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Policies Fostering Entrepreneurship, Investment and Innovation in Curacao and Comparisons with Similar Small-Scale Economies



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POLICIES FOSTERING ENTREPRENEURSHIP, INVESTMENT AND INNOVATION IN CURACAO

- **Predictable business environment**
- **Fiscal Policy**
- **Trade Policy**
- **Labour policy**
- **Education**
- **Quality Management System**
- **Intellectual property**

PREDICTABLE BUSINESS ENVIRONMENT

- Investors want
 - Economic stability
 - Political stability
 - Minimal burdensome regulations and restrictions
 - Good basic infrastructure
 - Roads
 - Ports
 - Telecommunications
 - Well educated workers

Investors are often more interested in a predictable business environment than the combination of all other incentives that are provided

CURACAO: FISCAL INCENTIVES

- Curacao has several fiscal initiatives in place aimed at fostering entrepreneurship, investment, and innovation
- Priority sectors for incentives
 - **Hotel, manufacturing, land development and e-commerce**
- In addition, tax incentives are also available for "selected" business entities
 - **This provides ample room for the government to operate at its discretion.**

BASIC REQUIREMENTS TO QUALIFY FOR INCENTIVES

	Hotel	Manufacturing	Land Development	e-Commerce	Others
Criteria	Limited liability company	Limited liability company in non-oil sector	Limited liability company	First need to be admitted to the economic zone area	
Minimum investment requirement	US\$550,000 (if renovation, US\$165,000)	US\$137,500	US\$1,100,000 excluding the value of the land		US\$137,500
Other requirement		Create at least 5 permanent jobs	Investment needs to be made within 5 years of the date of the Central Decision		Create at least 5 permanent jobs to persons born in the NA

CORPORATE AND OTHER TAX INCENTIVES

	Hotel	Manufacturing	Land Development	e-Commerce	Others
Corporate tax		2% for max. of 11 years		2% till December 2025	2% for a period of 11 years
Other tax			2% on the profit obtained by the sale of developed land for maximum of 15 years	Exemption of turnover tax and excises	

EXEMPTION FROM LAND TAX

Hotel	Manufacturing	Land Development	e-Commerce	Others
premise for 10 years after becoming taxable	maximum 11 years after becoming taxable, but no later than 2009	land, which are being developed, are not let/rented out		premises for 10 years after becoming taxable

EXEMPTION FROM PERSONAL INCOME TAX

Hotel	Manufacturing	Land Development	e-Commerce	Others
On income earned from dividends and other distribution of profits within two years after the fiscal year in which the profit was obtained	On income earned from dividends and other distribution of profits within two years after the fiscal year in which the profit was obtained	On income earned from dividends and other distribution of profits within two years after the fiscal year in which the profit was obtained	Employees who lived outside the NA for more than 5 years can qualify for an expatriate status	On income earned from dividends and other distribution of profits within two years after the fiscal year in which the profit was obtained

OTHER INCENTIVES FOR PRIORITY SECTORS

- Exemption from Foreign exchange license fees
 - For E-Commerce
- Exemption from import duties
 - Mainly on products related to their specific activities/industries
- Exemption from occupancy tax
- A business Development Scheme available to provide export assistance
- Financing assistance available through OBNA and Korpodeko
- Trade agreements with the EU and USA are established.

OTHER INCENTIVES ARE AVAILABLE TO FOREIGN INVESTORS

- Reduced rent of up to 40% cent for buildings in the free zone (e-zones) managed by CURINDE NV.
- Duty free building materials, machinery and equipment
- An annual investment allowance of 8% on the total investments for the first two financial year's unlimited use of carry-over losses incurred over the first four years of the company's business.

