Inter-American
Development Bank

Toward a Business Climate Reform Agenda in the Caribbean

Sylvia Dohnert
Tara Lisa Persaud
Stefano Pereira
Wayne Elliott
Kayla Grant

Institutions for
Development Sector

Competitiveness and
Innovation Division

DISCUSSION
PAPER Nº
IDB-DP-479

August 2016

Toward a Business Climate Reform Agenda in the Caribbean

Sylvia Dohnert
Tara Lisa Persaud
Stefano Pereira
Wayne Elliott
Kayla Grant

Compete Caribbean

August 2016

Inter-American Development Bank

Contact: Kayla Grant, kaylag@iadb.org.

Abstract*

This paper is meant to help national and regional policymakers navigate the complex topic of business climate reform in the Caribbean. It combines the findings of four relatively independent data collection efforts to uncover which aspects of the current business climate most affect the private sector in that region. The analysis from the four sources indicates that the most pressing business climate constraints affecting private sector performance are: (i) an inadequately educated workforce; (ii) the cost of finance, and (iii) access to finance. These issues are discussed in detail along with others that significantly affect private sector development. The paper ends with a regional agenda and country-specific prioritized agendas for business climate reform.

JEL Codes: D21, M13, M16, M38
Keywords: private sector development, business environment, Caribbean, competitiveness

---

* Compete Caribbean is a private sector development program that provides technical assistance grants and investment funding to support productive development policies, business climate reforms, clustering initiatives, and small and medium-sized enterprise (SME) development activities in the Caribbean region. The program, jointly funded by the Inter-American Development Bank (IDB), Canada, and the United Kingdom Department for International Development (DFID), supports projects in 15 Caribbean countries. Projects in the Organisation of Eastern Caribbean States (OECS) countries are implemented in partnership with the Caribbean Development Bank

Table of Contents

Acronyms

CARICOM	Caribbean Community
CARIRI	Caribbean Industrial Research Institute
CCP	Compete Caribbean Program
CDB	Caribbean Development Bank
CGF	Caribbean Growth Forum
CSME	Caribbean Single Market and Economy
CVQ	Caribbean vocational qualifications
CXC	Caribbean Examination Council
DB	Doing Business report
DBJ	Development Bank of Jamaica
DCED	Donor Committee for Enterprise Development
DTF	Distance to the frontier
EIU	Economist Intelligence Unit
FDI	Foreign direct investment
GAC	Global Affairs Canada
GDP	Gross domestic product
GEM	Global Entrepreneurship Monitor
GPRS	General packet radio service
ICT	Information and communication technology
IDB	Inter-American Development Bank
IFD	Institutions for Development Department
IFI	International financial institutions
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
M3	Mobile money for microfinance
MIF	Multilateral Investment Fund
MSME	Micro, small, and medium-sized enterprise
NES	National Executive Survey
NVQ	National vocational qualifications
OECD	Organisation of Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
PPD	Public–private dialogue
PSAR	Private Sector Assessment Report
PSD	Private sector development
R&D	Research and development
ROSE	Rest of small economies
SME	Small and medium-sized enterprises
TFPG	Total factor productivity growth
TVET	Technical-vocational education and training

List of Tables and Figures

Tables

Figures

Introduction

To support governments in their reform efforts and economic growth objectives, international donor agencies develop indicators that assist countries in prioritizing, tracking, and benchmarking their performance on reform measures. According to the Donor Committee for Enterprise Development (DCED, 2008), there are over 30 survey instruments for assessing the business environment. With such a large number of survey instruments and indicators available to assess a country's business climate performance, policymakers have the daunting task of prioritizing which policy reforms will have the greatest impact on firm behavior while simultaneously competing for limited resources to fund the design and execution of their reform plans.

This paper is meant to help national and regional policymakers navigate the complex topic of business climate reform in the Caribbean. It combines the findings of four relatively independent data collection efforts to uncover the current state of the business climate as it affects the development of the private sector, and proposes an agenda of priorities for reform at both the national and the regional level. Its value resides in including recently collected, statistically relevant data about the main obstacles to firm growth and performance, as revealed by the private sector, and combining it with other private sector-informed perspectives to inform what we hope is a feasible and impactful agenda.

The four sources of data used to understand the current state of business climate in the region and to propose the agenda are: (i) the World Bank 2016 *Doing Business* (DB) report; (ii) a 2014 Productivity, Technology and Innovation (PROTEqIN) firm level survey across 13 countries;[1] (iii) Private Sector Assessment Reports (PSARs) for 14 countries, commissioned by Compete Caribbean;[2] and (iv) the Caribbean Growth Forum (CGF) public–private 2013 national and regional consultations.[3] At the regional level, the analysis from the four sources indicates that the most pressing business climate constraints affecting private sector performance are: (i) an inadequately educated workforce, (ii) the cost of finance and (iii) access to finance. These issues are discussed in detail in the paper, along with others that significantly affect private sector development.

The Rationale for Improving the Business Climate

Governments around the world acknowledge the importance of the business climate to economic growth. Empirical studies, such as Effert, 2009; Kirkpatrick, and Parker, 2006;

---

[1] An enterprise survey is a firm-level survey of a representative sample of an economy's private sector. With funding from Compete, 14 Caribbean countries were included in the World Bank's Latin American and Caribbean 2010 Enterprise Survey (LACES). The 2014 Productivity, Technology and Innovation (PROTEqIN) survey was internally coordinated by the Inter-American Development Bank as administrator of the Compete Caribbean program, yet adopting the same LACES questionnaire and data collection methodology, with the addition of a few modules. The PROTEqIN survey was carried out in 13 of the original 14 countries. The two survey instruments, along with the raw data, can be obtained at www.competecaribbean.org/PROTEqIN/. For this paper, we will be using the 2010 survey results for the DR results.

[2] The Economist Intelligence Unit (EIU) authored a regional overview report of the 14 PSARs with funding from Compete Caribbean. The national and regional PSARs can be obtained at http://competecaribbean.org/category/psars/

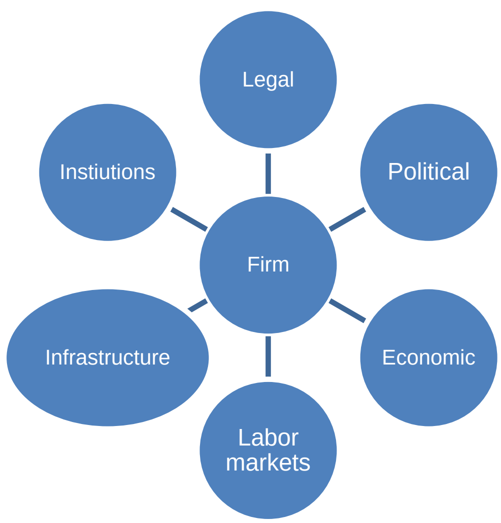
[3] The CGF was a joint initiative of the World Bank, the Compete Caribbean Program, the Inter-American Development Bank, and the Caribbean Development Bank. It was supported by the Canadian International Development Agency, the United Kingdom's Department for International Development, the CARICOM Secretariat, and the University of the West Indies.

Klapper, Delgado, and Quesada, 2009; and Divanbeigi and Ramalho's 2015 World Bank report on Business Regulation and Growth, [4] empirically establish the relationship between improvements made in business regulations and growth. Given its significance to impacting growth, business climate reform continues to be a pillar of focus for private sector development programs.

The goal of undertaking business climate policy reform measures is to influence a change in firm behavior, such as the decision to innovate, to train workers, to hire, to export, or to expand. The degree to which the firm's success or failure depends on the business environment is ambiguous (Pew-MacArthur Results First Initiative, 2014), yet research indicates a clear influence of the business environment on firm performance. While the business environment is not the sole determinant of business success, it is an important influence.

To implement policy reform that is effective in creating the desired change (economic growth, job growth, increase in firm productivity, etc.), and given limited financial and human resources, policymakers must first understand their private sector firms. What are their challenges, needs, bottlenecks, and opportunities? What industries are they in? How many firms are small, medium or large, and do these firms face different constraints based on their size? Asking these types of questions and using data to understand the variables impacting firm growth and sustainability are critical to creating targeted, high-quality policy reform measures that affect the intended outcomes.

Figure 1: The Business Climate



Source: Adapted from DCED, 2008.

A variety of stakeholders are involved in shaping the business climate, and it is important to assess and understand the role and impact of each. At the core of the business climate is the firm. The firm is defined as an ongoing business, whether informal or formal. The business climate consists of the factors outside the direct control of the firm that influence the firm's performance, such as legal, labor market, institutional, and regulatory constraints.

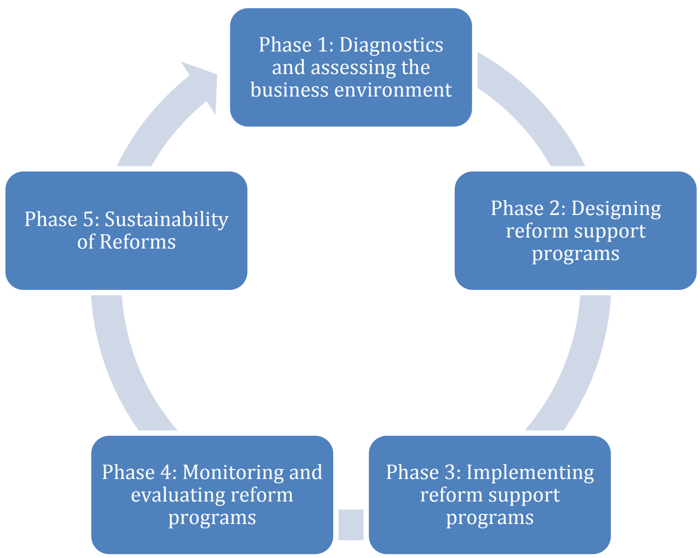
[4] The sample size focused on both developed and developing countries included in the *Doing Business* methodology.

Pursuing impactful business climate reforms may be challenging, yet the benefits are numerous. Based on the experience of programs of international organizations such as the IDB, these benefits include (DCED, 2008; Howell et al., forthcoming): (i) increased firm performance and increased investment in the economy, which in turn may lead to economic growth; (ii) increased employment opportunities, inclusive of traditionally marginalized groups; and (iii) reduction of the informal economy.[5]

The Phases of Business Climate Reform

As depicted in Figure 2 below, there are five main phases of business climate policy reform. Phase 1, the diagnostics phase; Phase 2, the design of the reform support programs; Phase 3, implementation of the reform support program; Phase 4, monitoring and evaluating the reform programs, and Phase 5, sustainability of the reforms. This document focuses on assisting Caribbean policymakers with the first phase of assessing the business climate by creating an assessment tool to prioritize high-impact business climate policy reform measures.

Figure 2: The Phases of Business Climate Policy Reform



Source: Adapted from IDB and DCED, 2008.

Efforts toward business climate reform in the region are generally motivated by an analysis of the influential World Bank DB report.[6] The DB report has the advantage of providing a metric to

[5] International financial institutions (IFIs) can play a catalytic role in supporting business climate reforms by introducing novel ideas about how to go about business climate reform and building capacity in executing agencies to sustain the reform process.

[6] The annual World Bank Group flagship *Doing Business* report analyzes regulations that apply to an economy's businesses during their life cycle, including regulations on startup and operations, trading across borders, paying taxes, and resolving insolvency. The aggregate ease of doing business rankings are based on the distance to frontier scores for 11 topics and cover 189 economies. *Doing Business* does not measure all aspects of the business environment that matter to firms and investors. For example, it does not measure the quality of fiscal management, other aspects of macroeconomic stability, the level of skills in the labor force, or the resilience of financial systems. Its findings have stimulated policy debates worldwide and enabled a growing body of research on how firm-level regulation relates to economic outcomes across economies. Each year the report team works to improve the methodology and to enhance their data collection, analysis, and output. The report has benefited from feedback from many stakeholders over the years. With a key goal of providing an objective basis for understanding and improving

compare the business climate across countries, as it captures the differences between the business environment in each country against the world's best performer. However, it does not necessarily capture the relative importance for firms within a particular nation of the different business environment constraints. This paper seeks to develop an agenda of business climate reform for the Caribbean from the perspective of the region's private sector by complementing the DB report with three additional sources of independently collected data. These are:

i. *Firm-level Survey Data*: Survey responses at the firm level help to provide quantitative data about the business climate constraints that most severely affect businesses operating in the region. A firm-level survey was funded by Compete Caribbean in 2014 using the Enterprise Survey methodology, and covers a representative sample of 1965 formal, non-agricultural firms across 13 countries. Although a survey was conducted in 2010 in the region using a similar methodology, this brief will use the latest 2014 results as the most recent data. In the paper, it will be referred to as the PROTEqIN 2014 Survey. Aside from these two surveys, no systematic, regionally comparable private sector-focused database exists in the Caribbean region.

ii. *The Caribbean Growth Forum*: The Caribbean Growth Forum was a regional public–private dialogue initiative that involved a series of focused consultations at both the national and the regional levels between public and private sector stakeholders on the following topics: investment climate, skills and productivity, and logistics and connectivity. Stakeholders were invited to engage in dialogue and prioritize the short- and medium-term reforms most pertinent for economic development in their countries under these three thematic areas. The CGF consultations occurred in 2013 among 12 countries (CARIFORUM excluding Haiti, Guyana, Barbados, and Montserrat) and ended with a regional consultation held in The Bahamas in June 2013.

