

**ECONOMIC AND PRIVATE SECTOR**  
PROFESSIONAL EVIDENCE AND APPLIED KNOWLEDGE SERVICES  
HELPDESK REQUEST

# What do we know about private sector / economic development programmes in Small Island Development States?

Mapping and lessons learned from existing projects

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## Abbreviations

(M)SME	(Micro), Small, Medium Enterprises
A&B	Antigua and Barbuda
UKAID/DFID	British Department for International Development
BDS	Business Development Services
CV	Cape Verde
CGF	Caribbean Growth Forum
COMPETE	Compete Caribbean
CIIP	Competitive Industries and Innovation Programme
DD	Destination Development
DM	Destination Marketing
EPIC	Entrepreneurship Program for Innovation in the Caribbean
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
GoJ	Government of Jamaica
GoT	Government of Tonga
GoV	Government of Vanuatu
GADP	Guyana Agricultural Sector Diversification Programme
ICT	Information and Communications Technology
LDC	Least Developed Countries
MDC	Montserrat Development Corporation
MFAT	New Zealand Ministry of Foreign Affairs and Trade
NGO	Non-Governmental Organisation
OCTs	Overseas Countries and Territories
PEA	Political Economy Analysis
PSD	Private Sector Development
PPD	Public-private dialogue
PPP	Public-private partnership
SIDS	Small Island Developing States
ESH	Support To Enterprise St Helena
TSI	Territorial Strategies For Innovation
BGI	The Global Blue Growth Initiative
PFIP	The Pacific Financial Inclusion Program
TBEC	Tonga Business Enterprise Centre
TEF	Tourism Enhancement Fund, Jamaica
UNCTAD	United Nations Conference on Trade and Development

# 1 Introduction

## 1.1 Scope of the request

Following the Requestor's instructions, this research has primarily focused on Caribbean Small Island Developing States (SIDS). The aim of the assignment is to identify common traits among initiatives that have sought to stimulate economic growth through private sector participation. The identified opportunities include donor-funded initiatives and Government-sponsored projects.

As described in Section 2, the researcher conducted a brief literature review, followed by an overview of project reports from which lessons learned are shown in the matrix included in Section 3 of this report. Depending on their primary area of focus, projects and initiatives have been categorised as Enabling Environment (including MSME promotion and BER projects), Agriculture (including fisheries), Tourism, BDS, Innovation, Investment Promotion, and Land Tenure. They have also been ranked according to the perceived success of the project in stimulating private sector growth. Only projects for which there are publicly available design or review documents with information on achieved or expected impact have been included in the matrix.

Since the 1992 Earth Summit, SIDS are internationally recognised as a group of 52 countries and territories that face particular challenges due to their geographical vulnerability.

Some of these common challenges include small market size, lack of economies of scale, geographic remoteness to faster growing markets, lack of skilled labour, brain drain, high costs of transport and infrastructure in the form of energy and access to ICT, extreme vulnerability to climate and environmental shocks, natural resource pressure, and high cost of finance.

As shown in Section 4, the studied projects seem to suggest that successful PSD interventions share these common traits:

- Thorough analysis of market constraints prior to interventions: while most SIDS share characteristics, they face them to different degrees. Success will be determined by conducting detailed diagnostics and conducting continuous Political Economy Analysis (PEA) to understand where traction for reforms can be built and the areas of contestation.
- Stemming from the above, while some projects correctly target infrastructure as a major constraint, several programmes have identified the lack of local ownership and capacity as a major risk. This entails that the impact achieved will be minimum unless it is accompanied by institutional capacity building of local agencies, as was the case of the "Enterprise Saint Helena" project detailed in the Matrix.
- Regional vs national approach: while regional programmes create the opportunity of facilitating economies of scale and shared common benefits, it is important that the specific challenges faced by individual SIDS be addressed for regional initiatives to be impactful at national level. Some of the projects reviewed in Section 3 also highlight the importance of working closely with existing global networks to leverage on their presence.

## 1.2 Introduction to SIDS and their development challenges

Historically, SIDS economies have been dependent on trade, and as shown in **Error! Reference source not found.** and **Error! Reference source not found.** they still are. The European Union (EU) (light grey) is shown as a comparator to Caribbean (red) and Pacific (dark grey) SIDS.

Globally, the trend in recent years has been toward greater trade liberalisation, which has led to the removal of preferential access terms and has carried through to the opening up

of trade in services. While these shifts create opportunities for increased investment, exports and general economic activity, they also expose countries to global competition.

Coupled with their unique characteristics, this enhanced openness means that for SIDS to realise these benefits and their associated risks mitigated, a suitable enabling environment needs to be in place. Increasing ease of trade through improved technology and greater trade openness means investors can consider a wider range of destinations than previously possible.