Overall there is no shortage of incentives
These maybe necessary to compete with other destinations but often the most important factor for investors is a stable and predictable business environment with policies favorable to business and trade

POLICIES TO FOSTER ENTREPRENEURSHIP

- In order to foster entrepreneurship and innovation more specific incentives and initiatives required
 - More incentives developed and targeted at SMEs
 - Increased entrepreneurial training in secondary and tertiary level education

SME POLICY

The main tenets of the SME Policy include:

- The establishment of a Small Business Administration Office which plays the role of a central coordination office to deal with the needs of SME entrepreneurs
- Reduced bureaucracy and barriers to trade for SMEs
- One-on-one coaching and business support services for SME entrepreneurs
- Easier access to credit for SMEs
- An SME Business Incubation Programme
- A public education and awareness programme to encourage persons to choose entrepreneurship as a career option
- Creation of a database on SMEs
- More explicit inclusion of SMEs in the policy cycle
- Additional financial resources allocated to SMEs.

TRADE POLICY

- A review of trade policies revealed that tariff rates in Curacao remain moderate
 - Two thirds of tariffs range between 5% and 15%
 - There are a number of peaks.
- Curacao's tariff policy seems to be motivated primarily by revenue generation objectives
- Tariff structure appears not to follow any industrial policy objectives
- Revision of structure would be required to attain strategic objectives

A full analysis and consultations with stakeholders is required to undertake this exercise and ensure that the interests of Curacao are properly captured

TRADE POLICY (CONT..)

- Curacao's competitive advantage seems to lie in services
- This is an area where it has traditionally enjoyed a series of trade surpluses, particularly in tourism, transportation and banking and financial services
- Relative performance of trade in services has been eroded over time
- The only sector where Curacao has performed particularly well is in computer and IT services.
 - Computer and IT services have enjoyed higher than average services growth over the last decade
 - Sector which the Government should attempt to support

CONSIDERATIONS WITH RESPECT TO TRADE IN SERVICES

- Curacao can also consider signing trade agreements which would cover trade in services
 - Commercial establishment in third countries
 - These agreements are shown to be quite critical in promoting investment, something which Curacao needs
- Trade agreements provide the security, transparency and predictability

REGIONAL TRADE POSSIBILITIES

- Curacao should examine options for exporting to CARICOM
 - Consider an associate agreement with CARICOM
 - A study was carried out on this but no action seems to have been taken
- Agreements with Latin and South America
 - Especially Venezuela and Colombia

WTO MEMBERSHIP

- Curacao has expressed the desire to become a WTO member in its own right
- Accession to the WTO would also secure market access commitments from third markets
- Finally, becoming a member of the WTO will provide access to the dispute settlement mechanism
- WTO membership would reduce Curacao's options to resort to trade measures to protect a local industry, or to raise fiscal revenue
 - The financial, insurance, travel and tourism sectors are likely face calls for opening up during the accession negotiations

LABOUR POLICY

- In 2008, a Labour Force Development Policy and Structural Proposal for Curacao was put together via a collaborative effort
- Over 360 stakeholders participated in the process with some 115 persons representing labour, commerce, civil servants and elected officials, with a **vision** that included the following:

“... by 2016, Curacao will have an economy of wealth creators that is prosperous and fulfilling, and that creates value and delivers value. The economy will be supported by a globally competitive workforce that is flexible and responsive, with the right number of workers to meet industry needs; with the right attitudes and the right skills, at the right price.”

LABOUR POLICY

- **Five core policy areas** identified In the proposal
 - **Policy Area 1: Productivity and Efficiency**
 - **Policy Area 2: Incentives**
 - **Policy Area 3: Temporary and Casual Workers**
 - **Priority Area 4: Retraining and Retrenchment**
 - **Policy Area 5: Creative Pay Schemes and Social Programming**

LABOUR POLICY AREA 1: PRODUCTIVITY AND EFFICIENCY

- Specific Priorities: Introduce and implement

Performance-based evaluation system across all economic sectors

National Productivity Council
as the premier entity for promoting and facilitating productivity, quality management, and competitive strategies

Productivity and efficiency targets and indicators

Demonstrate the relationship between productivity growth and economic development

LABOUR POLICY AREA 2: INCENTIVES

- Specific Priorities:

Incentives for employees, employers and the unemployed that will contribute to durable, long-term employment and a stable, competitive workforce

