

# Caribbean Investment Climate Index (CICI)

Explanatory note

December 2024



# Introduction

- Economic rankings are popular with policymakers. Aruba, Curaçao and Sint Maarten are often missing from such rankings. We have therefore developed the Caribbean Investment Climate Index (CICI), an economic index for countries in the Caribbean region.
- Well-known economic indices are the World Bank's Doing Business Index, the World Economic Forum's Global Competitiveness Index and the International Monetary Fund's Financial Development Index. The success and popularity of these indices is primarily due to their simplicity. Measuring the 'ease of doing business', for example, is admittedly a complex study in which thousands of experts, entrepreneurs and lawyers worldwide are questioned about aspects that influence the business climate in a country. All these aspects are expressed in one score per country: the "ease of doing business" score.
- Despite their potential value to policymakers, the functionality of economic indices in the Caribbean region is limited since usually only some of the countries are included. Aruba, Curaçao and Sint-Maarten, for example, are not included in the aforementioned indices (apart from Aruba in the Financial Development Index).



# Attracting foreign investors

- The small scale of the economy, limited access to international capital and the import dependency of many Caribbean countries make attracting foreign investors important if not necessary. Caribbean countries often offer financial incentives for foreign investors, such as granting tax holidays and offering guarantees. Such arrangements are costly, weigh heavily on the public budget and reduce the economic benefits of foreign investments for the recipient country.
- It is becoming increasingly clear that it is not the government, but the market that must ensure that foreign investments find their way to Caribbean countries. Economic reforms are necessary to achieve that goal.
- Curaçao, Aruba and Sint Maarten have been committed to reforming the business and investment climate for years now; implementation however has lagged behind to date. The country packages agreed upon with the Netherlands aim to implement long overdue policy reforms.

