solutions to them.

The author of the PSAR should be able to write these three stages customized to the country in question, and based on the compilation of data and interviews done in the country. Based in the knowledge acquired performing the PSAR the author might as well suggest possible actors from all sides to join this effort.

Evaluation of the Interventions

The task of evaluating interventions is not a trivial one. Establishing causal relationships in any non-random intervention (such as the ones that will result from this program) is quite complex.

However, it is always possible at least to monitor changes in some universal indicators that, although cannot be attributed as casual, might provide important insights.

Under this approach, the recommended framework to evaluate interventions is the DCED Standard for Measuring Achievements in Private Sector [19] with adaptations. This methodology involves the monitoring of three universal indicators:

- **Scale:** number of *target* enterprises who realize a financial benefit after the implementation of the program's activities per year and cumulatively. The DCED Standard suggests the program to define target enterprises. However, one first adaptation is for the executive administrator of the round table to select, ex-ante, in the first stage a random number of firms to be defined as *target* enterprises.

- **Net Income:** Net additional income (additional sales minus additional costs) accrued to target enterprises after the implementation of the program's activities, yearly and cumulatively.
- **Net additional jobs created:** Net additional full time equivalent jobs created in target enterprises after the implementation of program's activities, per year and cumulatively. Additional jobs refer to jobs created minus jobs lost.

The rest of the methodology is customized to the specific program (or country). The methodology involves several stages:

- **Articulating the Results Chain**, which basically implies, ex-ante, defining what would be the expected results of the intervention.
- **Defining Indicators of Change**
- **Measuring Changes in Indicators**
- **Estimating Attributable Changes**
- **Capturing Wider Changes in the System or Market**
- **Tracking Program's Costs**
- **Reporting Results**
- **Managing the System for Results Measurement**

The PSAR author and the relevant authorities involved in this process are required to deeply study this methodology in order to present its adaptation to the specific country in the PSAR itself.

Chapter III - PSAR Conclusions and Recommendations

The concluding remarks of the PSAR are an important chapter that should include:

- A summary of all the findings in Chapter I of the PSAR.
- A quick description of the three to five critical issues identified in Chapter II.
- Remarks on the creation of a permanent PPD body.

This chapter should also include an analytical view of the future of the Private Sector in the country. What is the likelihood that if solved these issues the private firms will strongly benefit from and what are the risks and opportunities associated with it?

Also, this is the space for the authors to provide recommendations of any kind and possible risks in the future. For instance, if the authors believe that there are persistent market failures that seem to be quite problematic in the data and their analysis, but firms disregarded those as urgent problems, this is the right place to describe what are the threats of not dealing with those issues now.

III. Concluding Remarks

This guide provides to those writing a PSAR not only a common structure and the indicators to be used in each step, but also with the main intuition that must be provided to the reader in each one of its sections and subsections.

Hence, while there is some space to flexibility in the choice of variables in case some of them are not available in a specific country, the guidance given here is such that any substitute to that or those indicators must still provide the same intuition and analysis to the reader.

In general terms, as much as this document provides guidance, there is always some space for the author to include additional indicators or analyses in order to provide the reader with a point or idea that is not foreseen in the guide itself. Each country has its particularities and this quite occur very often while writing the PSAR.

In terms of the suggested framework to prioritize market failures and identify solutions, it is expected from the author of the PSAR to customize this framework taking into account as much as possible the characteristics of the country and the organization of its society. This requires deep knowledge of, not only the economic aspects, but also the social and political dimensions. Similar suggestions should be taken into consideration for evaluating the programs.

IV. References

[1] World Bank, "World Development Indicators Online," 2010. [Online]. Available: http://data.worldbank.org/.

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[3] World Bank, "Ease of Doing Business Index," 2011. [Online]. Available: http://www.doingbusiness.org/.

[4] World Economic Forum, *The Global Competitiveness Report*. World Economic Forum, 2011.

[5] World Economic Forum, *Travel and Tourism Competitiveness Report*. 2011.

[6] Yale University, "Environmental Performance Index," 2011. [Online]. Available: http://epi.yale.edu.

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[13] M. Kozak and S. Leventhal, "Micro , Small , and Medium Enterprises : A Collection of Published Data," *International Finance Corporation*, 2006.

[14] R. G. Rajan and L. Zingales, "Financial Dependence and Growth," *American Economic Review*, vol. 88, no. 3, pp. 559-586, 1998.

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[16] D. Breznitz, *Innovation and the State*, vol. 7, no. 4. 2006.

[17] International Trade Centre, "Market Access Map," 2011. [Online]. Available: http://www.macmap.org/.

[18] R. Hausmann and B. Klinger, "South Africa's export predicament*," *Economics of Transition*, vol. 16, no. 4, pp. 609-637, Oct. 2008.

