ROOM DOCUMENT 1



17TH STEERING GROUP MEETING

Towards a more structured cooperation with Central America and the Caribbean

6 October 2023

Costa Rica Convention Centre, San Jose, Costa Rica

FOR DISCUSSION

This note is prepared as background document for the 17th Steering Group meeting of the Latin America and the Caribbean (LAC) Regional Programme (LACRP) which includes a session on cooperation with Central America and the Caribbean.











TOWARDS A MORE STRUCTURED COOPERATION WITH CENTRAL AMERICA AND THE CARIBBEAN

INTRODUCTION

Created in January 2016 by the OECD Council, the Latin America and the Caribbean Regional Programme (LACRP) constitutes a "strategic framework that consolidates the activities of the OECD in the region", and a "platform for highlevel, whole-of-government policy dialogue" to support the region advance its reform agenda along four key priorities: increasing productivity, enhancing social inclusion, strengthening institutions and governance, and ensuring environmental sustainability².



OECD Latin America & the CaribbeanRegional Programme

Upon its creation, the LACRP established that "Sub-regional $\,$

activities could also be conducted, in order to promote dialogue with specific groups of countries in the LAC region (for instance Central America or the Caribbean sub-regions)"³. Following the launch of the Central America Initiative in 2017, and growing engagement of Caribbean countries, **this session** aims to hearing the views and priorities of countries in these two sub-regions, with a view to enhancing co-operation with the OECD via the LACRP during the 2022-2025 cycle, leveraging the Organisation's expertise and cooperation with regional partners.

OVERVIEW

The Central American region, comprising close to 7% of LAC's economy and nearly 10% of its population, holds a strategically important position as a land bridge between North and South America, with access to both the Atlantic and Pacific Oceans. Caribbean islands spread in an area of 239,681 km², comprise 2% of LACs economy and 3% of its population ⁴. The unique geographical location of these two sub-regions presents abundant opportunities for regional integration, trade, and logistics. Their natural resources offer significant potential for generating revenue and creating sustainable employment opportunities. Furthermore, its diverse landscapes, tropical beaches, archaeological sites, and rich biodiversity make it a promising hub for tourism, with immense prospects for economic growth due to its natural beauty and cultural heritage.

¹ C(2016)1/FINAL, paragraphs 1,5 and 7

² The environmental sustainability priority was added in 2022 and incorporated for the first time in the 2022-2025 Programmatic Document

³ C(2016)1/FINAL, paragraph 20

⁴ World Bank Data 2020 for population and GDP data.

Regional Programme





Central America

The COVID-19 outbreak had a devastating toll on Central America. The economy contracted by 7.2% in 2020 as a result of collapsing tourism and falling agricultural prices⁵. The percentage of people living in Central America who considered migrating internationally increased from 8% in 2019 to 43% in 2021⁶. The stimulus packages introduced by governments to mitigate the social and economic impact of the crisis led to an increase in public debt and reduced the fiscal space needed to raise public investment⁷. GDP growth in 2022 is forecast to expand by 5.3%, and 3.8% in both 2023 and 2024⁸. In addition, Russia's war of aggression to Ukraine brought additional challenges for Central America, in particular increasing inflationary pressures that affected the most vulnerable population.

Before the pandemic, tourism and travel contributed to over 30% of Central America's GDP in 2019⁹. While some Central American countries have traditionally witnessed steady growth thanks to relatively diversified economies, the region still grapples with challenges like poverty (38.4% of the population in 2021)¹⁰, inequality, persistent unemployment and heavy reliance on agricultural exports and remittances.

At the same time Central America contains 12% of the planet's biodiversity and hosts about 12% of the coasts of Latin America and the Caribbean, including 567,000 hectares of mangroves and 1,600 km of coral reefs¹¹. It's vulnerability to climate change was evident when hurricanes Eta and lota hit the region during the COVID pandemic, although Central American countries are among the lowest producers of greenhouse gas.

Finally, insufficient infrastructure, corruption, and limited access to quality education are common obstacles hindering comprehensive development in Central America. Moreover, strengthening democratic institutions, promoting transparency, and addressing social disparities are essential for ensuring stable and peaceful political environments. Addressing these intertwined economic and political issues is crucial for the region's future. Regional cooperation, foreign investment, and sustainable development efforts can foster economic growth and alleviate poverty.

