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PRIVATE SECTOR ASSESSMENT OF TRINIDAD AND TOBAGO



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Executive summary

The Private Sector Assessment Report (PSAR) presents an overall assessment of private-sector development (PSD) issues and makes recommendations for facilitating and accelerating private investment and economic growth in Trinidad and Tobago. It draws on both primary and secondary data sources. Primary data analyses were derived from interviews with key stakeholders from the domestic private and public sectors as well as interviews with regional and international agencies. A listing of the main stakeholders interviewed is documented in the original country reports¹. Secondary data were utilized to describe the state of the country's economy at both the micro and macro levels. In addition to these specific elements of the research, the development of the PSAR was assisted by consultations organized under the Caribbean Growth Forum² (CGF) banner.

Trinidad and Tobago has experienced continuous economic growth based on the expansion of the energy sector and related industrial developments, and has become one of the wealthiest countries in the Caribbean region. However, the rapid expansion of the energy sector has had an unintended negative effect: it has created a dual economy in which the energy sector has provided financial resources to the government, and via the government to the rest of the economy, but in which the non-energy sector lags behind. If Trinidad and Tobago's economy is to continue to grow, the government will need to facilitate the expansion and specialization process in the energy sector and related industrial developments, and will also need to address the negative consequences of the dual economy.

One thread running through the PSAR and its recommendations is the need to facilitate the specialization process on the part of domestic firms that provide goods and services in the energy sector. The most notable finding of the Trinidad and Tobago PSAR is that there is a group of local companies that have developed the capacity to provide high-value-added goods and services to the energy sector, both domestically and abroad. These companies offer the potential for long-term economic growth, but this will depend on their continued specialization and expansion abroad. As these firms specialize and grow, it is likely that their future expansion will become independent of the domestic energy sector. Thus they have the potential to continue to thrive even after domestic reserves of gas and oil have been depleted.

The PSAR also identifies the need to improve the business climate in order to facilitate private-sector growth in both the energy and the non-energy sectors. The emphasis is not on diversification away from the energy sector, since (as

¹ The original reports can be found on Compete Caribbean's website: <https://www.competecaribbean.org>.

² The CGF is a facilitated methodology for public-private dialogue around issues central to private sector development and growth. It brings a non-traditional approach to the greatest challenge currently faced by the region – creating sustainable and inclusive growth. The Forum also aims to facilitate an action oriented dialogue around key policy reforms needed across three thematic areas: Investment Climate, Skills and Productivity and Logistics and Connectivity. The CGF is a joint initiative by the Compete Caribbean Program, the Inter-American Development Bank, the World Bank, and the Caribbean Development Bank. It is supported by the Department of Foreign Affairs, Trade and Development Canada, the United Kingdom's Department for International Development, CARICOM Secretariat, and the University of the West Indies.

noted above) specialization in goods and services sold to the energy sector offers a long-term opportunity for economic growth that should be encouraged. Rather, the focus is on providing the best opportunities for energy and non-energy businesses to expand beyond the domestic market, selling high-value-added goods and services.

This report identifies the following interventions that are needed in order to improve the business climate: increase credit availability to the private sector; reduce the participation of government in the economy; co-ordinate efforts to promote private-sector development; promote the expansion of export markets to the Caribbean Community (CARICOM) and beyond; focus on skills development at the tertiary-education level and in vocational training; improve the efficiency of domestic markets; facilitate investment in innovation; and make labour markets more flexible. The PSAR also includes recommendations for interventions that are designed to: (i) improve co-ordination between stakeholders and donors in their support of private-sector development initiatives; (ii) facilitate the specialization process for domestic firms that provide goods and services to multinational corporations in the energy sector; (iii) continue to include gender and environmental issues in future private-sector development efforts; and (iv) fill in data and information gaps.

I. Private sector assessment

Background The common threads running through this report and its recommendations consist of the need to facilitate the specialization process for local firms that provide goods and services to multinational corporations in the energy sector, and the necessity of facilitating the development of the non-energy sector by improving the business climate. These goals need to be considered within the context of the recent rapid growth of Trinidad and Tobago's energy sector and its effects—both positive and negative—on the development of the local economy.

Trinidad and Tobago has in recent times experienced continuous economic growth based on the expansion of its energy sector. The economy has benefited from the exploitation of the country's oil and gas reserves³. Trinidad and Tobago's well-established institutional environment enables multinational companies to feel confident about investing in the extraction of gas and oil, the transformation of natural gas into liquefied natural gas (LNG) and related industrial developments. There has been large-scale investment in the exploitation of hydrocarbon reserves and the conversion of natural gas into (LNG). There has also been significant investment in the chemicals industry, which utilizes considerable amounts of domestically produced LNG and other energy resources. The industrial developments at Point Lisas and Point Fortin are unique in the region, being the result of investments not just by multinational corporations and large publicly owned companies, but also by a nascent local industry that has developed the capacity to provide goods and services to corporations in the energy sector. These local companies, and their expansion both domestically and abroad, contain the potential for long-term sustainable growth on the part of Trinidad and Tobago's energy sector that is independent of the country's limited reserves of gas and oil. Thanks to these investments and industrial developments, Trinidad and Tobago is now one of the wealthiest countries in the Caribbean.

One unintended consequence of the strength of the local energy sector is the appreciation of the Trinidad and Tobago dollar in real terms, which has the effect of discouraging domestic production of tradable goods outside the energy sector. This creates an obstacle to the expansion of the non-energy sector beyond the domestic market. As the country's economy continues to grow and develop, the future expansion of private-sector activities requires that firms in the non-energy sector expand and contribute to the diversification of exports. Thus, this report focuses on how to promote the specialization process for local firms in the energy sector and the growth of private-sector production of non-energy goods and services.

Macroeconomic overview Trinidad and Tobago has experienced almost continuous economic growth since 1960. However, the global financial crisis had a major impact on the country's economy, which contracted in 2009-11, with large drops in output recorded in the construction, restaurant and financial sectors. The international

³ National Gas Company website, <http://ngc.co.tt/about/history/>

crisis also hit the local financial sector through its exposure to mortgage-backed securities held by Trinidad and Tobago's largest insurance company, CL Financial Group, which went bankrupt. The economy grew by an estimated 2.1% in 2013, according to the Economist Intelligence Unit, and this momentum has continued into 2014.

