



Laments of the Caribbean Businessperson are Based on Facts?

Inder Jit Ruprah
Ricardo Sierra

**Inter-American
Development Bank**

Country Department
Caribbean Group

POLICY BRIEF

No. IDB-PB-205

November 2013

Laments of the Caribbean Businessperson are Based on Facts?

Inder Jit Ruprah
Ricardo Sierra



Inter-American Development Bank

2013

Cataloging-in-Publication data provided by the
Inter-American Development Bank
Felipe Herrera Library

Ruprah, Inder Jit

Laments of the Caribbean businessperson are based on facts? / Inder J. Ruprah and Ricardo Sierra.
p. cm. — (IDB Policy Brief; 205)

Includes bibliographical references.

1. Businesspeople—Caribbean Area. 2. Perception. 3. Business enterprises—Size—Caribbean Area. 4. Small business—Caribbean Area. 5. Caribbean Area—Economic conditions. 6. Economic development—Caribbean Area. I. Sierra Cacho, Ricardo Enrique. II. Inter-American Development Bank. Country Department Caribbean. III. Title. IV. Series.

IDB-PB-205

<http://www.iadb.org>

The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the Inter-American Development Bank, its Board of Directors, or the countries they represent.

The unauthorized commercial use of Bank documents is prohibited and may be punishable under the Bank's policies and/or applicable laws.

Copyright © 2013 Inter-American Development Bank. All rights reserved; may be freely reproduced for any non-commercial purpose.

Inder Jit Ruprah: inderr@iadb.org; Ricardo Sierra: rsierra@iadb.org

Abstract¹

In this policy brief, we review the laments of Caribbean businesspersons. We find that subjective perceptions are rooted in an objective reality. Businesspersons do not complain gratuitously. Furthermore, we find that constraints vary systematically by firm characteristics: In general, small firms and contracting firms face relatively harsher conditions. To enhance a country's economic growth, relevant policy needs to be changed toward a more pro-business stance.

JEL Codes: D21, D22, D62, L26

Keywords: Caribbean, constraints, business environment, perceptions, objective indicators, firm characteristics.

¹ inderr@iadb.org. We thank Karl Melgarejo for providing the information used in this policy brief and for offering valuable comments.

Businesspersons are renowned complainers. They have a reason to be so. Unlike most of us wage earners, the regularity of their income depends on their success in managing their firms and in dealing with the vagaries of the labor and product market. Their success serves as a major driver of a country's productivity and economic growth. In this policy brief we review Caribbean businesspersons' laments and evaluate the interrelation between these subjective indicators with objective indicators. We find that their laments are based on an objective reality.

The debate on the reliability of subjective indicators used to make policy recommendations is unsettled among economists; nonetheless, qualitative rankings have become very popular among policymakers and private sector stakeholders. Specific subjective measurements that arise from Enterprise Surveys can clarify the status of the private sector and have proven to be highly correlated with objective measures of the business climate.

The subjective and objective indicators were analyzed for the Caribbean countries and for relevant comparators—the rest of small economies (ROSE).² The problem of small economies is often mentioned in discussions on the Caribbean, so laments stemming from the Caribbean are compared with those from other small economies. Our main source of information is the Enterprise Survey,³ a firm-level survey of a representative sample of an economy's private sector. The survey covers several business environment topics including access to finance, corruption, crime, infrastructure, and performance. Although business owners and top managers respond to the survey questions, accountants and human resources managers are also involved in the process.

The subjective indicators used in this report are the firm's valuation, on a scale from 0 to 4, of the degree to which they consider an element of the business environment to be an obstacle to their daily operations. Specifically, the question posed was "Is [topic X] no obstacle, a minor obstacle, a moderate obstacle, a major obstacle, or a very severe obstacle to the current operations of this establishment?" For each constraint, an indicator capturing the share of firms that find such topic to be an obstacle (i.e., major or very severe obstacle, hereafter referred to as a "major obstacle") is constructed and used throughout. Following the work of Hallward-

²For a detailed list of the countries included in each cluster, see Table A1 in the Appendix.

³The sampling method for Enterprise Surveys is stratified random sampling. For more details, visit <http://www.enterprisesurveys.org/Methodology>

Driemeier and Aterido (2009), we assess whether such measurements correlate to their corresponding objective indicators (when available) and whether there are systematic differences by firm characteristics.⁴

1. Infrastructure

Electricity

The government undoubtedly plays a major role as facilitator and/or provider of reliable public services that could enhance productivity in the private sector. Appropriate infrastructure allows firms to establish the necessary connections with their suppliers and customers. It also enhances the use of available technology for production purposes on a daily basis. With a lacking infrastructure, production and transport costs tend to rise along with natural barriers to competitiveness. Enterprise Surveys capture the firm's perception not only on electricity, telecommunications, and transportation, but also on objective measurements regarding the provision of public services.

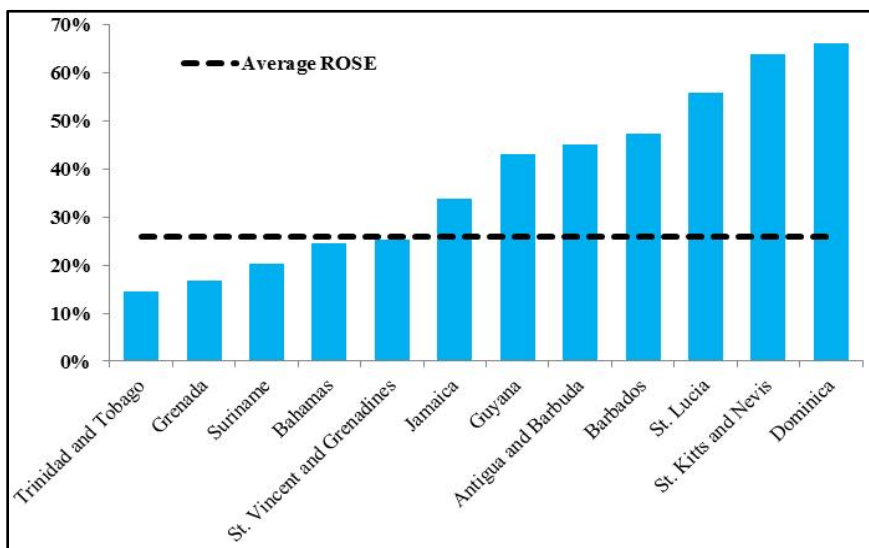
The provision of electricity is a key element in terms of competitiveness because it enhances the use of available technology for production purposes on a daily basis. When provision is inadequate and power outages occur commonly, the production process is disrupted, having a deep impact on productivity as a result of assets being held idle for a period of time.