Create incentive programs for persons targeted to augment the workforce

Further develop and sustain decent work conditions and facilities

Create a tax system that stimulates the labour market in order to gain economic growth and increased well-being

Develop vulnerable persons and sustain them in the labour force

Incentives

LABOUR POLICY AREA 3: TEMPORARY AND CASUAL WORKERS

Specific Priorities

- Population policy that visualizes the desired social development by 2016 and further sustained to 2026
- Develop and implement a planned migration policy
- Link the migration policy to the population, labour, education and economic policy.
- Establish an income policy
- Establish temporary and casual workers as important contributors to the labour force and economic development
- Integrate foreign and temporary workers into the status of tax contributors with equal pay and social benefit for equal work

LABOUR PRIORITY AREA 4: RETRAINING AND RETRENCHMENT

- Specific Priorities:

- Employment policy based on flexi-curity principles
 - Flexi-curity is about bringing people into good jobs and developing their talents, rather than job security
 - Flexi-curity focuses on employment security

- All retrenchment and retraining programs are designed to result in a change in attitude, motivation & opportunity within the labour force and include mind-set training

POLICY AREA 5: CREATIVE PAY SCHEMES AND SOCIAL PROGRAMMING

- Specific Priorities:
 - Shift the mind-set of nationals from an orientation towards consumption and toward saving for the future
 - Adapt working conditions to stimulate healthy environments for work
 - Introduce a national performance-based pay system tied to the law with fiscal benefits based on performance
 - Stimulate and monitor balanced demographic distribution of labour force
 - Align effective social welfare policies to creative pay schemes
 - Synchronize the revision of the tax system with the changes in the labour force in order to gain economic growth

EDUCATION POLICY

- Curacao is well aware of the importance of education to economic growth and development
- The Government has recognized that there is need for reforms in the education sector
 - Public sector and private sector institutions are collaborating to try and facilitate the required changes

POSSIBLE AREAS OF REFORM IN THE EDUCATION SYSTEM

- Based on consultations on the education system, evaluations should be conducted to determine the need for reforms in certain key areas including:
 - The learning of languages
 - Quality of learning materials available for teaching Papiamentu
 - Trade off between being tri-lingual and mastering any one of the languages

POSSIBLE AREAS OF REFORM IN THE EDUCATION SYSTEM

- Length of the school day – should it be longer?
- Structure of the secondary education system – the SBO versus VSBO dilemma
- Adequacy of the number of vocational education teachers
- Non-alignment of the secondary and tertiary education systems with industry

Need optimal set of reforms from Early Childhood right through to Tertiary Education

- Sustainable human resource stock
- Right composition of skills
- Aptitudes and attitudes

QUALITY MANAGEMENT SYSTEM

- There are several initiatives in place or planned in Curacao aimed at fostering entrepreneurship, investment and innovation
- Main Quality Management System
 - Curacao Innovation Centre/Innovatie Centrum Curaçao (ICC)
 - Kennis Bedrijfsleven Beroepsonderwijs (KBB)
 - Business Census
 - Curacao Economic Development Board
 - ISO Certification
 - Stimul-IT

INTELLECTUAL PROPERTY

- Curacao seems to have already implemented laws, norms and rules that are intended to grant full protection of intellectual property rights in its territory

CONCLUSION

- The foregoing shows that Curacao has been doing many things to stimulate entrepreneurship, investment and innovation
- Needs to coordinate these initiatives
- Needs to properly resource these activities

Curacao's human resources are its most important assets so they must be developed

Comparisons with development programs in similar small-scale countries

- Comparator countries
 - Barbados
 - Malta
 - Mauritius
 - Panama
 - Singapore
- Curacao compares favourably with the other countries in terms of some key the variables, especially with respect to its GDP per capita which is relatively high and closer to those in mainland Europe than to those in the Caribbean
- Curacao does not have a UNDP Human Development Index rating but it is likely to be very high
 - High per capita income
 - A relatively high life expectancy (78 years), and
 - High literacy rate (98%).

