Businesses Need More Innovation and Productivity

May 16, 2023

- *An analysis using an extensive database and recent research sheds light on opportunities and constraints for Caribbean businesses.*
- *The report is part of the IDB's Caribbean Economics Quarterly series.*

Caribbean governments should focus on policies that facilitate businesses' efforts to innovate and improve productivity, according to a new report from the Inter-American Development Bank (IDB). The policies should focus on the constraints expressed by business owners themselves through enterprise surveys conducted in the Caribbean.

Reflections on Innovation and Productivity as Caribbean Businesses Emerge from the Pandemic addressed the question of whether the Caribbean would return to the slow long-run growth of the pre-pandemic period. To answer it, the Compete Caribbean Partnership Facility, a multi-donor, private-sector development program financed by the IDB, the governments of the United Kingdom and Canada, and the Caribbean

Development Bank, collected business-level data from nearly 2,000 firms across 13 Caribbean countries.

The report includes an overview of the past performance in terms of economic growth and productivity. It then describes the Compete Caribbean data and summarizes recent research papers analyzing that data and conclusions from that research. Finally, country sections draw on the Compete Caribbean database to describe the country level challenges facing firms in The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

The report's key findings include:

1. **Pre-pandemic economic growth performance was relatively poor**. In the twenty years prior to the pandemic, the average growth rate was far below the average for low- and middle-income countries. The average growth gap varies from two to five percentage points. The commodity exporters grew faster than tourism-oriented economies, although that advantage faded during the second decade of the century. Behind this low growth was poor performance in aggregate measures of productivity.

1. **Innovation plays a key role in spurring productivity as well as a gender-inclusive dimension**. Overall, the evidence shows that while proactive innovation positively affects business productivity and efficiency, innovations implemented in response to pressing external shocks (like the COVID-19 pandemic) do not necessarily generate gains in terms of efficiency. This insight points to the relevance of policies geared to continuously promote technological adoption and business innovations across the entire business cycle. The evidence also reveals that, while the pandemic shock affected employment differentially by gender, policies aimed at limiting female unemployment are not only needed for equity but also are effective at improving productivity. The evidence presented shows that firms that effectively mitigated female employment losses, were also more successful in limiting productivity losses.

1. **Each country's business context faces its own challenges**. The report's country sections use the dataset to document the specific productivity challenges of each country. While access to finance and infrastructure challenges (e.g., electricity and telecoms) are common across countries, the depth of those challenges varies, and other specific issues emerge for each country. Business owners and managers face their own unique challenges

depending on the country to improve the performance of their companies, both large and small.

Overall, this report reveals the importance of data and analysis to unlock the key determinants of productivity and innovation in the region. The abundant data sets in the book are publicly available **here**. “We hope that Caribbean researchers and policy makers will draw on this database, as a regional public good, that can improve economic policy design across the region.” said David Rosenblatt, the Regional Economic Advisor for the IDB’s Caribbean Department.

About Compete Caribbean

The **Compete Caribbean Partnership Facility** (CCPF) is a multi-donor, private-sector development program financed by the IDB, the governments of the United Kingdom and Canada, and the Caribbean Development Bank. It provides technical assistance to 13 Caribbean countries to support the Caribbean region in increasing productivity and Caribbean firms’ contribution to economic growth.

About the IDB

The Inter-American Development Bank is devoted to improving lives. Established in 1959, the IDB is a leading source of long-term financing for economic, social, and institutional development in Latin America and the Caribbean. The IDB also conducts cutting-edge research and provides policy advice, technical assistance, and training to public and private sector clients throughout the region. **Take our virtual tour**.

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