Chart 1 displays the percentage of firms that find electricity to be an obstacle to business operations in the Caribbean, compared with the average in ROSE (dashed line). Trinidad and Tobago is the Caribbean country with the least negative opinion about electricity, followed by Grenada and Suriname. A quarter of the firms located in CCB countries regard electricity as an obstacle for operations. This share is significantly higher in Organisation of Eastern Caribbean States (OECS) countries, in which 45.6 percent of the firms have a negative perception of electricity. Dominica and St. Kitts and Nevis have the worst opinions, with approximately two thirds of the firms finding electricity to be an obstacle for their operations.⁵

⁴It could be the case that smaller firms report more limited access to finance or are easier targets for crime.

⁵For regional average comparisons, see Figure A1 in the Appendix.

Chart 1. Perceptions on Electricity



Source: World Bank Enterprise Survey

It is worth noting that Guyana is the CCB country with the worst objective measurements in terms of electricity provision (quantity and duration of power outages). Furthermore, the share of firms that experienced power outages during fiscal year 2009 was the highest among OECS countries,⁶ as shown in Chart 2.

Chart 2. Objective Measures: Electricity

	Incidence of power outages	# power outages in a month	Length of power outages (hours)
The Bahamas	0.75	4.1	1.5
Barbados	0.56	3.3	1.8
Guyana	0.82	10.8	2.9
Jamaica	0.81	4.1	1.9
Suriname	0.47	1.9	2.8
Trinidad and Tobago	0.66	1.7	1.9
Average CCB	0.68	3.5	1.9
Average OECS	0.91	3.1	2.2
Average ROSE	0.51	3.6	3.6

Source: Authors' calculations based on World Bank Enterprise Survey

⁶In Dominica, such share is 100 percent, whereas St. Lucia, Antigua, and St. Kitts and Nevis had incidence rates of greater than 95 percent.

Although the average frequency and length of power outages is greater in ROSE, the higher incidence is an indication of a positive correlation between objective and subjective measures of service performance. Chart 3 shows that subjective responses are highly correlated with both—objective measurements from the Enterprise Survey and external objective indicators.⁷

Chart 3. Correlation between Subjective and Objective Measures: Electricity

	Power outages	Electricity consumption	Subjective electricity
Power outages	1.0000		
Electricity consumption	-0.1899***	1.0000	
Subjective electricity	0.1661***	-0.3256***	1.0000

Source: Authors' calculations based on World Bank Enterprise Survey

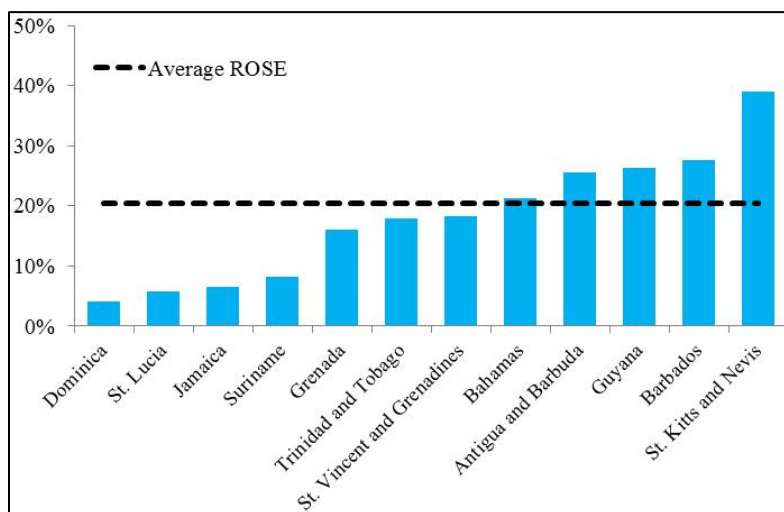
Telecommunications

Nowadays, firms rely heavily on telecommunication services so that they can communicate with clients and suppliers, let people know about their business (e.g., that they have their own website), manage and store information, and conduct other operational needs. Using Enterprise Survey data on countries in Sub-Saharan Africa, Arnold, Matto, and Narciso (2006) showed a significant relation between telecommunication performance and firm productivity in manufacturing sectors.

Overall, Caribbean countries' perception about telecommunications is better than that of electricity provision. The share of firms that consider telecommunications to be an obstacle is significantly lower than it is for electricity and is also lower than the average in small economies.

⁷Electricity consumption (kWh per capita) in 2010 was imported from the World Development Indicators database for 59 countries.

Chart 4. Perceptions on Telecommunications



Source: World Bank Enterprise Survey

St. Kitts and Nevis has the worst opinion of telecommunications: 39 percent of the firms located on this island perceive this issue to be an obstacle, whereas the average for the Caribbean is 17.3 percent. The negative opinion on telecommunications is shared by Barbados and Guyana, with 27.6 and 26.3 percent of firms that consider it to be an obstacle, respectively.

On the opposite end, telecommunications does not seem to be a major problem in Jamaica, Dominica, Suriname, and St. Lucia. The share of firms with negative opinions about telecommunications is less than 8 percent in each of these countries, which is much lower than the average for small economies (20.4 percent).

It is not surprising that the countries where it takes the longest to obtain a telephone connection are Guyana, Barbados, and The Bahamas, with an average delay of 37 days. Jamaica, in contrast, has the most expedited service among CCB countries, with an average wait time of 5 days. St. Kitts and Nevis, the OECS country with the highest share of firms that complain about telecommunications, is also the OECS⁸ country where getting a connection takes the longest (13 days), but still well below CCB standards.

⁸Readers should interpret these results with caution because the number of OECS firms responding to this specific question ($n = 107$) is low.

