

## Technical Cooperation Document

### I. Basic Information for TC

▪ Country/Region:	Regional
▪ TC Name:	Saint Lucia Competitiveness Agenda & Action Plan
▪ TC Number:	RG-T3243
▪ Team Leader/Members:	Claudia Stevenson (IFD/CTI), Team Leader; Valarie Pilgrim, Kayla Grant, Blanca Torrico and Stefano Pereira (IFD/CTI); and Pilar Jimenez de Arechaga (LEG/SGO)
▪ Taxonomy:	Client Support
▪	
▪ Date of TC Abstract authorization:	April 25, 2018
▪ Beneficiary:	Saint Lucia <sup>1</sup>
▪ Executing Agency:	Inter-American Development Bank
▪ Donors providing funding:	Compete Caribbean Partnership Facility – CCPF
▪ IDB Funding Requested:	US\$200,000
▪ Local counterpart funding, if any:	US\$144,317
▪ Disbursement period (which includes execution period):	36 months
▪ Types of consultants:	Individual consultants and consulting firms
▪ Prepared by Unit:	IFD/CTI
▪ Unit of Disbursement Responsibility:	IFD/IFD
▪ Included in Country Strategy (y/n):	N/A
▪ TC included in CPD (y/n):	N/A
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and Innovation

### II. Objectives and Justification

- 2.1 Saint Lucia is an upper-middle income small island developing state and currently the largest economy in the Eastern Caribbean Currency Union (ECCU) with Gross Domestic Product (GDP) of US\$1.4 billion in 2016.<sup>2</sup> Nevertheless, the economic performance of the country has been severely impacted by the global financial crisis of 2007/2008 and the significant damage caused by hurricane Tomas in 2010, the Christmas Trough of 2013 and Hurricane Matthew in 2015. These shocks to the economy have highlighted some structural weaknesses that present great challenges for sustainable development in the near to medium term.
- 2.2 The services sector is dominant but is highly concentrated in only a few industries. Based on data from the World Development Indicators, in 2016, the services sector accounted for 84% of GDP, up from 78% in 2005. About half of this contribution is from the tourism industry. The Travel and Tourism Council estimates that the total contribution of travel and tourism to GDP was 40%, and the industry accounted for almost 47% of total employment, 52% of total exports and 24% of capital investment in 2016. Notwithstanding, the tourism industry, like in most other Caribbean countries is vulnerable to international competition and shocks to source markets. Weakening competitiveness of the tourism industry and the continued low demand for tourism

<sup>1</sup> According to the document “Proposal for the Establishment of the Compete Caribbean Partnership Facility” (GN-2851), paragraph 2.9, Saint Lucia is part of the eligible countries to be benefited with CCPF funding.

<sup>2</sup> Data from the World Bank’s World Development Indicators. GDP growth is estimated to have reached 0.8% in 2016, down from 1.8% in 2015 GDP is estimated to grow at 0.5% in 2017 and 1.5% in 2018, driven mostly by continued strong performance in construction and agriculture.

related services in advanced economies has retarded growth in Saint Lucia since the global recession.<sup>3</sup>