Figure 1

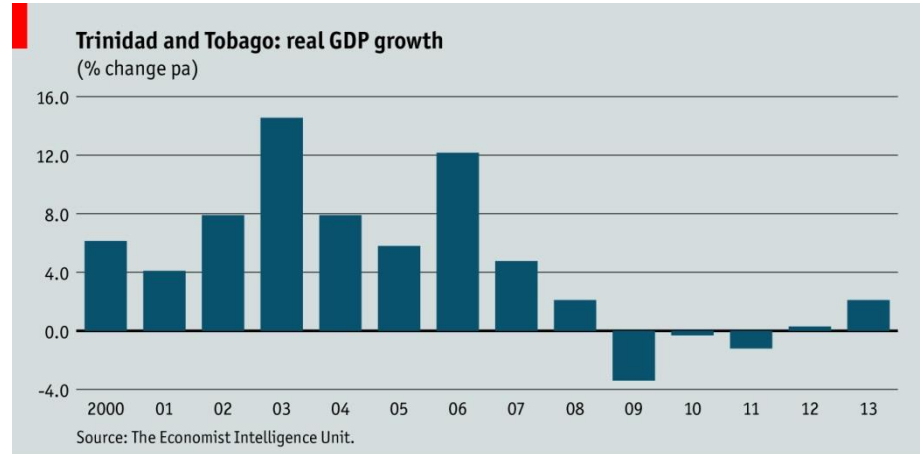


Figure 2

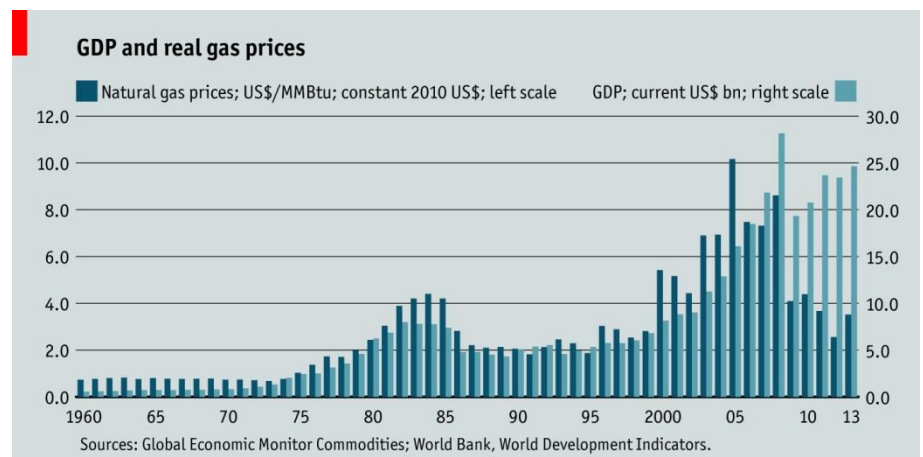
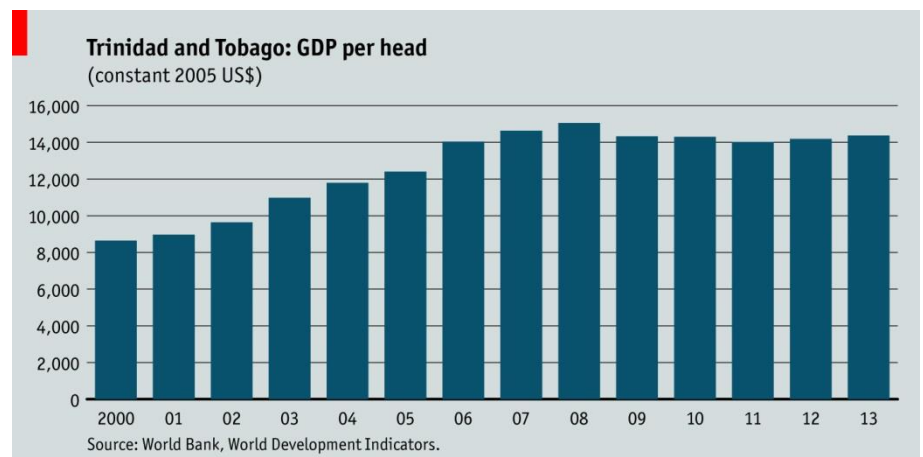


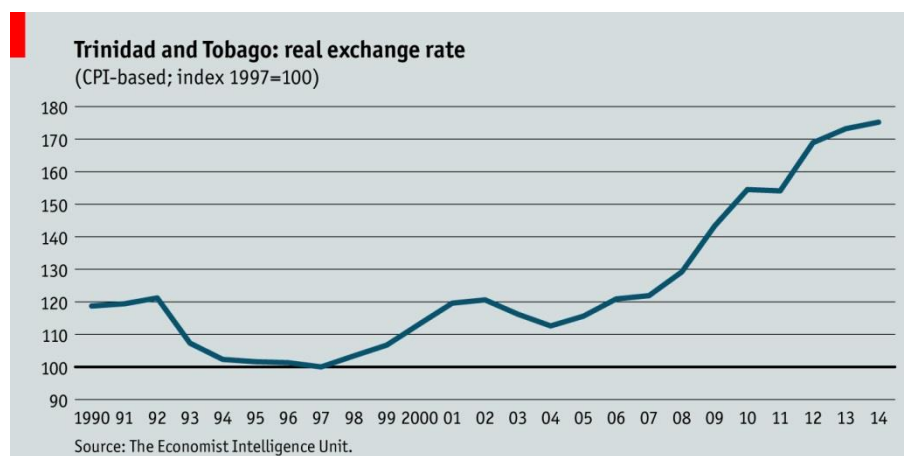
Figure 3

Trinidad and Tobago's real GDP per head has increased by 213% since 1960, representing an average growth rate of 2.3% per year, and since 1989 per-capita income has more than doubled, with average annual growth of 3.5%. The country is now one of the wealthiest in the Caribbean, with real income per head of US\$14,370 in 2013.⁴

Figure 4

Trinidad and Tobago's economy can be characterized as a small, open dual economy in which the energy sector—mostly consisting of natural-gas projects and linked industrial developments—is the engine of growth. The success of the energy sector masks the structural risks attendant on a dual economy. Trinidad and Tobago suffers from "Dutch disease": high levels of gas and oil exports mean that there is a tendency for the exchange rate to appreciate, and this damages the competitiveness of the non-energy goods-producing sector. The real exchange rate increased by over 30% between 2006 and 2012 (see Figure 5).

⁴ World Bank, World Development Indicators.

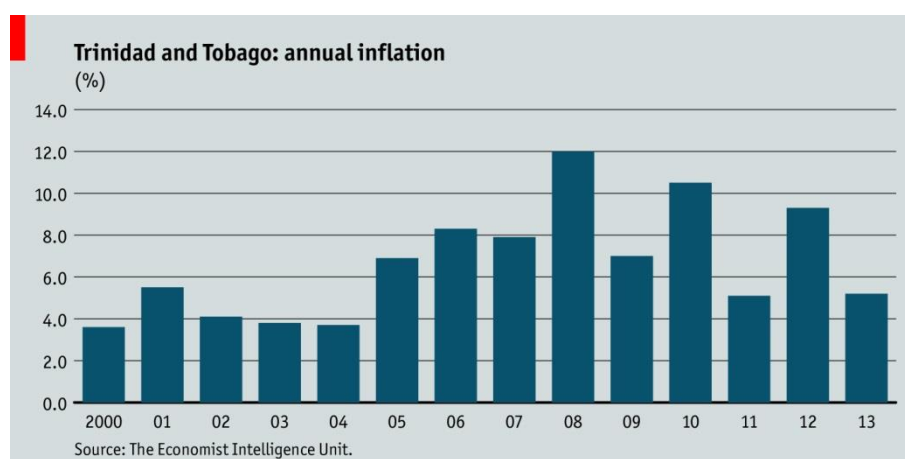
Figure 5

The government has been cautious in its fiscal management. It has created a savings fund with significant resources, and has kept its debt very low, thereby earning excellent credit ratings. Trinidad and Tobago will remain exposed to supply-side inflationary pressures, particularly from volatile food prices (its abundant energy reserves protect it from energy-price fluctuations). Since peaking at double-digit levels in mid-2012, annual inflation has been declining owing to softer food prices, and stood at 3.3% in April 2014. Inflation rates have a direct impact on the real exchange rate in Trinidad and Tobago, owing to the government's policy of maintaining a quasi-fixed nominal exchange rate of TT\$6.3-6.4:US\$1. Energy-related government revenue is volatile, having in the past been equivalent to as much as 25% of GDP but also as little as 5%. To address the issue of revenue volatility, the government saves in the Heritage and Stabilization Fund (HSF) when energy prices are high. The purpose of the HSF is to avoid transmitting price volatility from the energy sector to the rest of the economy, and also to save resources for future use.⁵ It is also worth noting that business cycles tend to be significantly longer in Trinidad and Tobago than in developed economies, so that when the economy enters a period of either rapid growth or slowdown it remains in that phase longer.⁶⁻⁷

⁵ In Latin America and the Caribbean, only Trinidad and Tobago and Chile have successfully created savings funds to manage the wealth generated by their resource-extraction sectors. Other countries with large mineral resources, such as Venezuela and Ecuador, have attempted to save some of their mineral revenue, but their attempts have proved unsustainable. Mexico still maintains the Fondo de Estabilización de Ingresos Petroleros, but as of 2011 the fund held only about US\$3bn, equivalent to around 0.3% of annual GDP.