Comparisons with development programs in similar small-scale countries

- Comparator countries
 - Barbados
 - Malta
 - Mauritius
 - Panama
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Areas of concern include

- Slow growth trends in recent years
- Relatively small population
- Narrow range of export products
- High dependency on imports
- Relatively high tax rates on business
- Scope for a higher Internet penetration rate.

Curacao does not yet have World Bank Competitiveness Index or the World Bank Ease of Doing Business Survey

COMPARISONS

	Barbados	Curacao	Malta	Mauritius	Panama	Singapore
Population (2011)	278,000	145,619	426,000	1,297,000	3,655,000	5,274,000
Area (Sq. miles / Sq. km)	166 / 430	171 / 444	122 / 320	730 / 2,030	29,762 / 764,340	225 / 700
GDP (US\$ Billions, current prices) 2011	3.68	3.08	8.88	11.31	30.67	239.7
GDP Per capita, current prices (US\$) 2011	\$13,453	\$20,867 (2011)	\$21,209	\$8,797	\$8,590	\$46,241
GDP Growth 2011	0.5%	0.6% (2011)	2.1%	4.1%	10.6%	4.9%

	Barbados	Curacao	Malta	Mauritius	Panama	Singapore
Main Merchandise Imports	Consumer goods, machinery, foodstuffs, construction materials, chemicals, fuel, electrical components	Crude oil, food, manufactures	Mineral fuels, oils and products, electrical machinery, aircraft/space craft parts thereof; machinery and mechanical appliances	Manufactured goods, capital equipment, foodstuffs, petroleum products, chemicals	Fuel products, medicines, vehicles, iron and steel rods, cellular phones	Machinery and equipment, mineral fuels, chemicals, foodstuffs, consumer goods
Main Merchandise Exports	Manufactures, sugar and molasses, rum, other foods and beverages, chemicals, electrical components	Petroleum products	Machinery and mechanical appliances, mineral fuels, oils and products, pharmaceutical products	Clothing and textiles, sugar, cut flowers, molasses, fish	Gold, bananas, shrimp, sugar, iron and steel waste, pineapples, watermelons	machinery and equipment pharmaceutical and other chemicals, refined petroleum products
Exports us\$ Billions 2011	\$0.45	\$1.5	\$5.2	\$2.6	\$16.9	\$414.8
Imports US\$ Billions 2010	\$1.55	\$2.5	\$7.3	\$5.2	\$22.9	\$366.3

	Barbados	Curacao	Malta	Mauritius	Panama	Singapore
Internet Penetration (% of population) 2011	66.9%	46.3%	64.3%	24.8%	43.4%	77.2%
UNDP HDI 2011	Very High Human Development Rank: #47 th	N/A but expected to be Very High (Netherlands Rank: #3rd)	Very High Human Development Rank: #36 th	High Human Development Rank: #77 th	High Human Development Rank: #58 th	Very High Human Development Rank: #26 th
Tax Rate on Businesses	25%	40.5%	35%	25%	45.2%	27.1%
Contribution/ Value added of Total Services to GDP (%) 2011	74%	74%	65%	70%	79%	73%
Trade in services (% of GDP) 2011	57.7%	67%	83.7%	51.2%	34.2%	97.9%*

SINGAPORE: COMPARING ELEMENTS OF DEVELOPMENT THRUST

County	Key Development Thrust	Curacao Position
Singapore	Investment in physical infrastructure and human capital to ease supply constraints	Roads are a main area of investment. Over 20% of the Budget is spent on education
Singapore	Liberal use of fiscal incentives to lower the tax burden on business.	Curacao has a set of fiscal incentives to attract investment
Singapore	Industry 21 identified electronics, chemicals, engineering, life sciences, education and healthcare, headquarters, communications and media, and logistics as industry clusters to be nurtured	Education and healthcare are a focus in Curacao as well as logistics
Singapore	Singapore upholds measures to support its SME sector. SMEs will have access to Special employment credit (SEC) and a one-off cash grant to help companies offset higher business costs. The grant is sized to benefit smaller companies more.	Curacao has concern for its SME sector and this is reflected in the recent Budgets where approximately NAf 3 million per annum is earmarked for SME support. However, Curacao needs to also implement the SME development plan stimulate even more SME sector development.
Singapore and Mauritius	The exploitation of niche markets and regional markets.	Curacao should look for opportunities to trade with Regional markets

