

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	REGIONAL/CCB - Caribbean Group
▪ TC Name:	Tackling Growth Challenges in the Caribbean: Policy-based Research for Equitable Growth and Development
▪ TC Number:	RG-T3339
▪ Team Leader/Members:	SCHWARTZ ROSENTHAL, MOISES (CCB/CCB) Team Leader; REYES-TAGLE, GERARDO (IFD/FMM) Alternate Team Leader; BEUERMANN MENDOZA, DIETHER WOLFGANG (CCB/CCB) Alternate Team Leader; SCHMID, JUAN PEDRO (CCB/CCB) Alternate Team Leader; RODEZNO, ELIZABETH R. (CCB/CCB); PAYNE, DANA R (CCB/CCB); WRIGHT, ALLAN SILVERIA (CCB/CBH); GILES ALVAREZ, LAURA (SRE/YPP); GAUTO, VICTOR (CCB/CGY); MOONEY, HENRY (CCB/CJA); KHADAN, JEETENDRA (CCB/CSU); SMETS, LODEWIJK JOHANNES J. (CCB/CTT)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	31 Jul 2018
▪ Beneficiary:	Caribbean
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	\$ 655,000.00
▪ Local counterpart funding:	\$ 0.00
▪ Disbursement period:	48 months
▪ Types of consultants:	Firms; Individuals
▪ Prepared by Unit:	CCB - Caribbean Group
▪ Unit of Disbursement Responsibility:	CCB - Caribbean Group
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation ; Institutional capacity and rule of law

### II. Objective and Justification

- 2.1 This TC aims to support analysis, policy formulation, and policy action conducive to support growth and development in the countries of the Country Department Caribbean, CCB. It focuses on economic institutions that have been shown to reduce uncertainty and support sustainable economic growth.
- 2.2 This TC builds upon extensive diagnostic work and existing knowledge produced inside and outside the IDB, including the findings of Country Development Challenges reports (CDC) of the six CCB countries. The TC plays a key role in supporting high-impact operational activities for the CCB with the aim of strengthening policy dialogue and positioning of the IDB in the region.
- 2.3 Economic growth in the Caribbean has been below other LAC countries for very long periods (together with Haiti and Venezuela, they have the worst growth performance between 1980 and 2017). CCB countries have been also characterized by weak fiscal policies and high levels of debt-to-GDP, which makes them vulnerable to shocks. As a result, economic growth in CCB countries has been below comparable countries and other Latin American countries for an extended period.

- 2.4 Several determinants have been identified for such lack of growth: weak fiscal positions, insufficient buffers for the fluctuations that are characteristic for commodity dependent countries, crime and violence, a sluggish private sector, weak productive development policies, skill-biased emigration, vulnerability to recurrent natural disasters, and other structural impediments have resulted in a complex and challenging environment to promote sustainable growth and development in the Caribbean. Given the prolonged weak economic performance, finding ways to enable growth in the Caribbean remains highly relevant.
- 2.5 In this context, recent CDCs done for country strategies, coupled with other research products, pointed out to an understudied and relevant determinant of growth: Institutions. As such, Beuermann and Schwartz (2018) systematized the theoretical underpinnings and empirical evidence on the link between institutions and growth with specific applications to CCB countries. The analysis shows that extremely relevant economic institutions for growth are largely absent in the Caribbean. Specifically, these institutions include: (i) institutions aimed at ensuring fiscal responsibility beyond the political cycle such as fiscal rules, medium-term fiscal frameworks, fiscal councils, sovereign wealth funds, and public financial management; (ii) monetary institutions such as central banks' independence and transparency; (iii) institutions that facilitate productive investment by the private sector; and (iv) institutions aimed at financial sector development that reduce asymmetric information in financial and credit markets, and promote financial inclusion and access.
- 2.6 Against this backdrop, this TC aims to enable policy dialogue, policy formulation and implementation around these identified relevant economic institutions for growth within three components. The topics are aligned with the Bank's Institutional Strategy Update 2010-2020, tackling two identified structural development challenges in LAC: (i) weak institutional capacity and rule of law, and (ii) low levels of productivity and innovation.

### **III. Description of Activities and Outputs**

- 3.1 Component 1. Characterization of economic institutions for growth and development: Extensive literature systematized by Beuermann and Schwartz (2018) shows a strong link between the aforementioned economic institutions (fiscal, monetary, regulatory, and financial) and economic growth. The study also points out to the limited development of such institutions in the Caribbean. These institutions, however, have many (and largely undocumented) variants in their design and practical applicability. Specificity regarding the types of institutional design best suited for each Caribbean country has largely been absent. As such, this component aims to fill this gap by documenting the specific design parameters (derived from global experiences) for these institutions.
- 3.2 Component 2. Applicability of economic institutions in the Caribbean: Based on the identification of the most applicable and convenient design parameters of economic institutions in Component 1, this component aims to develop specific applied policy-oriented reports for each CCB country including roadmaps that could be followed towards establishing such critical institutions. The roadmaps to be produced for each country, are expected to motivate further operational engagement as the development and implementation of such institutions might require further technical and financial support within possible future loan operations.
- 3.3 Component 3. Policy dialogue and dissemination: Given the applied nature of this TC, policy dialogue and dissemination will be critical. Close interaction with relevant authorities will be needed to develop optimal strategies for the adoption of critical economic institutions. Then, once roadmaps are concluded, the component will enable dissemination events in each country where the main findings will be presented.

- 3.4 **Component I: Characterization of economic institutions for growth and development.** This component will document the specific design parameters (derived from global experiences) of the economic institutions analyzed (fiscal, monetary, regulatory, and financial)
- 3.5 **Component II: Applicability of economic institutions in the Caribbean.** This component will develop specific applied policy-oriented reports for each CCB country including roadmaps that could be followed towards establishing the critical economic institutions characterized in component 1.
- 3.6 **Component III: Policy dialogue and dissemination.** This component will enable dissemination events in each country where the main findings will be presented.

#### IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Characterization of economic institutions for growth and development	\$ 255,000.00	\$ 0.00	\$ 255,000.00
Applicability of economic institutions in the Caribbean	\$ 300,000.00	\$ 0.00	\$ 300,000.00
Policy dialogue and dissemination	\$ 100,000.00	\$ 0.00	\$ 100,000.00

#### V. Executing Agency and Execution Structure

- 5.1 Inter-American Development Bank through its Country Department Caribbean.
- 5.2 The execution of the TC will be carried out by the Front Office of CCB/CCB, which will be in charge of the selection and hiring processes of respective consultants with charges for financing the operation in accordance with the policies and procedures in force at the Bank.
- 5.3 Execution by CCB/CCB is justified as it has a proven track record of executing other TCs involving research activities equivalent to the ones proposed by this TC and involving field data collection in Caribbean countries (RG-T2293, RG-T2199, SU-T1057, GY-T1117, GY-T1118 and GY-T1119), and as such, is better suited to ensure the results are successful achieved.

#### VI. Project Risks and Issues

- 6.1 This is a low risk TC. The main challenge has to do with ensuring that the content of the knowledge products and roadmaps is relevant for our clients in the region. CCB has already worked in mitigating this risk by selecting relevant topics based on rigorous economic analysis performed by its economics team, benefited by discussions and consultation with VPS and IIC specialists, and on extensive dialogue between our representatives and coordinators with authorities in each country.

#### VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "undefined".