⁶ Cashin, Paul (2004). *Caribbean Business Cycles*. IMF Working Paper WP/04/136.

⁷ Elias, C., Jaramillo, F. and Rojas-Suarez, L. (2006). Introduction, in Rojas-Suarez and Elias. *From Growth to Prosperity: Policy Perspectives for Trinidad and Tobago*. Inter-American Development Bank (IDB).

Figure 6

Finally, public debt is low, and Trinidad and Tobago boasts investment-grade credit ratings, namely "A" from Standard & Poor's and "Baa1" from Moody's. Public debt stood at 50% of GDP in 2000, but it had fallen to 28.5% by 2007. However, since then the debt level has increased, to stand at an estimated 52.7% of GDP in 2013, according to The Economist Intelligence Unit.

Institutional effectiveness

Governments in Trinidad and Tobago are stable, and democracy is deeply rooted in the country. This encourages investment and guarantees continuity and respect for contracts. As a result, there has been significant investment by multinational corporations in the energy industry. However, according to a white paper prepared by the Ministry of Finance in 2004, regulation of Trinidad and Tobago's complex financial institutions, and the legislation covering them, are weak and expose the system to contagion and to systemic and liquidity risks.⁸ These issues still persist, as was made clear by the bankruptcy of CL Financial and its impact both domestically and in the wider Caribbean region. According to a report prepared by the Inter-American Development Bank (IDB), labour market institutions are weak in Trinidad and Tobago, and this results in unnecessary labour market rigidities that lower formal employment.⁹

Components of the productive sector

Overview of the sector

In the past few years the economic structure of Trinidad and Tobago has remained stable, with about 40% of GDP generated by the energy sector and approximately 60% by the non-energy sector (see Table 1).

Table 1: Trinidad and Tobago: sectoral contribution to GDP

(%)

Industry	2006	2007	2008	2009	2010	2011	2012	2013
Petroleum sector	42.1	40.8	39.8	42.3	42.5	46.6	41.6	41.2
Exploration & production	23.3	22.6	21.8	23	23.2	23.8	22.2	22.6
Refining (incl Atlantic LNG)	10.7	10.6	10.9	12.1	12	9	6	6.6

⁸ Ministry of Finance (2004). *Reform of the financial system of Trinidad and Tobago* (white paper).

⁹ Cortazar, R. (2006). "Policies for labour market institutions", Ch. 3 in Rojas-Suarez and Elias (2006), *From Growth to Prosperity: Policy Perspectives for Trinidad and Tobago*. IDB.

Petrochemicals	4.9	4.6	4.3	4.9	4.9	9.5	8.5	8.6
Service contractors	1.0	1.0	0.7	0.3	0.2	1.9	2.4	1.8
Distribution	2.0	2.1	2.0	2.1	2.1	2.4	2.5	2.5
Non-petroleum sectors	56.8	58.3	59.4	57.1	55.7	53.9	58	58.2
Agriculture	0.5	0.5	0.6	0.4	0.5	0.6	0.6	0.6
Domestic agriculture	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Sugar	0.1	0.1	0.2	0	0.2	0.1	0.2	0.2
Manufacturing ¹	7.3	8.2	8.2	8.3	8.4	5.7	6.1	6.1
Food, beverages & tobacco	3.0	3.5	3.7	4.1	4.0	3.0	3.7	3.7
Textile, garments & footwear	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.1
Printing, publishing etc.	0.8	0.9	0.9	0.8	0.7	0.3	0.3	0.3
Wood & related products	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Chemicals & non-metallic minerals	1.5	1.5	1.4	1.4	1.4	0.9	0.9	1.0
Assembly & related industries	1.5	1.6	1.5	1.5	1.7	0.9	0.6	0.6
Miscellaneous manufacturing	0.3	0.4	0.3	0.3	0.3	0.4	0.4	0.3
Services	49	49.6	50.6	48.4	46.8	47.7	51.3	51.5
Electricity & water	1.3	1.4	1.4	1.4	1.4	1.3	1.3	1.3
Construction & quarrying	7.7	7.9	8.0	7.7	7.0	5.8	5.9	5.9
Distribution & restaurants ²	12.2	12.0	12.9	10.6	10.0	12.9	14.2	14.2
Hotels & guest houses	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.3
Transport, storage & communications	7.1	7.2	7.3	7.6	7.8	5.5	5.9	5.6
Finance, insurance, real estate etc.	12.3	13.0	13.2	13	12.8	10.8	12.1	12.3
Government	4.6	4.6	4.5	4.6	4.4	7.4	7.5	7.7
Education & cultural services	2.1	2.0	1.9	2.0	2.0	2.4	2.8	2.9
Personal services	1.2	1.3	1.2	1.3	1.3	1.2	1.3	1.3
Financial intermediation services (indirectly measured)	-3.1	-3.5	-3.3	-3.5	-3.1	-4.5	-4.4	-3.8
Value-added tax	4.3	4.4	4.2	4.0	5.0	4.2	4.6	3.3
GDP	100	100	100	100	100	100	100	100

¹ Excludes oil-refining and petrochemical industries.

² Excludes distribution of petroleum products (see Petroleum industry).

Source: Table 5, Central Statistical Office, National Income Division.

As of the third quarter of 2012, the country's labour force consisted of 631,500 people, of whom 261,900 (42%) were women. Table 2 shows that the largest sector in employment terms (at 31.9% of total employment) was community, social and personal services, followed by trade, restaurants and hotels (19.1%) and construction (16%). This reflects structural shifts that have occurred as the agricultural sector—and most notably the sugar industry—has declined.

Table 2: Trinidad and Tobago: labour force by sector, 3rd quarter 2010

	Total labour force	Persons with jobs	Total unemployed	Persons without		% of labour force	% of employed	
				jobs & seeking work	Other unemployed		persons	% of unemployed
Total all industries	631,500	600,900	30,600	22,100	8,500	100.0	100.0	100.0
Sugar (cultivation & manufacturing)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Other agriculture, forestry & fishing	24,100	23,900	300	300	n/a	3.8	4.0	1.0
Petroleum & gas	21,400	20,200	1,100	900	200	3.4	3.4	3.6
Other mining & quarrying	700	700	n/a	n/a	n/a	0.1	0.1	n/a
Other manufacturing excl sugar & oil	51,700	50,200	1,600	1,100	500	8.2	8.4	5.2
Electricity & water	9,300	8,700	600	500	100	1.5	1.4	2.0

Construction	n/a	90,300	9,900	6,800	3,000	15.9	15.0	32.4
Wholesale & retail trade, restaurants & hotels	n/a	n/a	4,300	3,400	800	18.9	19.1	14.1
Transport, storage & communications ¹	42,500	41,300	1,300	600	700	6.7	6.9	4.2
FIRE	58,500	57,100	1,500	600	800	9.3	9.5	4.9
Community, social & personal services	n/a	n/a	10,100	7,600	2,500	32.0	31.9	33.0
Not stated	2,100	1,900	200	200	n/a	0.3	0.3	0.7