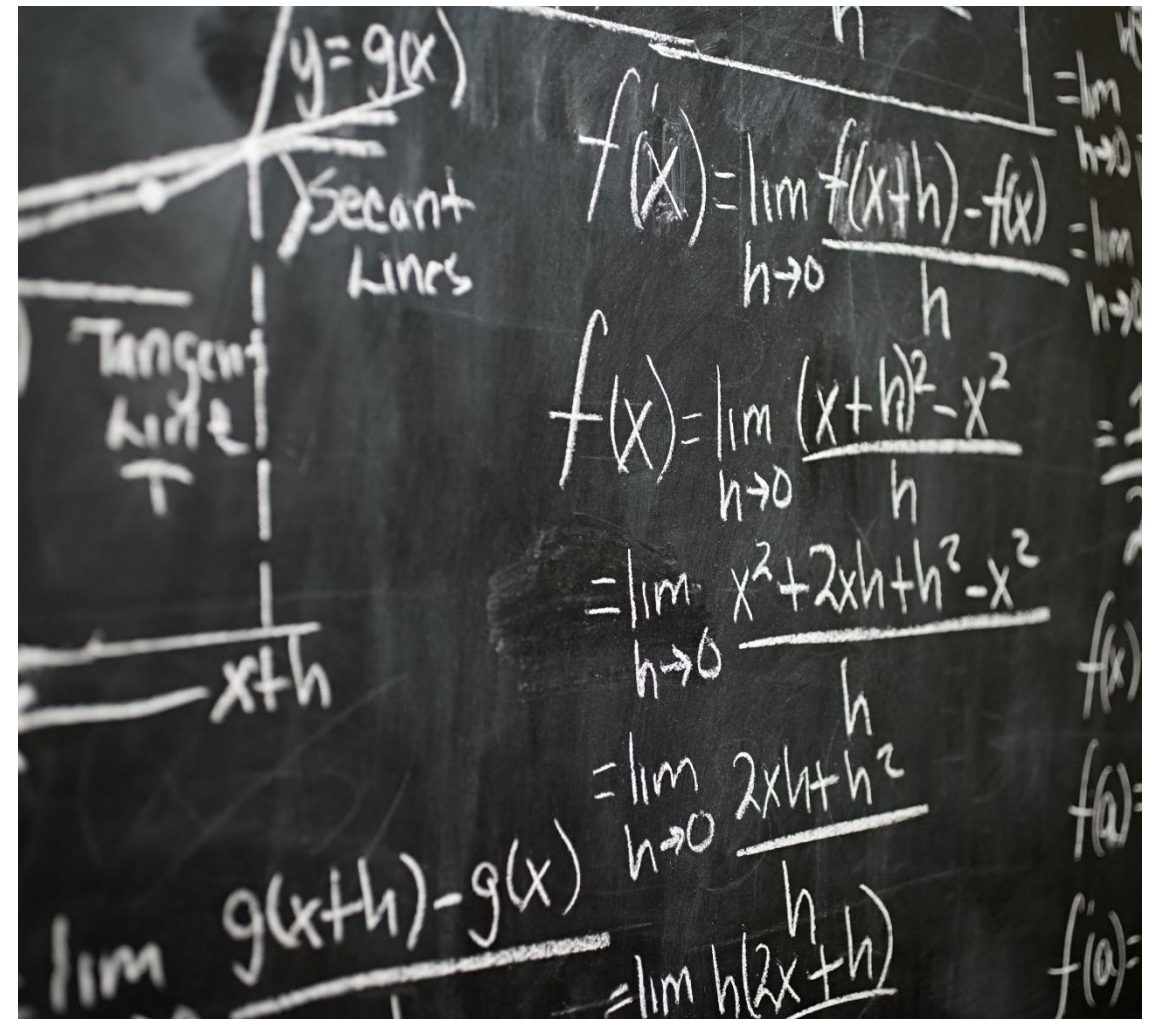


# Caribbean Investment Climate Index (CICI) – *Methodology*

- With the Caribbean Investment Climate Index (CICI) we measure the investment climate of Caribbean countries using macroeconomic, financial and institutional data. The CICI-score 2024 is built upon data mainly from 2022 and 2023. The recovery from the COVID-19 crisis is reflected in the CICI-score 2023.
- The CICI covers 17 countries, including Aruba, Curacao and Sint Maarten. The CICI score is made up of indicators that are relevant to the investment climate. An indicator has also been included for the availability of data; for limited availability of data, the CICI score is reduced. The exact determination of the data availability score of a country  $i$  is:

$$s_{i,DA} = w_{DA} \left( \frac{\sum_j w_j I_{i,j}}{\sum_j w_j} \right)^\gamma$$

- Where  $s_{i,DA}$  is the score for data availability,  $w_{DA}$  is the weight for data availability,  $I_{i,j}$  is an indicator function for the presence of variable  $j$  for country  $i$ , and  $\gamma$  is a scaling factor. The higher  $\gamma$ , the smaller the differences between countries with different data availability. In addition, the less recent the data, the lower the share by which the variable counts in the total score.



# Caribbean Investment Climate Index (CICI) – *Methodology*

- Countries for which the CICI cannot be accrued for at least 50 percent will not be awarded a CICI score are excluded from the CICI ranking. For this reason, no CICI score can be calculated for Saint Martin and the Turks and Caicos Islands at this stage; these countries are therefore not included in the ranking.
- The CICI is made up of 18 variables that determine the CICI score. The CICI score is determined as follows:

$$CICI_i = \frac{\sum_{s_{i,j} \neq \emptyset} w_j s_{i,j}}{\sum_{s_{i,j} \neq \emptyset} w_j}$$

The CICI of country  $i$  is made up of the individual values of the variables  $j$ , represented as  $s_{i,j}$ . Each variable has a weighting that represents the relative importance of the variable, represented as  $w_j$ . Only the variables per country are included in the CICI, for which sufficient data is available. The CICI score is then determined by adding the products of the scores of these variables with their weights, and then dividing by the sum of the weights of the variables included.

- The CICI ranking as presented on the next page, is robust for variations with the variable weights since the CICI contains clusters of several variables within the three categories: economic, financial and institutional.

Variable	Weights CICI 2024
Control of corruption	1,0
Government effectiveness	3,5
Political stability	1,0
Rule of law	1,0
Regulatory quality	3,5
Voice and accountability	1,0
Current account (% of GDP)	0,5
Trade (% of GDP)	7,5
Per capita GDP (US\$)	4,0
GDP growth (%)	7,5
Lending interest rate	2,0
Interest rate spread	2,0
Labor participation rate	1,0
Government gross debt (% of GDP)	2,0
Population growth	0,5
Credit to private sector (% of GDP)	2,0
Ease of doing business score	2,5
Availability of data	2,0
<b>Total</b>	<b>44,5</b>

# Caribbean Investment Climate Index (CICI) – *Methodology*

- Compared to the CICI 2023, the relative importance (weight) of the variables have slightly changed in the CICI 2024. This is due to the fact that the ease of doing business score is no longer updated by the World Bank. This variable will therefore be phased out in three years. Each year, the weight of the variable will be reduced by 2,5. In 2024, the weight is reduced from 5,0 to 2,5.
- It is difficult to find a replacement variable for the ease of doing business score. Analysis shows however that the institutional variables Government effectiveness and Regulatory quality are highly correlated with the ease of doing business score. For this reason, Government effectiveness and Regulatory quality are increased by 1,25 each to make up for the weight reduction of the ease of doing business score.
- In 2024, the weight of Availability of data is reduced from 6,0 to 2,0.
- The weight of all other variables remains unchanged.

