



**Innovation, Entrepreneurship and Economic Growth in the
Caribbean**

*“Entrepreneurship, Innovation, and Private Sector Development as a
Necessary Condition for Sustainable Growth and Socioeconomic
Transformation in the Eastern Caribbean Currency Union”*

by

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Entrepreneurship, Innovation, and Private Sector Development as a Necessary Condition for Sustainable Growth and Socioeconomic Transformation in the Eastern Caribbean Currency Union

The ECCU has reached a turning point in its economic history as it seeks to recover from the severe impact of the Global Recession on the economies of its member countries. This presentation will address the critical role of entrepreneurship, innovation and private sector development in providing the fundamental underpinning for moving these economies, societies and polities to higher levels of advancement in this century.

The ECCU comprises eight (8) of the nine (9) countries of the OECS, the other country being the British Virgin Islands which uses the US dollar as its currency. These islands have some fundamental structural issues which have proven to be major constraints on their development. The countries and their economies are extremely small, open and vulnerable to external shocks and natural disasters. The combined estimated population of the islands is 627,800 with a physical size of 1124 square miles. The Gross Domestic Product is approximately 16.2 billion, with per capita GDP of \$25,745.

With respect to openness, the ratio of exports and imports to GDP is over one hundred per cent, with the countries importing most of their consumer, intermediate and capital goods and exporting a very limited range of goods, being mainly dependent on the tourism industry.

The vulnerability of the countries is vividly illustrated by the havoc caused by tropical storms which have occurred with a fair degree of regularity over the years, resulting in significant losses of national output and new expenditures for replacing essential infrastructure such as buildings, both residential and commercial, roads and bridges.

The close relationship with our main trading partners the United States, the United Kingdom, Canada and the European Union, has resulted in the business cycles of those countries having a marked impact on our economic and financial systems.

Another major structural factor is the seasonality of our main productive sectors, tourism and agriculture, which has caused economic activity to be limited to less than a full calendar year with a significant underutilization of resources.

Because of the abovementioned factors, the state, the private sector and the financial sector are unable to derive substantial economies of scale and scope in public administration, production, distribution and marketing. The current situation is one in which the public sector or the state can be described as over-stretched, given the demands for public goods and services in the context of narrow economic and tax bases.

The private sector is constrained by small and undiversified markets and follows the historic trend of being engaged mainly in distribution, wholesale, retail, professional services and construction. Activity in the formal segment is to a large extent focused on non-tradeables with a much smaller per cent being in tradeables. This structure is not conducive to facilitating growth as it is anchored in consumption activities.

There are two factors which encourage this pattern. First, our geographic location is in close proximity to the largest mass consumption society in the world, which shapes our own consumption patterns. This demonstration effect is transmitted through the media, mainly television, our friends and relatives in the US and frequent visits to that country. The second factor is the presence of a liberal democratic political system with a competitive multiparty system in which many promises are made in order to be elected.

The financial system which is dominated by foreign and local commercial banks is aligned to this private sector structure by both history and practice. It is Anglo Saxon in orientation which means that the banks lend for short term purposes and do not venture into the more risky projects necessary for growth and development.

The current economic system can be described by what we term the Input-Consumption- Default model. Input describes the approach to investment which concentrates on the upfront investment but not the final output. The facts are that, despite high levels of public and private investments,

output and growth levels remain low and not related to the inputs. This is as a result of the lack of coordination of these investments, that is, they occur in silos and with limited multiplier effects, because of the choice of projects, and massive inefficiencies leading to wasteful cost over-runs. Lack of coordination of policies, programmes and projects is also a major cause of lagging economic growth. This occurs within government, between government and the private sector, and between the countries in the OECS/ECCU. The Default element is related to the use of policies which are traditional and have not been changed for a long time, policies which have been thrust upon us by external agencies, such as the international financial institutions and donor countries, and the imitation of policies which may not be appropriate to our particular environment.

The challenge for us is: How do we break out of the current low output/high debt scenario and choose between the four outcomes which could confront us in the future? These are:

- i. Failed states
- ii. Barebones survival
- iii. Moderate growth, and
- iv. Socioeconomic transformation.