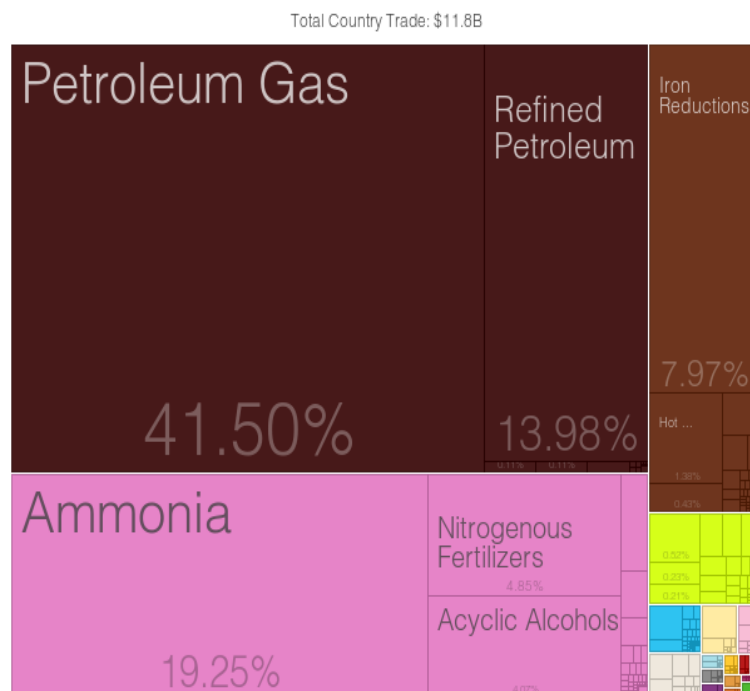
Source: Central Statistical Office.

Energy sector The energy sector includes companies that are active in the exploration, extraction and transformation of gas and oil, including upstream and downstream economic activities, as well as related investments in industries that depend on relatively inexpensive energy.

The trade tree map below showcases the importance of the petrochemical industry in the composition of Trinidadian exports. As can be seen in Table 3 previously, the sector's contribution to GDP grew from 4.6% in 2006 to 8.6% in 2013. Services to the energy industry – including all of the service providers to exploration, extraction and transformation – is the second fastest growing sector, having expanded from 1% of GDP in 2006 to 1.8% in 2013. Although the contribution of the sector is still small, it has doubled in the past seven years and shows signs of continued growth.

Trinidad also has an advantage in the liquefied natural gas (LNG) market. The liquefied natural gas (LNG) and natural gas market is characterized by long-term contracts, relatively fixed prices, and significantly less capacity for switching ownership of gas compared with oil. Trinidad and Tobago is one of only two Latin American and Caribbean countries with LNG plants, the other being Peru.

Figure 7: treemap of exports, 2012

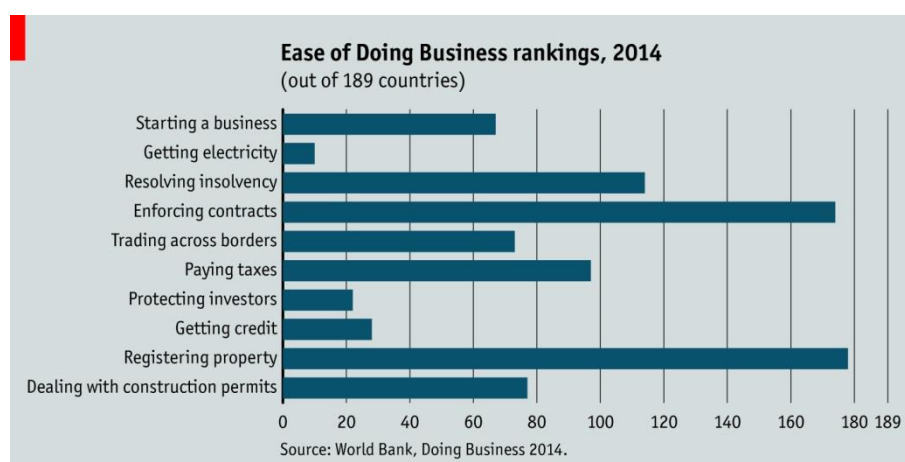


II. Key challenges for private sector development

Trinidad and Tobago's key challenges in terms of private-sector development (PSD) are clustered around the following issues: registering property; crime, theft and disorder; access to finance; an inadequately trained workforce; labour regulation; and poor physical infrastructure.

Doing business in Trinidad and Tobago is relatively easy, according to the World Bank's 2014 Doing Business report. Trinidad and Tobago is ranked 66th overall out of 189 countries. The country is ranked particularly highly for getting electricity (10th), protecting investors (22nd) and getting credit (28th), while its weakest areas are registering property (178th), enforcing contracts (174th) and resolving insolvency (114th). Meanwhile, the Executive Opinion Survey conducted by the World Economic Forum (WEF) notes the difficulty of registering a new business in the country.

Figure 8



The firms surveyed in the World Bank's 2010 Enterprise Surveys for Trinidad and Tobago cited an inadequately trained workforce; crime, theft and disorder; and poor access to finance as the greatest obstacles to doing business.

Key challenges

Registering property

Trinidad and Tobago's poor ranking for registering property in the 2014 Ease of Doing Business index is reflective of a number of issues. On average, the process requires nine procedures that take over 77 days, at a cost of 7% of the property's value. In comparison, the average number of procedures required in Latin America and the Caribbean is seven, while in the OECD it is five. Moreover, the timeline is also significantly shorter elsewhere, averaging 65 days in the region and just 24 in OECD countries.

Crime, theft and disorder

The results of the WEF's Executive Opinion Survey, which gathers the views of executives from a representative sample of companies in preparation for the organization's Global Competitiveness Report, show that the most important issue facing businesses in Trinidad and Tobago is crime and theft. This is a

growing problem, and has a significant deterrent effect on investment. The government is focusing its efforts on lowering crime rates, and especially reducing kidnappings.

Table 4: Trinidad and Tobago: percentage of firms indicating issue as biggest obstacle to doing business

(figures in bold indicate the biggest two obstacles for each category of firm)

	All firms	Small (5-19 employees)	Medium (20-99 employees)	Large (100+ employees)
Access to finance	12.7	12.0	17.7	6.8
Access to land	0.8	1.0	0.2	0.0
Business licensing & permits	2.7	2.8	1.0	5.7
Corruption	4.1	4.3	4.0	1.6
Courts	0.2	0.0	1.0	0.6
Crime, theft & disorder	17.4	15.6	25.9	13.6
Customs & trade regulations	7.1	5.2	15.7	4.8
Electricity	2.6	2.0	5.6	0.0
Inadequately educated workforce	30.1	33.5	16.5	28.1
Labour regulations	2.1	2.5	0.9	0.6
Political instability	2.9	2.3	0.9	16.2
Practices of informal sector	10.6	10.7	6.6	20.7
Tax administration	0.3	0.0	1.5	0.0
Tax rates	4.0	4.6	2.5	0.0
Transportation	2.6	3.4	0.0	1.3

Source: World Bank, Enterprise Surveys 2010.

Access to finance

Access to finance for all companies, but especially for small and medium-sized enterprises in the non-energy sector, is limited. According to the Central Bank of Trinidad and Tobago, banking sector liquidity (measured as the ratio of liquid assets to total assets) stood at about 25% in 2011. However, the total stock of credit to the private sector is low, at only 29% of GDP in 2012. These indicators reflect two facts regarding the country's financial institutions. First, although liquidity is high, there is little appetite for risk-taking on the part of banks in terms of lending to private-sector companies. Second, levels of financial intermediation are low, as banks prefer to keep their liquidity levels high rather than lending to firms that may face repayment difficulties for reasons beyond their control. Banks consider it risky to lend to companies outside the energy sector, as such firms may find themselves unable to repay loans when external conditions change. Rather than being a problem arising from the management approach at individual banks or firms, this is a systemic issue, related to the existence in Trinidad and Tobago of an incentive framework for lending that

does not facilitate financial intermediation. Interest rates in the country are low: in June 2014 the basic prime lending rate stood at 7.5%.