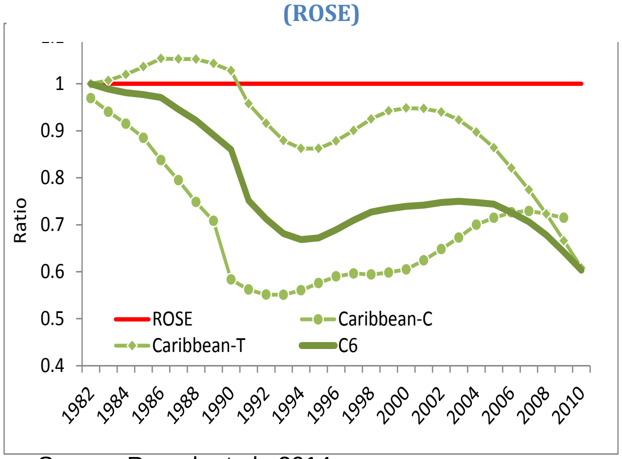
iii. *Private Sector Assessment Reports (PSARs)*: Compete Caribbean completed 14 national PSARs for the CARICOM independent states. Using a common methodology, independent consultants scoured data and consulted with key public and private informants to identify the main impediments to private sector development in each country, as well as the opportunities for growth. In 2014, the Economist Intelligence Unit (EIU) updated the data for each national PSAR and produced a regional PSAR.

Influence of the Caribbean Business Climate on Economic Growth

In the past three decades, three important determinants of economic growth have been stagnant or declining in the Caribbean compared to the Rest of Other Small Economies (ROSE) in the world: growth of the labor force as a percentage of the total population, gross capital formation, and total factor productivity growth (TFPG). In particular, private investment as a proportion of GDP has been declining since 2000. Since then, gross capital formation in the region has mostly been due to public investment accompanied by an increase in the debt-to-GDP ratio relative to the ratio for ROSE, with a simultaneous fall in TFPG (Ruprah et al., 2014), as Figure 3 illustrates.

the local regulatory environment for business around the world, the report undergoes rigorous reviews to ensure its quality and effectiveness.

Figure 3: Total Factor Productivity Growth in the Caribbean relative to the Rest of Small Economies (ROSE)



Source: Ruprah et al., 2014

In a context of very high debt-to-GDP ratios affecting most Caribbean countries, one of the fundamental questions for the region is how to increase the level of private investment while simultaneously improving TFPG, fueling economic growth in the near to medium term. In this vein, the international consensus is that enhancing the business environment is a key action for countries to increase the engagement of economic agents, particularly to facilitate business growth and wealth creation. If laws and regulations are clear, accessible, and transparent, while at the same time legally enforceable, the risk-taking necessary for growth becomes much easier and more predictable (Van Wyk, Dahmer, and Custy, 2004). Moreover, the attractiveness of a location for investment is partly dependent on having costs that make investment in that location profitable. These include the costs of important inputs as well as the transaction costs involved in fulfilling government obligations. Excessively burdensome, time-consuming, and costly regulations can deter investment and formalization and generally affect productivity and employment and growth rates in an economy.

Caribbean Rankings in Terms of Investment Climate

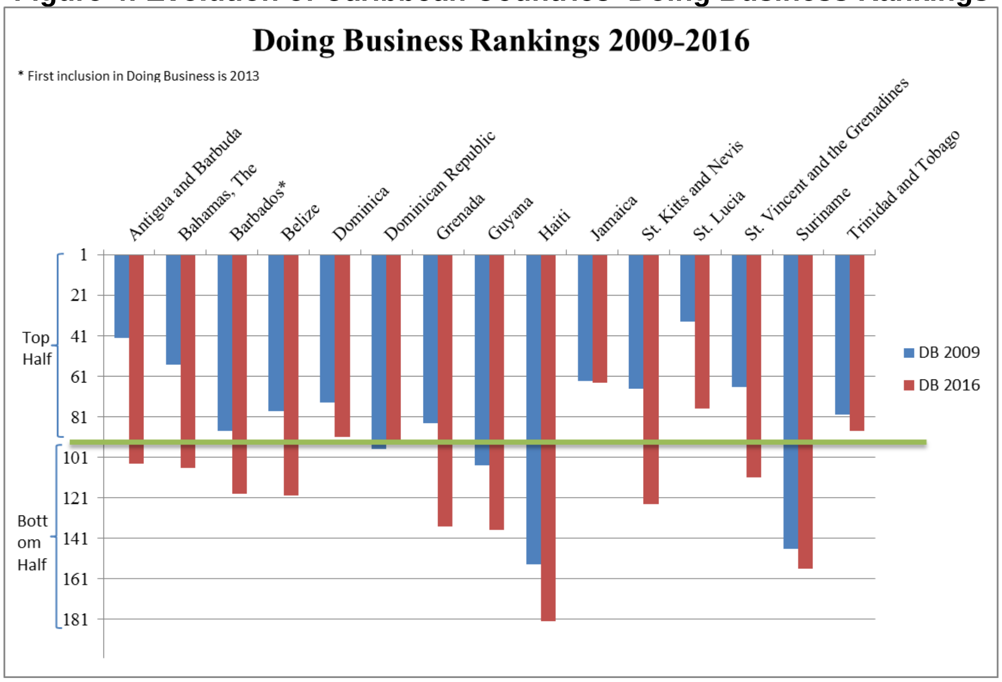
Measuring Red Tape: Doing Business Indicators

The DB report has been collecting data on the regulations that affect domestic small and medium-sized enterprises (SMEs) operating in the largest business cities of 189 economies since 2005, across 11 areas: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency, and labor market regulation. The data collected concern business regulations and their effect on businesses, especially domestic SMEs. The data also provide insight into the number of procedures required to achieve a particular objective and their attendant costs. The DB survey is administered to local experts, who may include lawyers, business consultants, accountants, freight forwarders, government officials, and other professionals routinely administering or advising on legal and regulatory requirements. As such, it is not considered an executive survey, and its results, especially those related to the time it takes to complete an objective, may differ from those in the World Bank Enterprise Surveys.

The Caribbean region does not perform well on the DB indicators. In particular, three distinct characteristics of Caribbean performance fall short in the DB rankings: (i) the region ranks poorly, especially compared to other countries with the same GDP per capita; (ii) the region's performance on the DB rankings and Distance to the Frontier has deteriorated over time; and (iii) the three most common difficulties shared by Caribbean countries in the DB indicators—registering property, getting credit and resolving insolvency—affect two top constraints, as manifested by the private sector in the Enterprise Surveys: access to finance and cost of finance.

As shown in Figure 4, most Caribbean countries rank in the bottom half with respect to DB. The highest-ranked Caribbean country in 2016 is Jamaica at 64, with the next closest being St. Lucia at 77, the Dominican Republic at 84, and Trinidad and Tobago at 88. These four are the only Caribbean countries that rank in the top half of countries with respect to DB, highlighting the relative weaknesses in the region's business climate. Figure 4 also shows the dramatic deterioration in DB rankings in the last seven years for some of the countries.

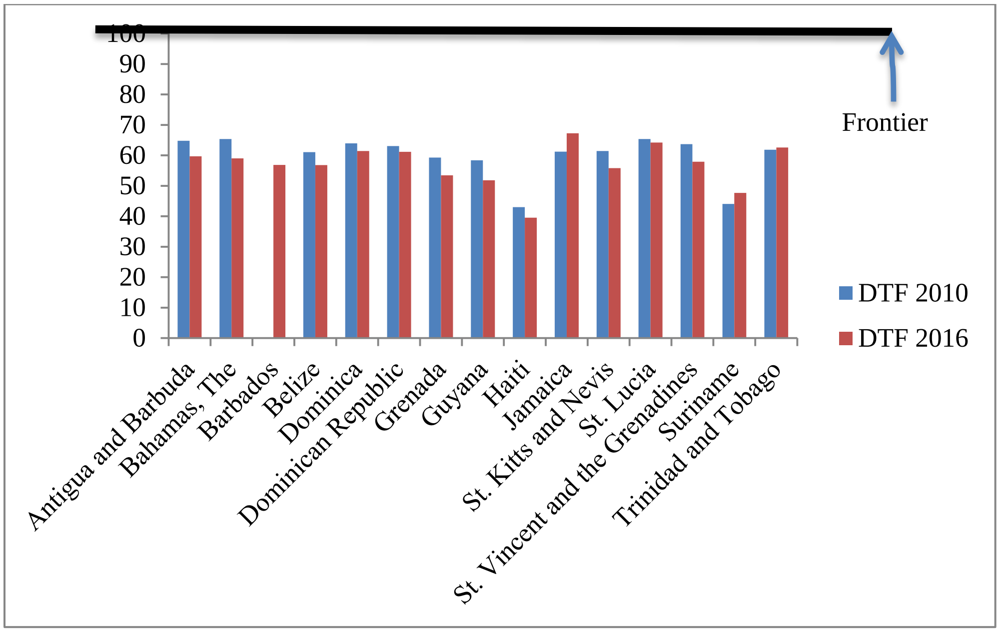
Figure 4: Evolution of Caribbean Countries' Doing Business Rankings



Sources: World Bank, 2009 and 2016.

Recently, the DB report has developed an indicator that is more important than the rankings: distance to the frontier (DTF). This indicator measures a country's business climate relative to the international benchmark at that time. As Figure 5 shows, between 2009 and 2016, the Caribbean's country-level DB rankings have declined. As can be seen in Figure 4, the DTF has remained relatively stable in 2016, averaging 43 points from the frontier, a decline of only 2 points on average from the 2010 DTF (the frontier is 100).

Figure 5: Caribbean Countries' Distance from the Frontier Scores in 2010 and 2016



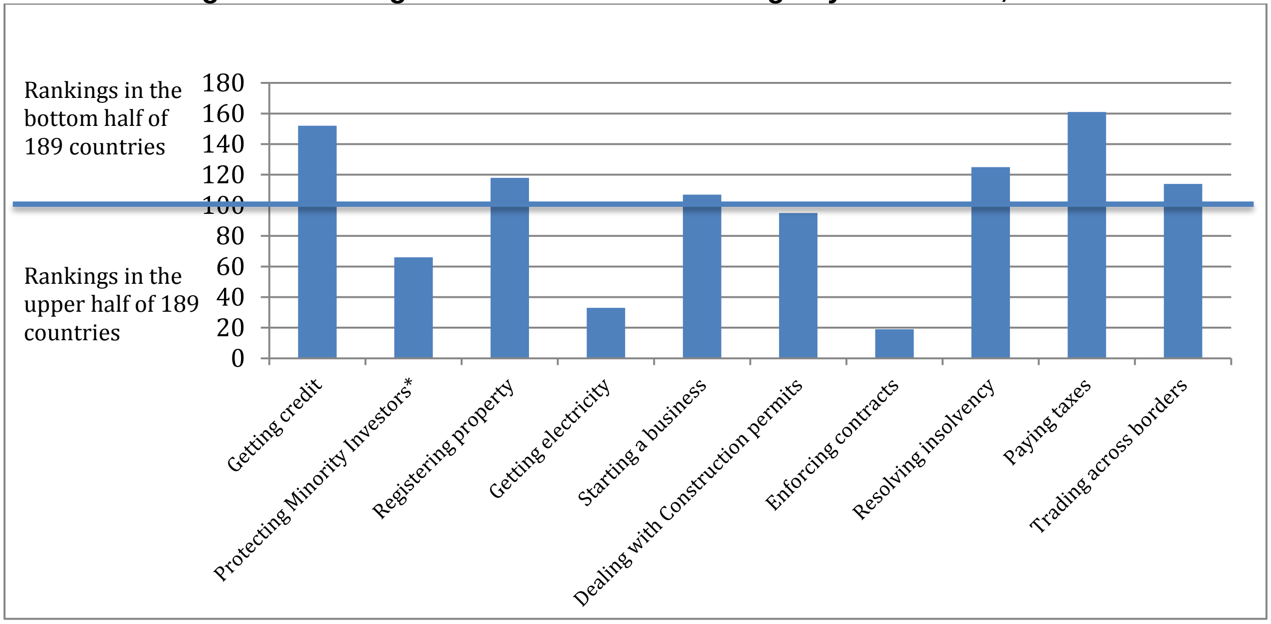
Sources: World Bank, 2010 and 2016.

The analysis of DTF scores between 2010 and 2016, although more positive than looking at the DB rankings only (Figure 4), indicates stagnation in the Caribbean region's business climate. As Figure 5 shows, Jamaica, Suriname, and Trinidad and Tobago's DTF scores improved during that period. Meanwhile, DB rankings sharply declined for Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, St. Vincent and the Grenadines, and St. Kitts and Nevis, moving these countries from the top half to the bottom half of countries (Figure 4). Methodological changes in the way that the DB is measured, introduced between 2013 and 2015, dramatically affected these DB rankings. The DTF scores, however, were not affected in the same way. This highlights the importance of the DTF as a more stable indicator to measure progress over time.