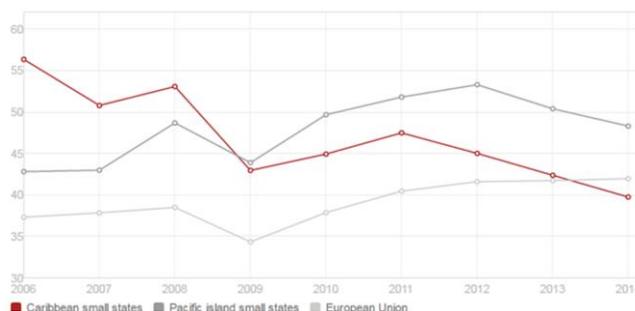
Many SIDS now stand at a critical crossroads in their development. Natural

disasters and the loss of preferential access terms for agricultural products have made traditional industries, such as sugar and bananas in the Caribbean, globally uncompetitive. The services sector is an increasingly dominant area of economic activity. While certain forms of tourism bring the potential to be competitive in the SIDS context (because the market comes to the source of supply and remoteness, otherwise a disadvantage, is considered a source of attraction), many countries remain heavily dependent on tourism and thus remain vulnerable to shocks - particularly economic performance in more developed countries and the faster growing emerging economies. The challenge here lies in building stronger links between the tourism sector and other sectors as a basis from which to strengthen the economy.

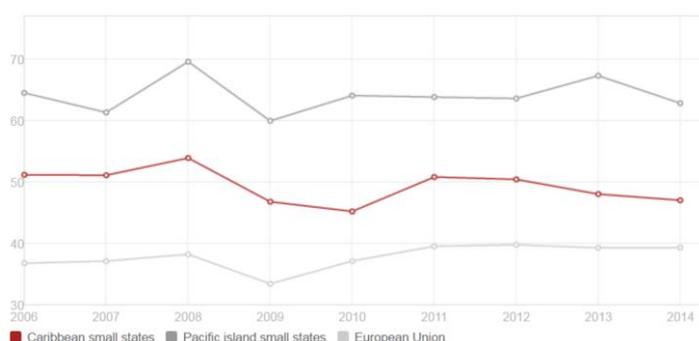
Furthermore, diversifying away from tourism and finding new areas of economic activity that can increase earnings and provide a source of more and better jobs are the key economic challenges that many SIDS countries now face. Industry diversification can be managed if the issues surrounding exchange rate appreciation (through remittance flows and growth of a dominant sector) are balanced with a prudent fiscal management of the flows. With proportionately ever-shrinking public sector job opportunities, most SIDS are experiencing an ongoing brain drain that poses long term challenges. Critically, finding new areas of economic activity that will act as drivers of growth and sources of employment across the spectrum of the labour market depends upon the private sector.

In SIDS, the responsibility for improving the regulatory environment falls on the shoulders of the public sector<sup>1</sup> even more so than in mainland environments. The limited capacity of a small private sector to provide an alternative narrative to policy debates through evidenced based discussions, and the limited opportunities of businesses to coalesce around important policy directions, in part due to sheer lack of numbers and often a narrow self-interest, has meant that there is no real counterpoint in government policy processes.

**Figure 1: Exports of goods and services (% GDP) - World Bank**



**Figure 2: Imports of goods and services (% GDP) - World Bank**



<sup>1</sup> However, it is important to note that Government departments can sometimes bring both poor capacity due to brain-drain and limited financing to support activities with relatively modest public sector revenue collection and finance means working purely with government remains a challenge.

However, effective reform can only take place where accurate information about constraints and what can be done to lift them is available: many governments correctly grasp this, and have begun initiatives to ensure public-private dialogue (PPD) exercises take place, sometimes at a regional level as is the case of the Caribbean Growth Forum.

## 2 Methodology

### 2.1 SIDS of focus

This research has focused on the countries classed as SIDS by the United Nations Conference on Trade and Development (UNCTAD), as shown in Picture 1.

Picture 1: Map of SIDS<sup>2</sup>



Interestingly, this list includes States ranging from Least Developed Countries (LDCs) such as Haiti, Kiribati or São Tomé and Príncipe; and countries that have gained upper-middle income status, such as Mauritius.

Particular attention has been paid to Caribbean initiatives. However, relevant documents available online from PSD and economic growth initiatives in other regions (mainly West Africa and the Pacific) have been included in the focus of research.

### 2.2 Type of programmes reviewed and document review process

Our research includes country and regional initiatives. Some initiatives are better and more rigorously documented than others, which has determined the scope of programmes that are included in the research matrix.

Importantly, while we have tried to focus on projects and initiatives for which there is publicly available data on results, we decided to include Government Strategy papers and project design documents, as they provide insights into PSD project design in an SIDS context. The researcher started by conducting a literature review on thematic approaches to SIDS development. This was followed by a review of bilateral and multi-lateral donor Websites and platforms (UKAid-DFID, the World Bank, COMPETE, the European Commission, and New Zealand's MFAT) for publicly available results on ongoing or finished projects. In parallel, the researcher looked for national poverty-reduction strategy papers from SIDS governments, or research pieces commissioned by public bodies on specific

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<sup>2</sup> Source: <http://unctad.org/en/Pages/ALDC/Small%20Island%20Developing%20States/SIDS-map.aspx>, accessed on 11/03/2016

areas impacting directly on private sector development in order to get an overview of development priorities.

Where possible, end of project reports have been favoured. However, some of the information presented in the Matrix comes from less rigorous sources (such as project Websites), and the lessons learned are subjective. The most relevant project findings are collated in Section 3.