These partial findings suggest a correlation between subjective and objective measures drawn from Enterprise Survey data. The correlation between the perception of telecommunications as an obstacle and the days to obtain a telephone connection is positive in the Caribbean (0.0364). However, in contrast with the result obtained for electricity, such correlation is not statistically significant.

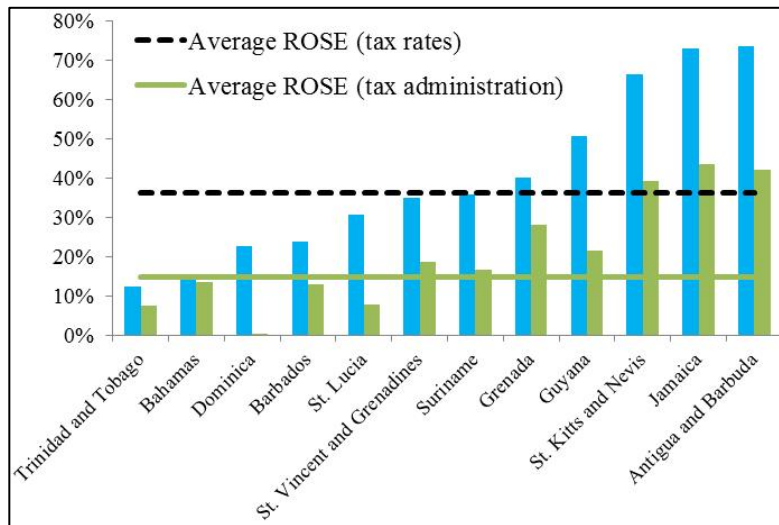
2. Regulations

Tax Rates and Tax Administration

One of the central questions in public finance involves the effect of corporate taxes on investment and entrepreneurship. Enterprise Survey data can convey existing firms' opinions on tax rates and tax administration. However, the following analysis is different in that it captures the perception of current firms (market entry barriers already passed) on the burden that taxes impose on their business operations. These topics, along with the perceptions on business licensing and permits, should reveal the state of business–government relations in the Caribbean.

Jamaican firms seem the most uneasy when it comes to fiscal matters in CCB; 73 percent consider tax rates to be a factor that negatively affect their operations. This figure is comparable only to the ones of Antigua and Barbuda (73.5 percent) and St. Kitts and Nevis (66.3 percent). These three countries form the peaks to the right in Chart 5. The proportion of firms that perceive tax rates to be an obstacle is low in The Bahamas, Trinidad and Tobago, and Dominica, at 15.1, 12.3, and 22.7 percent, respectively.

Chart 5. Perceptions on Tax Rates and Tax Administration



Source: World Bank Enterprise Survey

OECS countries' perception about tax rates is worse than in CCB, with an average share of firms with a negative perception of 44.3 percent to only 29 percent for CCB, yielding a Caribbean average of 31.5 percent. This average is lower than the 36.3 percent prevailing in the average small economy (dashed line in Chart 5). Although it doubles the regional mean for tax administration, the country-level pattern is very similar, as shown in Chart 5.

Jamaica and Antigua and Barbuda remain as the countries with the least favorable opinion, although the share of firms with such view does not surpass 43 percent. Most of the firms in small economies do not perceive tax administration as a major obstacle, given that only 15 percent (solid line in Chart 5) consider this as an issue, in contrast with 28 percent in the Caribbean. Dominica is an exception, with less than 1 percent of firms that consider tax administration to be an obstacle for businesses.

Chart 6. Correlation between Subjective and Objective Measures: Tax Administration

	Subjective tax administration	Tax time (hours per year)	Time spent on regulations
Subjective tax administration	1.0000		
Tax time (hours per year)	0.2396***	1.0000	
Time spent on regulations	0.1438***	0.1097***	1.0000

Source: Authors' calculations based on World Bank Enterprise Survey

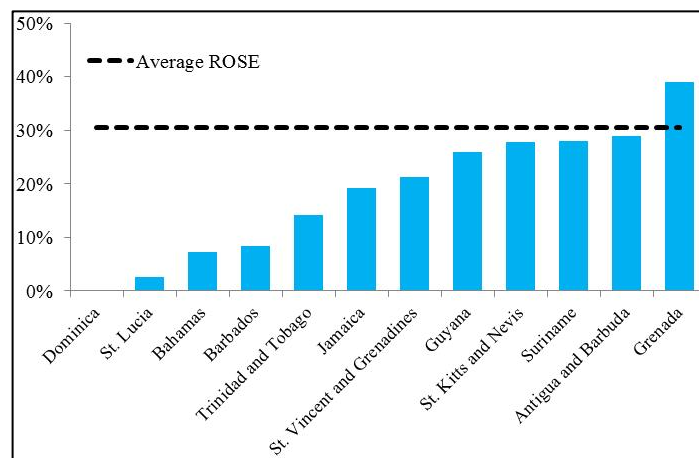
Regarding fiscal topics, the opinion of the private sector is mixed. Tax rates, widely perceived as pervasive to the business environment in the Caribbean, are less of an obstacle than in the average small economy. The same is not true for tax administration—a more sensitive topic of the business environment for Caribbean entrepreneurs.

Political Instability

Another topic of the business environment that is associated with a government's performance is the awareness of political instability. Typically, investment is reduced when there is uncertainty about the politico-economic environment of a country.

The overall opinion about political instability in the Caribbean is less adverse than in small economies. Although 30 percent of the firms in small economies perceive that political instability is a major obstacle for firm development, this share amounts to only 15 percent in the Caribbean region.

Chart 7. Perceptions on Political Instability



Source: World Bank Enterprise Survey

Countries such as Guyana, Suriname, Antigua and Barbuda, and St. Kitts and Nevis have similar “burden rates” at around 27 percent. Firms in Dominica and St. Lucia do not seem to be affected by political instability, given that less than 3 percent consider it a major obstacle for operations—as shown in Chart 7. The lowest rates in CCB are found in The Bahamas (7.3 percent) and Barbados (8.4 percent).