Focusing on Themes Rather than Countries

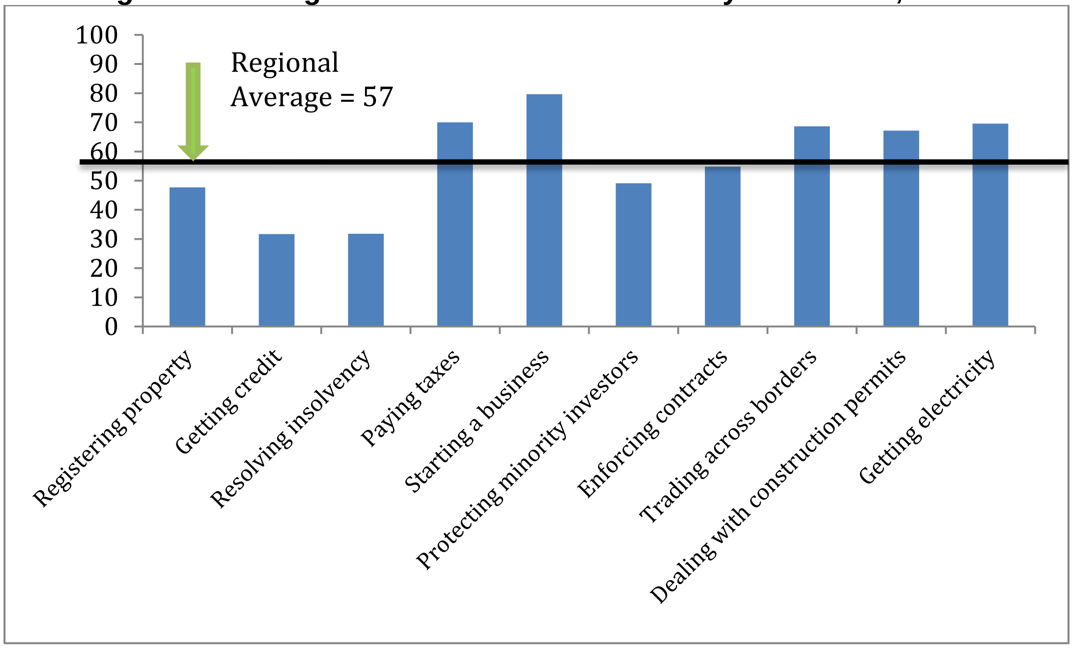
While analyzing the different rankings for each country facilitates interesting discussion, how does the region as a whole perform on particular areas of DB? Figures 6 and 7 show the region's average performance on the specific thematic indicators measured by the DB report, in terms of country ranking and DTF score. Two important takeaways are that: (i) on average, the region performs in the bottom half of all countries on all aspects of the DB climate except for getting electricity; and (ii) registering property, getting credit, and resolving insolvency are the most important shared constraints.

Figure 6: Average CARIFORUM DB Rankings by Issue Area, 2016



Source: World Bank, 2016.

Figure 7: Average CARIFORUM DTF Scores by Issue Area, 2016[7]



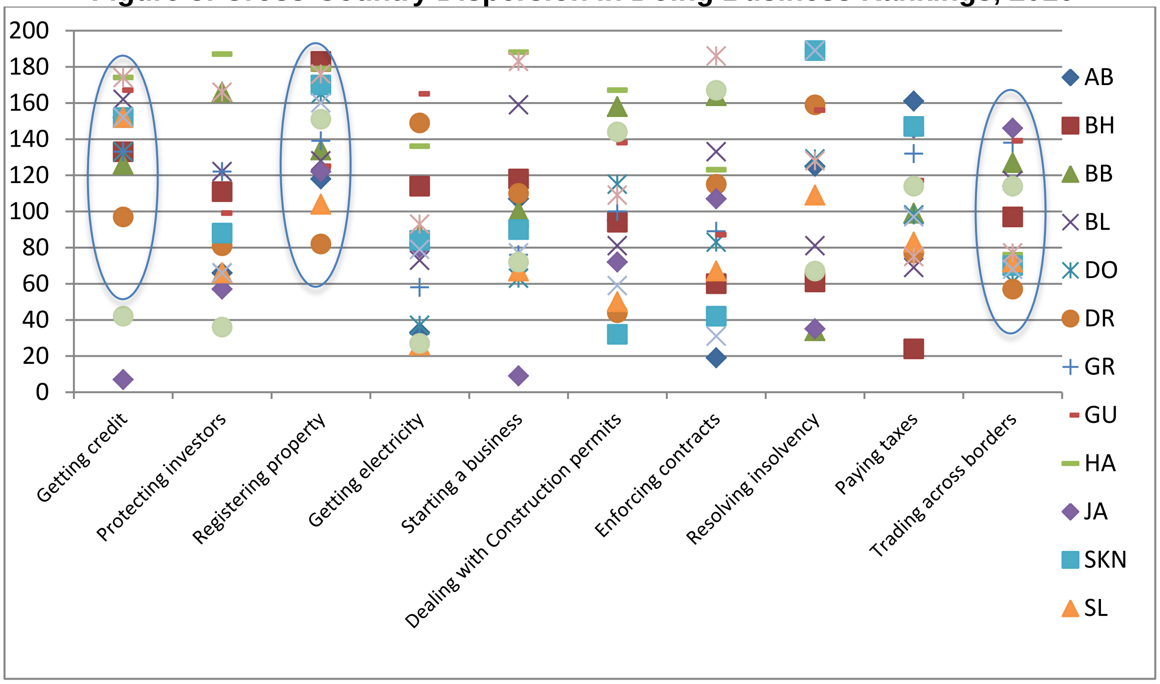
Source: World Bank, 2016.

The law of averages predicts that those aspects of the DB where all countries perform either well or poorly will show up as performing well or poorly, on average. On the other hand, on those aspects where countries show dispersion in performance, the averages will tend to be mid-range. Figure 8 shows the dispersion in performance across countries, in every area of the

[7] The regional DTF average helps identify which indicators bring the Caribbean (as a whole) closer to frontier (the ones above the regional average) and those which pull the region away from the frontier (the ones below the average), potentially needing reform.

DB ranking for 2016. As predicted, there is little cross-country dispersion on the aspects diagnosed above as being furthest from the DTF, particularly registering property and getting credit. On all other aspects, there seems to be significant dispersion across countries. Trading across borders is a category with little dispersion in cross-country performance. Rankings are in the middle range, which explains the mid-range DTF average.

Figure 8: Cross-Country Dispersion in Doing Business Rankings, 2016



Source*:* World Bank, 2016.

What the World Bank's Doing Business Indicators tell us about the Caribbean Business Climate

This section shows that most countries in the region perform at the bottom 50 percent of the world with respect to DB procedures. Moreover, the business climate has remained stagnant during the past seven years, with a slight trend toward deterioration. At a regional level, registering property and getting credit are the two worst-performing DB indicators, followed by resolving insolvency. All three affect access to finance. Registering property affects the ability to access finance by affecting firms' availability of collateral. Delays in resolving insolvency increase the risk of lending and therefore also indirectly affect access to finance.

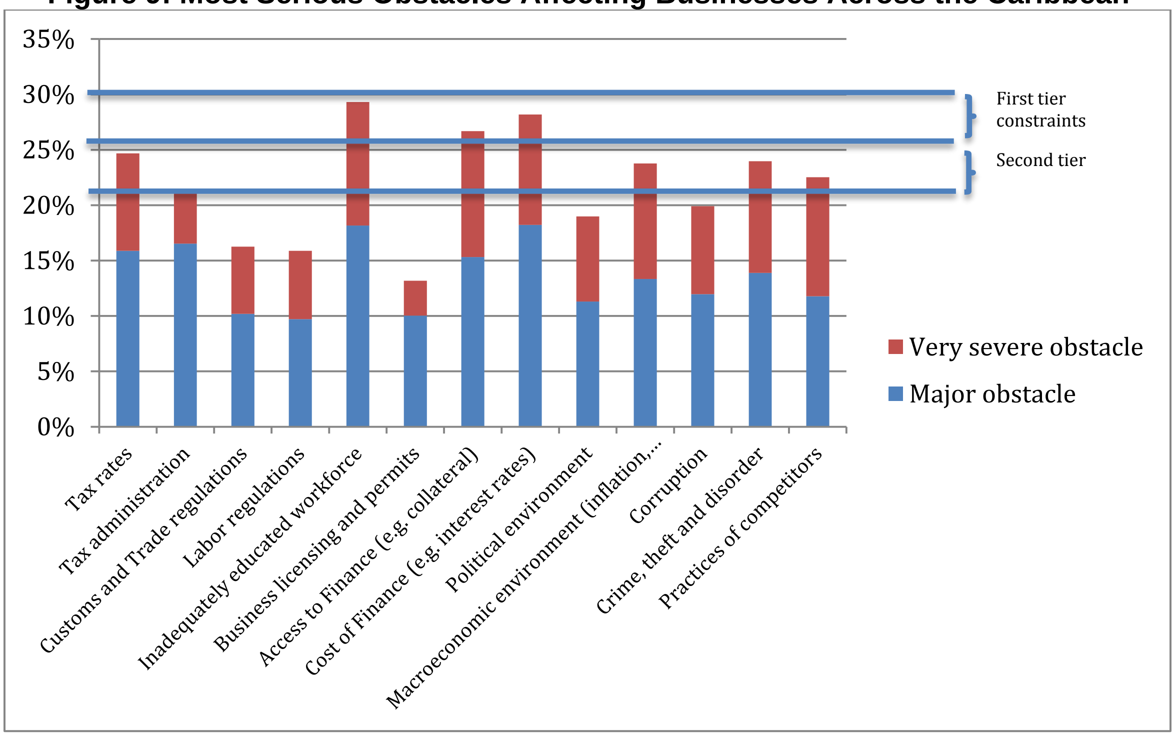
Based on the DB indicators alone, these findings would point toward a reform agenda that includes registering property and getting credit as a regional priority. The other issue areas would be listed as a priority at the national level depending on how the particular country fares in them.

To prioritize business climate reforms, the DB index is a useful guide. One disadvantage of the DB index, however, is that it does not capture the relative importance to the private sector of the different constraints, particularly because enforcement of procedures may actually be very different than what is captured in the rules (Hallward-Driemeier and Pritchett, 2015). A second downside of relying solely on the DB report is that it does not cover all aspects of the business climate. It omits factors that may be impacting private sector performance significantly, such as those related to labor, labor markets, and infrastructure. Thus, a private sector perspective is required to better understand how firms in Caribbean countries prioritize business climate issues.

Private Sector Priorities in Terms of the Business Climate

Compete Caribbean has begun to collect reliable and statistically relevant private sector-based data that, among other uses, can illuminate the kinds of business climate issues that are affecting firm growth and performance. One of these datasets is a survey of nearly 2000 firms across 13 countries in the Caribbean, conducted twice over the 2010–2014 period. The survey takes a representative sample of non-agricultural, formal firms of more than five employees and asks what is the most serious obstacle affecting the operation of the establishment, among many other questions. The possible areas of response include some of the aspects measured in the DB report, as well as others.[8] Figure 9 shows the percentage of firms across the region that rated these obstacles as a major or very severe constraint in 2014, based on a sample of 1,965 firms surveyed in 13 Caribbean countries.[9]

Figure 9: Most Serious Obstacles Affecting Businesses Across the Caribbean



Source: 2014 PROTEqIN Dataset.

Figure 9 shows that business climate issues are constraining firm performance in the Caribbean. Specifically, all of the constraints cited constituted either a major obstacle or a very severe obstacle for at least 10 percent of firms surveyed. However, some constraints are more

[8] The possible answers are: (i) access to finance; (ii) inadequately educated workforce; (iii) tax rates; (iv) electricity (cost of); (v) crime, theft and disorder; (vi) practices of competitors in the informal sector; (vii) customs and trade regulations; (viii) corruption; (ix) transportation; (x) political instability; (xi) tax administration; (xii) labor regulations; (xiii) business licensing and permits; (xiv) access to land; and (xv) courts.

[9] All of the independent CARICOM countries except Haiti were surveyed.

important than others. Here, first-tier constraints have been differentiated from second-tier ones. First-tier constraints are those cited by more than 25 percent of firms (more than 500 firms were surveyed across the region) as a major or a very severe obstacle affecting their operation. Three issues fall into this category: an inadequately educated workforce, the cost of finance, and access to finance. Second-tier constraints are those cited by between 20 and 25 percent of firms (between 400 and 500 surveyed firms across the region) as being a major or a very severe obstacle affecting their operation. The issues falling under second-tier constraints that will be discussed below are: tax rates; the macroeconomic environment; crime, theft and disorder; practices of competitors; and tax administration.

First-tier Constraints

Inadequately Educated Workforce

The limited availability of trained workers and the lack of specialized skills are impacting the private sector in the region. In 2014, nearly a third (29 percent) of the 1,965 firms under the PROTEqIN survey in the region considered an inadequately trained workforce to be a major or severe obstacle affecting their business (Table 1). Firms primarily reported difficulty in hiring workers with the skills demanded of their sector. The national public–private dialogue consultations under the CGF and the PSARs commissioned by Compete Caribbean also support the finding that inadequate skills are constraining private sector development in the region.

Table 1: Degree of Obstacle Represented by Inadequately Educated Workforce

How much of an obstacle is an inadequately educated workforce?

	No obstacle	%	Minor obstacle	%	Moderate obstacle	%	Major obstacle	%	Very Severe obstacle	%	Total
2014	265	13%	555	28%	569	29%	357	18%	219	11%	1965

Source: PROTEqIN 2014 data.

What kinds of skills are missing? Many of the PSARs conducted between 2012 and 2014 provide an illustration. In The Bahamas, employers across the board mentioned the lack of ICT skills as affecting productivity, while the tourism industry emphasized problems with numeracy and literacy (Alborta, 2014).[10] In Haiti, weak technical and management skills affect SME growth. In Haiti, where nearly half the population is illiterate, insufficient coverage and poor quality of even basic education services hamper skill building. In a country where private education predominates, over 75 percent of private schools are not accredited (Compete Caribbean, 2015). In St. Lucia, private sector firms interviewed expressed the view that the education system lacks a direct link to businesses' needs for hard and soft skills (SALISES, 2014b). In St. Kitts and Nevis, engineers, technicians, and managers are scarce, which affects the growth possibilities of private sector firms. In tourism, which is the country's main industry, skill shortages in culinary arts, management, spa services, and specialized maintenance affect the ability to provide good service (SALISES, 2014b).