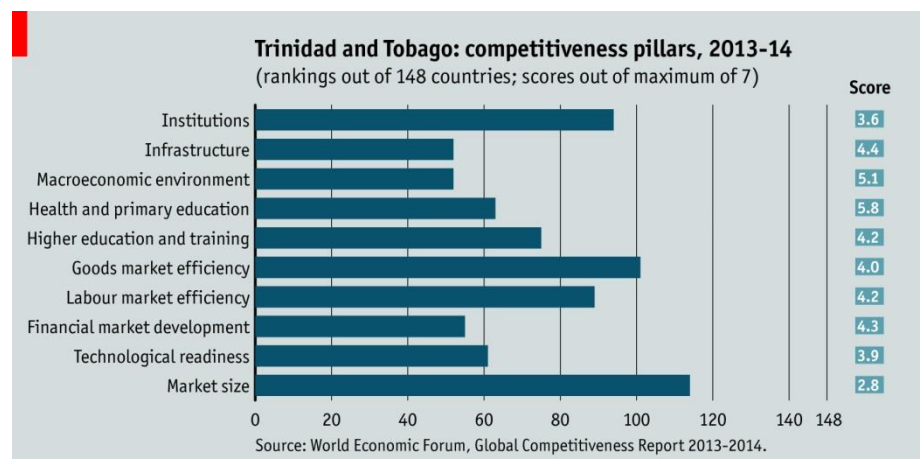
Inadequately trained workforce

The World Bank's 2010 Enterprise Surveys showed that the vast majority of firms in Trinidad and Tobago identify the country's inadequately educated workforce as the main obstacle to PSD. This finding is consistent with the conclusions of the growth diagnostic prepared in 2007 by the Sir Arthur Lewis Institute of Social and Economic Studies (SALISES) and the Fundación de Investigaciones Económicas Latinoamericanas (FIEL), which similarly identified a lack of skills as an impediment to private-sector growth.¹⁰ Additional information about specific skills that are lacking in the market is not available. For this reason, the PSAR recommended that the issue be researched and the findings used to underpin policies aimed at improving the country's supply of skills.

Labour regulation

Labour regulation and labour market institutions are constraints on PSD. The WEF's 2013-14 Global Competitiveness Index ranks Trinidad and Tobago 89th (out of 148 countries) in terms of labour market efficiency. The mediocre ranking reflects weak scores in a number of areas, including co-operation in labour-employer relations (134th), flexibility of wage determination (108th) and redundancy costs (96th). Moreover, the country scores poorly for its efficiency in the use of talent, ranking 85th—its low ranking on this measure stems from its poor performances on pay and productivity (for which it is ranked 123rd) and on female participation in the labour force (94th). According to a report prepared by the Inter-American Development Bank (IDB) in 2006, Trinidad and Tobago's labour market institutions are weak and result in unnecessary rigidities that lower formal employment.¹¹

Figure 9



Infrastructure: water and transportation

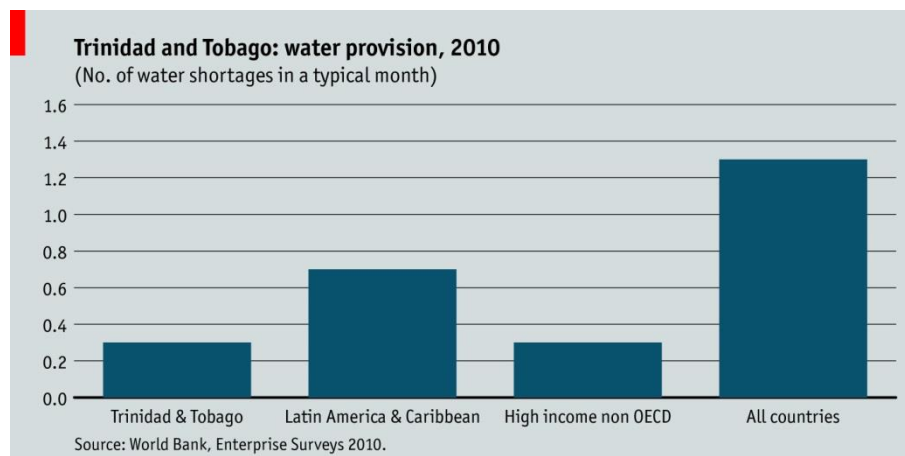
The quality of Trinidad and Tobago's infrastructure is one of the main constraints on PSD in the country. Water provision is one of the biggest

¹⁰ Artana, D., Auguste, S., Moya, R., Sookram, S. and Patrick Watson (2007). *Trinidad and Tobago: Economic Growth in a Dual Economy*. An Inter-American Development Bank (IDB) research project.

¹¹ Cortazar, R. (2006). "Policies for labour market institutions", Ch. 3 in Rojas-Suarez, L. and Elias, C. (2006). *From Growth to Prosperity: Policy Perspectives for Trinidad and Tobago*. IDB.

problems. The World Bank's Enterprise Surveys reveal that water shortages tend to last nearly 18 hours on average. Nevertheless, the number of shortages in a typical month is lower than the average for Latin America and the Caribbean and in line with high income non-OECD countries. The other factors that present challenges to PSD are transportation (via land, air and water) and ports. The road network was not designed to cope with the current volume of traffic, and there are problems of congestion and related delays, especially in and around the capital, Port of Spain, and on the road to the country's largest city, San Fernando, and Point Fortin. The public transport system is not of sufficient quality to provide a viable alternative to road transportation.

Figure 10



Gender Analysis of gender issues in Trinidad and Tobago is significantly constrained by poor data availability, as the website of the Ministry of Gender, Youth and Child Development does not provide any statistics. However, the World Bank's Enterprise Surveys for 2010 included questions on female participation in the workforce and female ownership of firms. According to the survey, female participation measured on the basis of the number of full-time women employees in the workforce, at about 42%, is higher in Trinidad and Tobago than the average in Latin America and the Caribbean, and also exceeds the average in high-income non-OECD countries. The survey responses on female ownership of businesses produced a similar result. Nevertheless, the labour market participation rate of women is lower than that for men, and women's roles and jobs are perceived as being low in status and poorly paid. The stereotyping of women's roles at home and at work remains a problem, despite the fact that women dominate tertiary-education enrolment across the Latin America and Caribbean region.

Environment The energy sector, and in particular the oil industry, poses an environmental risk to the country that is amplified by the fragility of the islands and their exposure to water pollution. The donor community, and in particular the UN Development Programme (UNDP) and the Global Environment Facility, are active in addressing the main problems of pollution and land management, and perhaps more importantly in the elaboration of environmental policy. According to Trinidad and Tobago's Office of Disaster Preparedness and

Management (a branch of the Ministry of National Security), the UNDP provides support for the development of a programme that also increases the country's capacity for disaster risk management. The following outcomes are desired:

- An improved framework of policies and strategies on disaster risk management
- A well-functioning emergency communications system

The disaster management office has produced disaster-response maps using an interactive geographic information system (GIS) that shows, by city and municipality, the locations of shelters, hospitals, health centres, police stations, the Water and Sewage Authority, the Electricity Commission, areas subject to flooding, environmental hazards, areas at risk of landslides, town halls and civic centres, parks, churches, evacuation routes and factories. This tool is of great value to planners and citizens, and would benefit from the addition of information detailing types of factories and the related environmental risks that they pose. Disaster preparedness could also be improved by means of the preparation of simulations of environmental disasters related to the chemicals and energy industry.