SINGAPORE: COMPARING ELEMENTS OF DEVELOPMENT THRUST

County	Key Development Thrust	Curacao Position
Singapore	<p>Reducing foreign employees as a percentage of the labour force.</p> <p>Singapore has a policy variable called the <u>Dependency Ratio Ceiling (DRC)</u> which specifies the maximum proportion of foreign workers that companies in each industry can hire.</p> <p>The DRC is calibrated so that companies in different industries have different maximum ratios</p>	<p>Curacao also desires a reduction in the proportion of foreign workers in the labour force</p> <p>Curacao does not have the DRC but an 80/20 rule</p> <p>Curacao should consider calibrating the 80/20 rule and perhaps for some industries it should be 50/50 or even 100/0 in industries where there is a well-known shortage of labour.</p>

MAURITIUS: COMPARING ELEMENTS OF DEVELOPMENT THRUST

County	Key Development Thrust	Curacao Position
Mauritius	Developing a competitive base of human resources , through the access to knowledge, computer science and also learning for life, so as to ensure the development of quality products and services	Curacao has a focus on human resource development and needs to focus more on the development of quality products and services
Mauritius	Make the country a nation of entrepreneurs by introducing appropriate policies, democratizing the economy and developing a culture of undertaking in the country	Curacao has initiatives to foster entrepreneurship
Mauritius	Emphasis on the development of the ICT sector and the promotion of Mauritius as a seafood hub in the region, using existing logistics and distribution facilities at the Freeport	ICT related initiatives are given emphasis in Curacao but there is scope for greater prioritization. There is definitely a strong focus on logistics and distribution facilities in Curacao and Free Zones could be involved. More in depth feasibility studies are required with respect to the logistics hub.

MAURITIUS: COMPARING ELEMENTS OF DEVELOPMENT THRUST

County	Key Development Thrust	Curacao Position
Mauritius	<p>To further diversify the economic base and generate sustainable growth by the government actively encouraging specific economic activities</p> <p>Including:</p> <ul style="list-style-type: none"> • Land-Based Oceanic Industry • Hospitality and Property Development • Healthcare and Biomedical Industry • Agro-processing and Biotechnology • Knowledge Industry • Renewable Energy 	<p>This project (by TAC) is supposed to recommend priority sectors for Curacao, to date those selected include:</p> <ul style="list-style-type: none"> • Tourism • Financial services • Oil refinery and related activities • Logistical hub and trans-shipment centre • Cultural services <p>Curacao is already engaged in renewable energy with wind energy targeted to generate about 20% of the country's energy in the near future.</p>

BARBADOS: COMPARING ELEMENTS OF DEVELOPMENT THRUST

County	Key Development Thrust	Curacao Position
Barbados	“Industrialization by invitation” strategy - that is, tax incentives for FDI and a good level of public inputs.	Curacao has fiscal incentives for FDI
Barbados	The possibilities of Tourism generating long run growth	This is a priority industry in Curacao
Barbados	Development of the offshore sector in Barbados which is fostered by the numerous International Tax and Investment Treaties the country started signing	Curacao is very interested in re-invigorating the Offshore financial sector but is limited by OECD positions as well as relatively few International Treaties.
Barbados	Service sector development - placing emphasis on human resources development to support the productive sectors of the economy	Curacao has a similar development thrust

CONCLUSION

- On the whole, the above analysis shows that Curacao's development thrust has many similar features as those of Singapore, Mauritius and Barbados.
- **A big positive** is that Curacao has many studies that have examined several of the key areas identified above.
- It is critical that Curacao begins the **implementation** of the initiatives identified in previous plans as well as any lessons that can be learned from other countries such as Singapore, Mauritius and Barbados
- Curacao needs to improve its **capacity** to implement
- Curacao must focus on **developing social cohesion** which will minimize adverse and opportunistic political reactions.