### 3 Mapping of programmes

Name	Source of funding <sup>3</sup>	Geography	Sector	Dates	Description and lessons learned
<b>Caribbean countries</b>					
<b>Guyana Agricultural Sector Diversification Programme (GADP)</b>	DFID	Guyana	Agriculture	2011-2015	DFID "provided support for agricultural diversification and increased exports of fresh fish and agricultural produce in Guyana, through technical advice to farmers and policymakers and making financing available to these sectors, to enable growth as a share of total export volumes". With a heavy reliance on agricultural commodities and extractive industries, Guyana benefitted from the project's support in increasing efficiencies along agricultural value chains. Relevant lessons learned from the final review of the programme include that the Government of Guyana's "participation in this programme is critical to achieving the stated outcome and impact" [...] which is reinforced by the observation that "there needs to be regular consultation with and monitoring of activities within the various Government agencies and officials who are integral to the GADP activities". This points towards difficulties in institutional coordination.
<b>Support To The Montserrat Development Corporation (MDC)</b>	DFID	Montserrat	Investment Promotion	2010-2012	Under the special provisions that regulate the UK's involvement with Overseas Territories, DFID provided assistance towards the establishment of the (MDC). The objectives behind the creation of this body were to stimulate Foreign Direct Investment (FDI) and the private sector "inter alia through managing the associated Private Sector Development (PSD) project", and manage the Little Bay new capital development. Lessons learned included: <ul style="list-style-type: none"> <li>• <i>Difficulties in institutional coordination</i>: according to the final review document, "neither of the bank managers [...] were aware of either the Loan or Equity schemes [...]."</li> <li>• <i>Political drive</i>: the review points to an assumption that was made in project design about political will to drive outsourcing, which did not hold. As stated in the recommendations section, future programmes will need increased levels of efforts and convincing evidence to persuade decision makers on benefits of intended project outcomes.</li> <li>• <i>Lack of institutional capacity</i>: while establishing an agency such as the MDC is an understandable step towards creating ownership, the project did not foresee that the MDC would not have capacity – which meant that "the implementation of the PSD project was virtually impossible". Key to the effectiveness of PSD programmes is a very good understanding of the institutional setting and PEA matters, as assumptions that could hold true in other environments, do not hold true where success is reliant on a limited pool of human and capital resources.</li> </ul>
<b>Assessment Of The Economic Impact Of The Tourism Sector In Jamaica</b>	Ministry of Tourism	Jamaica	Tourism	2010	This diagnostic study was commissioned by the Ministry of Tourism in Jamaica. It has been included in the matrix as an example of a government-driven wish to better understand the impact the private sector can have on the overall performance of an economy. Interesting lessons include the trickle-down effect that the success of a sector such as tourism can have on other economic segments. For instance, "direct imports by the tourism industries represented 25% of the value of their output, a very low ratio for a Caribbean country. The majority of agricultural produce and manufactured food and beverages are sourced locally as are construction and repair, electricity and water and wholesale and retail services. Tourism has strong linkages with these

<sup>3</sup> In order to maximise space, when initiatives are funded / managed by a multiplicity of donors, only the most relevant one is presented (the selection is subjective).

Name	Source of funding <sup>3</sup>	Geography	Sector	Dates	Description and lessons learned
					<p>industries and with financial and retail estate services though it does import substantial amounts of the latter and transport and communication services [...] For instance, the payment of water and electricity charges by tourism entities makes the cost of these vital services affordable to Jamaican citizens”.</p> <p>The report also points, however, to a lack of GoJ commitment to promoting tourism – mention is made to detractors of the tourist sector, which explains why the Ministry of Tourism commissioned the preparation of the report. A telling example of this lack of public commitment to enhance activities of private actors in the tourism sector is a stagnant, if not reducing budget for marketing activities: “the marketing budget of the Jamaica Tourism Board has remained around US \$30 to US\$35 million for the past decade. It fell to US \$ 29 million in 2010. In addition, GoJ has relied on the Tourism Enhancement Fund (TEF) to fund the JTB. There is pressure on GoJ to minimise government expenditure and one of its consequences is less funding for JTB”.</p>
<b>Caribbean region</b>					
<b>Entrepreneurship Program for Innovation in the Caribbean (EPIC)</b>	InfoDev	Caribbean	Multi-sector	2013-2020	<p>EPIC seeks to build an enabling ecosystem to foster high-growth and sustainable enterprises throughout the Caribbean. It has three core activities: digital entrepreneurship, climate technology, and women-led entrepreneurship. Stakeholders include entrepreneurs, business incubator managers, policymakers, universities, investors, and other private sector partners. Initial results include:</p> <ul style="list-style-type: none"> <li>• <i>Local ownership has been well promoted</i>: encouraging early results point towards a successful forming of partnerships with local entities to deliver responsive, high-quality business enabling services as key for success;</li> <li>• <i>Sustainability and inclusion of women entrepreneurs</i>: the focus of the programme on female entrepreneurship is proving successful. A “Women Innovators network in the Caribbean” has been created and reached over 350 women entrepreneurs, and certified numerous trainers and facilitators across the region. This is important for addressing the market constraints faced by females.</li> </ul>
<b>Caribbean Growth Forum (CGF)</b>	COMPETE	Caribbean	Investment Promotion	2012-ongoing	<p>Acknowledging the importance of fostering PPD, the CGF has created a platform to bring together stakeholders (public sector, private sector and CSOs) in regular fora held at country and regional level. Discussions revolve around investment climate, skills and productivity, and logistics and connectivity.</p> <p>Interestingly, this initiative was championed by the Prime Ministers of the 12 beneficiary countries, with focal points in each of the countries’ ministries of finance. By 2015, the CGF had brought about 495 reform recommendations, of which only 40% were actionable. This reinforces the importance of conducting PEA at country level.</p>
<b>Competitive Industries and Innovation Programme (CIIP)</b>	World Bank	Global, including Caribbean	Innovation	2012-ongoing	<p>The CIIP provides assistance to governments to identify the microeconomic barriers that are impeding the growth of national industries, and helps generate investment and economic growth. It does so by offering a platform for exchanging knowledge on policies that work for investment promotion and competitiveness, and by providing technical assistance to governments on a demand basis for the successful implementation of policies.</p>