Central America has built over decades regional integration institutions. The Central American Integration System (SICA) and the Central American Economic Integration System (SIECA) provide relevant spaces for coordination and regional integration. The renewed global impetus for regional integration, along with increasing "nearshoring" opportunities provide an opportunity to strengthen its competitiveness, enhance its participation in the global marketplace, and foster a positive dynamic of growth and development. A strategic and coherent approach to GVC integration could reinforce

⁵ IMF Data Mapper

⁶ https://www.wfp.org/publications/complex-motivations-and-costs-central-american-migration

⁷ World Bank – Unleashing Central America's Growth Potential

⁸ IMF World Outlook 2023

⁹ World Travel & Tourism Council (WTTC)

¹⁰ Instituto Centroamericano de Estudios Fiscales

¹¹ Declaration of the SICA countries ahead of the fifteenth meeting of the conference of the parties to the Convention on Biological Diversity







complementarities between countries, promote skills-building in specific activities and provide better job opportunities.

The Caribbean

The Caribbean region exhibits diversity and promising economic potential. With Gross National Income (GNI) per capita varying widely from around USD 800 to over USD 30,000, different countries rely on either tourism or commodity exports as their primary revenue sources¹. Thanks to its unique location, the Caribbean has in its oceans the potential to advance on economic diversification by leveraging the benefits of the blue economy.

The COVID-19 pandemic also significantly impacted the Caribbean, compounded by existing vulnerabilities such as low growth, high debt levels and deficient competitiveness. In addition, to GDP contractions of up to 16-20% in some countries in 2020¹²; the pandemic forced schools to close for almost 20 weeks; and further increased debt levels. While global tourism began to recover in 2021 with average growth at 9.7%, the worsening global economic environment in 2022 slowed momentum, with estimated average growth at 7.9%¹³. Despite these challenges, most countries have started to reduce their debt-to-GDP ratios as recovery continues. Average GDP growth for 2022 expanded by 13.4% and is expected to reach 9.9% and 14.1% in 2023 and 2024, respectively. Nonetheless, rising price levels owing to Russia's war against Ukraine and a challenging global environment pose significant obstacles for countries as they strive to strengthen fiscal balances, reinvigorate growth, and build resilience against natural disasters and the impacts of climate change.

As highlighted in the Caribbean Community (CARICOM) Strategic Plan 2022-2030¹⁴, the region is particularly vulnerable to climate change and weather-related disasters. On average, countries in the Caribbean suffer yearly losses from storm damage equivalent to 17% of their GDP¹⁵. Important reconstruction costs in their aftermath crowd out scarce resources for health, education, and social spending. It is therefore crucial for the region to invest in mitigation and disaster risk management policies in order to reduce the likelihood and cost of climate-related disasters and build resilience to future shocks. Fiscal and financial means are key to achieve this. In this regard, most Caribbean economies still have space to collect and spend their tax revenues more effectively. Investing in education and skills is also key to finding new sources of economic growth and high productivity jobs.

OECD CO-OPERATION WITH CENTRAL AMERICA

Central America's engagement with the OECD has expanded over the past decade. Costa Rica became the region's first and only OECD Member in 2021. In addition, several Central American partners are also members of the OECD Development Centre: the Dominican Republic (2009), Panama (2013),

¹² IMF Data Mapper

¹³ World Travel & Tourism Council (WTTC)

¹⁴ https://issuu.com/caricomorg/docs/caricom_secretariat_strategic_plan_2022-2030

¹⁵ UNDP







Guatemala (2019) and El Salvador (2019). All the above plus Honduras (2019), are members of the Steering Group of the OECD Latin America and the Caribbean Regional Programme.