- 2.3 Saint Lucia has a stagnating productivity problem which exacerbates long term development challenges. The National Competitiveness and Productivity Council (NCPC) points out that average labor productivity or output per worker in Saint Lucia declined by 1.8% between 2010 and 2016. Over the same period, value added grew by 0.65%, indicating that the decline in productivity is closely linked to the decline highlighted earlier in output. Wages rose by 3% between 2008 and 2013<sup>4</sup> before a wage freeze stifled this growth. In line with this trend, the public-sector wage bill rose to 34% of total expenditure in 2015, considerably above the 27% average for Emerging Market and Middle-Income Economies globally.
- 2.4 Saint Lucia has made progress in social development, but concerns remain regarding poverty and unemployment. According to the UNDP, Saint Lucia's Human Development Index (HDI) value in 2015 was 0.735 (a growth of 7.5% since 2000), which put the country in the high human development category, positioning it at 92 out of 188 countries and territories. Similarly, since 1990 life expectancy at birth increased by 4.1 years, mean years of schooling increased by 2.3 years and expected years of schooling increased by 0.5 years. However, in recent years, unemployment and poverty rates in Saint Lucia are among the highest in the Caribbean. Saint Lucia has gone through a considerable structural transformation since the 1990s in response to the removal of preferential European Union trade preferences for imports of bananas from the Caribbean. The 33% drop in agricultural employment, between 2001 and 2013, is translated to a 6% drop in total employment. Along this vein, between 2008 and 2015, Saint Lucia's unemployment rate rose from 15.8 to 24.1 percent, one of the highest in the region.<sup>5</sup> Female and youth unemployment are particularly high. As much as half the population between 15 and 24 years of age is unemployed, coupled with high gender disparity in the labor market.<sup>6</sup> In addition, poverty and inequality remain high in Saint Lucia. According to the most recent Country Poverty Assessment (2005–2006), 28.8 percent of the population lives below the locally defined poverty line (an increase from 25.1 percent in 1995), while 6 percent of the population is indigent, and 40.3 percent is estimated to consume at a level under the vulnerability line.<sup>7</sup>
- 2.5 The private sector is small in size and highly concentrated in the services sector. The above mentioned narrow production base, skills mismatch, low productivity, strong dependence on imported fossil fuel, and exposure to natural disasters hamper Saint Lucia's growth potential. To overcome these challenges, the country needs a strong private sector that is facilitated by a business environment that is conducive to growth and expansion. The Private Sector Baseline Survey (2009) estimated that there were 7,430 enterprises in Saint Lucia, of which 2,867 (39%) were considered informal. In terms of size, the average enterprise in Saint Lucia is small, employing on average six persons, evidence corroborated by data from the World Bank 2010 Caribbean

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<sup>3</sup> To put this in context, the Caribbean share in the global tourism market has continued to decline, falling to about 2% in 2013 compared to about 2.5% in 2000, as highlighted by Laframboise, N., N. Mwase, J. Park, and Y Zhou. 2014 in "Revisiting Tourism Flows to the Caribbean: What is Driving Arrivals?," IMF Working Paper WP/14/229.

<sup>4</sup> Compete Caribbean Private Sector Assessment Report, St. Lucia, 2013.

<sup>5</sup> World Bank Group, FY15-19 OECS Regional Partnership Strategy (Report No. 85156), disclosed on April 4, 2016.

<sup>6</sup> UNDP Caribbean Human Development Report 2016.

<sup>7</sup> Caribbean Development Bank. 2016. The Changing Nature of Poverty and Inequality in the Caribbean: New Issues, New Solutions.

Enterprise Survey (CES) and the Productivity and Innovation (PROTEqIN) 2014 Survey. Overall, micro-enterprises account for 77% of enterprises in the country, while only 1% of enterprises have 50 or more employees. Informality is seen mainly in smaller enterprises (those with fewer than five employees), with 2,623 (or 46%) of the 5,690 enterprises in this category considered informal. In terms of employment, over 38% of workers are employed in the tourism, agriculture, and wholesale and retail trade sectors. The sector with the largest number of enterprises is wholesale and retail trade (including the repair of motor vehicles and motorcycles), which in 2009 accounted for 32% of all enterprises (both formal and informal).