Chart 8. Correlation between Subjective and Objective Measures: Political Uncertainty

	Subjective political uncertainty	Rule of law	Time spent on regulations
Subjective political uncertainty	1.0000		
Rule of law	-0.2167***	1.0000	
Time spent on regulations	0.1459***	-0.0223***	1.0000

Source: Authors’ calculations based on World Bank Enterprise Surveys

An external indicator that correlates with the perception of the private sector about the political context in a given country is the rule of law indicator from the Worldwide Governance Indicators. This estimate of governance ranges from –2.5 (weak) to 2.5 (strong) and is negatively correlated with the subjective constraint indicator constructed from Enterprise Survey data, as depicted in Chart 8.⁹

Skills Shortage and Labor Regulations

Globalization is changing the nature of jobs by shifting labor from traditional manufacturing industries toward services and knowledge-intensive activities. Although this is true particularly for Europe, evidence of this shift of resources from the primary sector is available for many countries in Latin America and the Caribbean. Simultaneously, technological improvements and outsourcing to developing countries are leading to a decline in skilled jobs,¹⁰ and part-time and temporary wage employment is becoming more common in industrial countries.

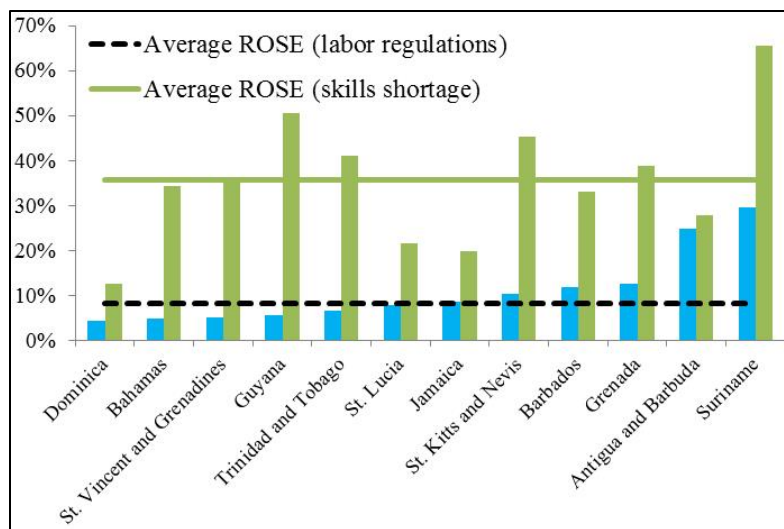
⁹The subsequent section comprises a detailed analysis of constraints related to the rule of law (corruption, crime, and informality).

¹⁰See Autor and Dorn (2012) for evidence from the United States.

In this changing context, the private sector has become the engine of job creation in the world. The most remarkable example of this is China, where private sector growth has expanded employment. The 2013 World Development Report states that private sector employment in China accounted for 2.3 million workers in 1981. By 2001, the private sector accounted for 74.7 million workers, surpassing the number of workers from state-owned enterprises. For the Caribbean private sector to cope with the changing environment of the labor force, adequate labor regulations and educated workforce are direly needed.

Although labor regulations do not seem to be a binding constraint in the mindset of Caribbean entrepreneurs, the shortage of skills is, along with access to finance, one of their most pressing concerns.

Chart 9. Perceptions on Labor Regulations and Skills Shortage



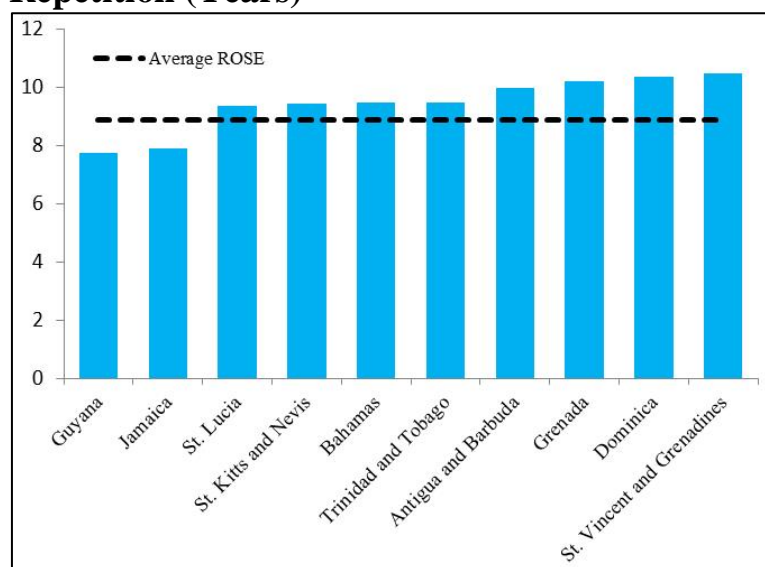
Source: World Bank Enterprise Survey

Only 9 percent of Caribbean firms consider labor regulations to be a major obstacle for the operations of the establishment, similar to the share observed in small economies (10.5 percent). Suriname and Antigua and Barbuda are the exceptions, with 29.6 and 24.7 percent of firms stating labor regulations as a constraint, respectively.

The concern regarding skills shortage in the Caribbean is not as trivial. The expected average years of education (net of repetition) from primary to lower secondary is greater in the Caribbean (9.43 years) than in ROSE (8.87 years, as shown in Chart 10). Also, the private sector

still perceives the workforce as not adequately educated and, therefore, this is a major constraint for business operations.

Chart 10. School Life Expectancy Net of Repetition (Years)



Source: World Bank Edstats

Similar to the subjective indicators on electricity, tax administration, and political instability, there is a negative and significant correlation between the subjective indicator of skills shortage and the aforementioned external indicator of expected years of education.