Every year the Latin America and the Caribbean Economic Outlook covers the development perspective of Central American countries, and specifically it produces country notes for Costa Rica, El Salvador, Guatemala and Panama. In addition, countries from the region are often covered in other OECD regional publications such as LAC Government at a Glance, Health at a Glance LAC, Revenue Statistics in LAC, Environment at a Glance in LAC. This allows countries to be part of benchmarking exercises vis-à-vis the rest of Latin America or, in certain cases, OECD members; to inform themselves of regional policy trends and to obtain policy recommendations. Countries from the Central America region also participate in OECD bodies such as the Global Forum on Transparency and Exchange of Information and PISA (Costa Rica since 2009; Panama since 2018; El Salvador since 2022). Central American countries also support OECD work by hosting meetings of OECD-LAC Regional Policy Networks. For example, Honduras hosted the OECD/IDB Public Integrity Network in 2022 and the LAC Competition Forum in 2019.

Central American international organisations are also active in the work of the LAC Regional Programme and the OECD more broadly, such as the Central American Bank of Economic Integration (CABEI) that signed an MoU with the OECD in 2019 and the Secretariat for Central American Economic Integration (SIECA) who is a member of the OECD's Partnership of International Organisations for Effective International Rulemaking. Most recently, SIECA contributed to the translation into Spanish of the Compendium of International Organisations' Practices which gathers the experiences of some 50 IOs with different mandates, members, and institutional frameworks to draw lessons for international rulemaking.

OECD CO-OPERATION WITH THE CARIBBEAN

The Caribbean's engagement with the OECD has mostly focused on tax related matters, with the exception of the Dominican Republic. More than 15 jurisdictions are members of the Global Forum on Transparency and Exchange of Information for Tax purposes and adherents to the OECD Convention on Mutual Administrative Assistance in Tax Matters (Bermuda is Vice-Chair of the Co-ordinating Body). In addition, the annual report Revenue Statistics in LAC covers 9 Caribbean countries to compare the level and structure of the taxation system of these countries to LAC and OECD countries.

The Dominican Republic is member of the OECD Development Centre since 2009 and an active participant in the OECD LAC Regional Programme. In 2020, it hosted the Programme's Second Ministerial Summit on Social Inclusion "Informality and Social Inclusion in the times of COVID-19".

The OECD Development Centre will start producing from 2024 and in collaboration with the IADB an annual flagship on the Caribbean covering the development dynamics of this region. In addition, the OECD Development Centre also supported the Organisation of Eastern Caribbean States (OECS) in the implementation of the regional development strategy through the <u>Development Strategy Assessment</u> of the Eastern Caribbean.





Certain Caribbean countries are covered in regional publications such as <u>LAC Government at a Glance</u>, <u>Health at a Glance LAC</u>, <u>and Environment at a Glance in LAC</u>. Participation in <u>OECD-LAC Regional Policy Networks</u> varies and some countries have hosted regional meetings in the past (LAC Competition Forum Jamaica 2015 and Dominican Republic 2013). The Dominican Republic is the only Caribbean country that participates in PISA. Most recently, international Organisations such as CARICOM have started to participate in LAC Regional Programme-related activities.







AVENUES AND POTENTIAL AREAS FOR A MORE STRUCTURED CO-OPERATION

- All countries of Central America and the Caribbean are invited to express their interest to become members of the <u>OECD LAC Regional Programme</u> Steering Group¹⁶, and to participate in any of the 13 OECD-LAC Regional Policy Networks¹⁷.
- 2. Listening to the region's priorities. The most important element to consider in the development of a more structured cooperation with Central America and the Caribbean is the demand from these two subregions themselves. The 2022 Joint Declaration of San Pedro¹⁸ provides a valuable diagnostic of the common challenges faced by the two sub-regions and the need for a coordinated response.
- 3. **Definition of specific projects and areas of work**. Following the open conversation at the 17th Steering Group, the OECD Secretariat will reinforce priority partnerships with relevant regional integration mechanisms and institutions (SICA, SIECA, CABEI, CARICOM, ACS¹⁹, inter alia) and with countries themselves, notably through their Embassies and representations in Paris, Brussels or London or any other designated point of contact²⁰ to define the specific projects and areas of work.

The Annex provides a set of potential projects and activities within two categories:

- (1) Projects already conducted by the OECD with the LAC region or other regions, which could be extended to Central America and the Caribbean.
- (2) Other potential projects based on the unique characteristics of the two sub-regions.