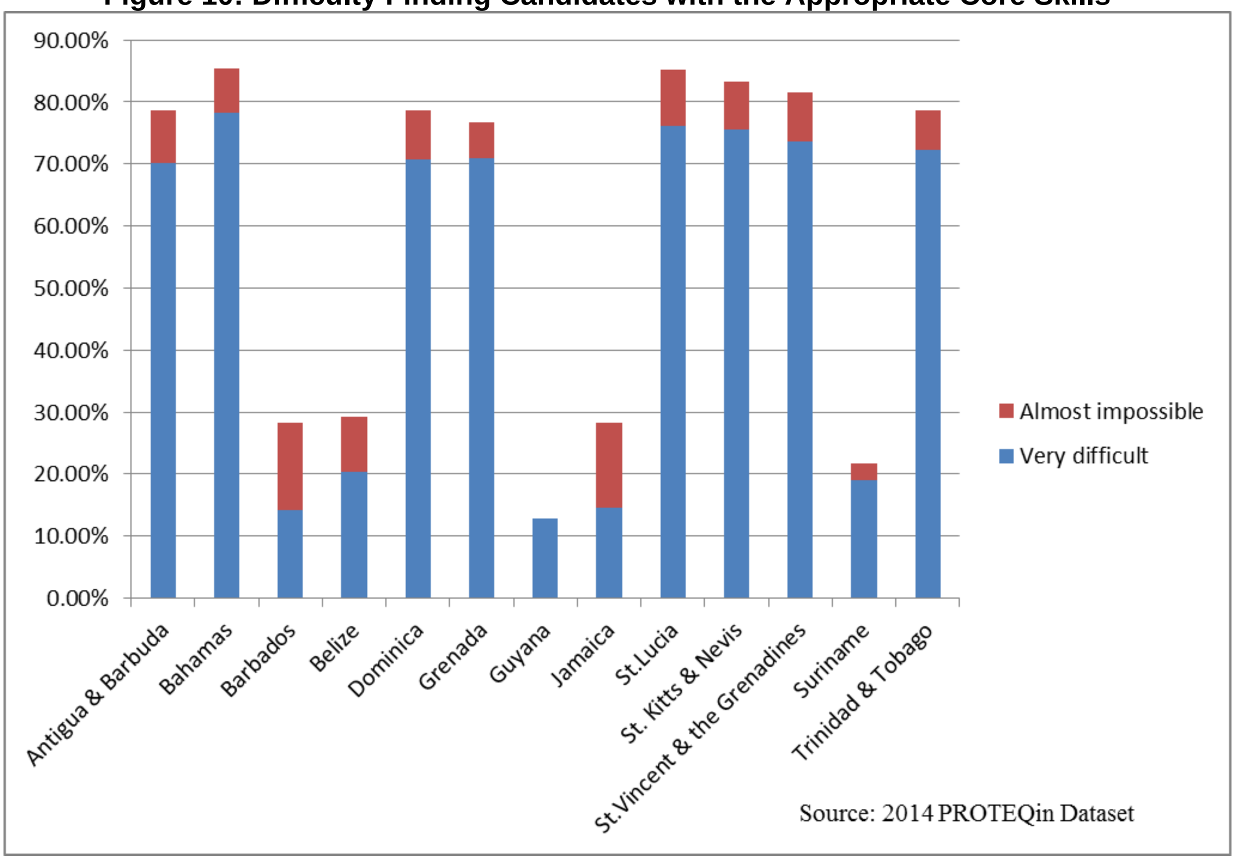
Other reports also find that skill shortages affect growth. A survey of investors in the region found dissatisfaction with graduate students, who were found to be trained in outdated technologies (particularly ICT) and have had to be re-trained on the job (Ticon Holdings, 2011).

[10] The Bahamas PSAR found that the main skills that Bahamian employers seek in the workforce are numeracy and literacy; personal traits such as responsibility, teamwork and good communication; and IT skills.

Investors also complained about the paucity of technically skilled workers that can work in a high-tech environment (i.e., engineers, geologists, architects) vis-à-vis the number of professionals in occupations such as teaching, law, and the health professions. Finally, investors in all countries lamented the shortage of workers with supervisory and management skills.

Figures 10 and 11 use the results of the PROTEqIN 2014 Survey to delve deeper into the kinds of skills gaps affecting firms throughout the region. Surveyed firms were asked to assess the difficulty of finding candidates with core skills and job-related skills. Core skills include problem solving, communication, literacy, numeracy, vocational skills, and self-management skills. Job-related skills are defined as secondary and post-secondary education, theoretical and practical knowledge of the job, and work experience in related and unrelated disciplines. Figures 10 and 11 show the proportion of firms in each country that reported that it is "very difficult" or "almost impossible" to hire workers with either of these two kinds of skills. A comparison of the two figures reveals that while both kinds of skills are scarce in the region, core skills seem to be more difficult to find and are particularly scarce in the six small Eastern Caribbean countries, The Bahamas, and Trinidad and Tobago. Conversely, job-related skills seem more difficult to find in Barbados, Belize, Jamaica, and Suriname.

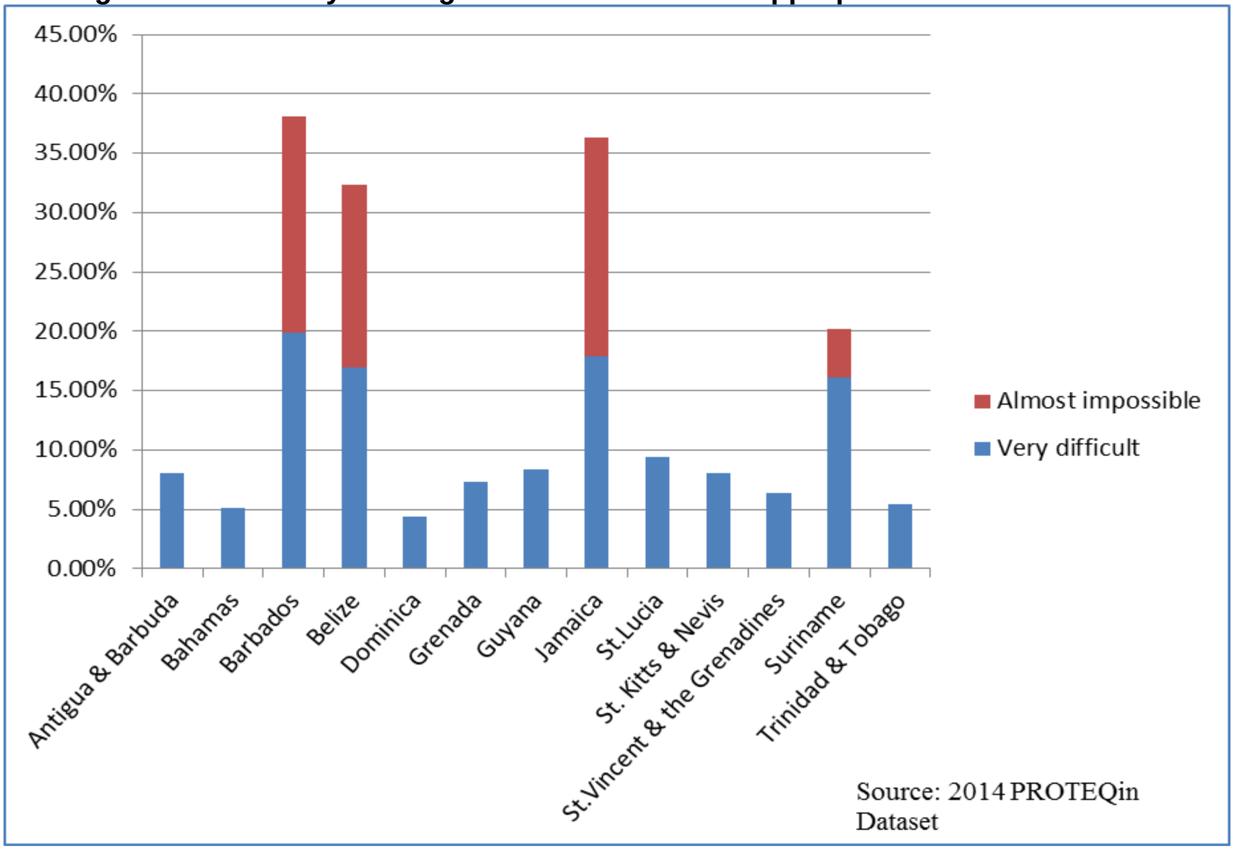
Figure 10: Difficulty Finding Candidates with the Appropriate Core Skills[11]



Source: PROTEqIN 2014 Survey.

[11] These were aggregated for positions across the board: from elementary occupations to managers and professionals.

Figure 11: Difficulty Finding Candidates with the Appropriate Job-related Skills



Source: 2014 PROTEQin Dataset.

Note*:* These were aggregated for positions across the board: from elementary occupations to managers and professionals.

Insufficient Numbers

To compound the difficulties for the Caribbean private sector caused by insufficient quality and quantity of skills, the region is experiencing a brain drain of its skilled labor force. As seen in Figure 12, on average, 73 percent of the tertiary-educated and 43 percent of the secondary-educated labor force have migrated to Organisation of Economic Co-operation and Development (OECD) countries.

While the Caribbean diaspora contributes high levels of remittances to the region, the brain-drain aspect of the movement creates huge negative public externalities. A key finding is that the public sector's educational investment on these migrants is higher than the amount of remittances as a percentage of GDP.[12] Because a high level of both general and specialized skills is crucial to support productivity and competitiveness, policymakers in the Caribbean face a tough dilemma: how much to invest in education given the numbers of secondary and tertiary-educated laborers who migrate abroad.

[12] This does not take into account the diaspora's other contributions to the local economy.

Table 2: Migration and Remittances in the Caribbean, 2012

Migration and Remittances

	% of labour force that has migrated to OECD member country by education level			
	Secondary	Tertiary	Emigration loss plus estimated education expenditure (% of GDP)	Remittances (% of GDP, average 1980-2012
The Bahamas	10	61	4.4	
Barbados	28	63	18.5	2.3
Guyana	43	89	9.5	1.9
Jamaica	35	85	20.4	7.4
Suriname	74	48	7.8	0.5
Trinidad and Tobago	22	79	16.8	0.3
OECS	50	75	10	7
C6	35	71	13	2
Average	43	73	11	4

Sources: Mishra (2006) and Ruprah, et al. (2014).

Note: C6 = Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago.

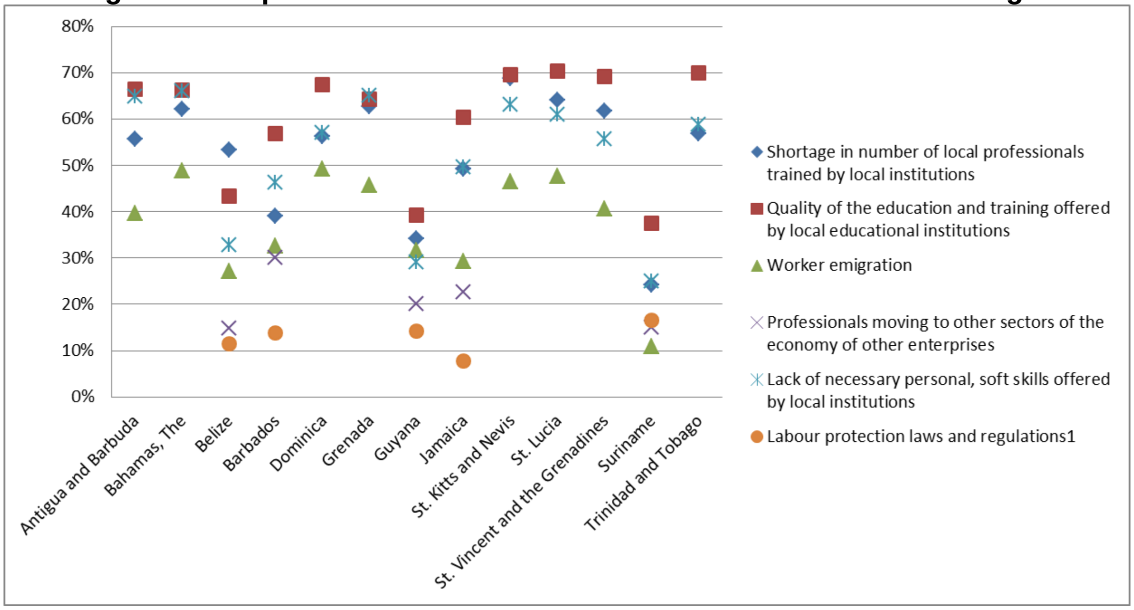
The free movement clause of the CARICOM Single Market and Economy (CSME) may help bridge the skills gaps in particular countries by enhancing movement of skills from one country to another.[13] However, one plausible conclusion from the preceding analysis is that, even with this clause, there are just not enough skilled workers available in the region for the CSME to impact skills gaps at a regional level. As Figure 12 illustrates, while the private sector indicates that skills are not produced in sufficient numbers and quality, there is a high leakage effect from the skilled and very highly skilled toward OECD countries. The implication is that while the free movement clause of the CSME may enhance overall labor efficiency within the region, much more needs to happen to produce and retain skills within the region. In fact, the CSME free movement clause enhances the public-good aspects of skill production, indicating that skills enhancement should therefore become a regional, rather than only a national, initiative.