III. Emerging sectors

The segments of the private sector that have high potential for growth are in the energy sector, and more specifically in the cluster of companies that provide goods and services to large multinational corporations. This nascent service industry related to the energy sector needs to be analysed and quantified. This report therefore recommends that the growth diagnostic prepared in 2007 by the Sir Arthur Lewis Institute of Social and Economic Studies (SALISES) and the Fundación de Investigaciones Económicas Latinoamericanas (FIEL)¹² be updated and that, in addition to any necessary updates to the analysis, it include an examination of the following new issues:

- The 2007 growth diagnostic report collected primary information by conducting a survey of a representative sample of firms in the non-energy sector. This report recommends that the survey is repeated, but that this time it should be expanded to include questions relating to gender, the characteristics of the domestic services sector and the constraints faced by that sector. Such a project should also include in its panel representatives of the energy sector.
- A product-space and economic complexity analysis focused solely on the energy sector should be carried out. The product-space analysis should include services, and should not be limited in terms of the range of goods and services studied. It should also assess the comparative advantages of the goods covered, focusing in particular on goods produced for export.
- An estimation of economic complexity should be used to provide a micro-level analysis of non-tradable goods in the energy sector. A qualitative analysis should be carried out based on case studies of companies that have been successful in selling goods and services to corporations in the energy sector.

Table 5: Trinidad and Tobago: growth in GDP and components
(real annual % change)

Industry	2006	2007	2008	2009	2010	2011	2012	2013
Petroleum sector	21.8	1.7	-0.2	2.6	2.8	-3.9	-2.6	1.9
Exploration & production	16.4	1.4	-1.2	1.8	3.2	-4.4	-2.5	1.6
Refining (incl Atlantic LNG)	41.0	3.4	5.1	7.1	1.7	-5.7	-4.0	3.9
Petrochemicals	15.3	-2.3	-2.8	8.7	3.9	-4.7	-5.8	-1.5
Service contractors	38.4	0.8	-25.9	-60.1	-25.6	62.6	20.8	12.5
Distribution	8.9	5.6	1.3	-2.7	5.5	-0.8	3.2	-0.3
Asphalt production	37.3	35.5	-1.7	-38.8	57.1	43.5	1.5	4.0
Non-petroleum sectors	6.4	7.6	4.2	-7.2	0.0	1.2	3.4	2.6
Agriculture				-32.4	76.8	-0.1	-19.1	-3.5
Export agriculture	-79.6	33.9	-9.3	-32.4	-2.2	13.3	2.0	9.6
Domestic agriculture	-16.3	6.3	1.0	-9.1	17.0	3.5	-15.8	3.6
Sugar	141.1	93.5	25.7	-80.5	666.6	-5.7	-25.0	-16.8
Manufacturing ¹	13.5	16.3	2.5	-1.7	3.0	-1.1	2.1	0.9
Food, beverages & tobacco	9.1	22.4	8.4	5.7	0.7	1.6	6.2	1.2
Textile, garments & footwear	5.9	2.7	22.8	2.7	7.5	-1.1	-7.2	-6.2

¹² Artana, D., Auguste, S., Moya, R., Sookram, S. and Patrick Watson (2007). *Trinidad and Tobago: Economic Growth in a Dual Economy*. An Inter-American Development Bank (IDB) research project.

Printing, publishing etc.	20.1	19.3	-3.3	-10.6	-8.3	-5.6	6.5	4.2
Wood & related products	-17.6	25.5	-8.4	-27.7	-9.6	5.3	-10.2	-3.9
Chemicals & non-metallic minerals	16.9	5.6	-5.4	-3.1	4.1	3.5	-2.9	2.1
Assembly & related industries	18.9	12.1	1.4	-6.4	13.7	-10.1	-3.6	-0.2
Miscellaneous manufacturing	30.9	21.6	-6.1	-22.4	10.1	-6.7	-3.2	-4.0
Services	5.6	6.1	4.5	-7.9	-0.8	1.7	3.9	2.9
Electricity & water	-0.4	6.5	3.0	0.3	0.1	6.4	4.5	2.3
Construction & quarrying	6.2	7.1	4.5	-7.6	-6.2	-8.8	-2.0	4.1
Distribution & restaurants ²	15.1	3.3	9.8	-21.2	-3.1	4.7	1.4	4.2
Hotels & guest houses	-19.8	0.4	-18.0	-12.1	-15.6	-8.6	-7.8	4.0
Transport, storage & communication	4.6	6.0	3.7	0.0	4.9	0.9	12.7	2.9
Finance, insurance, real estate etc.	1.0	10.4	3.7	-4.7	0.9	5.3	4.8	3.3
Government	-1.5	3.2	1.7	-1.7	-2.3	-0.7	1.0	0.5
Education & cultural services	7.3	0.7	-3.0	1.6	1.2	0.6	0.5	-3.8
Personal services	9.9	7.0	-4.5	4.5	4.4	-2.6	2.7	4.9
Financial intermediation services, indirectly measured	14.1	18.5	-2.9	0.2	-7.5	-1.5	3.0	-1.6
Value-added tax	43.0	7.3	-2.7	-6.6	26.0	-21.3	23.1	11.9
GDP	13.4	4.8	2.4	-3.5	2.5	-1.6	1.5	2.8

¹ Excludes oil refining and petrochemical industries. ² Excludes distribution of petroleum products.

Source: Table 6, Central Statistical Office, National Income Division.

Energy sector The success of the natural gas sector is directly related to government decisions to welcome private foreign investment in the exploitation of gas deposits located in the continental shelf known as the Guiana basin.¹³ The government has promoted significant investments in the production of liquefied natural gas (LNG) for export, and also in the development of industries (such as the manufacture of methanol, ammonia and steel) that require large amounts of relatively inexpensive energy.¹⁴

Energy-related service industry There is a nascent service industry in Trinidad and Tobago related to the energy sector, consisting of a group of local companies that have developed the capacity to provide high-value-added goods and services in the energy industry. These firms sell their products to multinational corporations, and their commercial links to such corporations locally are facilitating their expansion abroad. For example, a local company sells services to a multinational corporation, and its excellence in terms of quality and price subsequently persuades that corporation to buy services from the local firm for its businesses in other regions. These companies offer the potential for long-term economic growth, but this will hinge on their continued specialization. As such firms specialize and grow, their portfolio of clients expands and their future growth becomes less dependent on the domestic energy sector. Consequently, these companies have the potential to continue to thrive even after Trinidad and Tobago's reserves of gas and oil have been depleted.

¹³ The Guiana basin extends from the South American continent into the Caribbean Sea and includes the islands of Trinidad and Tobago.

¹⁴ The original LNG contracts were in the ratio of 70:30 to the US and Spain. In practice, cargoes are diverted to seek the best prices. Until 2009 the highest prices were available in the US, but they have now shifted to Asia and Latin America. Trinidad and Tobago has the most geographically diverse portfolio of LNG markets of any exporter of the fuel.

IV. Priority areas and action plan

This section presents the priority issues that have been identified in this report, together with a proposal for a private-sector development (PSD) plan to be implemented in the short term that would re-energize several PSD processes that are currently either in preparation or being implemented in Trinidad and Tobago. The priorities are clustered around the following issues: (i) PSD co-ordination, (ii) facilitating the specialization process of domestic firms that provide goods and services to multinational corporations in the energy sector, (iii) facilitating the development of the non-energy sector by improving the business climate and access to finance, (iv) the continued inclusion of gender and environmental issues in future PSD efforts, and (v) filling in data and information gaps.