It is important to recall that specific projects and initiatives should be properly funded. The OECD "LAC Regional Programme ... relies on a voluntary contribution (VC)-based model of funding of LAC activities, which includes leveraging partnerships with regional organisations"²¹. OECD members, regional partners are invited to consider funding specific projects and initiatives for Central America and for the Caribbean.

¹⁶ The only requirement is a written letter to the OECD Secretary General or the Director of Global Relations

¹⁷ A calendar of upcoming meetings is available at https://www.oecd.org/latin-america/regional-programme/regional-policy-networks/OECD-LAC-RPN-meetings-2023.pdf

¹⁸ IV Summit of Heads of State And Government Of The Caribbean Community (CARICOM) and of the Central American Integration System (SICA) - 3 March 2022

¹⁹ Association of Caribbean States (ACS)

²⁰ Most Central American countries have an Embassy in Paris which has served as interlocutor with the OECD. For Caribbean Countries, there has been some prior interaction with their representations either in Brussels or in London. It is recommended that each country designates a specific Point of Contact.

²¹ C(2016)1/FINAL par. 24







ANNEX

- (1) Projects already conducted by the OECD with the LAC region or other regions, which could be extended to Central America and the Caribbean;
 - 1. How's Life in Central America?: Measuring Well-being for Policy Making: A LAC report with focus on 11 LAC countries (Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Paraguay, Peru and Uruguay) was produced on 2021. Based on the OECD Well-being Framework, a specific report on Central American and/or the Caribbean countries could be produced to identify priorities for addressing well-being gaps and describe how well-being frameworks are used in policy within Central America and/or the Caribbean, providing lessons for governments on what is needed to put people's well-being at the centre of their action.
 - 2. <u>OECD Investment Policy Reviews: Central America:</u> The OECD could prepare a similar report to the one done for <u>ASEAN on "enabling Sustainable Investment"</u> published in January 2023 and looking for common challenges across the region to attract sustainable investment. The regional Review allows for a discussion of more thematic issues than are usually considered in the country-level reviews, including the possible role of regional initiatives in driving reform. It includes the following chapters: trends in foreign direct investment (FDI) and the overall framework for investment; towards a smarter use of tax incentives in the region and its role in promoting green growth; and at how promoting and enabling responsible business conduct can help to maximise the development impact of investment. There have been conversations about a potential review for Central American countries, including a specific demand some years ago carried out by Guatemala, Honduras, and El Salvador. A Central America Review could cover all countries interested in the region. A similar sub-regional review could be done for the Caribbean. Specific focus on economic regional integration could be added to the analysis.
 - 3. SME Policy Index: Policies for Competitive SMEs in Central America: The SME Policy Index is a benchmarking tool that assists emerging economies in monitoring and evaluating progress in policies that support small and medium-sized enterprises. After a pilot exercise with seven countries in 2019, the second edition of the Index methodology in the Latin American and Caribbean region covers three sub-regional modules: Pacific Alliance (Chile, Colombia, Mexico, Peru), Mercosur (Brazil, Argentina, Paraguay and Uruguay) and the Andean Community (Peru, Colombia, Ecuador and Bolivia). Divided into nine policy dimensions, the new version will assess the strengths and weaknesses that exist in different areas of SME policy design, implementation, and monitoring and evaluation, and provides guidance to policy makers in identifying policy areas for future reform according to international good practices. There have been conversations with Centromype, SIECA and BCIE about the potential undertaking of a Central America module. A Caribbean module could also be undertaken.
 - 4. <u>Sustainable Infrastructure Programme: Central America</u>. <u>The Sustainable Infrastructure Programme in Asia</u> (SIPA) aims to help selected Central and Southeast Asian countries scale up energy, transport and industry infrastructure investments, and shift them towards infrastructure projects consistent with low-emission, resilient development pathways and the

Regional Programme





Sustainable Development Goals. SIPA supports governments at all stages of infrastructure development, from planning and design to financing and delivery: Strategic infrastructure planning and project evaluation; Multi-dimensional project evaluation; National policy frameworks; Sustainable finance and responsible business conduct; Regional peer-learning and knowledge management. A similar Programme could be established for Central America and the Caribbean.