Chart 11. Correlation between Subjective and Objective Measures: Skills Shortage

	Subjective skills shortage	Expected years of schooling	Training provided by firm
Subjective skills shortage	1.0000		
Expected years of schooling	-0.0180***	1.0000	
Training provided by firm	0.0669***	0.0495***	1.0000

Source: Authors' calculations based on World Bank Enterprise Survey

The lower the expected school life expectancy is, the worse the perception the private sector has about the workforce skills, and the more training they provide to their permanent full-time employees (Chart 11). This clearly indicates that firms do not complain indiscriminately and that

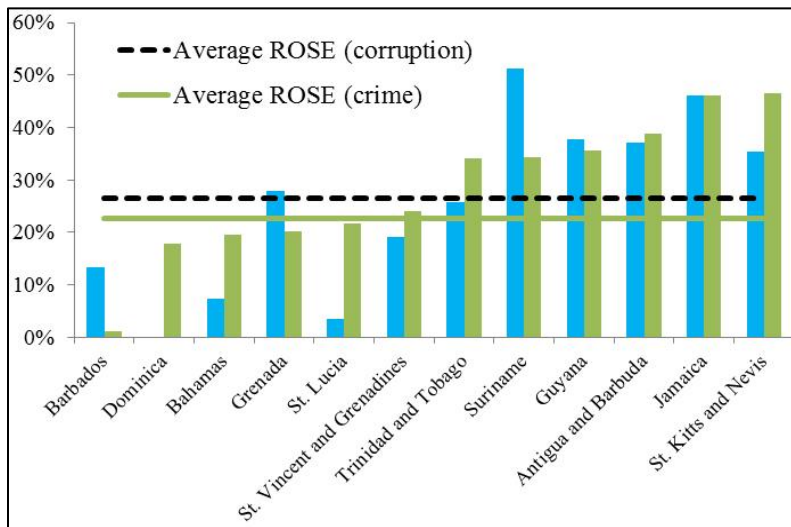
they will adjust and make provisions to tackle these constraints. This result runs parallel to that found in Gelb and colleagues' (2007) analysis of African firms.

3. Rule of Law

Crime and Corruption

The optimism in the aforementioned results on political instability or expected years of education could be eclipsed by this section. The Caribbean region has been constantly associated with exceptionally high levels of crime for the past two decades. A vast body of literature provides evidence on the negative relation between crime and productivity. How firms perceive crime, theft, and disorder—in the Caribbean context—should reveal much about the effectiveness of previous policies and the need for future ones.

Chart 12. Perceptions on Crime and Corruption



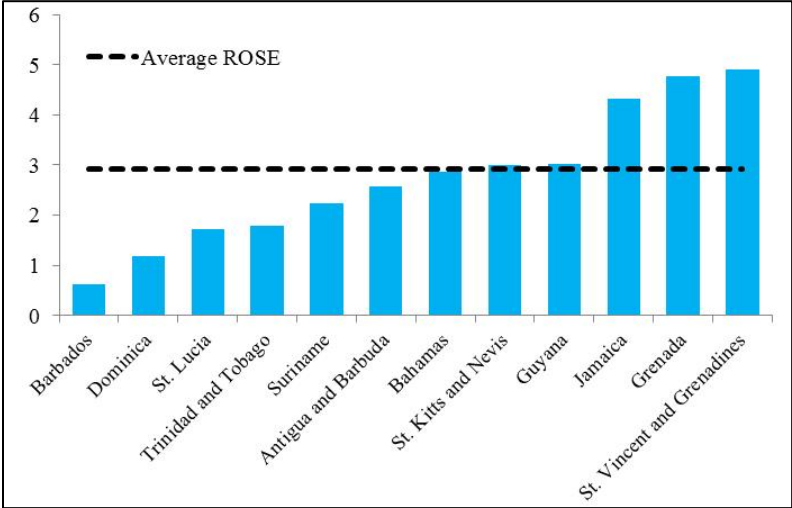
Source: World Bank Enterprise Survey

Crime is not the worst perceived topic in the Caribbean, although it is at the top of the list. Among Caribbean firms, 30 percent perceive crime as a major obstacle. This figure is only 22 percent in small economies (solid line). The negative opinion regarding crime spreads throughout the region, with Barbados being the most notable exception, which has an average complaint of less than 2 percent. While The Bahamas, Dominica, and Grenada have lower-than-average negative perceptions, these countries are closer to the regional average in small economies. The rest of the countries have a worse perception about this matter (Chart 12).

It is not surprising that Jamaica—a country that is commonly associated with high levels of crime and violence—hosts the firms that have the worst opinion on crime, theft, and disorder as an obstacle for regular business operations. The other Caribbean country in this position is St. Kitts and Nevis, with a share of 46 percent of firms considering it a major constraint. Guyana, Suriname, Trinidad and Tobago, and Dominica follow, with around one third of firms complaining in this regard.

Subjective measures do not align perfectly with their objective counterparts at the aggregate: Losses resulting from crime (as percentage of total annual sales) are slightly higher in ROSE (2.9 percent) than in the Caribbean (2.5 percent). Only three Caribbean countries report losses above the average for ROSE: Jamaica (which regards crime as a major burden) and Grenada and St. Vincent (for which crime does not seem to be a binding constraint).

Chart 13. Objective Measure, Losses Resulting From Crime



Source: World Bank Enterprise Survey

However, the correlation between the variables, taking all countries in consideration, is as expected. The worse the perception about crime is, the higher the losses are that result from crime and the lower the rule of law estimate is, as shown in Chart 14.

Chart 14. Correlation Between Subjective and Objective Measures: Crime

	Subjective crime	Losses resulting from crime	Rule of law
Subjective crime	1.0000		
Losses resulting from crime	0.1492***	1.0000	
Rule of law	-0.0400***	-0.1148***	1.0000

Source: Authors' calculations based on World Bank Enterprise Survey

Corruption can seriously burden firms in the developing world. Firms might be forced to pay a prime “to get things done.” With higher costs, investment levels in a given industry are negatively affected, and so is the overall development of the private sector (Amin, 2009).

The general perception about corruption in the Caribbean is not significantly different from the one perceived in small economies (Chart 12). However, there is much heterogeneity at the country level. Although the share of firms with a negative perception is 46 percent in Jamaica and St. Kitts and Nevis—the countries with the worst perception about graft—it is less than 8 percent in Dominica, St. Lucia, and The Bahamas.