- 2.6 In the medium term, with relaxation of some of the rigidities in the labor market, improvement in the business environment, increased external competitiveness, the development prospects for Saint Lucia can be improved. The government recognizes this and has prioritized enhancing private sector development and strengthening its capacity to enhance productivity growth and competitiveness and has outlined as part of its financial policies, the following as its key focus: economic growth, diversifying the economy, strengthening the entrepreneurial culture, small business development, and foreign and local investment. To be effective in advancing positive gains in these focus areas, there is a need for a comprehensive development agenda that weaves a cohesive and long term strategy to advance the economic prospects of the country.
- 2.7 In order to reduce the economy's fragility, the government plans to implement structural reforms that will facilitate the transition from the current stable but fragile economy to a more diversified and less vulnerable economy, characterized by higher participation of the private sector in diverse domestic and export-oriented activities, with greater participation of SMEs in value chains. To achieve these specific goals a clear strategy is needed to guide public and private actors in the context of modern industrial policy making.
- 2.8 Some steps have been taken in this regard. In 2013, with the assistance of the Compete Caribbean Program, the Government established the National Competitiveness and Productivity Council (NCPC) and an accompanying Technical Unit. The mandate of the NCPC is to raise awareness on issues of productivity and competitiveness and to undertake and recommend key reforms for the improvement of the business environment and the country's competitiveness. In 2017, the Government established a Department of Innovation (DOI), which has a critical role to play in furthering innovation, productivity and competitiveness in Saint Lucia.
- 2.9 The ultimate goal of this project is to enhance innovation, productivity and competitiveness and foster sustainable economic growth in Saint Lucia. The specific objectives are to: (i) define a Competitiveness Agenda for the country that reflects public sector, private sector and civil society consensus and focuses on strategic interventions that promote private sector development; (ii) strengthen key institutions that facilitate innovation, productivity and competitiveness and, which will have lead roles in developing and implementing the agenda, in particular the NCPC and the DOI; (iii) increase awareness and understanding of innovation, productivity and competitiveness among key stakeholders to increase ownership of and capacity to participate in the development and implementation of the agenda; and (iv) support the implementation of priority vertical reforms detailed in the agenda.
- 2.10 This project will: (i) support the development of a Competitiveness Agenda, an operational document, which will break down the MTF goals related to competitiveness into implementable actions; (ii) allocate responsibilities for

implementation/achievement; (iii) provide a detailed and integrated action plan for achieving the planned results; and (iv) establish the institutional framework for execution and coordination. It is expected that the PMDU, given its objective, will serve as a vehicle for implementing transformative actions detailed within the Competitiveness Agenda. The project will also strengthen the fairly nascent NCPC and DOI, given their critical roles in coordinating implementation or implementing the Agenda.<sup>8</sup>

- 2.11 This TC is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) as it is strategically aligned with the development challenges of: (i) productivity and innovation in that it will support the development and implementation of an innovation policy and competitiveness agenda to foster productivity gains in the public and private sector; and (ii) economic integration, in that it will support the implementation of Business Climate Reforms in vulnerable countries that could potentially reduce policy barriers and advance shared economic goals between St. Lucia and its economic partners.

### III. Description of activities/components and budget

- 3.1 **Component 1: Defining a National Competitiveness Agenda, Action Plan, Financing Strategy and Implementation Strategy.** This component will finance consultancy services to: (i) benchmark the country's competitiveness against relevant comparator countries; (ii) analyze the key structural challenges to socially inclusive and climate resilient economic growth including a specific focus on observed productivity gaps among women-owned firms;<sup>9</sup> (iii) develop a comprehensive competitiveness agenda that integrates gender, climate change and social inclusion consideration; (iv) prepare a detailed Action Plan that prioritizes, sequences and allocates responsibility for the implementation of reforms; (v) formulate an implementation strategy; (vi) conduct an institutional assessment and develop a plan to strengthen the NCPC's capacity to coordinate the implementation of the competitiveness agenda and fulfil its mandate, and to improve DOI's capacity to execute its responsibilities under the agenda; (vii) develop cost estimates for the recommended actions, reforms and institutional strengthening activities; and (viii) detail a financing plan for agenda. Developing the agenda will be a very participatory process to build stakeholder ownership. The consultant will facilitate stakeholder consultation sessions –both face-to-face and using appropriate electronic communication tools. The number of consultations, choice of communication tools and location will be managed to ensure participation by the youth, women and stakeholders outside of the Castries. The consultants will also consult regional and international development agencies to allow the development of a realistic financing plan, which is critical to the sustainability of the agenda. Coordinating the implementation of this competitiveness agenda will form the core of NCPC's work plan.
- 3.2 **Component 2: Capacity Building to Improve the Coordination and Implementation of Competitiveness Related Activities.** This component will finance: (i) training and technical support to assist NCPC with the installation of systems and tools for monitoring innovation, productivity and competitiveness, and

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<sup>8</sup> This is not a unique requirement of the competitiveness council in Saint Lucia as Robert Devlin shows in the paper "Public-private alliance for structural change, productivity growth and closer integration with the world economy".