Variable	Weight CICI 2023	Weight CICI 2024
Control of corruption	1,0	1,0
Government effectiveness	2,25	3,5
Political stability	1,0	1,0
Rule of law	1,0	1,0
Regulatory quality	2,25	3,5
Voice and accountability	1,0	1,0
Current account (% of GDP)	0,5	0,5
Trade (% of GDP)	7,5	7,5
Per capita GDP (US\$)	4,0	4,0
GDP growth (%)	7,5	7,5
Lending interest rate	2,0	2,0
Interest rate spread	2,0	2,0
Labor participation rate	1,0	1,0
Government gross debt (% of GDP)	2,0	2,0
Population growth	0,5	0,5
Credit to private sector (% of GDP)	2,0	2,0
Ease of doing business score	5,0	2,5
Availability of data	6,0	2,0
<b>Total</b>	<b>48,5</b>	<b>44,5</b>

# Caribbean Investment Climate Index (CICI) – *Results: CICI-scores, country ranking, strengths and weaknesses*

Ranking	Country	CICI-score 2024	CICI-score 2023	CICI-score 2022	Strengths CICI 2024	Weaknesses CICI 2024
1	Aruba	71,2	68,8	57,9	Institutions, openness of economy, welfare level	Public debt, population growth, data availability
2	Sint Maarten (Dutch part)	69,9	58,9	-	Openness of economy, welfare level, population growth	Data availability, current account balance
3	The Bahamas	53,5	53,0	50,5	Data availability, welfare level, labor participation	Current account balance, openness of economy
4	St. Kitts and Nevis	52,9	49,0	46,7	Openness of economy, credit to private sector	Ease of doing business, current account balance
5	Curaçao	52,1	49,2	49,5	Openness of economy, economic growth	Population growth, labor participation, current account balance, public debt
6	Puerto Rico	51,4	55,7	54,2	Welfare level, public debt, ease of doing business	Population growth, labor participation, data availability
7	St. Lucia	51,3	51,0	45,1	Data availability, labor participation, ease of doing business	Public debt, population growth
8	Antigua and Barbuda	49,8	49,9	49,0	Openness of economy, ease of doing business	Public debt
9	Grenada	49,7	47,7	45,3	Openness of economy, population growth	Current account balance, labor participation
10	Barbados	47,8	45,4	43,4	Institutions, credit to private sector	Interest rate, public debt
11	St. Vincent and the Grenadines	47,7	44,5	41,0	All variables around average	Population growth
12	Jamaica	46,1	44,7	44,2	Institutions, data availability, ease of doing business	Interest rate, public debt
13	Dominica	46,0	46,9	43,6	Most variables around average	Public debt, welfare level, current account balance
14	Dominican Republic	43,4	48,1	42,5	Economic growth, population growth	Institutions, interest rate, credit to private sector
15	Trinidad and Tobago	41,5	43,6	42,5	Data availability, current account balance	Economic growth, institutions
16	Cuba	19,7	18,4	15,1	Participation rate	Institutions, openness of economy, economic growth, data availability
17	Haiti	16,0	15,5	19,1	Public debt, population growth	Institutions, income, interest rate, credit to private sector, ease of doing business

# Caribbean Investment Climate Index (CICI) – *Concluding remarks*

- With CICI, we aim to contribute to more data-driven policymaking in Caribbean countries and in Curacao, Aruba and Sint Maarten in particular.
- In April 2021, we published the CICI-ranking 2021 in the Dutch journal of economic policy *Economisch Statistische Berichten* (ESB). The article can be found here (in Dutch): [https://www.economischbureau.nl/wpcontent/uploads/2021/04/Caribbean\\_Investment\\_Climate\\_Index\\_EBA.pdf](https://www.economischbureau.nl/wpcontent/uploads/2021/04/Caribbean_Investment_Climate_Index_EBA.pdf).
- In June 2022, we published the CICI-ranking 2022. The article can be found here (in Dutch): <https://www.economisch-bureau.nl/wp-content/uploads/2022/06/CICI-2022-Economisch-Bureau-Amsterdam.pdf>
- In June 2023, we published the CICI-ranking 2023. The article can be found here (in Dutch): [https://www.economisch-bureau.nl/wp-content/uploads/2023/07/CICI\\_2023\\_EBA.pdf](https://www.economisch-bureau.nl/wp-content/uploads/2023/07/CICI_2023_EBA.pdf)
- We will regularly publish updates of the CICI ranking, enabling Caribbean countries to monitor the attractiveness of their investment climate vis-à-vis the region.
- For suggestions or information, please contact us at: [info@economisch-bureau.nl](mailto:info@economisch-bureau.nl)





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