Name	Source of funding <sup>3</sup>	Geography	Sector	Dates	Description and lessons learned
					<p>While it is a global initiative, it has several ongoing initiatives in the Caribbean. In Haiti, CIIP is providing assistance to the Ministry of Commerce and Industry to develop “a new policy strategy [...] based on a cluster or value chain strengthening approach, in order to promote decentralized economic growth and investment”. For this, the CIIP is supporting the Ministry through the deployment of Enterprise Competitiveness Agents deployed across Haitian departments. The objective is that they develop solid growth strategies in their respective value chains.</p> <p>In Jamaica, CIIP is providing support to the GOJ around two components: Component 1 looks at supporting analytical and advisory services for the implementation of “sector planning work, [...] public-private partnership (PPP) and privatization strategies at the sectoral level”. Component 2 focuses on providing support for the implementation of a “competitive special economic zone design [...] and related public-private dialogue mechanisms”.</p> <p>Regionally, CIIP is implementing a project across the OECS for “Strengthening Clusters through Regional Approach: Stimulating Investment and Jobs through Tourism and Agribusiness Clusters”. This project has a strong focus on the tourism sector at regional level, with an emphasis on strengthening linkages with the agribusiness sector.</p>
<b>Strategy documents</b>					
<b>Rebuilding a Stronger, Safer and Prosperous Antigua and Barbuda</b>	Government of A&B	Antigua, Barbuda	Budget Statement	2016	<p>The 2016 Budget Statement delivered by the Prime Minister is structured around priority areas for prosperity. One of the most prominent headings includes “Wealth Creation and Entrepreneurship”, under which the Government states its commitment to promoting entrepreneurship. Initiatives to achieve this include:</p> <ul style="list-style-type: none"> <li>• <i>“Provide Land at \$3.00 per square foot to Antiguan and Barbudans for development.</i></li> <li>• <i>Give generous concessions, including tax waivers on the importation of material and capital equipment, and corporate tax holidays.</i></li> <li>• <i>[...]</i></li> <li>• <i>Pursuing public-private sector partnerships with Antiguan and Barbudans.</i></li> <li>• <i>Creation of a venture capital fund to facilitate business start-ups and expansions.”</i></li> </ul> <p>The Statement also sets out the Government’s strategy for developing infrastructure (mainly roads and ports), with an explicit emphasis on a greater ease of Doing Business. In terms of improvements in agriculture, the Government plans to “pursue an innovative strategy to boost agricultural production in the private and public sector” which includes the creation of business linkages between private sector producers and public sector consumers of agricultural produce, with an explicit emphasis on the importance of reducing the import bill and ensure food security at a national level. The Government incentivises private sector activities in the agricultural sector through “duty free concessions on the importation of farming implements and agricultural inputs such as fertilisers and seeds”. In terms of the success of previously implemented PSD strategies, the Statement lists successes in the tourism sector, with an aggressive tourism promotion strategy that resulted in stayover rates in 2015 comparable to 2007, and increased numbers of airlines providing services to A&amp;B.</p>