It is important to clarify that important PSD initiatives are currently supported by stakeholders in Trinidad and Tobago. The objective of the Trinidad and Tobago Private Sector Assessment Report (PSAR) is to contribute to the process of accelerating growth and development in Trinidad and Tobago, rather than to supplant existing PSD efforts. The intention of the PSAR is to provide stakeholders with a complementary and comprehensive review of programmes, alternatives and options, including a proposal for priority interventions and an action plan. If the PSAR is to succeed in re-energizing support for PSD in the country, stakeholders will need to take ownership of the action plan and agree on the way forward.

Background

In the context of the dual economy that prevails in Trinidad and Tobago, businesses that participate in the production of tradable goods should be identified, and their expansion facilitated. Such enterprises have been able to avoid the negative impact of a high real exchange rate, and are able to export goods and services produced locally. Unfortunately, beyond anecdotal evidence, no such classification or analysis has been carried out in Trinidad and Tobago. The largest challenges in this area are the need to facilitate the specialization process among domestic firms that provide goods and services to multinational corporations in the energy sector, and to facilitate the development of the non-energy sector by improving the business climate.

The emphasis is not on diversification away from the energy sector, since (as noted above) specialization in goods and services sold to that sector offers a long-term opportunity for private-sector growth that should be encouraged. Instead, the focus is on the need to provide the best opportunities for non-energy businesses to expand beyond the domestic market, and to increase the opportunities for smaller companies to enter the domestic energy-related market. Government action in this respect is important, and current plans for the design and implementation of a public-offerings programme (involving the sale of shares in fully or partially state-owned companies) would help in achieving this objective.

Steps to improve PSD co-ordination and the creation of a national strategy

Although a strong commitment to PSD is demonstrated by the various programmes that are supported by the donor community and by private and

public stakeholders, co-ordination between donors is limited and, at best, informal. Better co-ordination would be likely to result in a reduction in the number of programmes and an increase in their size, with a higher probability of success and sustainability than at present. Better co-ordination would also enhance efforts to address gender considerations, would lead to an increase in the resources allocated to the collection of data and its analysis, and would help the design of gender-specific projects.

The most important opportunity for co-ordination is to identify a limited set of prioritized actions that would facilitate PSD. Private-sector institutions in Trinidad and Tobago are providing good-quality services to their members. What is not being done, however, is to focus the attention of decision-makers on a set of actions that would significantly improve the probability of success of private-sector investments. From a co-ordination perspective, the following may be considered as priorities for private-sector stakeholders:

- Identification and prioritization of activities that would facilitate PSD in all sectors of the economy (for example, policies to support improvements in the business environment)
- Alignment of resources (such as funding for efforts to fill in knowledge gaps, and lobbying) around a select few activities, and formal agreement with decision-makers on a timetable for the execution of work programmes
- Focus on specialization in upstream and downstream energy-related companies

This report therefore highlights the importance of preparing a national PSD strategy that would bring together all the relevant issues, prioritize them, assign responsibilities to stakeholders, and map out specific activities and a timeline for their execution.

In general, monitoring and evaluation of PSD programmes and projects in Trinidad and Tobago is limited. Improved co-ordination between donors and private-sector stakeholders will significantly improve monitoring and evaluation, assuming that agreement can be reached on investment in data collection and analysis and that resources can be pooled for this purpose. The Ministry of Trade is active in relation to business-climate issues, and could engage with key stakeholders in these efforts.

Facilitating the specialization process for domestic firms that provide goods and services to multinational corporations in the energy sector

The PSAR notes that the primary goals in relation to PSD in Trinidad and Tobago are to facilitate the specialization process of domestic firms that provide goods and services to multinational corporations in the energy sector, and to support the development of the non-energy sector by improving the business climate. Although the process of growth and specialization of local firms serving the energy sector is already under way, the size and contribution to the economy of this segment of the economy is as yet unknown. For this reason, this report refers to this group of companies as nascent, and recommends that data be collected and analysed to identify the segment's potential and any bottlenecks that may be slowing its growth.

It is also worth noting that industrial developments in Trinidad and Tobago linked to the production of liquefied natural gas (LNG) and related industries may continue to expand even after domestic gas and oil reserves have been exhausted. Large domestic industrial projects could be fuelled by gas sourced from neighbouring countries, such as Guyana, Suriname and Venezuela. The level of investment necessary to establish such industries is very high, and it would be less expensive to import gas from neighbouring countries to be transformed and used in Trinidad than to invest from scratch in those countries. In 2010 Trinidad and Tobago signed an agreement with Venezuela for the joint exploitation of the Loran-Manatee natural gas field, with a share of 73% for Venezuela and 27% for Trinidad and Tobago, and this deal may be followed by another in which part of Venezuela's share of gas is transferred to Trinidad.

The main issues that should be addressed in order to design and implement a policy that favours specialization in the energy sector include: (i) a comprehensive mapping of businesses that are providing goods and services to multinational corporations, and identification of their potential for growth domestically and internationally and the bottlenecks that may be preventing additional investments; (ii) the design of a policy to attract investments in the transportation of natural gas from neighbouring countries to Trinidad, including the identification of legal and trade barriers and the analysis of similar developments in other world regions; and (iii) the update of the growth diagnostic prepared in 2007 by the Sir Arthur Lewis Institute of Social and Economic Studies (SALISES) and the Fundación de Investigaciones Económicas Latinoamericanas (FIEL).¹⁵

Facilitating the development of the non-energy sector by improving the business climate and access to finance

Access to finance Limited access to finance is a significant constraint on PSD in Trinidad and Tobago. The economy would benefit from a market maker that brings together supply and demand for financial services. New institutions and new instruments need to be developed that specialize in lending to firms in all sectors, and especially to small and medium-sized enterprises (SMEs), which are likely to require flexibility in loan terms and maturities. It is important to highlight the need for new financial products that are specifically designed to match Trinidad and Tobago's economic characteristics and which respond to the needs of SMEs, including those owned by women. The current prevalence and use of traditional products and services—such as secured transactions, factoring, leasing, credit bureaux, venture capital and other forms of capital markets—need to be mapped and analysed, in order to identify deficiencies in their design and their ability to provide for the needs of a diverse constituency (notably young people and women) that can face a variety of difficulties.

Policies that lower risk for banks should be implemented to enable those institutions to expand their portfolios. The Trinidad and Tobago PSAR proposes that the government identify the risk factors that banks currently face, with a

¹⁵ Artana, D., Auguste, S., Moya, R., Sookram, S. and Patrick Watson (2007). *Trinidad and Tobago: Economic Growth in a Dual Economy*. An Inter-American Development Bank (IDB) research project.

view to working with banks to implement appropriate measures to expand credit to the private sector.

The UN Economic Commission for Latin America and the Caribbean (ECLAC) has made two recommendations for the improvement and deepening of financial intermediation in the Caribbean region, as follows: (i) increase competition in the banking sector, and (ii) change the incentive framework for the development of regional capital markets, with a focus on harmonizing company legislation and improving regulation and bankruptcy laws.

