



The Business Climate in Jamaica: What Does the Enterprise Survey Have to Say?

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Abstract¹

Jamaican firms are constantly plagued by a number of issues that restrict their ability to grow. The World Bank's Enterprise Survey examined the key indicators to give insight on the business climate in Jamaica. Compared with firms in the Latin America and Caribbean (LAC) region, Jamaican firms face several constraints to growth and operation. Within the Caribbean Country Department (CCB), Jamaica is the only member—except Suriname—that identified close to half of the areas as constraints to firm operation. Tax rates, access to finance, practices of the informal sector, and electricity were identified as their biggest obstacles.

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¹ Ricardo Sierra provided valuable comments. Corresponding author: stevonnen@iadb.org

Introduction

The private sector of an economy is many times identified as the engine for growth as it possesses the ability to provide jobs and form partnerships with governments to foster inclusive growth; this ideology is no different for Jamaica's private sector. With that in mind, economic development depends on the private sector's ability to grow and improve productivity. For firms to operate efficiently and maximize profit, it is paramount that government-implemented policies be geared toward the needs of firms in areas that are lacking. In that context, we explore the constraints that firms face in their quest for success and Jamaica's viability in doing business.

In 2012, the World Bank and the IDB implemented the Enterprise Surveys of private firms for the first time for the Caribbean.² The Enterprise Survey provides a detailed picture in several relevant areas—such as access to finance, informal sector competition, infrastructure, tax rates, and tax administration—and can provide forward direction in policy implementation for the private sector. The Enterprise Survey focuses on key factors and indicators that present a profile of the business environment. These factors can accommodate or constrain firms and can determine firm growth and—by extension—economic growth. We explore the constraints to firms' operations in comparison with countries belonging to the IDB's Caribbean Country Department (CCB) and Latin America and the Caribbean (LAC). The Enterprise Survey covers a range of areas including corruption, crime, access to finance, infrastructure, innovation and technology, the informal sector, taxes, and the labor market. The Enterprise Survey also offers a wealth of information in the area of access to finance, which is widely cited as a major constraint for small firms to perform efficiently. In this policy brief, we explore the role of firm characteristics for access to finance. The Enterprise Surveys uses stratified random sampling on the basis of firm size, business sector, and location in a country to ensure a representative sample of firms.

When the Enterprise Survey for Jamaica was conducted, the country was in a recession, and it is likely that firms were overly pessimistic in their outlook during this time. This pessimism could have influenced the managers who were interviewed and could have resulted in bias; nevertheless, the results are considered to be valid because the Jamaican economy is still weak.

²Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank.

The Average Firm

The average Jamaican firm has operated for almost 21 years—around the length of operation of a typical CCB and LAC firm: 21 and 20 years, respectively. As expected, large Jamaican firms have existed for twice as long as have medium and small firms. Retail and manufacturing sector firms have existed longer than firms in other services. Firms in Jamaica leave the informal sector in less than 1 year of operating by formally registering. This trend in the length of operation is also true for CCB and LAC firms that registered after 1 year of operation. In general, firms that provide other services took longer to formally register than did firms in retail and manufacturing.

Table 1. The Average Firm in Jamaica Compared With LAC and CCB Countries

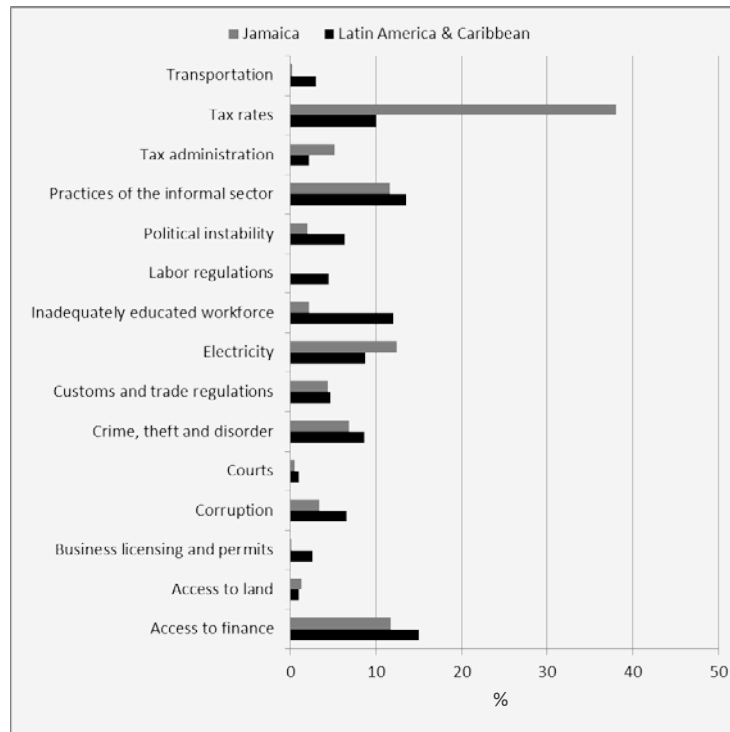
	Jamaica	CCB	LAC
Age (years)	20.9	21.0	20.3
Firms formally registered when started operations in the country (%)	90.0	86.8	87.2
Private domestic ownership (%)	94.1	89.5	89.3
Private foreign ownership (%)	5.7	9.3	8.9
Government/state ownership (%)	0.0	0.2	0.1
Firms with female participation in ownership (%)	38.2	43.6	40.4
Firms with women in top management (%)	24.1	22.7	20.8
Experience of the top manager (years)	16.1	18.2	19.3
Proportion of permanent full-time workers who are female (%)	44.5	42.0	37.9