To achieve the preferred outcome, which is socioeconomic transformation, requires a rate of growth ranging between 5 and 7 per cent which is not attainable with the current economic policies and the existing economic resource base. Socioeconomic transformation requires the creation of a dynamic private sector which is export oriented and internationally competitive. This will require an efficient and effective state and a transformed financial sector as supporting and complementary institutions. Of major importance however will be what we refer to at the ECCB as the seven great modernizations which represent the fundamental platform for achieving our goals. The seven are as follows:

1. Energy
2. Transportation
3. The Environment
4. Education and Skills Training
5. Research and Development

6. ICT and
7. Governance

The first three require a significant engineering input and specialization in the hard sciences. A cadre of engineers will be required to investigate and develop projects to enhance the infrastructure in these areas. The second three are the essential knowledge based areas where human capital is critical to increase productivity through innovation. The final one, that is governance, is the over-arching platform which coordinates and guides, establishing the institutional framework for making and executing policies with regard to the first six.

For the OECS/ECCU countries, the new Treaty of Basseterre is the legal framework under which governance and policy making will be organized. This, under the present constitutional arrangements, will form what can be termed a dual system of government and governance, incorporating and coordinating the policies, programmes and projects which will facilitate the development of the member countries. The creation of a single financial and economic space will provide a more conducive domain for our development.

The more specific challenges relate to the nurturing of entrepreneurship and the development of an innovative outward looking private sector which is a medium to long term project, but must be started immediately. The beginning of this project involves the updating of the work done in Saint Lucia with the census of the private sector and continuing this work in all of the OECS countries. This would be the starting point for a diagnostic process to identify the structure of the private sector in each country, the activities in which they are engaged, the difficulties they have as a private sector generally, and the specific impediments to operating in the export sector. This would also involve the use of the 'Doing Business Survey' carried out by The World Bank and a more targeted survey with the OECS environment as its base.

The next step would be to identify actual and potential sources for entrepreneurs in the OECS domain. The following are being suggested:

1. The transformation of some of the traditional trading firms by providing incentives for them to enter the export sector;

2. Citizens of the OECS in various diasporas involved in business ventures who may be enticed back to their countries, or more appropriately, to the single economic and financial space. They need not move completely, but have a branch of their business in the space as an outpost of the original business. There is a publication entitled the "New Argonauts" by AnnaLee Saxenian which chronicles such operations by entrepreneurs in the United States from Ireland, India, Israel, the Peoples Republic of China, the Republic of China on Taiwan and South Korea.
3. Middle level professionals who have good networks, local and regional knowledge, and business acumen who could be incentivized into becoming entrepreneurs. Two forms of organisation are available to them, namely, production cooperatives and investment clubs. These are critical in small societies which require joint activities to establish the critical mass necessary to ensure success.
4. Another potential source would be the excess workers in the public and banking sectors who have the regulatory and organizational skills to participate in entrepreneurial projects. The key factor would be the use of separation packages which provide funding, training in business development and management, a menu of projects carefully developed to identify the areas in which we have a comparative advantage which can be leveraged into a competitive advantage, and the establishment of clusters of export-oriented activities which have the critical mass to attract complementary and supporting functions which are commercially viable, such as research facilities.
5. Finally, a robust investment in encouraging young people in primary and secondary schools and recent school leavers to become entrepreneurs through targeted programs. Examples of these could be the widespread establishment of Science Clubs, Savings Clubs, 4 H Clubs, and the Junior Achievement Programme.

A very important exercise would be the identification of focal points in each country where scientific activities are being conducted. Organizations such as Ministries of Agriculture, Education, Health and Public Works are all heavily involved in scientific activities, though not in research. Bureaus of standards and other laboratories do exist which test products for domestic consumption and to meet export standards. Air and Seaport authorities also have heavy equipment which requires sophisticated mechanical and engineering skills to maintain.

In the educational system our Community Colleges must be identified as thought leaders in spurring an interest in scientific activities which facilitate the creation of a new scientifically oriented class of entrepreneurs.

The challenge for us is to create a coordinating platform within each country and across the Economic Union to incorporate scientific research activities of the applied type allied to our production nodes, in order to focus on creating an innovative private sector which operates exclusively in the export sector. This will require an institutional framework which can be provided by the Economic Union and a central data base which can be subject to open access. The public sector, private sector and the financial sector should be full participants in this effort as they have the capacity and vested interest in the outcome.