With respect to the factors that contribute most to the skills gap, the PROTEqIN 2014 dataset again provides some insight. The firms surveyed were asked to specify the importance of the following variables in terms of contributing to the skill shortages: (i) the number of local professionals trained by local institutions; (ii) the quality of education and training; (iii) worker emigration; (iv) professionals moving to other sectors or enterprises; (v) lack of necessary personal, soft skills offered by local institutions; and (vi) labor protection laws and regulations. Figure 13 below shows the percentage of firms that responded with “critical” and/or “important” to each category of response. It shows that overall, the most important causes for the skill

[13] Under the free movement clause of the CSME, skilled workers are entitled to move and work freely throughout the region once they are able to qualify for a Certificate of Recognition of Caribbean Community Skilled Person (Skills Certificate). Harmonizing national vocational qualifications (NVQ) with regional Caribbean vocational qualifications (CVQ) is required for the movement of persons within CARICOM. The CVQ assesses candidates on their ability to demonstrate competence in attaining occupational standards developed by practitioners, industry experts, and employers. The Qualification Framework includes five levels: Level 1: Directly Supervised/Entry-level Worker; Level 2: Supervised Skilled Worker; Level 3: Independent or Autonomous Skilled Worker; Level 4: Specialized or Supervisory Worker; and Level 5: Managerial and/or Professional Worker.

shortages as perceived by the private sector are: the quality of education, a shortage in the number of professionals trained by local institutions, and the lack of training in soft skills offered by local institutions. Worker emigration is also perceived to contribute to the skill shortage, but it is not as important as the three previously mentioned factors. Labor market regulations do not seem to significantly affect the skill shortages in most countries.[14]

Figure 12: Importance of Factors Considered to Cause Skill Shortages



Source: PROTEqIN 2014 Survey.

In recognition of the quality and quantity-related aspects of the skills gap as they relate to the needs of the private sector, all CARICOM countries have devoted some level of attention to increasing the capacity of educational and business support organizations. The attention given to technical and vocational education and training (TVET) institutions, especially at the tertiary level, has significantly increased over the years to support workforce development in each country's main economic sectors, such as tourism, hospitality, and ICT. However, TVETs have not been mainstreamed into the Caribbean educational system, partly because of the cost, and partly due to the public perception of TVET and its treatment by planners as a compensatory device provided to those not academically minded (Jules, 2011).

More recently, recognizing the severity of the implications of the lack of adequate skills, the Caribbean Examinations Council (CXC)[15] adopted the Caribbean Ideal Person and the UNESCO Pillars of Learning in the 21st Century as the foundations of its educational intent. This in turn has led to a bolder conceptualization of the TVET framework in the Caribbean. The agency is pursuing avenues that will guide the adoption of competency-based assessments to measure the knowledge, skills, and behaviors that students are expected to master, in another attempt to reinvigorate TVET in the Caribbean.

[14] In the 14 CARIFORUM PSARs, only Barbados and Suriname were cited as having rigid labor markets that reduced labor efficiency.

[15] The CXC is a regional examining body that provides examinations for secondary and post-secondary candidates in Caribbean countries.

Cost of Finance

The PROTEqIN survey indicates that the cost of finance is the second most important obstacle faced by the region's firmsin terms of the business environment. Between a quarter and a third of non-agricultural formal firms in the region (28 percent) considered the cost of finance as a major or severe obstacle affecting their business (Table 3).

Table 3: The Cost of Finance as an Obstacle

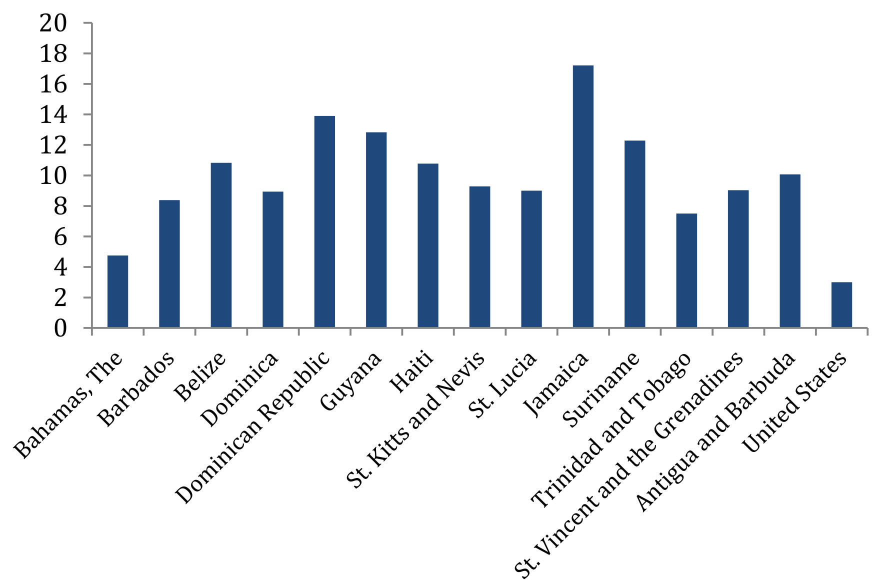
How much of an obstacle is the cost of finance to your business?

	No obstacle	%	Minor obstacle	%	Moderate obstacle	%	Major obstacle	%	Very Severe obstacle	%	Total
2014	411	21%	448	23%	552	28%	358	18%	196	10%	1965

Source: PROTEqIN 2014 Survey.

The terms and conditions attached to the cost of finance as reflected in the interest rates differ by country, which limits their comparability. However, average lending rates in the region are significantly higher than in the United States (see Figure 13). In 2014, more than seven countries had annual lending rates exceeding 10 percent.

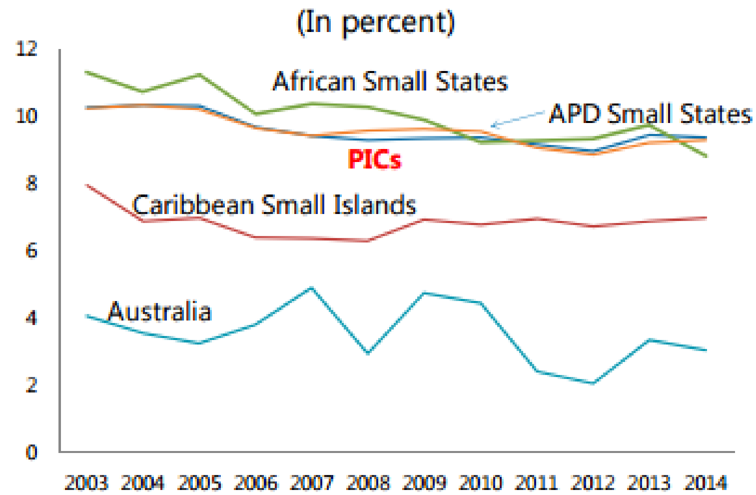
Figure 13: Lending Interest Rates in the Caribbean vis-à-vis the United States, 2014



Source: World Bank, 2014.

Interestingly, interest rate spreads, on average, are not much higher than world and Latin America and the Caribbean (LAC) averages, and, as depicted in Figure 14 below, are lower than Pacific Island countries and other small states.

Figure 14: Average Interest Rate Spreads by Region, 2003–2014



Sources: IMF, International Financial Statistics, and IMF staff calculations

The interest rate captures (i) the perceived risk of lending to a borrower and (ii) the costs of administering the loan. Measures to tackle high interest rates in the Caribbean could include improving lending institutions' understanding of SME consumers, which could potentially reduce information asymmetry and risk, and introducing ways to reduce administrative costs. High administrative and operating costs for banking services have been identified as an area requiring improvement in the Caribbean, particularly in the Organisation of Eastern Caribbean States (OECS) (Randall, 1998). Small market size, the concentration of banking institutions, macroeconomic uncertainty, and institutional quality (i.e., the ability to enforce contracts, collateral systems, and credit history) are all contributing factors to high interest rates (Jamaludin et al., 2015).

Investment in digital technology can reduce administrative costs and expand market size by introducing new online products and services tailored to meet consumer needs. Lending agencies can incease their understanding of perceived risk to SME consumers through generic training sessions aimed at sensitizing banks to these types of consumers. Introducing country-wide systems that collect data on credit history can aid banks in developing more sophisticated data analytics for assessing risk, especially with respect to startups and SMEs. Educating banks on how to value intangible assets is another way to reduce the perceived risk for firms operating in the creative industries. Firms themselves also require knowledge and training in areas such as basic financial accounting and management practices, which will improve their access to the banking system. A strong finding from the PSARs across all countries is that weak record keeping by firms makes it more difficult to assess their creditworthiness.

Access to Finance

In policy discussions on private sector development, access to finance is often cited as one of the top constraints that firms face in the region. The data support this assertion. As Table 4 extracted from the PROTEqIN data demonstrates, in 2014, 26 percent of non-agricultural formal firms surveyed in the region considered access to finance as a major or severe obstacle affecting their business. Clearly, the cost of finance influences access to finance.

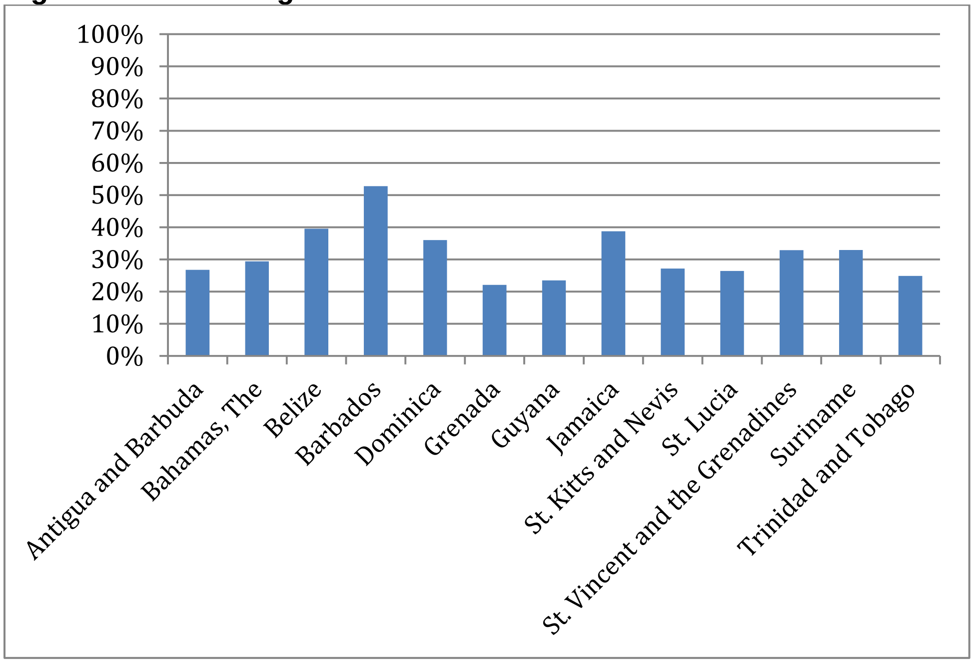
Table 4: Access to Finance as an Obstacle

How much of an obstacle is access to finance to your business?											
	No obstacle	%	Minor obstacle	%	Moderate obstacle	%	Major obstacle	%	Very Severe obstacle	%	Total
2014	245	12%	597	30%	598	30%	301	15%	223	11%	1964

Source: PROTEqIN 2014 data.

A comparison to enterprise survey data from other countries corroborates the finding that in the Caribbean region, the incidence of firms' complaints about access to finance tends to be much higher than that reported by firms surveyed in other small economies.[16] These stylized facts, also based on the PROTEqIN 2014 Survey, provide further evidence of the difficulty of obtaining finance: (i) only 39 percent of firms surveyed have a line of credit or loan from a financial institution, and (ii) only 16.5 percent of firms surveyed use banks as a source of investment funding, which would appear to indicate that other financial institutions are more relevant as a source of investment in the region than the commercial banking sector. Figure 15 illustrates the percentage of firms with a line of credit, per country. Barbados is the only country where more than half of firms have a loan or line of credit from a financial institution.

Figure 15: Percentage of Firms with a Line of Credit or Loan from a Financial Institution

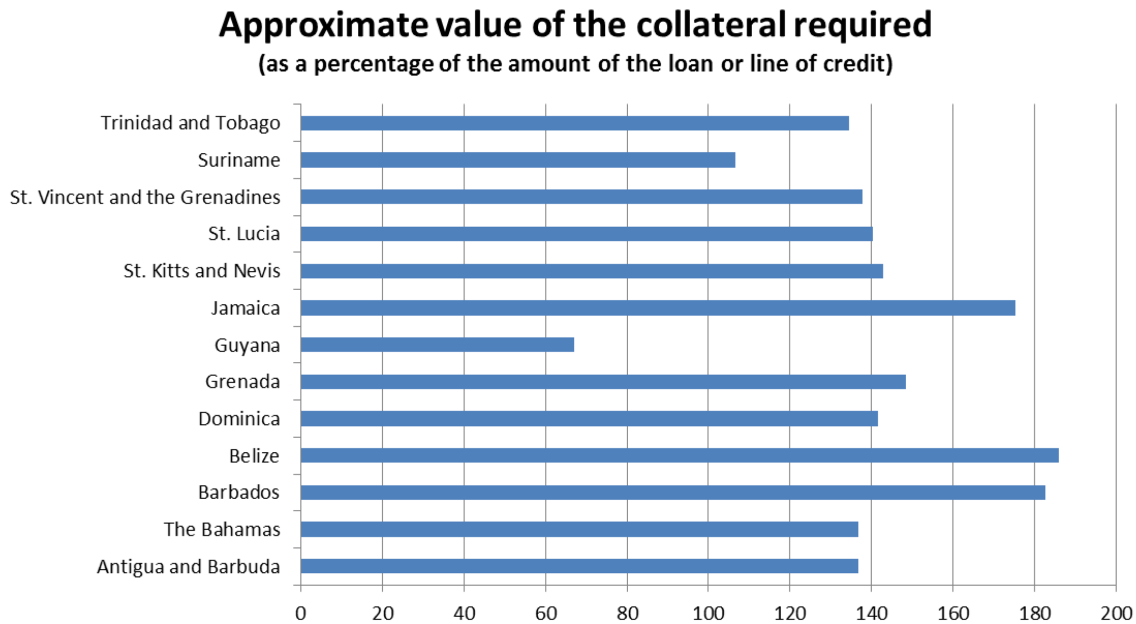


Source: PROTEqIN 2014 Survey.