Source: World Bank Enterprise Survey, 2010.

What Are the Major Constraints for Firms?

The Enterprise Survey asks firms to identify whether specific factors are major constraints to the firm's operations, and of these factors, which one they considered to be the biggest obstacle. Jamaican firms overwhelmingly identified tax rates as the biggest obstacle (35.1 percent), followed by electricity (12.4 percent), access to finance at (11.7 percent), and practices of the informal sector (11.6 percent). For details, see Figure 1.

Figure 1. Percentage of Firms That Stated a Factor as Their Biggest Obstacle



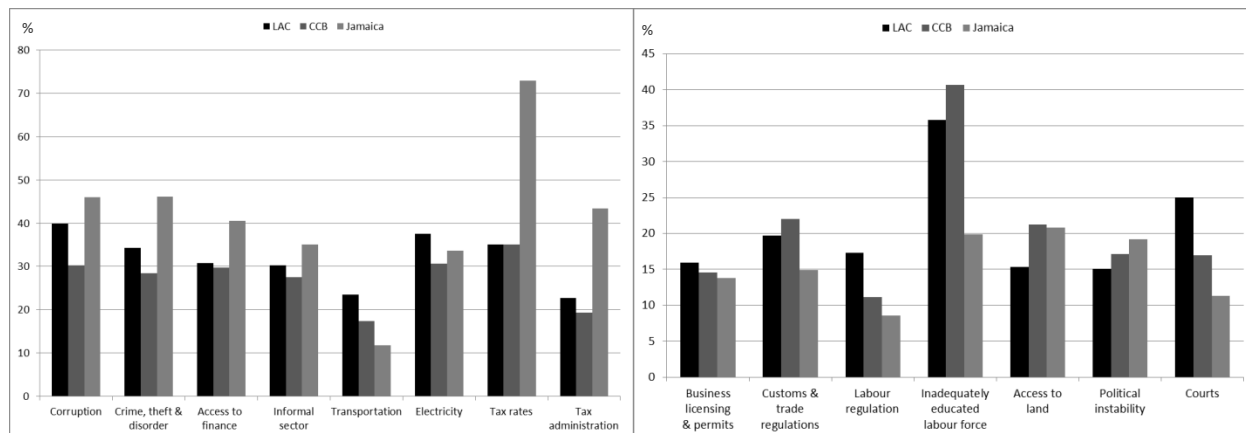
Source: World Bank Enterprise Survey, 2010.

When examining specific areas as constraints to the operation of firms, the broad areas examined were trade, infrastructure, informal sector, finance, crime, corruption, regulations and taxes, and the workforce. Jamaican firms consider more factors as a major constraint³ than do other countries: Of the 15 business topics in the survey, more than one third of Jamaican firms identified 7 as major constraints (Figure 2). Compared with LAC and CCB firms, Jamaican firms regard taxation as the biggest obstacle to operations. At the same time, an adequately trained workforce, which is a major issue in most countries, is seen as a major constraint by only 19.9 percent of firms in Jamaica. Two related reasons could explain this outlier. First, Jamaica was still in recession, with an elevated unemployment rate, when the survey was conducted in 2010. Second, the growth performance of the Jamaican economy in the past has been relatively weak. Many skilled workers may have migrated because there were job opportunities abroad, which

³ Question: Is the following factor no obstacle, a minor obstacle, moderate obstacle, major obstacle, or a very severe obstacle? The scale used to classify the manager's response is (0 to 4) with 0 being no obstacle and 4 being a very severe obstacle. We use major constraint for companies that state that an area is a major or a very severe obstacle.

could imply that skilled labor was abundant if the country offered more employment opportunities.