Name	Source of funding <sup>3</sup>	Geography	Sector	Dates	Description and lessons learned
<b>Keeping it real</b>	Government of Dominica	Dominica	Budget Statement	2016	<p>In the budget address for the FY 2015/2016, the Prime Minister of Dominica commits to the Government addressing the needs of the private sector. It specifies the amount allocated for “small business enterprise development, and the development of rural business enterprise centres”, \$3.4M.</p> <p>Illustrative of the Government’s approach to agricultural development are initiatives to restore the banana industry, including subsidising fertiliser through the Dominica Export Import Agency. Indeed, across most industries in need of revitalisation (including plantain or coffee), the Government provides subsidies or investments into processing facilities.<sup>4</sup></p> <p>Tourism promotion for Dominica includes increasing the hotel capacity of the country: according to the address, “all of these new hotels will create significant direct employment opportunities in construction, provision of hotel services and other indirect jobs in support sectors like agriculture and fishing”. At the request of the Dominica Hotel and Tourism Association, the Address highlights an example of PPD – whereby recommendations made by private sector stakeholders to increase investments in the tourism sector were adopted by the government (such as amendments to the VAT regime).</p> <p>The Address reports the establishment of a National Employment Programme in 2013 as a success that exceeded expectations in terms of job creation and skills promotion.</p>
<b>Moving forward together and delivering results</b>	Government of Grenada	Grenada	Budget Statement	2016	<p>The Prime Minister identifies construction, agriculture, tourism and education as main growth drivers. Interestingly, the report highlights Grenada’s recent downgrade in the ease of DB Index, specifying that while “several efforts were made to improve the investment climate over the past year including the revision of Tax Incentives and drafting of Bankruptcy and Insolvency legislation”, they were not implemented in time to impact the ranking. Practical steps that investors can expect include an increase in the period for the carry forward of losses from 3 to 6 years, along with tax deductions in certain sectors.</p> <p>With a current import bill composed in 20% by food imports, the Government aims to reduce this to 10% within 5 years. Current constraints to exporting include the lack of standards, hence investments in the Bureau of Standards. The Statement also addresses the need for sustainable initiatives, such as the role the private sector can play in the field of crop insurance – as currently natural disaster losses are managed by the aid community. The issue of praedial larceny, a strong constraint to investing in the agricultural sector in the Caribbean, is addressed through a government programme. In order to address the tourism infrastructure constraints, the government plans to lease certain sites in order to ensure they are exploited. Additional efforts in this regard include successful negotiations with air carriers to include Grenada in their routes. The Small Business Development Fund, managed by the government, is part of a broader strategy to promote entrepreneurship through loans to MSMEs. High on the legislative agenda for 2016 are bills to facilitate investment, in the areas of tax administration, possessory title, and small business.</p>

<sup>4</sup> While it is early to assess the impact of these types of subsidy measures, the researcher would like to make a note on the potential inadvisability of replicating this type of initiative.

Name	Source of funding <sup>3</sup>	Geography	Sector	Dates	Description and lessons learned
					In the area of ICT, aside from increasing the country's capacity through the optimisation of physical servers, Grenada is part of the Caribbean Regional Communication Infrastructure Programme, under which the Government has developed a PPP "for the design and construction of a broadband network".
<b>Africa</b>					
<b>Support to the development of small ruminant rearing - II</b>	AFDB	Sao Tome and Principe	Agriculture	2007-2011	This project was developed in order to ensure that newly exploited natural resources (oil) revenues trickled down to poor segments of the population. In order to achieve this sustainably, the project focused on government investments in the sector of small ruminant rearing. <sup>5</sup> The national Agency for Rearing ("Direction de l'élevage", already in existence before the project) was tasked with implementing the project. Building on learnings from the first phase of the project, the Bank decided to delegate the implementation of dissemination activities to local Non-Governmental Organisation (NGOs), with better capacity than the government body.
<b>SME Capacity Building And Economic Governance</b>	WB	Cape Verde (CV)	Regulatory Reform	2010-2015	The project's overall objective was to improve the performance of SMEs, and the accountability of the public sector. Activities were implemented by government agencies in order to ease the business environment through electronic means (ie through the introduction of an electronic platform for business registration). Much like in "mainland" interventions, lessons learned from the project include that "the project design reflected the experience that for policy reforms to have an impact, they should be properly implemented. Therefore, the focus of the business environment component was on strengthening public sector capacity in pivotal institutions to implement investment climate reforms".
<b>Growth And Competitiveness Project</b>	WB	Cape Verde	Regulatory Reform	2003-2010	<p>In order to increase private sector participation in the country's economy, the project focused on interventions around financial sector reform, investment climate reform (including tax, administrative, and legal reform), and PSD / institutional capacity building. Ultimately, the project aimed to foster international competitiveness as a step towards job creation. The project began with a diagnostic study of the key constraints that affected CV's competitiveness.</p> <p>The financial sector reform component of the programme was deemed a success, mainly because of "the best practice collaboration between the Borrower, the Bank of CV, financial institutions, and the private sector". Key stakeholders championed the reforms necessary for an increased capacity of the BCV, and accompanying regulatory measures.</p> <p>A strong component of the programme was that of capacity building and institutional reform: traditional institutions such as Customs, the Investment Promotion Agency, or the Chambers of Commerce were all part of the capacity-building scheme – but beneficiaries also included private providers of BDS. The project included a matching grants facility to increase the provision of services to entrepreneurs.</p>
<b>Pacific</b>					

<sup>5</sup> The reviewed documents for this project do not include the full theory of change that support the link between ensuring oil revenues trickle down, and incentivising small ruminant rearing.