Chart 15. Correlation Between Subjective and Objective Measures: Corruption

	Subjective corruption	Bribe (yes = 1; no = 0)	WGI control of corruption
Subjective corruption	1.0000		
Bribe (yes = 1; no = 0)	0.1478***	1.0000	
WGI control of corruption	-0.1715***	-0.205***	1.0000

Source: Authors' calculations based on World Bank Enterprise Survey

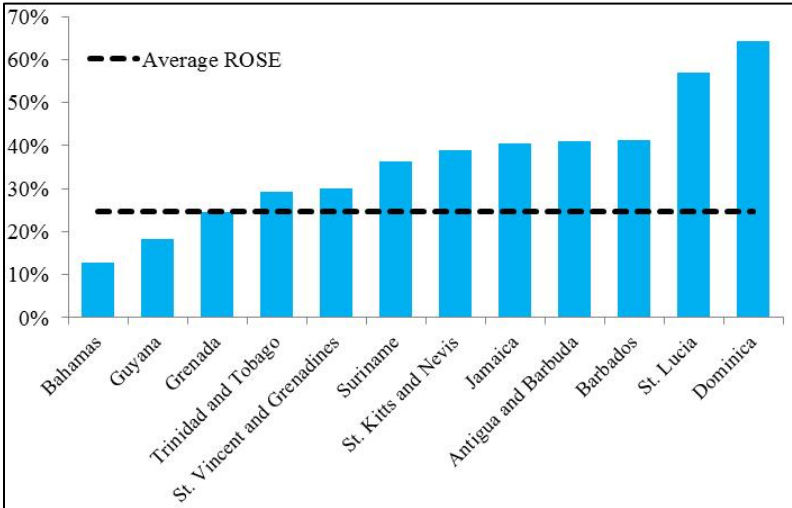
Again, qualitative rankings correlate well with quantitative indicators within the survey (dummy variable for paying bribes) and with indicators of corruption control from external sources.

4. Finance

Although Enterprise Surveys capture 15 features of the business environment for which firms make their subjective valuations, access to finance is one of the most studied. Using a directed

acyclic graph, Ayyagari and colleagues (2006) found that only finance, crime, and political instability emerge as binding constraints with a direct impact on a firm’s growth. In previous work, La Porta and colleagues (1998) analyzed differences in legal and financial systems and their effect on financial policies and performance for 49 countries. Evidence from their study pointed to a relatively stronger position favoring investors in common-law countries. Is a solid protection toward shareholders and creditors in British colonies a sufficient condition to tackle the obstacle of access to finance for entrepreneurs?

Chart 16. Perceptions on Access to Finance



Source: World Bank Enterprise Survey

Chart 16 shows how all but two Caribbean countries have a worse perception about access to finance than does the average small economy. Among Caribbean firms, 34 percent value this as a constraint, whereas only 24.7 percent do so in ROSE. Firms in The Bahamas and Guyana have a less harsh perception on the matter, whereas OECS members (especially Dominica and St. Lucia) argue about this barrier to entry.

Chart 17. Correlation Between Subjective and Objective Measures: Finance

	Subjective finance	% investment financed externally	Credit to private sector (% GDP)
Subjective finance	1.0000		
% investment financed externally	-0.0458***	1.0000	
Credit to private sector (% GDP)	-0.0991***	-0.1763***	1.0000

Source: Authors' calculations based on World Bank Enterprise Survey

In total, we have a clear picture of the major constraints that the Caribbean private sector faces. Four topics of the business environment concern businessmen the most: crime, tax rates, access to finance, and an inadequately educated workforce; these are followed by electricity, corruption, and informality. In contrast, Caribbean firms do not seem to be concerned by transportation, telecommunications, and tax administration. Almost all constraints are correlated with objective measurements, pointing to entrepreneurs reporting real constraints and not complaining gratuitously. Regarding the extent to whether these constraints differ by firm characteristics, firm size and performance is analyzed in the following section.

Do They Complain Because of Who They Are?

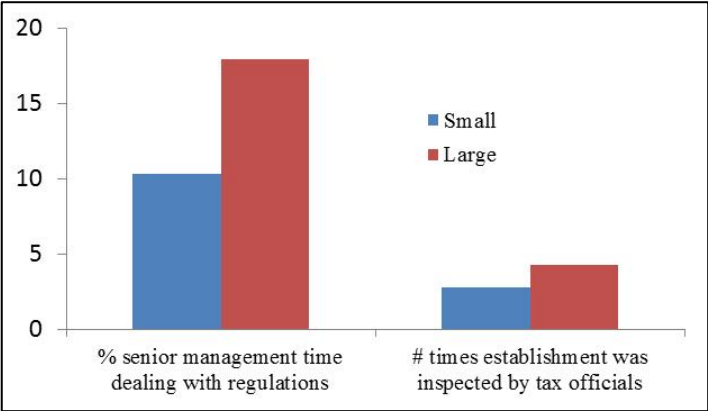
It would not be surprising if subjective valuations of a constraint vary systematically by respondent characteristics. Intuitively, smaller firms could easily report more limited access to electricity and be more susceptible to criminal activities close to their premises.

Table A2 provides evidence that favors a hypothesis wherein smaller—more vulnerable—firms face a harsher business environment. While the table only summarizes the subjective measurements of different indicators, the results provided so far in terms of correlations suggest that such firms are relatively more constrained.

Electricity and tax administration are the only constraints for which larger firms are worse off. The incidence of power outages in the previous fiscal year is higher for large firms (48.4 percent) than for small ones (44 percent) and so is the ownership of power generators (22 percent for large firms versus only 6 percent for small firms). These results point to a situation in which faulty energy provision from the public grid does not affect large firms that can produce

in-house electricity, circumventing the deficiencies of electricity provision but still thinking about unreliable power as a major constraint. Within regulations, tax administration is a topic that larger firms complained relatively more about. Altogether, larger firms have to spend a greater amount of time (18 hours in a typical week, compared with only 10 hours for small firms) to address matters relating to government regulations. Furthermore, large firms are inspected by tax officials more often than are small ones (Chart 18).