The public sector would have to commit, in a focused and practical way, to the encouragement of an export-oriented entrepreneurial class and reorient its educational policies to this objective. The financial sector must be transformed to be able to finance and develop the kinds of financial products which would facilitate this new economic paradigm. The private sector will need to reconstruct itself to be the driving force in this initiative. It is for this reason that an OECS Business Council has been established to unite the various organizations, for example, Chambers of Commerce, Employers Federation, Tourism, Agriculture, Small Business and Manufacturers Associations in each country and across the Economic Union.

The private sector in the OECS differs markedly from its counterparts in the wider Caribbean. The very size of each country is a constraint on private sector development, hence the importance of operating within the wider space of the Economic Union. The supporting institutional infrastructure such as for example, a local campus, very large firms which can provide leadership, such as a Grace Kennedy in Jamaica, an AnsaMcal in Trinidad and Tobago and a Goddards in Barbados, and support services and access to international arrangements are not available. This has its impact on the development of private firms and enterprises in the OECS in their ability to access project support. Most of these projects assume that the OECS private sector is on par with the rest of the region and so, in the competition for resources, they come off second best.

There are a number of issues which set the OECS apart with respect to interventions that involve the state, the private sector and external institutions and organisations. The first concerns the banana industry in the Windward Islands which brought about a virtual socioeconomic revolution in those islands. The banana industry came about after the demise of sugar and was established in large part by five critical decisions taken by the British government:

1. That the industry should involve production in all four islands to achieve critical mass;
2. The establishment of a research center to select the most appropriate strain of bananas and to treat with the pathology of a crop which is very susceptible to plant diseases;
3. The shipping company Van Geest was contracted to transport the crop;
4. Marks and Spencers was contracted to market it in the UK;
5. The British government provided a protected market.

Small farmers thrived in this arrangement and valuable supply chains were established between the UK and the Windward Islands.

In the case of telecoms, an intervention by The World Bank led to the liberalisation of this sector which experienced significant growth. The World Bank also made a critical intervention in the cruise ship industry with respect to charges for disposal of solid waste which has had an impact on the environment within our coastal waters. Direct foreign investment has been of great importance but it has not been noted for the transfer of technology and management skills. This intervention must be more programmed to have a significant developmental impact which would require the state and the domestic private sector working in tandem to ensure that there is transfer of technology and substantial spillover effects from foreign investment.

Two issues of interest to policy makers would be a study of the influence of the exchange rate and the wage levels on the potential for export competitiveness, and the impact on our economies of missing out on the development of secondary activities such as manufacturing. This latter has important path dependent implications. The natural sequence of development moves from primary to secondary to tertiary economic activities. We have passed from primary to tertiary and may have missed the advantages and externalities of the secondary stage. This was the stage at which the change in production methods between agriculture and industry became differentiated with major innovations based on science and technology becoming dominant. The

establishment of educational institutions which catered to the new production technologies became a critical element of the new economies. Measurement and precision became a part of the production process.

The absence of an industrial revolution in our countries may have precluded a different trajectory in our economic growth. Since we have moved to basically service economies based on tourism, the question then becomes: Can tourism fill the gap that industry should have filled? What, for example, are the scientific requirements of the tourism industry which could provide higher levels of productivity and lower costs to make the industry internationally competitive? In addition, since the tourism industry is international in scope, what innovations and applications developed for our industry can be sold to other destinations? The role of tourism in terms of linkages, both backward and forward, as well as its possibilities as a launching pad for exporting goods and services to the source countries, is one that should be seriously explored.

The possibilities for research and innovation lie in several areas, for example, alternative energy sources, the environment, transportation, information technology applications aimed at select niches and areas of the industry, such as culinary arts and floral designs. The construction sector and the related professions such as architecture could benefit tremendously from innovations which are tested in our environment and which could have possibilities in other countries with a similar climate and topography.

All of these issues fit in with a more relevant model which is the Aggregation-Coordination-Productivity model, which in a sense speaks for itself. The critical element would be the representational organisation of the private sector and the bringing together of producers into clusters to achieve critical mass. Coordination is required at the level of industries and the public sector within countries and between countries to chart a course which has definitive goals and targets. The use of science and technology is also critical to produce innovations in production and management and a dynamic private sector which is internationally competitive. All of this will not happen by osmosis and will require a vision of the future, the acquisition of administrative and technical capacity to implement and a mental shift in our approach to running our governments and our industries.