Name	Source of funding <sup>3</sup>	Geography	Sector	Dates	Description and lessons learned
<b>Tonga Business Enterprise Centre (TBEC)</b>	MFAT	Tonga	BDS	2010-2014	This project aimed to provide BDS to MSMEs. In the short term, it sought to address constraints to entrepreneurship – including addressing skill gaps. In the longer term, it sought to strengthen the private sector so it could contribute more to the economy. One of the lessons learned from the final report includes the need to “build and maintain stronger connections between TBEC and the GoT, at all levels, including with Ministers, senior officials [...] and staff in operational roles” in order to ensure sustainability.
<b>Pacific Business Mentoring Programme</b>	MFAT	Pacific SIDS	BDS	2010 - 2013	The overall goal of the PBMP was to “assist Pacific entrepreneurs to manage and grow their businesses in a way that supported sustained increases in production and employment over time”. In order to achieve this, the project wanted to create a network of mentors from New Zealand that could provide advice to entrepreneurs in Pacific SIDS. Among the lessons learned from the first phase of the programme, is highlighted the importance of increasing the role of “local coordinators” (the project’s local administrators, selected for being representatives of the private sector in each country) in order to increase ownership. In projects where beneficiary countries are spread out, it is important to ensure projects have national agents that can ensure coherence and ownership.
<b>Mama Graon – Vanuatu Land Program</b>	MFAT	Vanuatu	Land tenure	2012-2013	<p>Land tenure is a common problem in developing countries, and acutely so in SIDS – given land scarcity and the difficulties posed by customary laws. The objective of the programme was to ensure that “all Vanuatu people benefit from the equitable and sustainable development of their land, while securing the heritage of future generations”.</p> <p>While clear land ownership legislation is key for investment promotion, the Mama Graon project offers an example of a project implemented in a sector that is not identified as priority by the government. Indeed, the report notes that “the GoV’s apparent lack of commitment to land and the Mama Graon project is also evident in the lack of operational budget provided for the [Ministry of Land]. Capacity development cannot progress when key positions are vacant”.</p> <p>The project aimed to provide capacity building to all the relevant institutions and bodies involved in legislation for land tenure. One of the lessons from the project includes “the need to accept that consultative processes and practices are not always efficient, but essential to gain buy in”.</p>
<b>Cook Islands Tourism Sector Support</b>	MFAT	Cook Islands	Tourism	2013-2015	<p>The overarching goal of the project is to “achieve sustainable economic growth for the tourism industry without compromising the Cook Islands’ unique qualities”, through building the capacity of the Cook Islands Tourism Corporation to invest in destination development (DD) and destination marketing (DM).</p> <p>Among the lessons learned from the project are the importance to work with other agencies to improve the investment climate, mainly with regards to obsolete tourism infrastructure (ie hotels and general sanitation systems). In terms of next steps, the project would aim to increase the ration of private sector investment to promote the tourism industry.</p> <p>The final report recommends an extension of the programme. It quotes that certain activities could be ready to graduate to full funding by the private sector after an initial public sector incentive (ie an accreditation scheme), but large infrastructure investments will need heavy public sector investment.</p>

Name	Source of funding <sup>3</sup>	Geography	Sector	Dates	Description and lessons learned
<b>Pacific Financial Inclusion Program (PFIP)</b>	UNDP/ UNCF	Pacific Islands	Financial Sector	2014-2018	<p>The Pacific Financial Inclusion Program (PFIP) aims to add 1 million Pacific islanders to the formal financial sector by 2017, through facilitating access to financial services, creating national-level financial education initiatives, and spearheading financial policy initiatives, such as and regulatory initiatives and facilitating access to appropriate financial services by strengthening financial competencies and consumer empowerment).</p> <p>PFIP catalyses financial sector development by generating country-specific analysis in collaboration with key stakeholders based on knowledge of the situation on the ground. The programme then identifies key constraints to financial sectors and seeks out partners who can offer solutions. PFIP then offers grants or technical assistance packages designed to assist and encourage the innovations necessary to introduce new ways of serving difficult-to-reach populations. Some of the early lessons that can be drawn from this project include:</p> <ul style="list-style-type: none"> <li>• <i>Leverage wider initiatives in order to maximise impact:</i> PFIP helps found the Pacific Donors Access to Finance working group, which meets twice yearly</li> <li>• <i>Integration within national initiatives to generate buy-in:</i> PFIP is an active member of the National Financial Inclusion Taskforces of Fiji, Solomon Islands and Vanuatu. PFIP also is a member of financial inclusion working groups in PNG</li> <li>• <i>Successful assistance to national governments to ensure sustainability:</i> in 2013, the project assisted the PNG government with finalising and launching a National Financial Inclusion and Financial Literacy Strategy</li> </ul>
<b>Pacific Growth and Employment</b>	ILO	Pacific Island States	Tourism	2012-	<p>The program aims to respond to the challenges of unemployment, particularly for young people in the Pacific Islands by improving opportunities for sustainable employment growth. It seeks to draw on the experience of Australian businesses with interests in Pacific Island countries to develop strategies that prepare young people for employment and create opportunities. The partnership is designed to work with sectoral representatives of businesses, workers and the government to ensure they are equipped to implement and maintain the development strategies. The project aims to grow employment in transport and tourism through engagement and co-operation with industry leaders.</p>
<b>Global / SH</b>					
<b>Territorial Strategies For Innovation (TSI)</b>	EC	OCTs (global)	Innovation	2014-2018	<p>While there are no publicly available results for this ongoing EC-funded initiative, the strategy documents provide information on the approach that the project will follow. The rationale for the TSI project is that Overseas Countries and Territories (OCTs) cannot use traditional techniques to increase competitiveness - ie lowering costs, as there are limited economies of scale. The best way to increase the competitiveness of small islands would therefore be to increase innovation. Built around 5 components, the project aims to build on the advantages of the respective OCTs (ie natural resources, educational centres, and in the specific case of OCTs access to knowledge from their EU territory).</p>
<b>Tourism Development Project</b>	DFID	Saint Helena	Tourism	2010-2013	<p>The Tourism Development Project met the objective of increasing the number of tourist arrivals and the island's visibility. A precursor to the "Support To Enterprise St Helena (ESH)" project (see below), this project identified as a constraint to its success the lack of a holistic vision for the successful development of a tourist sector in the island: "the creation of ESH [...] along with the anticipated opening of an airport in 2016 will necessarily change the focus of the Tourism project from small, discrete activities to a more strategic approach integrated into a broader economic investment framework".</p>