[19] The Donor Committee for Enterprise Development (DCED), *The DCED Standard for Measuring Achievements in Private Sector Development. Control Points and Compliance Criteria.* 2010.

Appendix 1 – How to define benchmark comparable countries?

Along the PSAR there will be the need to produce graphs and tables comparing the characteristics of the country of interest to other countries, in order to have an idea of their ranking in the world and within the region.

By default, the first group of benchmark countries will be the 15 beneficiary countries of Compete Caribbean (one of them will be, of course, the country of interest in the report): Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominican Republic, Dominica, Grenada, Guyana, Haiti, Jamaica, St Lucia, St Kitts and Nevis, St Vincent and the Grenadines, Suriname and Trinidad and Tobago.

In addition, the report can take into account other benchmark countries based on two characteristics: GDP per capita (current PPP US$) in the latest year of available data and population size. A benchmark country will be one such that the difference in GDP per capita (current PPP US$) and population size does not differ by more than 25% from the country of interest on both dimensions.

For instance, for Antigua and Barbuda, a country that fits this description is Seychelles. In many cases very few countries aside from the 15 already listed will match that description. Often, these countries might lack from good data. In any case, if there are no other countries aside from the other 14 beneficiary countries of Compete Caribbean, then this will be a sufficient benchmark across the PSAR.

The author of the PSAR can introduce other benchmark countries or comparisons up to his/her criteria, when comparing the country of interest to the country ranking first in that indicator or any other case for purposes of better understanding to the reader.

There is no need to specify upfront in the PSAR which are the benchmark countries, but they should be used in graphs and tables along the report.

Appendix 2 – Suggested outline for PSAR

CHAPTER I – IDENTIFYING MARKET FAILURES

- Goal of PSD in the Country and Current Programs
- Overview of the Overall Economy
    - The Domestic Economy
    - The International Economy
    - The Productive Structure
    - The Institutions
- State of the Private Sector
- Large and Fast-Growing Sectors
- Issues For Private Sector Development
    - Business Supportive Institutions Structure
    - Donors and Other International Entities
    - Access to Finance
    - Corporate Taxation
    - Business Environment
    - Technology and Innovation
    - Trade And FDI Policies
    - Labor Regulation
    - Infrastructure, Communications and Energy
    - Environment
    - Gender
    - Others (Optional)
    - Analytical Remarks

CHAPTER II – SELECTING AND PRIORITIZING ISSUES

- Identifying Critical Issues
- Establishing A Long Term Action Plan
    - Evaluation Of The Interventions

CHAPTER III - PSAR CONCLUSIONS AND RECOMMENDATIONS

Appendix 3 – Frequently Used Variables and Sources

Section	Indicator	Source	Alternative Indicator / Alternative Source	Likelihood of Finding Data
Domestic Economy Indicators	GDP, PPP (constant prices, international $)	WDI	Central Bank / Caricomstats.org	
	GDP Per Capita, PPP (constant prices, international $)	WDI	Central Bank / Caricomstats.org	
	Agriculture, value added (% of GDP)	WDI	Central Bank / Caricomstats.org	
	Industry, value added (% of GDP)	WDI	Central Bank / Caricomstats.org	
	Services, etc., value added (% of GDP)	WDI	Central Bank / Caricomstats.org	
	Manufacturing, value added (% of GDP)	WDI	Central Bank / Caricomstats.org	
	Chemicals (% of value added in manufacturing)	WDI	Central Bank / Caricomstats.org	
	Food, beverages and tobacco (% of value added in manufacturing)	WDI	Central Bank / Caricomstats.org	
	Machinery and transport equipment (% of value added in manufacturing)	WDI	Central Bank / Caricomstats.org	

	Textiles and clothing (% of value added in manufacturing)	WDI	Central Bank / Caricomstats.org	
	Other manufacturing (% of value added in manufacturing)	WDI	Central Bank / Caricomstats.org	
	Final consumption expenditure, etc. (% of GDP)	WDI	Central Bank / Caricomstats.org	
	Gross fixed capital formation (% of GDP)	WDI	Central Bank / Caricomstats.org	
	General government final consumption expenditure (% of GDP)	WDI	Central Bank / Caricomstats.org	
	External balance on goods and services (% of GDP)	WDI	Central Bank / Caricomstats.org	
	Inflation, consumer prices (annual %)	WDI	Central Bank / Caricomstats.org	
	Budget Deficit	National Statistical Office	Central Bank / Caricomstats.org	
	Labor participation rate, total (% of total population ages 15+)	WDI	Central Bank / Caricomstats.org	
	Unemployment, total (% of total labor force)	WDI	Central Bank / Caricomstats.org	
	Unemployment, male (% of male labor force)	WDI	Central Bank / Caricomstats.org	