- 5. <u>Trade Facilitation Review of Central America.</u> Drawing on the <u>OECD Trade Facilitation</u> Indicators (TFIs) – the aim of this review would be to assist Central American countries identify areas for action in streamlining administrative processes at the border, thereby lowering nontariff barriers and trade costs while enhancing the resilience of Global Value Chains (GVCs). The review would identify best practices and challenges within the region and provide reform options for streamlining trade documents, border processes, and border agency co-operation. It would include: a discussion of the role of trade facilitation policies in a context of GVCs changing dynamics in Central America; a mapping of the regulatory frameworks and operational practices in trade facilitation across the eleven areas covered by the TFIs to identify best practices and challenges (benchmarking Central America economies against each other as well as with other economies in Latin America, OECD and other regions of interest); a quantitative analysis to identify the areas that can contribute most to reducing trade costs in Central America economies, across different sectors; a deep-dive into a specific area covered by the TFIs identified together with Central America (e.g., Single Window, border agency co-operation etc.) through targeted case studies in selected economies in the region. The work could include capacity building workshops across individual Central America countries.
- 6. Trade and Gender Review of selected countries of Central America and the Caribbean. The ongoing Trade and Gender Review of Latin America includes seven Latin American countries, one of which is Costa Rica. This Review, which aims to shed light on the impacts of trade on women workers, business leaders and consumers, will include policy recommendations to make trade more inclusive of women in the countries. This Review could be extended to other countries of Central America and/or the Caribbean if funding were available. It follows a methodology outlined in the Trade and Gender Framework of Analysis that has been applied in the pilot Trade and Gender Review of New Zealand.

(2) Other potential projects based on the unique characteristics of the two sub-regions.

7. Homologation of regulation. In order to facilitate the opening of small businesses in the formal sector, thereby fostering job creation and boosting economic activity, the OECD could work with Central American countries on the installation of a common system of 100% digital operating licences for micro and small businesses. The OECD has extensive experience in implementing end-to-end digital procedures with local and regional governments in Mexico, including the municipalities of Merida and Puebla, and the regional government of Yucatan. With aggressive regulatory reform measures, the Central American digital business licensing system would ensure a standardisation of requirements and response times among participating municipalities, and the creation of a digital dossier that would allow for the implementation of the "one-time delivery of information" principle, which would set the tone for adding more digital procedures.







- 8. Digital Trade Review of Central America. The digital transformation has led to unprecedented reductions in the costs of engaging in international trade contributing to growing prosperity. Digitalisation has also changed the scope and speed of the activities undertaken by firms; allowing value to move faster and with greater ease; providing new ecosystems for exchange; and helping firms, especially micro, small and medium-sized enterprises (MSMEs), better connect with each other and with consumers across the globe. As a result, trade has become more complex, and how and what measures affect trade has also changed. Designing the appropriate policy actions to tackle these changes is difficult but getting it right is essential to enable the benefits from digitalisation for Central American countries. The aim of the Digital Trade Review of Central America is to provide an overview of the different issues that the digital transformation raises for Central American countries (a recent review for Brazil is a good example). This includes: i) a discussion of how the digital transformation is changing international trade and what this might imply for Central American countries; ii) a mapping of the nature and evolution of participation in digital trade for Central American countries; iii) a mapping of the regulatory environment that underpins this participation (benchmarking CA countries against each other and against other economies); iv) an assessment of the drivers of change.
- 9. Trade Connectivity in Central America and the Caribbean. Improving trade connectivity is critical to foster economic growth in Central America. Almost half of intra-regional trade transport in Central America and Mexico is done by roads, compared to 11% in the United States and 2.1% in South America. Road trade connectivity within Central America is hampered high dwelling times at cross-border points; unclear regulations on the homologation of road transport companies' and vehicles' permits; the comparatively lower share of alternative modes. In the Caribbean, maritime connectivity between countries could be furthered to foster regional integration, economic growth and food security. Building on similar work for other regions (Enhancing Connectivity and Freight in Central Asia; Enhancing Regional Freight Connectivity for Southeast Asia; ITF Southeast Asia Transport Outlook; ITF North and Central Asia Transport Outlook) and in the LAC region (Decarbonising Transport in Emerging Economies - Argentina; The Container Port of Buenos Aires in the Mega-Ship Era) the ITF could assess the state of transport connectivity in Central America and the Caribbean and propose ways forward. The assessment could include an analysis of existing regulatory and infrastructure challenges and gaps, among others. It could also model the potential demand, economic and environmental impacts of the implementation of specific transport solutions. These could include the application of a platform for digitalizing trans-border processes in Central America. The ITF could also explore the impact of specific infrastructure projects that have been thought of in the past, such as a bridge between Suriname and Guyana, the setting up of additional maritime routes in the Caribbean, or further developing the Central American railways network. The analysis would leverage the ITF's capabilities thanks to its Global Freight Transport Model.
- 10. Improving urban passenger transport systems in Central American and the Caribbean cities.