Table 5: Trinidad and Tobago: priorities for facilitating development of the non-energy sector by improving the business climate

Issues and recommendations	Responsibility for leadership	Technical difficulties	Political friction
Improve macroeconomic stability through better management of macroeconomic flows and better overall management of public-sector assets and liabilities, along the lines of IMF recommendations.	Ministry of Finance	High	High
Low financial intermediation. Identify risk factors that banks face, and work with banks in identifying appropriate measures that would result in expansion of credit to private sector. Create new products and institutions that meet demand for loans from SMEs. In this context, review and update the 2004 White Paper on financial sector reform and related efforts to mainstream gender issues.	Ministry of Finance, Central Bank	Medium	Medium
Support government's stated interest in designing and implementing a programme of public offerings.	Ministry of Finance, PSD institutions	Low	High
Use results from Arthur Lok Jack School of Business on clusters, and complement this work on mapping private-sector firms by classifying them into energy and non-energy businesses; within the non-energy classification, identify businesses that produce non-tradable and tradable goods and services. This classification would lead to an analysis of bottlenecks impeding development of businesses in the energy sector and the non-energy tradable sector. Add a breakdown of ownership and management by gender to the classification.	Arthur Lok Jack School of Business	Medium	Low
Facilitate development of a trade strategy, and empower the Trade Implementation Unit.	Ministry of Trade and Industry	Low	Low
Focus on skills development at tertiary-education level, including vocational training and work on reducing gender segregation in education.	Unclear	High	Low
Improve goods market efficiency, in terms of: effectiveness of anti-monopoly policy; number of procedures involved in starting a business; number of days taken to start a business; agricultural policy costs; trade tariffs; burden of customs procedures; degree of customer orientation.	Unclear	Medium	Low
Promote innovation, in terms of capacity for innovation and government procurement of advanced technology products.	Unclear	High	Low
Strengthen property rights by improving registries for movable goods and real estate.	Unclear	Low	Low
Make labour markets more flexible and gender-inclusive by addressing issues in legislation; improving enforcement; the issue of minimum wages and their link to productivity; training and opportunities for trainees; access to day care; social co-operation; and role of Ministry of Labour.	Ministry of Labour, Ministry of Finance	Low	High
Facilitate improvement of infrastructure and services, especially water provision and roads, by promoting public-private partnerships based on the strategic approach of the International Finance Corporation and the Inter-American Development Bank.	Unclear	Low	Medium

Source: Author's analysis and recommendations.

Priority PSD issues—the continued inclusion of gender and environmental issues in future PSD efforts

Issues and recommendations	Responsibility for leadership	Technical difficulties	Political friction
Strengthen geographic information system (GIS) capacity of Office of Disaster Preparedness and Management by adding information on industry types, environmental risk by type of industry, and capacity for simulation of environmental disasters related to the chemicals and energy industries.	Office of Disaster Preparedness and Management, Ministry of National Security	Medium	Low
Design a comprehensive programme to support female-led businesses, overcoming pervasive negative gender stereotyping, a high degree of informality, and a lack of graduation from welfare-oriented support programmes to more market-led support. Importantly, as in the case of all SMEs, special attention should be given to financing of businesses and creation of credit instruments tailored to the needs of women in business.	Bureau of Gender Affairs, Association of Female Executives of Trinidad and Tobago	Medium	Low

Source: Author's analysis and recommendations.

Filling in data and information gaps

The process of prioritizing PSD programmes and projects would benefit from efforts to fill in the following information gaps:

- A mapping of private-sector activities by sector, and especially the identification of upstream and downstream energy activities. Opportunities for further specialization will probably demand skills that are not prevalent in the market. The analysis would identify the level of demand for those highly specialized skills that would facilitate growth in the energy sector.
- A mapping of financial sector products available to the private sector, such as banking services on factoring, secured transactions, discount of letters, long-term lending terms and options, stock-exchange bond-issue conditions, and credit ratings for individuals and companies
- A mapping of trade-related information relevant to companies in the upstream and downstream energy sectors, with an emphasis on trade bottlenecks, such as intellectual property rights for the protection of local companies' innovations
- A complete description and analysis of labour markets
- A complete description and analysis of the tax system
- A complete description and analysis of registries, real estate and movable property
- A complete mapping of licensing requirements by sector
- A complete mapping of bottlenecks for PSD, including the impact of the existing large-scale involvement of the public sector throughout the economy

(for example in public ownership of productive assets and regulatory overreach)

Labour regulation The PSAR recommends that a full review of labour market rigidities be carried out and that an action plan for the creation of flexible labour markets in Trinidad and Tobago be prepared. Additionally, the report supports the recommendation spelled out in an earlier Inter-American Development Bank (IDB) publication¹⁶, which include the following policies:

- **Industrial Relations Act**
 - Maintain collective bargaining at company level
 - Reinforce the bipartite aspects of collective bargaining
 - Authorize non-unionized workers to go directly to the Industrial Court without having to register with a union
- **Retrenchment and Severance Benefits Act**
 - Create a defined-contribution system, administered by the private sector, as a substitute for a portion of severance payments, and permit workers to access to those benefits when they leave a job or retire
- **Enforcement**
 - Develop a preventative and promotional approach to enforcement, seeking the co-operation of labour and business associations
 - Minimum wages
 - Increase minimum wages (in real terms) as little as possible in the short term, and raise minimum wages at the same rate as growth in labour productivity over the longer term. Avoid implementing sector-specific minimum wages
- **Training**
 - Promote the development of private training institutions, and improve the incentive structure of public training institutions
 - Promote the development of a dual-approach training system, whereby training institutions provide students with theoretical content and firms offer them practical experience as trainees
 - Authorize firms that provide training to their workers to pay less than the minimum wage
 - Create an effective accreditation and certification system
 - Provide upper- and middle-class students with training loans and give poor students training subsidies
 - Social co-operation

¹⁶ Cortazar, R. (2006). "Policies for labor market institutions", Ch. 3 in Rojas-Suarez and Elias, *From Growth to Prosperity: Policy Perspectives for Trinidad and Tobago*. IDB.

- Promote co-operation whenever possible and allow conflict whenever necessary
- **Role of the Ministry of Labour**
 - Encourage the ministry to intervene indirectly in support of employment, higher wages and better working conditions
 - Integrate the ministry as a significant member of the government's economic team

- Action plan**
- Action 1:** Create a forum to promote private-public dialogue
 - Action 2:** Identify and prioritize issues for PSD in public-private dialogue, allowing other relevant bodies to participate in the discussion
 - Action 3:** Decide on appropriate interventions and policies to remedy market failures

Conclusions The PSAR for Trinidad and Tobago presents an overall assessment of PSD and recommendations for facilitating and accelerating private investment and growth. The report's most important finding is that there is a group of domestic companies that have developed the capacity to provide high-value-added goods and services to the energy sector. As these companies specialize and grow, they extend their reach to clients in other world regions and their future growth becomes independent of the fortunes of the domestic energy sector. Such companies thus have the potential to continue to thrive even after domestic reserves of gas and oil have been depleted.

The PSAR recommends that Trinidad and Tobago focus on and facilitate both the specialization process of domestic firms that provide goods and services to multinational corporations in the energy sector, and the development of the non-energy sector through improvements to the business climate. The emphasis is not on diversification away from the energy sector, as specialization in goods and services sold to the energy sector offers a long-term opportunity for private-sector growth that should be encouraged. Instead, the focus is on providing the best opportunities for non-energy businesses to expand beyond the domestic market, selling high-value-added goods and services. Government actions are important in this respect, and current plans for the design and implementation of a public-offerings programme (involving the sale of shares in state-owned enterprises) will help in achieving this objective. The report notes that resources brought into the financial sector by the energy sector offer an important source of domestic funding on favourable terms (with characteristics such as low interest rates, generous grace periods and long maturities). However, this source of finance is currently underused, and the PSAR prioritizes the identification of steps that would facilitate access to finance.

Finally, the report identifies significant data and information gaps. Filling in these gaps would help in the identification of bottlenecks that are obstructing growth and would provide information that could be used in measuring private-sector expansion. If this report is to succeed in re-energizing support for

PSD in Trinidad and Tobago, stakeholders will need to take ownership of the action plan and agree on the way forward.

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