	Unemployment, female (% of female labor force)	WDI	Central Bank / Caricomstats.org	
International Economy	Current account balance (% of GDP)	WDI	Central Bank / Caricomstats.org	
	Net trade in goods and services (BoP, current US$) in WDI	WDI	Central Bank / Caricomstats.org	
	Changes in net reserves (BoP, current US$) in WDI	WDI	Central Bank / Caricomstats.org	
	Workers' remittances, receipts (BoP, current US$)	WDI	Central Bank / Caricomstats.org	
	Foreign direct investment, net (BoP, current US$)	WDI	Central Bank / Caricomstats.org	
	Net official development assistance and official aid received (current US$)	WDI	Central Bank / Caricomstats.org	
	Trade Data (Exports, Imports, Partner Countries)	UN Comtrade Dataset	Ministry of Trade	
	FDI Data (Inflows, Outflows, main Partner Countries)	Ministry of Trade, Ministry of Economy, Central Bank, National Statistical Office	Caricom Stats Website (http://caricomstats.org/)	
Productive Structure	Product Spaces Maps	Product Space Website		
	Data for Ubiquity and Diversification Analysis	UN Comtrade Dataset		
	Technology Services (% of Service Exports)	WDI	Central Bank / Caricomstats.org	

	Transport Services (% of Service Exports)	WDI	Central Bank / Caricomstats.org	
	Insurance and Financial Services (% of Service Exports)	WDI	Central Bank / Caricomstats.org	
	Travel Services (% of Service Exports)	WDI	Central Bank / Caricomstats.org	
Institutions	Doing Business Global Ranking	Doing Business Report		
State of the Private Sector	% Employed in the Private Sector	Ministry of Economy	National Statistical Office	
	Definition of SME (in terms of size, or other categorization)	Ministry of Economy	National Statistical Office	
	% Employed in SMEs	Ministry of Economy	National Statistical Office	
	Breakdown of employees by industry and/or size of firms	Ministry of Economy	National Statistical Office	
	Share of market for larger firms	Ministry of Economy	National Statistical Office	
Access to Finance	Interest Rate Spread (lending minus deposit)	WDI	National Statistical Office	
	Financial systems deposit to GDP	New Database on Financial Development and Structure	Savings as % of GDP from WDI or Central Bank	
	Bank credit to Bank deposit ratio	New Database on Financial Development and Structure	Any substitute measure suggested by the local Central Bank	

	International debt issues to GDP	New Database on Financial Development and Structure	Any substitute measure suggested by the local Central Bank	
	Getting Credit Indicators	Doing Business Report		
	Financial measures Enterprise Survey	Enterprise Survey for the Caribbean		
Corporate Taxation	Highest marginal tax rate, corporate rate (%)	WDI	Central Bank	
	Labor tax and contributions (%)	Doing Business Report		
	Total tax rate (% profits)	Doing Business Report		
	% of Firms Identifying Tax Rates as Major Constraint	Enterprise Survey for the Caribbean		
	% of Firms Identifying Tax Administration as Major Constraint	Enterprise Survey for the Caribbean		
Business Environment	Strength of investor protection	Doing Business Report	Institutions ranking from World Competitiveness Report	
	Regulations And Tax Indicators	Enterprise Survey for the Caribbean		
	Permits And Licenses Indicators	Enterprise Survey for the Caribbean		
	Corruption Indicators	Enterprise Survey for the Caribbean		
	Crime Indicators	Enterprise Survey for the Caribbean		
	Informality and Infrastructure Indicators	Enterprise Survey for the Caribbean		

Technology and Innovation	Technological Readiness Index	World Competitiveness Report	Indicators on the Technology and Innovation section from Enterprise Surveys	
	Innovation Indicators (World Competitiveness Report)	World Competitiveness Report	R&D expenditure as a share of the GDP; Researchers in R&D (per million people) in WDI or National Statistical Office	
Trade and FDI Regulation	Average Tariffs per Industry	Market Access Map (ITC)	Ministry of Trade	
	Trade Tariffs Index in Goods Market Efficiency pillar	World Competitiveness Report		
	Business impact of rules on FDI Indicator in in Goods Market Efficiency pillar	World Competitiveness Report	Capital Inflows Tax Rate from Central Bank or Ministry of Economy	
Labor Market Regulation	Indicators in the Labor Market Efficiency pillar	World Competitiveness Report	% of Firms Identifying Labor Regulations as a Major Constraint from the Enterprise Survey under the Workforce pillar.	