<sup>9</sup> The consultants should also consult the findings of the ongoing Compete Caribbean financed study Reducing the Gender Gap in Firm Productivity in the Caribbean.

coordinating the implementation of the competitiveness agenda articulated from resources under Component 1;<sup>10</sup> (ii) technical consultancy services to draft an innovation policy for and, therefore, strengthen the recently created DOI, taking into consideration the Department's responsibilities under the agenda; and (iii) communication and awareness building activities targeted at NCPC, DOI, and other key public sector, private sector and civil society stakeholders and aimed at (a) improving understanding of issues impacting innovation, productivity, and competitiveness in Saint Lucia; (b) improving understanding of innovation and the digital economy; the different approaches to promoting innovation in the public and private sectors; and using innovation to address priority social and economic challenges; (c) improving capacity to address gender, climate change and social inclusion considerations in the development and implementation of the agenda; (d) improving leadership during the implementation process among senior public officers; and (e) increasing ownership for the implementation of the competitiveness. The specific topics to be covered will be agreed between the Bank and the Government subsequent to the initiation of work on the competitiveness agenda.

- 3.3 **Component 3: Implementation of Priority Competitiveness Reforms.** To generate implementation momentum, this component will finance consultancy services to implement the more immediate actions and reforms (or low hanging fruits) within the competitiveness agenda. These may include financing technical support to develop priority sector studies, and/or the drafting of policies, legislation and regulations to support improvements in the business and innovation climate, with a priority given to vertical reforms. These activities will directly complement ongoing and planned horizontal reforms supported by other development partners.
- 3.4 **Monitoring and Evaluation.** Compete will provide a template for status reports to the resource responsible for this activity that will include pertinent information needed to update Convergence, including progress on components, risk assessment, sustainability and innovation and stories from the field.
- 3.5 The project's total value is US\$344,317 of which CCPF will finance US\$200,000 and the Government of Saint Lucia US\$144,317 of which US@124,317 is in-kind and US\$20,000 is in cash.

Indicative Budget (in US\$)

Activity/ Component	Description	IDB/CCPF	Counterpart Contribution		Total Funding
			In-Kind	Cash	
Component 1	Defining a National Competitiveness Agenda, Action Plan, Financing Strategy and Implementation Strategy	60,000	11,317	10,000	81,317
Component 2	Installation of Systems and Tools - NCPC	30,000	10,000	10,000	50,000
	Consultancy to draft the National Innovation Policy and train Innovation Department staff	30,000	0	0	30,000
	Communication and Awareness for Increased Ownership and	20,000	28,000	0	48,000

<sup>10</sup> This will include reviewing and assisting NCPC to refine the productivity tool (PROTtool) that was designed in-house and strengthen its capabilities in reporting and communications.

Activity/ Component	Description	IDB/CCPF	Counterpart Contribution		Total Funding
			In-Kind	Cash	
	Capacity to Participate in Implementation				
<b>Component 3</b>	Implementation of Priority Reforms	60,000	10,000	0	70,000
<b>Project Administration</b>	Personnel, Equipment, Logistics and Space and Implementation Support, Operational Costs	0	62,000	0	62,000
<b>Monitoring and Evaluation</b>	Tracking of Key M&E Indicators	0	3,000	0	3,000
<b>TOTAL</b>		<b>200,000</b>	<b>124,317</b>	<b>20,000</b>	<b>344,317</b>

#### IV. Executing agency and execution structure

- 4.1 The Compete Caribbean Partnership Facility (CCPF), approved under GN-2851, was jointly designed with donors to be a Bank Executed Program, through the CCPF's Facility Coordination Unit (FCU) established in COF Barbados. The Bank has demonstrated its ability to coordinate and motivate action across diverse stakeholders at both the national and regional levels. The execution of this TC will be carried out by the Bank through the Competitiveness and Innovation Division (IFD/CTI) in coordination with the FCU and in close collaboration with the Government of Saint Lucia, through the NCPG.
- 4.2 The procurement of individual consulting services will be carried out by the IDB in accordance with Human Resources (HRD) Complementary Workforce Policy (AM-650). The procurement of consulting firms will be carried out by the IDB in accordance with the Policy for the Section and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-1). The procurement of consulting services different from consultants will be carried out by IDB in accordance with Corporate Procurement Policy (GN-2303-20).
- 4.3 In accordance with the Financial Agency Agreement, signed between the IDB and the Caribbean Development Bank (CDB), the CDB will act as the Financial Agent for the purposes of administering the Facility grant resources that will finance the implementation of individual projects in the Organization of Eastern Caribbean States (OECS).