Chart 18. Burden from Regulations and Tax Inspections



Source: World Bank Enterprise Survey

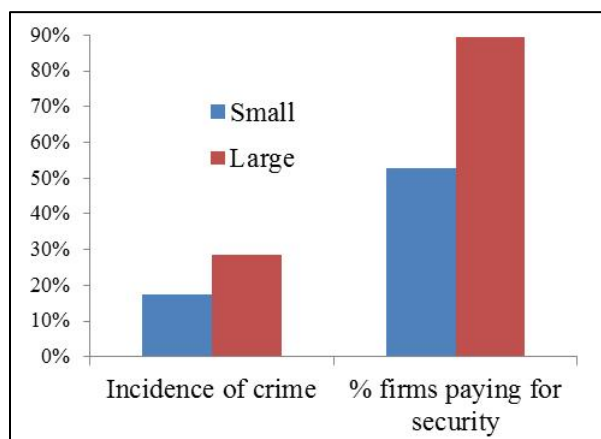
The tax administration exception can be simply put as follows: *With greater success comes greater responsibility*. Firms can afford to employ a greater number of individuals because of larger sales (or more productivity); thus, they are subject to more inspection by tax officials and have to allocate more management time to handle government regulations.

Other than electricity and tax administration, for which reasonable hypothesis could be drawn, it becomes clear that small Caribbean firms face more constraints than do their large counterparts. Small firms in the Caribbean complain relatively more about crime, corruption, and access to finance.

In general, large firms face a higher incidence of crime and have greater losses resulting from crime. Although incidence is higher for large firms in the Caribbean (28 percent) than in small firms (17 percent), losses are smaller. This suggests that the Caribbean private sector perceives crime as a pressing obstacle, with small Caribbean firms significantly more so than large firms not because of a higher relative incidence but because their losses resulting from

crime are relatively higher than for large firms. This might be the result of the greater share of large firms paying for security in the Caribbean (Chart 19).

Chart 19. Crime and Firm Size



Source: World Bank Enterprise Survey

The partial result on corruption suggests that rent-seeking behavior affects small Caribbean firms relatively more. The objective measurement of bribes¹¹ is not statistically different for small firms (6.3 percent of firms had to bribe) and medium-sized firms (6.7 percent) in the Caribbean. However the occurrence of bribes is lower in large Caribbean firms (5.5 percent).

The differences by performance suggest that expanding Caribbean firms complain relatively more than do firms undergoing a contraction¹² period. This holds for all constraints except crime. Given that there are no significant differences for objective crime indicators between both categories, this result signifies a greater fear of crime from those Caribbean firms that are performing better.

In sum, Caribbean businessmen perceive that the worst constraints their firms confront are crime, tax rates, access to finance, and an inadequately educated workforce. Most constraints are harsher for smaller and worse-performing firms, with supporting evidence from objective

¹¹ A categorical variable that equals 1 if informal gifts or payments were expected when firms applied for an electrical, water or telephone connection, a construction-related permit, an operating license or a business license.

¹² The categories of contracting and expanding were constructed according to employment growth, which is defined as follows: $EG_{it} = (\ln S_{it} - \ln S_{i,t-3})/3$. Expanding firms had positive employment growth rates, whereas contracting firms had negative.

measurements. Subjective and objective indicators suggest that existing policies are not pro-business and hence not pro-growth. Enhancing economic growth will require revising such policies.

References:

- Amin, Mohamamad. 2008. "Helpful Governments." World Bank Policy Research Working Paper No. 4557, World Bank, Washington, DC..
- Amin, Mohamamad. 2009. "Who Suffers More From Crime?" Social Science Research Network. <http://ssrn.com/abstract=1508626>.
- Arnold, James, Aaditya Mattoo, and Gaia Narciso. 2006. "Services Inputs and Firm Productivity in Sub-Saharan Africa. Evidence From Firm-Level Data." World Bank Policy Research Working Paper No. 4048, World Bank, Washington, DC.
- Dinh, Hinh, Dimitris Mavridis, and Hoa Nguyen. 2010. "The Binding Constraint on Firm's Growth in Developing Countries." World Bank Policy Research Working Paper No. 5485, World Bank, Washington, DC.
- Gelb, Alan, Vijaya Ramachandran, Manju Kedia, and Ginger Turner. 2007. "What Matters to African Firms? The Relevance of Perceptions Data." World Bank Policy Research Working Paper No. 4446, World Bank, Washington, DC.
- Hallward-Driemeir, Mary, and Reyes Aterido. 2009. "Comparing Apples with Apples. How to Make (More) Sense of Subjective Rankings of Constraints to Business." World Bank Policy Research Working Paper No. 5054, World Bank, Washington, DC.
- La Porta, Rafael, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert W. Vishny. 2008. "Law and Finance." *Journal of Political Economy*, 106, 1113–1155.
- World Bank. 2012. *World Development Report 2013: Jobs*. Washington, DC: World Bank.

Appendix

Table A1. Countries in Each Cluster

<u>CCB</u>	<u>OECS</u>	<u>ROSE</u>
The Bahamas	Antigua and Barbuda	Belize
Barbados	Dominica	Bhutan
Jamaica	Grenada	Botswana
Guyana	St. Kitts and Nevis	Cape Verde
Suriname	St. Lucia	Estonia
Trinidad and Tobago	St. Vincent and Grenadines	Fiji
		FYR Macedonia
		Gabon
		Latvia
		Lesotho
		Mauritius
		Mongolia
		Montenegro
		Samoa
		Slovenia
		Timor Leste
		Vanuatu

