Barriers to Enterprise Development in the Caribbean

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WISERD
Outline

• Introduction

• Barriers to Enterprise Development

• Data and Methodology

• Descriptive Statistics

• Regression Analysis

• Discussion and Policy Implications

• Conclusion
Introduction

• Persistently low levels of GDP across (most of) the Caribbean has long been a major concern for policy makers
  ➢ average GDP per capita of around $11,000 (US) in 2014
  ➢ wide ranges from $4,000 in Guyana to over $22,000 in the Bahamas

• Lack of private enterprise (and successful firms) has been identified as a major cause of this (e.g. Ruprah et al., 2014)
  ➢ our focus is on barriers to enterprise in the Caribbean

• We examine recent microdata (for 12 countries) including estimating econometric models for different size categories

• Allows us to identify certain policy implications and offer recommendations
Barriers to Enterprise Development

• Our review of the literature focuses on country and enterprise level factors separately

• **Country-level factors** include:
  - Functioning of capital markets
  - Access to energy and other networks
  - Transport infrastructure
  - Human capital levels
  - Corruption/Crime/Social Disorder
  - Political Instability
  - Macroeconomic conditions
  - Business regulations
  - Tax rates and systems
Barriers to Enterprise Development cont.

• Enterprise-level factors can relate to:
  ➢ Access to finance
  ➢ Competition
    o from large organisations
    o possibly from multinationals or exporters
    o also from the informal sector
  ➢ Ownership characteristics can also have an effect in terms of legal status

• Empirical studies from other countries have used similar data (e.g. the WBES) to identify constraints on business
  ➢ these include Coad and Tamvada (2012) for India and Vargas (2015) for Bolivia
• Firm level data from the Compete Caribbean’s Productivity, Technology, Innovation (PROTEqIN) survey
  ➢ collected for a cross section of firms and relates to 2014

• Data collected from 1,846 establishments across 12 countries

• Split across different size classes:
  ➢ Small: Less than 20 employees (48%)
  ➢ Medium: 20-99 employees (38%)
  ➢ Large: 100 or more employees (14%)

• Size variations by country, with median employees ranging from 11 in SVG to 31 in BAH
• We examine different questions on barriers to enterprise:

- Top three most serious obstacles to the establishment’s current operations

- The severity of the obstacle to the establishment’s current operations

• Use the latter in the econometric analysis, as in Vargas (2015)

• Data also includes a range of establishment/firm level characteristics that can be used as controls
Empirical Methodology

• Firstly undertake descriptive analysis, including on basic features of establishments across countries (omitted here)

• Econometric analysis relates to a series of ordered probits
  - Given that dependent variable is ordered: 0=No obstacle, 1=Minor, 2=Moderate, 3=Major and 4=Very severe
  - Tables report coefficients and significance levels based on p-values using heteroscedastic consistent standard errors

• Models estimated for the 10 most severe obstacles, based on average scores
  - Country dummies and a range of establishment characteristics included as explanatory variables
Summary of Descriptive Statistics

• Information on the top 3 constraints and their severity reveal a fairly similar picture in terms of the main barriers perceived by businesses across the Caribbean as a whole:
  ➢ Inadequately educated workforce
  ➢ Poor access to Finance
  ➢ Crime, Theft and Disorder

• Factors such as labour regulations, telecoms, business licensing/permits and access to land are far less important

• Variations by country are explored in more detail in the econometric analysis
Top 3 Most Serious Obstacles (% reporting)

- Labour Regulations
- Business Licensing and Permits
- Telecommunications
- Access to land for expansion / relocation
- Tax administration
- Transportation
- Political environment
- Corruption
- Macroeconomic environment
- Customs and Trade Regulations
- Electricity
- Practices of competitors in the informal sector
- Cost of finance
- Tax Rates
- Crime, theft and disorder
- Access to finance
- Inadequately educated workforce
Severity of Obstacle (cumulative %)

- Mean Corrugation: .46
- Mean Macroeconomic environment: .63
- Mean Customs and Trade Regulations: .50
- Mean Electricity: .64
- Mean Practices of competitors in the informal sector: .63
- Mean Cost of finance: .40
- Mean Tax Rates: .54
- Mean Crime, theft and disorder: .73
- Mean Access to finance: .75
- Mean Inadequately educated workforce: .87
Summary of Econometric Results

• The following tables indicate the importance of country-level factors

• Note that establishment-level factors (even size categories) for most/all constraints are not significant

• We find clusters of similar countries in terms of reporting particular types of obstacles
  - Jamaica, Belize and Guyana (crime, tax rates, electricity and corruption are relatively important obstacles)
  - Grenada, St Lucia, The Bahamas and Trinidad and Tobago (inadequate education, business regulations and cost of finance are relatively important obstacles)

• Relatively small differences across size categories
## Differences in Severity of Obstacle by Employment Size Band

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<th>Workforce Education</th>
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Notes: Reference category is Small Establishment. Controls also included for country, industrial sector, legal status, whether part of larger firm, location of main market and gender composition of ownership. *** indicates significance at the 1% level (using a two-tailed test for individual explanatory variables), ** at the 5% level and * at the 10% level. Significance levels calculated using heteroscedastic consistent standard errors.
## Differences in Severity of Obstacle by Country

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Notes: Reference country is Jamaica.
Differences in Severity of Obstacle by Country: Small Firms

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Differences in Severity of Obstacle by Country: Medium-Size Firms

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Discussion and Policy Implications

• Results highlight the importance of **appropriate skills**
  - Need to reduce mismatch between needs of private sector and existing levels of human capital via education and training
  - Addressing factors causing emigration => may be able to deal with some push factors in short term but addressing pull factors, especially higher wages, is more difficult

• **Access to finance**
  - There may be policies (subsidies and regulations) that can reduce market failures affecting lending by financial institutions

• **Crime, theft and disorder is a barrier in some countries**
  - National governments may be able to introduce more pro-social policies that benefit individuals as well as business
Conclusions

• Our analysis of recent data indicates that Caribbean businesses identify a wide range of constraints on their operations

• These do vary by country – as evidenced by the very large effects on many of the dummy variables
  ➢ some countries cluster in terms of businesses reporting similar constraints
  ➢ establishment-level characteristics tend to be far less important

• We identify some of the key factors that appear to inhibit economic growth in the region
  ➢ more detailed analysis is required on the (causal) relationships and on appropriate policy responses
Thank you!
Any questions?

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