Figure 2. Percentage of Firms That Consider a Factor a Major Constraint



Source: World Bank Enterprise Survey, 2010.

Main Constraints for Jamaican Firms

Regulation and Taxation

The tax system has long been recognized as a major weakness and is currently a central area for reforms under the Extended Fund Facility with the International Monetary Fund. This is represented in the Enterprise Survey, which indicates that a staggering 72.9 percent of firms identify tax rates as a major constraint to operations and 43.4 percent of firms identified tax administration as a major constraint. Both areas are significantly higher than the LAC average of 35.1 percent of firms for tax rates and 22.7 percent for the tax administration system. In the broad business topic *regulations and taxes*, although tax rates and tax administration are concerning issues, in other areas in this business topic Jamaican firms have less of an obstacle when compared with CCB. The percentage of firms in Jamaica that identified business licensing and permits as a major constraint to operations is 13.8 percent, slightly less than the LAC average (15.9 percent) and CCB average (14.6 percent). Jamaica also has had a positive performance in the number of days taken to obtain a construction-related permit, an operating license, and an import license when compared with CCB member countries (Table 2).

Table 2. Number of Days Taken to Obtain a Construction-Related Permit, an Operating License, and an Import License

	Construction-Related Permit	Operating License	Import License
LAC countries	96.0	45.5	24.0
The Bahamas	81.2	17.4	11.7
Barbados	106	49.3	28.1
Guyana	65.4	22.4	15
Jamaica	72.3	9.3	8.1
Suriname	150.3	42.0	5.5
Trinidad and Tobago	381.8	28.7	12.8

Source: World Bank Enterprise Survey, 2010.

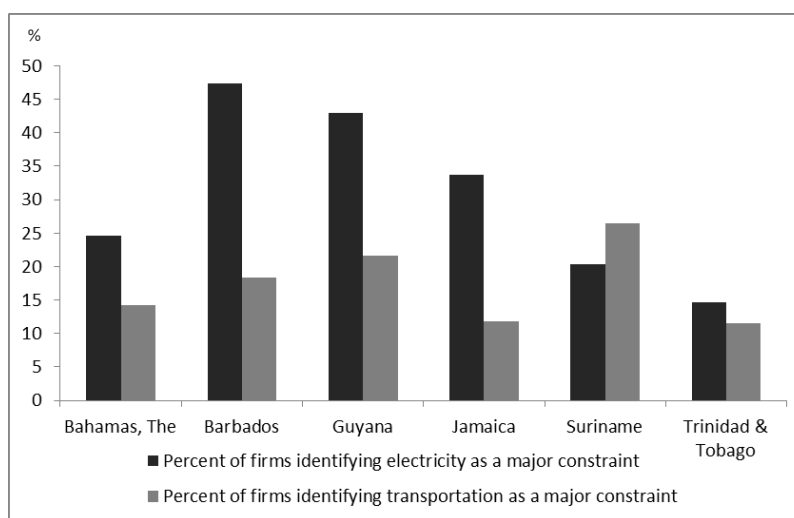
Crime and Corruption

Among Jamaican firms, crime is considered a major constraint for 46.1 percent and corruption is considered a major constraint for 46 percent. In line with the importance given and the high incidence of crime in Jamaica, 65.9 percent of firms paid for security, a figure that is similar to the LAC average of 62.1 percent. However, of the group of firms that paid for security, this cost accounted for only 1.7 percent of total annual sales, which is less than the LAC average of 2.5 percent and CCB average of 2.1 percent. More firms in the manufacturing sector paid for security when compared with other services and the retail sector. In terms of corruption, more than one third of firms stated that they were expected to give gifts to receive a water connection and a construction permit. A higher percentage of small firms (64.9 percent) expected to give gifts to receive a construction permit when compared with medium firms (40.2 percent). Large firms do not have to give a gift (0 percent).