Infrastructure and Communications	Indicators in the Infrastructure Pillar	Enterprise Survey for the Caribbean		
	Indicators in the Infrastructure Pillar	World Competitiveness Report		
Environment	Environment Performance Index	EPI Website (Yale)	Available data on environmental performance available in local agencies	
	Indicators in the Environmental Sustainability Pillar	Travel and Tourism Competitiveness Report	Carbon dioxide emissions and Particulate matter concentration in WDI or local agencies	
Gender	Female participation in labor force from the Labor Regulation pillar	Enterprise Survey for the Caribbean		
	All other indicators in the Gender Pillar	Enterprise Survey for the Caribbean		

Appendix 4 – List of Figures in the PSAR

Section	Figure	Example figure in the Guide
Domestic Economy Indicators	GDP Time Series	Figure 1
	GDP Per Capita, with comparisons	Figure 1
	GDP Decomposition in Consumption, Investment, Gov't Expenditure and Net Exports	Figure 2
	GDP Decomposition in Sectors	Figure 3
	Inflation (CPI)	N/A
	Budget Deficit/Surplus	N/A
	Unemployment, total, male and female	Figure 4
	Other relevant graphs	
International Economy	Current account balance (% of GDP) Time Series	N/A
	Financing of External Debt Time Series	Figure 5
	External Debt (% of GDP) Time Series	N/A
	Nominal and Real Exchange Rate Time Series	N/A
	Trade Snapshot	Figure 6
	FDI Snapshot	Figure 7
	Other relevant graphs	
Productive Structure	Product Spaces Country Maps	Figure 8
	Diversity and Avg. Ubiquity Graph with Comparisons	Figure 9
	Services Sector Decomposition Time Series	Figure 10
	Other relevant graphs	
Institutions	Overall Doing Business Ranking Graph with comparisons	Figure 11
	Doing Business Change in Score 5-year period with comparisons	Figure 12
	Other relevant graphs	
State of the Private Sector	% Employed in the Private Sector, by size of Firm (if available)	Figure 13
	Other relevant graphs with the available data	
Large and Fast-Growing Sectors	Graphs are optional	

Business Supportive Institutions Structure	Table with organizations descriptions	Figure 14
Donors and other international entities	Table with organizations descriptions	Figure 15
Access to Finance	Interest Spread time series and comparisons	Figure 16
	Availability of domestic credit: financial systems deposit to GDP and bank credit to bankd deposit ratio, with comparisons	Figure 17
	Availability of international credit: international debt issues to GDP and international loans from non-resident banks tgo GDP, with comparisons	N/A
	(As substitute) Getting Credit indicators from Doing Business, with comparisons	N/A
	Other relevant graphs	
Corporate Taxation	Highest marginal tax rate, corporate rate (%) with comparisons	N/A
	Labor tax and contributions (%), with comparisons	N/A
	Total tax rate (% profits) with comparisons	N/A
	% of Firms Identifying Tax Rates as Major Constraint, with comparisons	Figure 19 (use same format)
	% of Firms Identifying Tax Administration as Major Constraint, with comparisons	Figure 19 (use same format)
	Other relevant graphs	
Business Environment	Doing Business' Strength of investor protection index, with comparisons	Figure 18
	5 to 10 graphs from Enterprise Surveys indicators on Tax, Permits and Licenses, Corruption, Crime, and Informality and Infrastructure, with comparisons	Figure 19 (use same format)
	Other relevant graphs	

Technology and Innovation	Access to Technology for Firms: Technological Readiness ranking from Global Competitiveness Report, or indicators on Technology and Innovation section from the Enterprise Surveys; with comparisons	Figure 19 (use same format)
	Investment on Innovation: Innovation indicators from Global Competitiveness Report, or expenditure on R&D indicators; with comparisons	N/A
	Other relevant graphs	
Trade and FDI Regulation	Market Access Map (import tariffs table)	Figure 20
	Trade Tariffs Index in Goods Market Efficiency pillar from Global Competitiveness Report, with comparisons	N/A
	Business impact of rules on FDI Indicator in in Goods Market Efficiency pillar from Global Competitiveness Report, with comparisons	N/A
	Indicators from Trade section in Enterprise Surveys, with comparisons	N/A
	Other relevant graphs	
Labor Market Regulation	Indicators in the Labor Market Efficiency pillar in Global Competitiveness Report, or Labor Regulation data from Enterprise Surveys; with comparisons	Figure 19 (use same format)
	Other relevant graphs	
Infrastructure, Communications and Energy	Indicators in the Infrastructure section of the Enterprise Survey, with comparisons	Figure 21
	Indicators in the Infrastructure Pillar of Global Competitiveness Report, with comparisons	N/A
	Other relevant graphs	
Environment	Environment Performance Index	Figure 22
	Indicators in the Environmental Sustainability Pillar in Tourism Competitiveness Report	N/A

	Other relevant graphs	
Gender	Female participation in labor force from the Labor Regulation pillar in Enterprise Survey, with comparisons	Figure 19 (use same format)
	All other indicators in the Gender Pillar in Enterprise Survey, with comparisons	Figure 19 (use same format)
	Other relevant graphs	