[16] Ruprah, Melgarejo, and Sierra (2014) compare access to finance difficulties for Caribbean firms and ROSE firms in 2010, using consistent enterprise surveys for both sets of countries. They find that around 36 percent of firms in the Caribbean complain that access to finance is a major or severe obstacle to grow their business, while only 26 percent of firms in ROSE pose a similar complaint.

According to the PROTEqIN 2014 Survey, collateral requirements seem to be a large barrier to access finance. Firms report collateral requirements as high as 180 percent of the total loan value/line of credit to obtain funding, with the levels reported for Belize, Barbados, and Jamaica being 185 percent, 182 percent, and 175 percent, respectively, and the level for the OECS averaging 140 percent. Guyana is the only country where firms reported collateral requirements of less than 100 percent of the loan requested (see Figure 16).

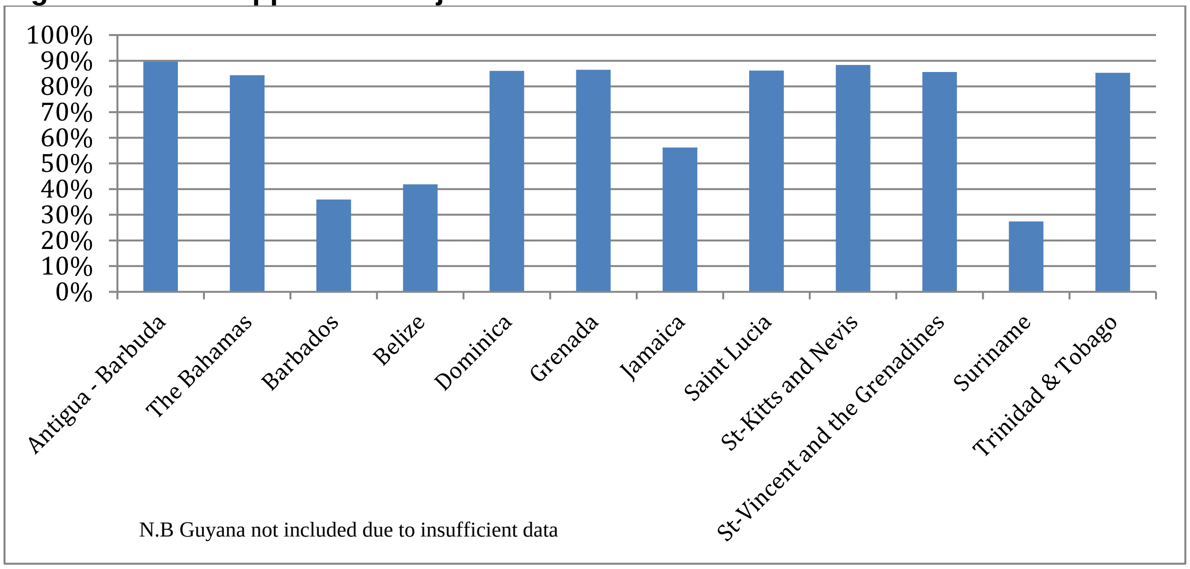
Figure 16: Approximate Value of the Collateral Required



Source: PROTEqIN 2014 Survey.

In addition to the high barriers to credit imposed by high levels of required collateral, the PROTEqIN survey shows that the loan application rejection rates in the region are strikingly high, as Figure 17 illustrates. On average, only 18 percent of firms applying for credit are successful.

Figure 17: Loan Application Rejection Rates[17]

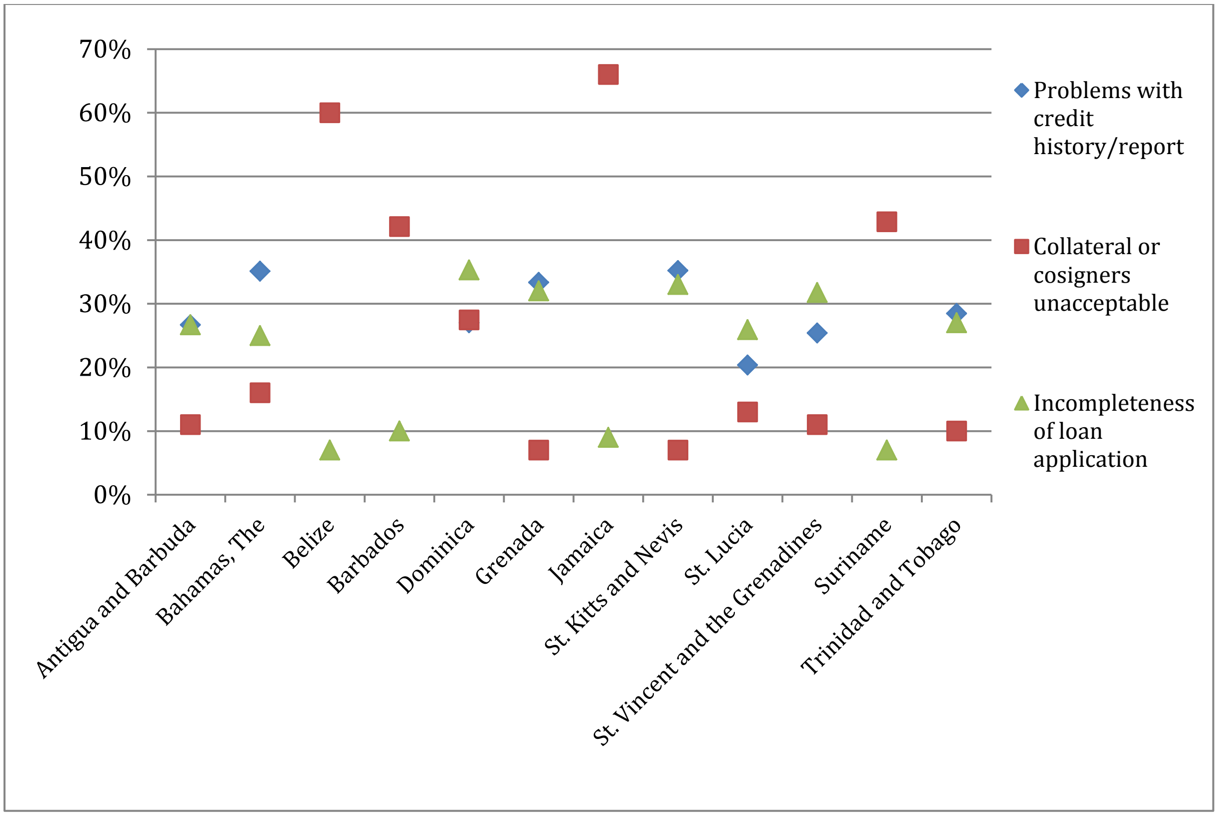


Source: PROTEqIN 2014 Survey.

Loan application rejection rates are particularly high for the OECS countries, The Bahamas, and Trinidad and Tobago. Bankers in the OECS report that more than half of all loan applications processed are rejected due to problems with credit history or incompleteness of loan applications. The PROTEqIN 2014 Survey corroborates this. Surveyed firms were asked to provide the reason a lender cited for rejection of access to credit. The most frequently reported reasons given for rejection of loan applications were: (i) problems with credit history (25 percent); (ii) unacceptable collateral or cosigners (17 percent); and (iii) incompleteness of the loan application (26 percent) (PROTEqIN, 2014). Figure 18 illustrates the relative importance of each of these factors by country.

[17] The question in the PROTEqIN Survey was: In the last fiscal year, how many applications for loans or lines of credit were rejected (2013–2014)? Rejection rates in Figure 18 were calculated as a percentage of submitted loan applications.

Figure 18: Most Common Reason given by Lender for Rejection of an Application for Credit



Source: PROTEqIN 2014 Survey.

All of the reasons cited in Figure 18 for rejection of loan applications have to do with information asymmetries that make it difficult for loan officers to assess credit risk. Credit histories could be problematic if the applicant has never had a loan, or in those countries that do not have credit bureaus. Co-signers could also lack a credit history for these same reasons. Loan applicants might be unable to properly fill out a loan application. Where information asymmetry plays a role, it should be fairly easy to remedy. More worrisome, structural factors could be related to the overall risk of operating in a given country. The high interest rates and collateral requirements shown in previous sections indicate that financial institutions estimate this risk as being high. However, if there were inefficiencies related to the provision of financial services, or to high transaction costs of securing collateral in the event of a default, these would also be reflected in high interest rates and collateral requirements, regardless of the risk profile of the firm. There is not enough information in the PROTEqIN dataset to make this distinction.

Improving Financing Options for Businesses

Caribbean countries have adopted a number of innovations to tackle the lack of access to finance as a major constraint to private sector growth. These include:

Mobile banking: The injection of ICT into the financial industry has the potential to dramatically reduce the cost of servicing clients, while expanding access to banking services and increasing the number of deposits. Mobile banking is being pursued within the Caribbean region. In Jamaica, the Development Bank of Jamaica (DBJ) and the Inter-American Development Bank (IDB) are supporting the expansion of the mobile money for microfinance (M3) project, which aims to enable disbursement of DBJ loans through micro-finance lenders using general packet radio service (GPRS) technology and automated banking machines.

Local development banks: Most countries in the region have first-tier development banks that offer below-market interest rates, but these banks offer only limited funding (Howell and Holden, 2009).

Venture capital: Venture capital financing and the number of venture capital funds are limited in the Caribbean due to small pipelines—which make risk-spreading difficult—and to the costs associated with learning how to assess risk involved in investing in new or expanding innovative businesses. Jamaica is leading the region in developing its venture capital industry.

Angel financing: With support from the World Bank and Canada, local angel investor clubs are gaining a foothold in the region. These clubs offer mentorship and financial support to local businesses with dynamic growth potential.

Crowdfunding: Crowdfunding platforms are slowly beginning to emerge and/or be used in the region. These crowdfunding measures have thus far focused mainly on raising money for social causes from Caribbean residents and the diaspora, but they can also be used to finance firms.

Pitching competitions: Relatively new and mostly occurring through governmental and donor agency support are pitching competitions for an opportunity to secure seed capital and/or technical assistance. Firms are normally provided training before pitching their business ideas to panels made up of potential investors or industry leaders and mentors.

Credit unions: Credit unions are not-for-profit financial cooperatives that provide competitive interest rates to their members. In the region, credit unions have a long history derived from their tradition of funding agriculture.

Credit bureaus and legislation: Crucial to the development of the financial sector are credit rating systems. One example is the Multilateral Investment Fund's (MIF) project to support the Caribbean Information and Credit Rating Services in Trinidad and Tobago, which seeks to expand SME credit ratings and to work with commercial banks to incorporate these ratings into their loan appraisal process. Guyana and Jamaica have recently established credit information bureaus.

Secured transactions: Secured transactions allow firms to pledge nontraditional, moveable capital (including intellectual property) as financial backing for loans. Jamaica is the first country in the region to pass a Secured Interest in Personal Property law and to implement a collateral registry.[18] Both actions, combined with the launch of two credit bureaus, helped Jamaica dramatically increase its ranking within the DB "access to finance" indicator from 2013 to 2015. Suriname is interested in implementing a similar secured transactions framework.

Although the region has made notable progress in improving the financial sector to benefit the private sector, information asymmetry and the inherently high risk associate with lending to micro, small and medium-sized enterprises (MSMEs) and innovative startups continue to impact access to and the cost of finance.

[18] Compete Caribbean provided support to draft the legislation and to implement the collateral registry.

Second-tier Constraints

Macroeconomic Environment

For the past three decades, the Caribbean region's GDP growth has slowly declined from an annual average of 3.9 percent in the 1980s to 1.7 percent in the first six years of the twenty-first century.[19] The recent global economic and financial crisis magnified this phenomenon, with growth averaging 1 percent per year between 2009 and 2015 in nine of the Caribbean tourism-dependent economies plus Trinidad.[20] Public debt also increased following the global crisis. By 2012, nine independent CARIFORUM countries had debt-to-GDP ratios above 60 percent,[21] and by 2015, this number had increased to 12 independent CARIFORUM states. In Barbados, public debt as a proportion of GDP has exceeded 100 percent since 2011, closing at 136.8 percent in 2015. In Jamaica, the debt-to-GDP ratio has remained above 130 percent since 2009. Guyana's ratio hovers at 65 percent. A macroeconomic environment of low growth/stagnation and high levels of debt restrict purchasing power in domestic markets, affecting the development potential of Caribbean-based and oriented firms. As Table 5 shows, 23 percent of non-agricultural formal firms surveyed in 2014 considered the macroeconomic environment to be a major or severe obstacle affecting their business.

Table 5: Degree of Obstacle to Business Posed by the Macroeconomic Environment

How much of an obstacle is the macroeconomic environment to your business?

	No obstacle	%	Minor obstacle	%	Moderate obstacle	%	Major obstacle	%	Very Severe obstacle	%	Total
2014	453	23%	504	26%	541	28%	262	13%	205	10%	1965

Source: PROTEqIN 2014 Survey.