#### V. Major issues

- 5.1 The development of a competitiveness agenda and action plan represents the beginning of a long-term commitment to important reforms to foster private sector development and improve the business environment. By its very nature, this requires coordination, cooperation and input from a wide range of stakeholders in the public sector, private sector, academia and civil society during its development and more so during implementation. The procurement for the development of the competitiveness agenda will, therefore, be restricted to a firm with significant experience in the use of participatory approaches, mobilizing stakeholder participation and building consensus and ownership among diverse stakeholders in the design of national strategies. There is also limited risk that counterpart resources (amounting to 42% of total budget) will not be provided in a timely manner. Compete Caribbean has a long track record

working with the NCPC and the Government of St. Lucia and they have proven to be reliable counterparts. Promised counterpart contribution, during execution of a prior Compete Caribbean supported project, was provided in a timely manner and the total quantum was even exceeded. However, as part of its monitoring of project risks, Compete will monitor the availability and likely timeliness of promised counterpart resources. Resources have also been allocated to strengthening the institutional capacity of the NCPC and DOI given their roles in the implementation of the Agenda.

- 5.2 In addition, implementation of the competitiveness agenda and action plan requires adequate finance and time commitment. High debt and limited fiscal space may limit the government's capacity to finance the implementation of the agenda. Change in policy priorities, over time, also poses a significant risk to sustained implementation. Further, macroeconomic risks which include the risk of exogenous shocks (such as natural disasters or demand shocks in main tourist arrival countries), increasing public debt, and financial sector risks may limit the capacity to implement the action plan. To mitigate these risks, the competitiveness agenda will be accompanied by a funding strategy for implementation which, subsequent to sustained discourse with stakeholders, will identify how different actions will be funded.
- 5.3 **Sustainability.** A number of sustainability measures have been incorporated explicitly in the project. For example, the project builds the capacity of two of the most integral institutions as it relates to the enhancement of competitiveness, the NCPC and DOI. The project has committed resources to increase stakeholder ownership and commitment; and implement reforms highlighted as priority from the competitiveness agenda as a way of stimulating implementation momentum. In addition, the competitiveness agenda will be accompanied by a Financing Plan, developed based on consultation with the Government of Saint Lucia and relevant regional and international development agencies. The TC is also being developed and will be executed in close collaboration with the Caribbean Development Bank, an important source of financing for development projects in Saint Lucia.

## **VI. Exceptions to Bank policy**

- 6.1 No exception of the Bank Policy is required for this TC.

## **VII. Environmental and Social Strategy**

- 7.1 Given the nature of the program, there are no associated environmental or social risks. Based on the Environment and Safeguards Compliance Policy (OP-703) this operation is classified as "C" (See [Safeguards Policy Filter Report](#) and the [Screening Form](#)).

### **Required Annexes:**

- Annex I: [Letter of Request from the client](#)
- Annex II: [Results Matrix](#)
- Annex III: Terms of Reference: [Competitiveness Agenda](#), [Implementation of Reforms](#), [Capacity Building](#), [Innovation Policy](#)
- Annex IV: [Procurement Plan](#)

SAINT LUCIA COMPETITIVENESS AGENDA & ACTION PLAN

RG-T3243

CERTIFICATION

I hereby certify that this operation was approved for financing under the **Compete Caribbean Partnership Facility (CCP)** through a communication dated April 25, 2018 and signed by Goro Mutsuura (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$200,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, represent a risk that will not be absorbed by the Fund.

Certified by:

<u>Original Signed</u>	<u>6/06/2018</u>
_____ Sonia M. Rivera Chief Grants and Co-Financing Management Unit ORP/GCM	_____ Date

Approved by:

<u>Original Signed</u>	<u>6/08/2018</u>
_____ Gonzalo Rivas Division Chief Competitiveness and Innovation Division IFD/CTI	_____ Date