Infrastructure

Another area of concern for Jamaican firms is electricity; 33.7 percent of firms indicated that electricity was a major constraint. This figure is in the higher half, slightly less than that of Barbados and Suriname, where 47.3 percent and 43 percent of firms, respectively, also identified electricity as a major constraint. This result is expected, given the high cost of energy. Another factor that influences the ranking is the average number of days it takes to receive an electrical connection upon applying (for Jamaica, 20.4 days; for CCB, 27.6 days). In addition, more than one third of firms indicated that they owned or shared a generator, which is also in the higher half when compared with CCB. Power outages per month (an average of 2.5 days) and the duration of said outages (average of 1.3 hours) were among the highest in CCB.

Figure 3. Percentage of Firms That Identified Electricity and Transportation as a Major Constraint



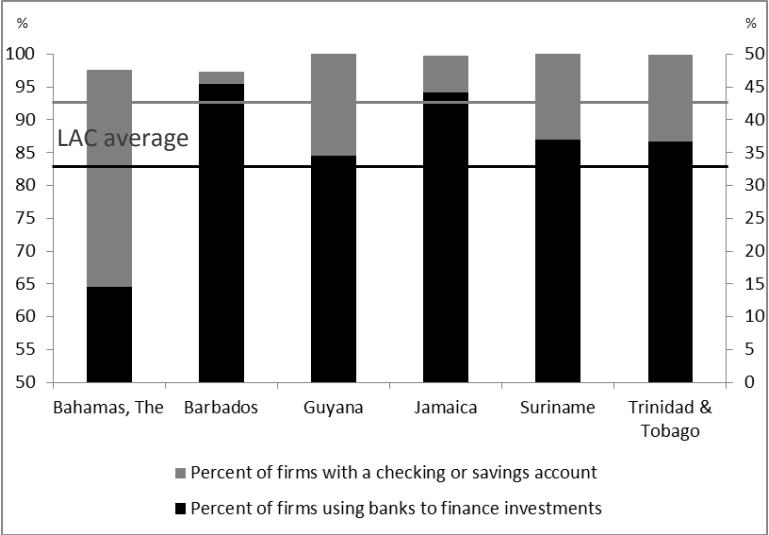
Source: World Bank Enterprise Survey, 2010.

Access to Finance

Besides Barbados, Jamaica had the highest percentage of firms stating that access to finance was a major constraint even though Jamaican firms are well integrated in the financial system. Of Jamaican firms, 99.8 percent have a checking or savings account, and 44.2 percent use banks to

finance investments (Figure 4). Regarding finance investments, more firms in the services sector (83 percent) use banks, whereas a small number of firms in the retail sector (3.7 percent) do so.

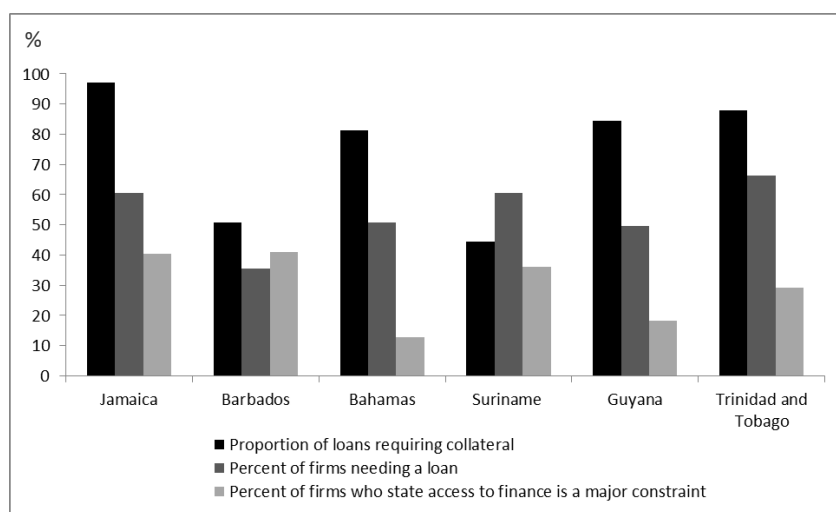
Figure 4. Percentage of Firms That Used Banks for Investment and Savings or Checking Accounts



Source: World Bank Enterprise Survey, 2010.

Smaller firms had the highest percentage (47.1 percent) of firms with access to finance as a major constraint, and this figure decreased as the size of the firm increased. A major problem is that 97.1 percent of loans require collateral (Figure 5) valued at an average of 204.1 percent of the value of the loan and more than 50 percent of Jamaican firms need credit. Also related to access to finance being a major constraint for firms is that a mere 27.2 percent of firms have a line of credit or a loan, the highest proportion being manufacturing firms. This is significantly less than LAC countries’ average of 47.6 percent and less than the average for CCB member countries.