Tax Rates and Tax Administration

High corporate taxes retard business development wherever they exist, but they also reduce the international competitiveness of firms. Inconsistent and complex tax policies further lower investment in productivity. As Table 6 shows, at a regional level, 25 percent of the firms surveyed under PROTEqIN in 2014 stated that tax rates were a major or very severe obstacle to their business.

[19] Unless otherwise noted, the GDP growth averages cited in this paragraph are the authors' calculations, derived from World Economic Outlook figures.
[20] The average GDP per capita growth for the CARIFORUM region as a whole between those years was 2 percent, but this was strongly influenced by the growth of the commodity exporters (Belize, Guyana, Suriname), and Haiti and the Dominican Republic. On average, these five non-tourism-dependent countries grew at an average annual rate of 4 percent between 2009 and 2015. These are the author's calculations based on World Economic Outlook data.
[21] Estimates for the Caribbean indicate that when the debt-to-GDP ratio is above 56 percent, there is a negative marginal and average effect of debt on growth. Ruprah and Sierra (2014).

Table 6: Degree of Obstacle to Business Posed by Tax Rates

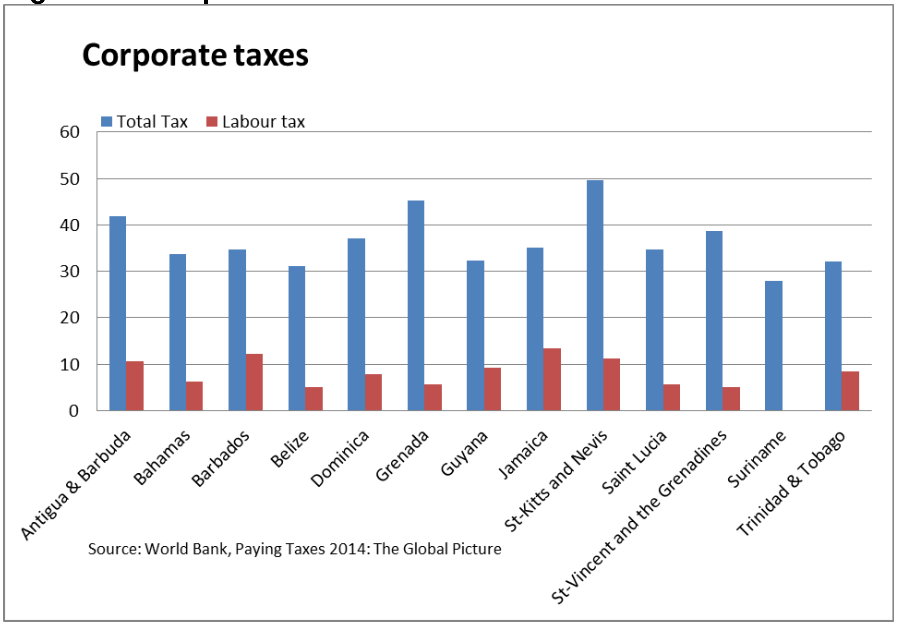
How much of an obstacle are tax rates to your business?

	No obstacle	%	Minor obstacle	%	Moderate obstacle	%	Major obstacle	%	Very Severe obstacle	%	Total
2014	411	21%	448	23%	552	28%	358	16%	196	9%	1965

Source: PROTEqIN 2014 Survey.

The World Bank's paying taxes report illustrates that the region's average total tax rate is above 40 percent, which is higher than comparator countries (Figure 19). Corporate taxes are a very important component of government revenue, as in many countries alternative revenue sources are quite limited.

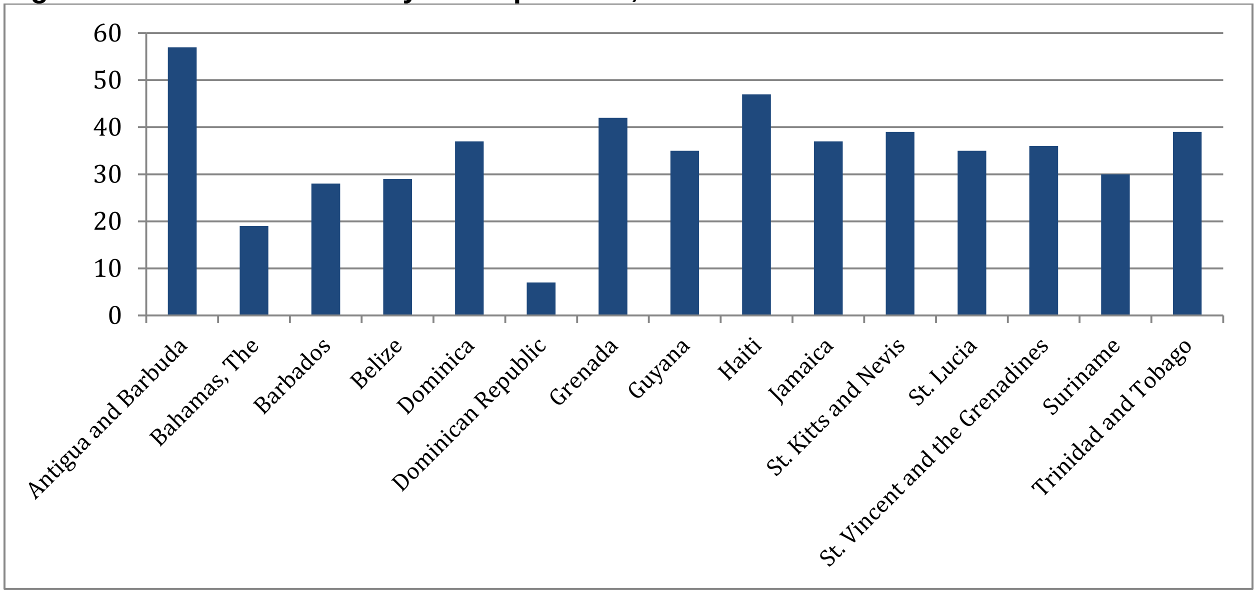
Figure 19: Corporate Taxes and Labor Taxes in the Caribbean



Sources: Pricewaterhouse Coopers and World Bank Group, 2013

Beyond tax rates, the region's performance in tax administration is also cause for concern. The 2016 DB report shows that the only country in the region with fewer than 10 payments per year is the Dominican Republic, followed by The Bahamas, with close to 20 payments. As can be seen in Figure 20, all other countries have 30 or more tax payments per year, with some countries (Haiti, Antigua, and Barbuda) nearing or surpassing 50.

Figure 20: Number of Tax Payments per Year, 2016



Source: World Bank, 2016.

To further illustrate this point, nearly a quarter of firms surveyed in the region (22 percent) experience tax administration as a major or very severe obstacle to their business.

Table 7: Obstacles to Business Posed by Tax Administration

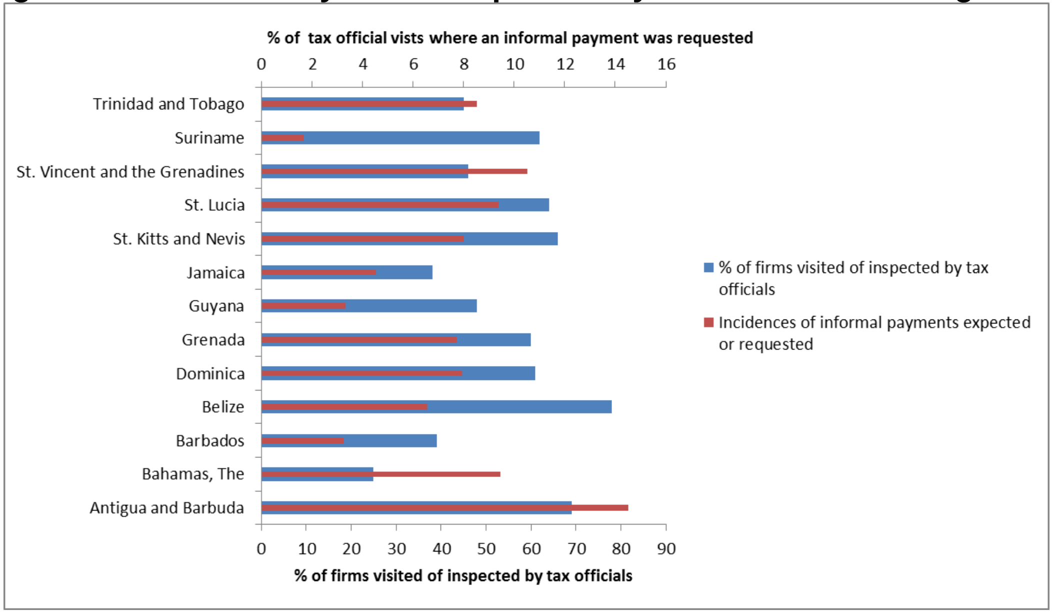
How much of an obstacle is tax administration to your business?

	No obstacle	%	Minor obstacle	%	Moderate obstacle	%	Major obstacle	%	Very Severe obstacle	%	Total
2014	472	24%	539	27%	537	27%	325	17%	92	5%	1965

Source: PROTEqIN 2014 Survey.

In addition to the tax rates and tax administration, tax officials make frequent visits to firms in the Caribbean, some of whom abuse their position. The PROTEqIN data reveal that on average, tax officials visit or inspect 54 percent of firms across the region. Up to 14 percent of those visits result in a request for an informal payment. These informal payments may influence firms' perception of the tax burden. Figure 21 shows the responses of the firms surveyed to a question on informal tax payments requested by officials in each territory.

Figure 21: Informal Payments Requested by Tax Officials Visiting Firms



Source: PROTEqIN 2014 Survey.

Crime, Theft, and Disorder

Twenty-four percent of non-agricultural formal firms surveyed by PROTEqIN in the region considered crime, theft, and disorder to be a major or severe obstacle affecting their business.

Table 8: Obstacle to Firms of Crime,Theft, and Disorder

How much of an obstacle is crime, theft and disorder to your business?

	No obstacle	%	Minor obstacle	%	Moderate obstacle	%	Major obstacle	%	Very Severe obstacle	%	Total
2014	306	16%	647	33%	541	28%	273	14%	198	10%	1965

Source: PROTEqIN 2014 Survey.

The data in Table 8 provide some insight into the occurrence and impact of crime. According to this same survey, the most common types of crime are theft (18 percent), deliberate damage or vandalism (17 percent), attempted robbery (15 percent), and attempted burglary (13 percent). The rate of investment in security varies across countries, with firms in Trinidad and Tobago and Jamaica having the highest number of firms taking preventive security measures (84 percent and 71 percent, respectively). This is not surprising, as the data indicate that firms in these countries also have the highest reported crime rates.

The data seem to indicate that in the Caribbean, preventive measures to ward off crime, theft, and disorder act as an indirect tax on businesses. According to the PROTEqIN 2014 Survey, firms in the region spend on average approximately 2.5 percent of their earnings on preventive and mitigation measures annually. These measures range from equipment and professional services to insurance. Furthermore, a quarter of firms report that they experience an additional 2 percent loss due to robbery, arson, or other crimes. Therefore, by increasing firms' costs by 2.5 to 4.5 percent, crime, theft, and disorder reduce the productivity of all firms.

As firms try to bolster their productivity through the use of the digital economy, they increase their vulnerability to cyber crime. On average, 17 percent of PROTEqIN surveyed firms report that they have been the victim of Internet fraud, with the cost of this fraud ranging from hundreds to millions of dollars. If the region is going to benefit fully from the productivity gains from technology, the implementation of training programs focused on cybersecurity is a particular need.

Practices of Competitors in the Informal Market

The PROTEqIN Survey indicates that firms operating in the informal sector tend to be a source of unfair competition to registered firms. Given their tax avoidance, these firms also deprive the government of potential revenue. Similarly, given their invisible status, informal firms tend to reduce the potential effectiveness of regulatory measures.

As can be seen in Table 9, 23 percent of the firms surveyed indicated that they perceived the practices of informal competitors to be a major or very severe obstacle to their business.

Table 9: Obstacles to Business Posed by Practices of Informal Competitors

How much of an obstacle is the practices of competitors to your business?

	No obstacle	%	Minor obstacle	%	Moderate obstacle	%	Major obstacle	%	Very Severe obstacle	%	Total
2014	412	21%	584	30%	524	27%	231	12%	211	11%	1962

Source: PROTEqIN 2014 Survey.

Respondents stated that their concerns about the informal sector were rooted in the observance that these firms circumvent rules and regulations (16 percent), face no barriers to entry (17 percent), and tend to have longer, more flexible working hours (10 percent).

Regional Dispersion

Similar to the analysis done in the DB report, firms that responded to the survey showed significant differences in their prioritization of the main business climate issues, by country. Thus, the priorities identified above do not necessarily mirror the individual priorities as expressed by surveyed firms at the individual country level. Table 10 shows the priorities identified by private sector firms in each country.

Table 10: Private Sector Prioritization of Business Climate Constraints by Country

	Tax rates	Tax administration	Customs and Trade regulations	Labor regulations	Inadequately educated workforce	Business licensing and permits	Access to Finance (e.g. collateral)	Cost of Finance (e.g. interest rates)	Political environment	Macroeconomic environment (inflation, exchange rate, interest rate)	Corruption	Crime, theft and disorder	Practices of competitors
Region					1		3	2					
Antigua and Barbuda	1		3		2								
The Bahamas		3			1		2						
Barbados	2				1		3						
Belize	3		2				1						
Dominica							1	3		2			
Grenada			3				2					1	
Guyana	3										1	2	
Jamaica	1											3	2
St. Lucia			3		1		2						
St. Kitts & Nevis							3	2		1		3	
St. Vincent & the Grenadines					3		1	2					
Suriname					1			2		3			
Trinidad and Tobago				1	2							3	

Sources: PROTEqIN 2014 Survey and authors' analysis.