Figure A1. Regional Comparisons of Constraints

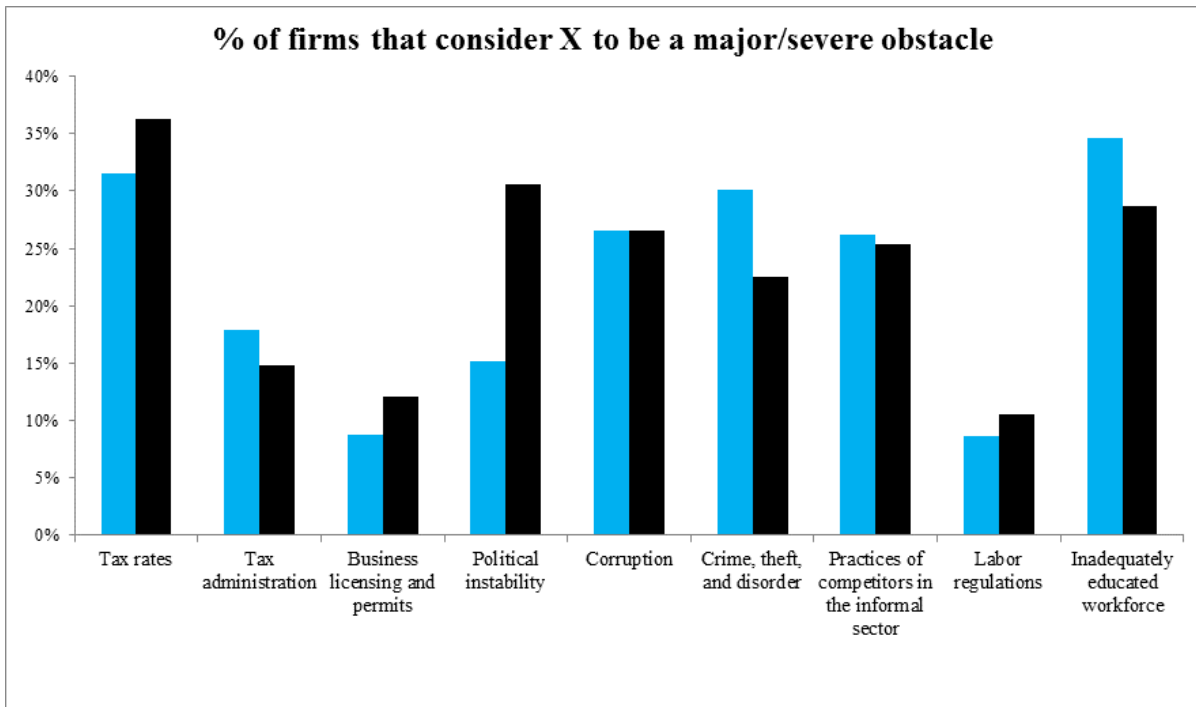
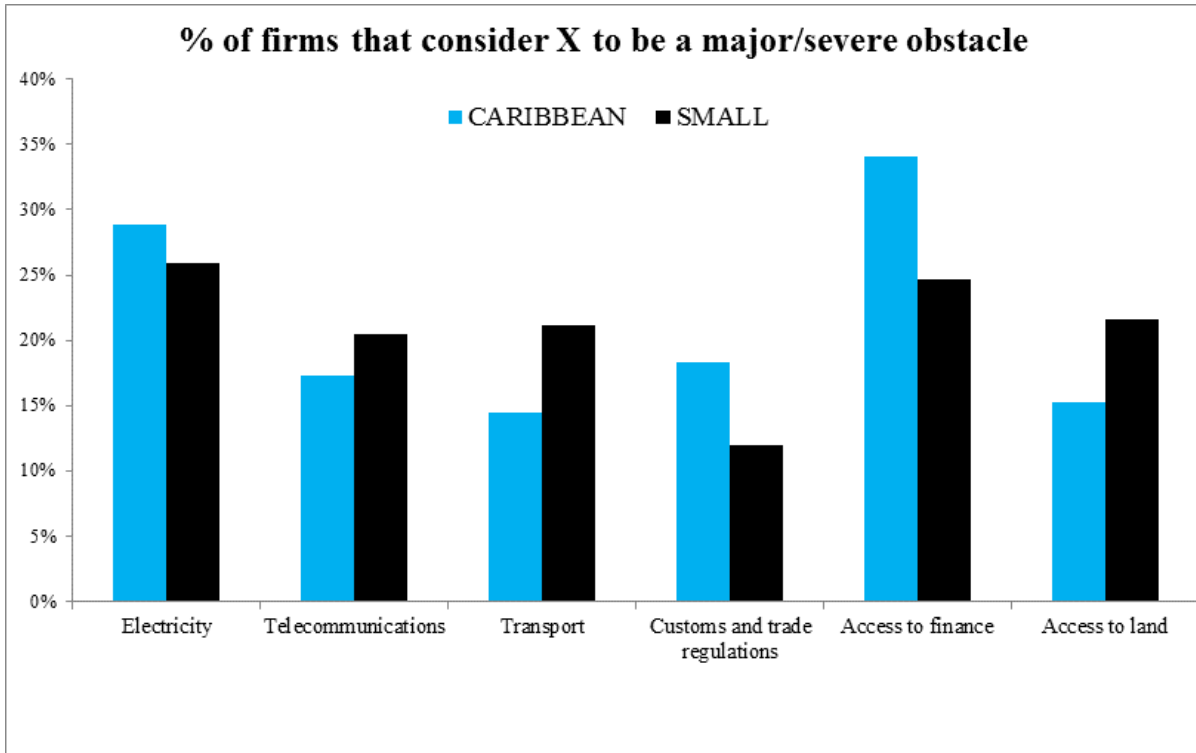


Table A2. Differences, by Firm Size and Performance in the Caribbean (%)

	Overall	Size			Performance	
		Small	Medium	Large	Expanding	Contracting
Infrastructure						
Electricity	28.9	28.6	28.7	33.2	28.4	31.1
Telecommunications	17.3	17.7	16.0	17.2	17.2	17.3
Regulation						
Tax rates	31.5	31.6	31.8	29.8	30.1	38.3
Tax administration	17.9	17.6	18.5	19.4	16.8	23.3
Political instability	15.1	14.9	16.3	11.9	14.1	19.8
Labor regulations	8.7	9.0	8.1	6.6	8.4	10.2
Skills shortage	34.6	36.1	30.2	35.7	34.2	37.0
Rule of law						
Crime	30.1	32.5	24.4	22.8	30.4	28.6
Corruption	26.6	27.6	24.5	21.4	25.6	31.6
Finance						
Access to finance	34.1	34.3	34.8	26.3	32.9	39.8

Source: Authors' calculations based on World Bank Enterprise Survey

Previous Caribbean Policy Briefs

[Does Size Matter? Yes, If You are Caribbean!](#) (IDB-PB-201)

[Don't Talk to Me about Debt. Talk to Me about Growth](#) (IDB-PB-202)

[The Question is Not Whether "To Devalue or Not to Devalue?" But Rather "What to Devalue?"](#)
(IDB-PB-204)