Name	Source of funding <sup>3</sup>	Geography	Sector	Dates	Description and lessons learned
<b>Support To Enterprise St Helena</b>	DFID	Saint Helena	Investment Promotion	2013-2016	The objective of this initiative is to “support private sector development and tourism-led growth in St Helena by providing the St Helena Government’s development agency, “Enterprise St Helena”, with £4.8 million over three years in the run-up to the airport opening”. Following the investment, the UK government made in the airport, the project aims to ensure that St Helena is fully ready to exploit the growth opportunities that increased access to the island can bring.
<b>Blue Growth Initiative</b>	FAO	SIDS - worldwide	Agriculture (fisheries)	2013-2023	<p>The Global Blue Growth Initiative (BGI) provides a framework for the sustainable management of aquatic resources, structured around four key components: (i) marine and inland capture fisheries; (ii) aquaculture; (iii) livelihoods and foods systems; and (iv) economic growth from ecosystem services. Ultimately, through improvements in national policies and the adoption of best practices, seafood value chains will be more efficient and livelihoods are expected to improve.</p> <p>According to a BGI representative, “for many SIDS, the promotion of aquaculture development for food security will be crucial. That is why we have developed the Global Aquaculture Advancement Partnership (GAAP) and why we look to other networks already in action, such as the Network for Aquaculture in Micronesia (MASA). We already work very closely with many private sector organisations – from Conxemar, to ICFA, NASF and ISSF, just to mention a few – though this is very far from being exhaustive.”</p> <p>Again, private sector ownership and the integration within existing, larger networks appear to be early important factors for the success of the initiative.</p>
<b>Lighthouse Initiative</b>	UN	SIDS - worldwide	Renewable energy	2014-2019	<p>The SIDS Lighthouses is a framework for action aimed at a deployment of renewables to facilitate energy system transformation. By moving away from developing projects in isolation to a holistic approach that considers all relevant elements (through technology options to capacity building), the initiative hopes to engender SIDS energy sector transformation.</p> <p>The priority action areas of this UN initiative include an enabling institutional framework, where the government provides leadership and support for transitioning to renewable energy sources; and there is close cooperation between the government and the private sector (mainly electricity sector).</p>

## 4 Analysis of lessons learned and recommendations for PSD programmes in SIDS

While some of the lessons learned or success factors identified in the matrix above are similar to findings from PSD projects across developing countries, SIDS do face a unique set of constraints, which would ultimately shape successful PSD interventions would look like in their context.

### **Small size and complexity: the importance of PEA**

The project review indicates that, because the beneficiary countries are of small size, sometimes donors forgo the important step of ensuring ongoing PEA takes place. Probably under the assumption that because of the small size of the countries, agents of change can be easily identified, several of the programmes listed in the matrix report issues around institutional buy-in and local ownership. Understanding the undercurrents of these political debates is important and required if reforms are to deliver real change and act in policy areas that are within the spectrum of domestic public policy contexts.

Some of the review documents in the Matrix that confirm this observation include DFID's Guyana Agricultural Sector Diversification Programme. It reports that, while the Government's buy-in is critical, "there needs to be regular consultation with and monitoring of activities within the various Government agencies and officials who are integral to the GADP activities". The New Zealand MFAT Tonga Business Enterprise Centre also states that there is a need to "build and maintain stronger connections between TBEC and the GOT, at all levels, including with Ministers, senior officials [...] and staff in operational roles".

### **Targeting the right sectors: a need for thorough diagnostics**

The reviewed projects highlight the importance of identifying domestic activities with genuine economic rationale. This is well illustrated in the Government of Dominica's 2016 Budget Address: the Prime Minister highlights subsidies in the agricultural sector as priority areas. From a buy-in perspective, both the public and the private sectors may see an advantage to this approach. However, unless there is a real possibility of linking increased produce and end-markets at a competitive price, this type of initiative may yield limited impact.

This is also illustrated in MFAT's Mama Graon land tenure project in Vanuatu project, where a lack of political buy-in is clearly articulated: this further showcases the risk of assuming that a lack of a thorough diagnostic can result in a successful project. As there is a lack of Governmental prioritisation of the land tenure agenda, no budget is allocated for it which means "capacity development cannot progress when key positions are vacant". The report goes further to state that "the need to accept that consultative processes and practices are not always efficient, but essential to gain buy in". Incidentally, while land tenure is an important determinant of a country's readiness for investments, there seem to be few initiatives that deal with this issue – partly because of the complex ethnic and customary issues related to land holding in many societies. As the Vanuatu example shows, there are little incentives for buy-in given political contestation and the potential for social conflict. Interventions in this sector would have to be very carefully designed.