Figure 5. Access to Finance as Constraint, Loans, and Collateral



Source: World Bank Enterprise Survey, 2010.

Marginal effects (see Appendix Table 2) for access to finance on firms characteristics confirmed the results of the comparative statistics and also how much of a constraint this business topic is to operation of small firms. It showed that if a firm was small, the probability that access to finance was a major constraint increased by 50.6 percent, and this probability decreased as the size of the firm increased.

Conclusions

Jamaican firms face many setbacks. Compared with other countries in LAC, Jamaican managers state that more areas constitute significant constraints for their companies. Taxes stand out clearly given that more than two thirds of firms noted that tax rates represented a major constraint for their operations. Tax administration was also mentioned by more firms in Jamaica than in other countries. The comprehensive tax reform currently being implemented is a welcome development.

However, work is also necessary in the area of policy to alleviate other areas noted as constraints, especially the seven areas identified as a major constraint by at least one third of firms. In the absence of a more recent Enterprise Survey, there is no quantified evidence to examine whether Jamaica has improved. However, we can infer from other indicators such as the

2014 World Bank's "Doing Business" index, which indicates that Jamaica has lost four ranks despite implementing the most reforms in the Caribbean.

Lastly, the 2010 Enterprise Survey was conducted in the middle of a recession, which might have influenced managers' perceptions. However, given the major challenges that firms can face anyway, it is imperative for the business climate to support firms rather than add more difficulties.

References

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Appendix: Regressions for Access to Finance

Appendix Table 1. Variables

Variable Name	Variable Explained
Foreign	Foreign owned
Exporter	Minimum 10% of sales from export
Small firm	Between 5 and 19 employees
Medium firm	Between 20 and 99 employees
Manufacturing	In manufacturing sector
Retail	Retail sector
Other services	Other services sector
Finance major constraint	Manager states that finance is a major constraint

Source: World Bank Enterprise Survey, 2010.

There is a statistically significant relation between a firm stating that access to finance is a major constraint and the size or sector of the firm (Appendix Table 2). If a firm was small, the probability that access to finance was a major constraint increased by 50.6 percent, whereas if the firm was medium, the probability would increase by 34.1 percent. Access to finance as a major constraint decreased by 18.6 percent if the firm belonged to the manufacturing sector and decreased by 25.3 percent if it belonged to the retail sector. The same analysis was conducted for the CCB countries, and it showed that the probability that access to finance was a major constraint decreased by 53.3 percent if the firm was in the manufacturing sector and decreased by 16.8 percent if the firm belonged to the retail sector. In contrast, size did not have a statistically significant effect for the whole of CCB.

Appendix Table 2. Marginal Effects for Probit Regression for Access to Finance as a Major Constraint

	Jamaica	CCB
Exporter	-0.071 (0.123)	-0.006 (0.073)
Small firm	0.506 (0.101)**	0.084 (0.065)
Medium firm	0.341 (0.106)**	-0.133 (0.042)
Manufacturing	-0.186 (0.081)*	-0.133 (0.042)
Retail	-0.253 (0.074)**	-0.114 (0.045)**
Other services	0.007 (0.089)	-0.048 (0.046)**
Foreign	0.286 (0.166)	0.010 (0.078)

Notes: Dependent variable is access to finance a major obstacle or a very severe obstacle to the current operations of this establishment. CCB regression includes country dummy variables. * $p = .05$. ** $p = .01$.

Source: STATA regression output and author's calculations

Effects on Performance

As shown earlier in the comparative, with more than one third of firms that identified 7 out of 15 business topics as major constraints to their operations, it is difficult for Jamaican firms to function efficiently. However, do the identified constraints have a measureable effect on performance? In line with other studies (e.g., Gaviria 2002; Schmid 2013) regressions were run of firm performance as measured by growth in employment and growth in sales on business obstacles. However, no clear statistically significant relation was found (results not shown here). Besides measurement problems, a possible reason for the absence of the relation is that the survey was conducted during the global financial crisis, which had many effects on performance.

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[Don't Talk to Me about Debt. Talk to Me about Growth](#) (IDB-PB202)

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

[Laments of the Caribbean Businessperson are Based on Facts?](#) (IDB-PB-205)

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