 Developing clean and safe public transport systems to grant access to all is a priority in most cities in Central America and the Caribbean. Challenges to reach this goal include a lack of governance frameworks allowing for metropolitan-wide decision-making over transport and land-use policies. They also include financial challenges for maintaining and increasing public transport offer and for renewing aging bus fleets. Lower public transport patronage following

Regional Programme





the Covid-19 pandemic enhances financial difficulties. Users' experienced safety and security while using public transport, especially for women, is also an area of concern. Road safety is further impaired by increasing motorcycle use in cities across the region. Challenges with electrifying public bus fleets to reduce local pollutants and greenhouse gas emissions pertain. Building on previous ITF work (Benchmarking Road Safety in Latin America; Decarbonising Transport in Latin American Cities; ITF Transport Outlook 2023; Shaping Post-Covid Mobility in Cities) The ITF could help identify and foster potential solutions to address these context-specific challenges, based on international best practices. To this end, it could first analyse the challenges faced by specific cities in the region, as well as identify planned and alternative solutions to address them. The ITF could also explore the feasibility of implementing various potential solutions for specific contexts, and develop city-specific tools to assess the social, economic and environmental impacts of different transport measures. ITF staff could further develop and train city and country authorities in the use of these tools. Stakeholder engagement and best practices workshops could also be organised as part of the initiative.

- 11. Sustainable Ocean for All Initiative: Sustainable Ocean Economy Country/Sub-regional Diagnostics. The OECD conducts Sustainable Ocean Economy Country Diagnostics to support countries to tap into new sustainable development opportunities from the ocean economy and manage increasing pressures on ocean and coastal resources. These diagnostics present evidence on economic trends and sustainability stressors affecting the ocean economy and provide policy advice on policy instruments and financing tools that countries can use to grow their ocean economy sustainably. They include a focus on financing innovations and instruments that can be used to spur investment in existing and emerging ocean sectors including renewable ocean energy, sustainable tourism, and marine biotechnologies as well as a focus on fostering a more strategic and catalytic use of development finance. Subject to financing specific country or sub-regional diagnostics for Central America and the Caribbean could be foreseen. (See also proposals on Ocean Economy financing and jobs in Room Document 2).
- 12. Sustainable Tourism. Sustainable tourism development is an ongoing key area of focus for the work of the OECD Tourism Committee, and its Working Party on Tourism Statistics. The OECD could build on this work to support Central American and Caribbean countries, either collectively or individually, to build a more resilient and sustainable tourism economy. Possible areas of work could include: (1) Tourism Policy Reviews with a focus on promoting tourism as a driver of sustainable economic development. This could for example look at recent tourism trends and policy performance in the two subregions, highlighting good practices, policies and reforms, and identifying lines of action for the future. (2) A Thematic review on topic of common interest across the two subregions focusing for example a building stronger, diversified and better managed destinations; supporting the shift to more sustainable models of tourism development; or strengthening tourism data to better measure and monitor progress, including through the use of new data sources, tools and indicators. (3) Policy dialogue or webinars on topics of common interest across the subregions focusing for example on tackling tourism workforce issues or strengthen tourism SMEs for the digital and green transition, or the topics mentioned previously.