### **Private sector capacity: opportunities in promoting entrepreneurship in the "right sectors"**

Beyond the common constraints to economic growth listed at the beginning of this document, the private sector in most SIDS is thin in numbers, capacity and in the range of industries it encompasses. This is why successful initiatives focus on providing support to industries that have the capacity to spear-head growth initiatives, as Mauritius has done through the development of Export Processing Zones.<sup>6</sup> Initiatives in this regard may range

<sup>6</sup> Zafar A., "Mauritius: an economic success story", 2011

from highly innovative industries to more traditional processing sectors, to be determined on a case by case basis taking into account different contexts and access to different strengths.

Interestingly, a common characteristic in several of the reviewed programmes is a traditional approach to the promotion of BDS services – through, for example, the provision of support to BDS providers for the development of training products. However, a lack of definitive results<sup>7</sup>, coupled with success examples from entrepreneurs in small islands<sup>8</sup>, indicate that focusing efforts in the provision of incubation and acceleration services for transformative businesses, i.e. those that have the potential to grow rapidly and able others to replicate, could have a higher impact on value-added job creation.

Tourism remains a sector with high growth potential in some SIDS. As mentioned in Section 1, it turns an apparent disadvantage, remoteness, into an advantage that increases SIDS' attractiveness. It also brings the source of income (tourists) to the source of supply. There seems to be room to enhance the positive effects that a well-developed tourism sector could have on other sectors of the economy, through the encouragement of effective business linkages and sustainable sourcing practices.

While some donor initiatives and governments already recognise the importance of stimulating paradigm shifts to encourage entrepreneurship (as mentioned, for example, in the 2016 Antigua and Barbuda Prime Minister's Budget Address), increased efforts could be targeted at developing individuals' capacity to develop businesses and promoting entrepreneurship. And beyond access to finance programmes, ensuring that the right type of finance is accessible to transformative businesses seems to be a potentially high-impact approach.

#### **Brain-drain: the importance of turning a challenge into an opportunity**

SIDS are faced with proportionately extremely high rates of brain-drain. However, high emigration rates present the opportunity of tapping into heavy remittance flows, which in some SIDS represent up to 15% of the GDP.<sup>9</sup> While a great proportion of remittances remain unofficial, development projects could provide assistance for the financial sector to channel these financial inflows in a conducive way for economic growth, rather than simply consumption purposes. There may be ways of using these funds for instance to provide early stage support to businesses through strengthening and deepening angel investment networks.

Indeed, brain drain has been a source of inflows of diaspora finance and human capital in contexts as varied as Cape Verde and Ireland.

#### **The risk of success: macroeconomic factors need to be considered**

An overall word of caution needs to be added in terms of macroeconomic stability, sometimes outside of SIDS control. At the regulatory reform level, a high proportion of donor programmes and national initiatives presented in the matrix consider reforms around the World Bank's Ease of Doing Business Index – with several output and outcome indicators focused on issues such as registering a business or ease of access to finance. While this approach to reform may be suited to larger economies, the specific constraints faced by SIDS may necessitate a more balanced approach. Indeed, while opening the doors to FDI and increasing the competitiveness of an industry sector are appealing, they carry with them the risks of creating monopolies. If not managed properly, they also carry the risk of stimulating Dutch Disease type impacts: an increase in foreign exchange which, given the low absorptive capacity of some of these countries could be translated into higher input prices, could ultimately result in an erosion of export competitiveness.

<sup>7</sup> A lack of success not unlike that seen in BDS interventions in mainland developing contexts.

<sup>8</sup> Baldacchino G., "Island Entrepreneurs: Insights from Exceptionally Successful Knowledge-Driven SMEs from 5 European Island Territories", in *Journal of Enterprising Cultures*, Vol. 13, No. 2, 2005

<sup>9</sup> UNDESA, "Financing for sustainable development in Small Island Developing States", 2013

For countries that remain focused on a narrow range of exports, the risk of appreciating exchange rates entail that developing wider, broad-based growth can be a challenge.

**A further categorisation of SIDS: example interventions**

In all, SIDS seem ready to embrace different sets of opportunities, as shown in the categorisation below:

1. Extremely small SIDS (such as Palau) are likely to rely heavily on high end tourism promotion – mainly if they are isolated, as they cannot develop regional economies of scale, and their potential for industry diversification is severely limited. These countries could focus on developing the competitive advantage in various sub-sectors of tourism, then use this to build out a private sector that can support growth through interventions in, for example, agriculture. Although promoting local agriculture may not be efficient by international standards, location considerations provide an opportunity to support it.
2. SIDS that traditionally had a strong, export-oriented agricultural sector that has been affected by the loss of preferential treatment regimens (such as Grenada) have greater opportunities in the value-added processing sphere, and have much to gain from focusing interventions in the area of trade logistics.
3. Larger SIDS (such as Jamaica) present a greater potential for industry diversification, and could focus their economic growth efforts on the development of off-shore services. The financial sector (particularly retail) offers interesting opportunities for economic growth. While it remains a challenge to develop it, technological advances have reduced the costs of supporting rural and remote populations.

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