Private Sector Assessment Reports

The Private Sector Assessment Reports (PSARs) completed for the 14 independent CARICOM countries in 2013–2014 constitute another set of data to analyze the main obstacles to private sector development in the region. These reports confirm the findings above of human capital and access to finance as among the main challenges affecting firms in the Caribbean. However, the PSARs also find three constraints that were not examined in the survey questions and that are explored below. These are: (i) energy costs, (ii) weak support for enhancing productivity in firms; and (iii) infrastructure weaknesses. Only the first two will be examined, as the third is beyond the scope of this paper.

Energy Costs

High energy costs severely hamper private-sector operations in the Caribbean (EIU, 2015).[22] Retail electricity prices in the Caribbean are nearly triple the average price in the United States. Reliability of the electricity supply is another aspect of energy that affects firms in the region. With the exception of Trinidad and Tobago, demand for electricity in the region exceeds supply, and blackouts are common (Ticon Holdings, 2011). Data from the 2014 Compete Caribbean firm-level survey found that in Guyana, for example, nearly 35 percent of energy is sourced from generators installed to manage blackouts (PROTEqIN 2014 Survey). In Barbados, around 30 percent of firms have installed generators (PROTEqIN 2014 Survey).

Barbados is at the forefront of the regional push to develop renewable energy sources as a way to reduce the competitive disadvantage brought about by high energy costs. The country has deployed several incentives designed to promote a green economy. It hopes to have 30 percent of the country's energy needs generated from renewable sources by 2029 (Moore, 2014).

The region's high per-capita energy costs have contributed significantly to the fiscal stress that many Caribbean economies are facing. Conversely, the decline in global oil prices is partly responsible for the recovery of the island economies in 2015.

Weak Support to Enhance Firm Productivity

Many of the PSARs argue that Caribbean firms are less productive (measured as value-added per worker) than firms in other parts of the world. It is widely accepted that innovation can radically transform the productivity equation. However, innovation entails risk-taking. The Caribbean business environment does not encourage risk-taking, and some aspects of the business climate (e.g., difficulty in accessing credit and resolving insolvency) reinforce the case for a conservative approach. Moreover, the region lacks institutions that support innovation, such as early-stage financing mechanisms, incubators, and accelerators. There are few institutions that support firms with standard processes to improve productivity, such as the adoption of quality systems to comply with international standards. Expenditure for research and development (R&D) is scant among private firms, and the R&D conducted at universities is seldom linked to private sector needs, although some institutions, such as the University of Trinidad and Tobago and the Caribbean Industrial Research Institute (CARIRI), are attempting to improve the linkage between business needs and R&D. Scant fiscal space and a low priority placed on R&D and technical extension services, among others, severely limit the supply of

[22] It is important, however, to differentiate the cost of energy from the DB indicator of "getting electricity," which tallies the number of days and procedures required to access energy. While the cost of energy is very high in the Caribbean, getting an electricity connection is a fast process across the region.

innovation inputs for firms. Moreover, government funding for innovation is generally low or non-existent; thus, most innovation initiatives are funded by international donors. This is not bad in itself, but changing the status quo would require sustained investment and involvement of public institutions over a number of years.

The 2014 Global Entrepreneurship Monitor's (GEM) National Executive Survey (NES) provides additional data that illustrate the weak support for private sector development in the region.[23] The GEM surveys commissioned in the Caribbean (Barbados, Belize, Jamaica, Suriname, and Trinidad and Tobago) show that, on average, the region performs below the average for all countries surveyed by the GEM in supporting entrepreneurs (see Table 11). The biggest difference between the Caribbean countries surveyed and the rest of countries surveyed by the GEM is the extent to which training in creating or managing SMEs is incorporated into the education and training systems at the primary and secondary levels.

Table 11: Results of the GEM 2014 National Executive Survey

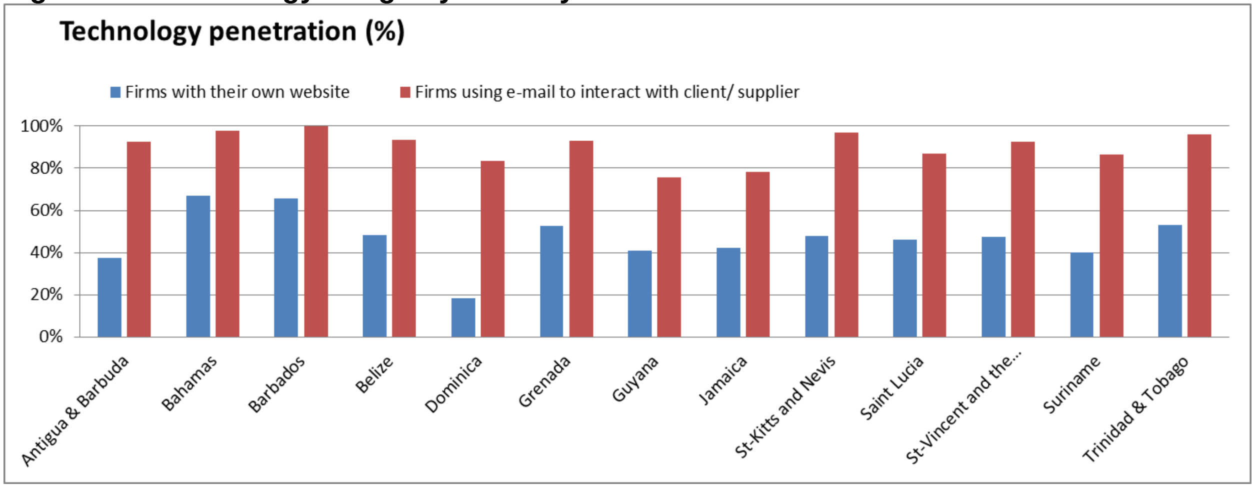
	The extent to which public policies support entrepreneurship - entrepreneurship as a relevant economic issue	The extent to which public policies support entrepreneurship - taxes or regulations are either size-neutral or encourage new and SMEs	The presence and quality of programs directly assisting SMEs at all levels of government (national, regional, municipal)	The extent to which training in creating or managing SMEs is incorporated within the education and training system at primary and secondary levels
Economy	**Governmental support and policies**	**Taxes and bureaucracy**	**Governmental programs**	**Basic-school Entrepreneurial Education and training**
BARBADOS	2.42	1.87	2.3	1.71
BELIZE	2.55	2.2	2.45	2.05
JAMAICA	2.2	1.99	2.34	2.07
SURINAME	2.69	2.36	2.42	2.11
TRINIDAD&T	1.81	2.38	2.34	1.83
Caribbean Average	2.33	2.16	2.37	1.95
Total AVERAGE:	2.61	2.45	2.66	2.08

Source: Global Entrepreneurship Monitor, 2014.
*On a scale of 1-5, with 5 being the most positive as rated by surveyed persons.

The use of technology spurs productivity and innovation. Although the world is experiencing a digital revolution, not enough firms in the Caribbean are using technology to their advantage. First, low levels of broadband penetration affect the use of technology. According to the World Bank, only 49 percent of the Caribbean population uses the Internet and only 11 percent have fixed broadband connections. A strategy to promote Internet connectivity and use in the region is an important precondition of any innovation agenda, given the key role of Internet infrastructure in the adoption of new technologies. Second, those firms with access to the Internet use technology in unsophisticated ways. As Figure 22 shows, although the vast majority of firms in the region use email to interact with clients and/or suppliers, the number of firms with their own website is relatively low in many countries.

[23] The GEM monitors the entrepreneurial framework conditions in each country by surveying a minimum of 36 experts in each country.

Figure 22: Technology Usage by Country



Source: PROTEqIN Data Survey, 2014.

In addition to the low levels of Internet penetration, the region also makes scant use of technology licensed from foreign companies.This limits opportunities to increase productivity through knowledge transfer.

Public–private Dialogue: Caribbean Growth Forum

The CGF is a multi-stakeholder platform designed to facilitate the identification, prioritization, and implementation of reforms and other activities aiming to improve the growth-enabling environment in the Caribbean, while promoting private sector, academic, and civil society participation in public policymaking. The CGF has both a regional and a country-specific dimension. Supported by several donors,[24] the CGF was launched in June 2012 at a regional event in Kingston, Jamaica, where growth was discussed with policymakers, civil society, and the private sector from 15 Caribbean countries. Between 2012 and 2014, the CGF engaged more than 2,500 representatives from business associations, civil society, government, media, the private sector, and indigenous groups focusing on three thematic areas: logistics and connectivity, the investment climate, and skills and productivity.

The CGF began as a regional public–private dialogue (PPD) mechanism composed of country chapters backed by a methodology to foster PPD. It is operated through an institutional structure consisting of: (i) a steering committee to guide the overall strategic direction; (ii) an advisory board to guide the development and implementation of CGF's work program; and (iii) a coordination secretariat to carry out the CGF's day-to-day operations. Between June 2012 and June 2013, 12 countries launched CGF chapters,[25] and a 13th country, Barbados, participated in the regional consultations.

[24] The World Bank Group (WBG), the Inter-American Development Bank (IDB), Compete Caribbean (CC), and the Caribbean Development Bank (CDB) facilitate the initiative in collaboration with the United Kingdom Agency for International Development (UKAid), and the Canada Department for Foreign Aid, Trade and Development (DFTAD).
[25] These were: Antigua and Barbuda, Bahamas, Belize, Dominica, Dominican Republic, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago. Barbados requested that its Social Partnership arrangement be accepted as an alternative to the CGF chapter.

During the consultative phase with private sector representatives and civil society leaders that took place between June 2012 and June 2013, participating countries identified 385[26] recommendations within the three thematic areas. Based on stakeholder recommendations, governments prepared road maps for implementation, which included specific milestones and timelines. They were to act on recommendations and report on implementation progress to national stakeholders through accountability workshops.

The CGF was intended to add value in a number of ways. The initial round of national stakeholder dialogues, spread out over several weeks, was aimed at helping to articulate objectives and identify related actions and generating social capital that could be leveraged to build societal consensus around development agendas. The presence of a short, but formally articulated, list of objectives and broad recommendations for action, and the exercise of converting broad action areas to specific, time-bound milestones were expected to help governments focus on the three CGF themes. The requirement to report every six months through an accountability workshop was intended to generate a stronger sense of accountability within government agencies than what existed before.

Common Challenges Identified at a Regional Level

On June 2013, the CGF held a regional event in The Bahamas to enable national chapters to share priorities and identify regional actions that could help solve bottlenecks. At the forum, each country presented its country dashboard—the priority of reforms produced by the consultations—which, although at different stages of development, identified each country's most pressing constraints. An examination of these constraints provides additional input into the agenda of business climate reforms. Table 12 summarizes the responses of the national chapters.

Table 12: National Caribbean Growth Forum Priorities by Country

Country	Public-private dialogue/CGF
Antigua and Barbuda	• Starting a business and a one-stop-shop • Skilled workforce to match market demand • Access to reliable technology • Infrastructure—air and sea
Bahamas	• Coordinated approach to private sector development • Immigration and labor (quality and quantity) • Property ownership and registration (speed) • Access to finance
Barbados	(no CGF)
Belize	• Taxation (levels) • Transportation infrastructure and connectivity • Skills development for workforce • Energy and renewable resources
Dominica	• Access to finance • Corporate taxation (levels) • Skilled workforce to match labour market • Infrastructure and logistics
Dominican Republic	• Simplify nation-wide commerce and investment procedures • Access to finance • Judicial security

[26] The initial stakeholder consultations identified 464 reforms actions. Further refinement and elimination of duplicate reforms actions yielded 385 reforms.

Grenada	• Energy costs • Trade and business logistics • Establishing a business • Access to finance
Guyana	(no CGF)
Haiti	(no CGF)
Jamaica	• Access to finance for MSMEs • Corporate tax • Processing times for business applications • Logistics and Infrastructure for Regional post-Panamax hub • Education to meet labour market needs
St. Kitts and Nevis	• Logistics and infrastructure • Property registration • Energy costs • Skills gap in workforce
St. Lucia	• Trade facilitation • Labor supply and skills for workforce • One-stop-shop for investment • ICT and connectivity
St. Vincent and the Grenadines	• Access to finance • Access to business information • Development of ICT • Support to SMEs
Suriname	• Access to finance • Decentralization of economy • Innovation in education • PPPs
Trinidad and Tobago	• Continuity of government policies • Productivity • Port operations • Construction permits and other regulatory approvals for business

Source: Day 2 Session 1 Country Summaries, June 25, 2014, Regional CGF event in The Bahamas.

An assessment of the responses from the national chapters suggests that there is some commonality to the challenges faced by countries within the region. This is demonstrated in Table 13, to the extent that, with but few exceptions, the challenges identified by one national chapter were echoed in the concerns emerging from other chapters.

An Agenda for Business Climate Reforms

The preceding sections have analyzed separately the priorities for reforms from four different sources of data: the World Bank's Doing Business 2016 report, the 2014 PROTEqIN Enterprise Surveys, the Private Sector Assessment Reports, and the outcome of the Caribbean Growth Forum's national consultations. In this closing section, the four sources are combined to identify common priorities and suggest an agenda of business climate reforms at both a regional and national levels. The added value of this analysis is that by adding three sources of data that incorporate the expressed sentiments of the private sector (PROTEqIN survey, PSARs and the outcome of extensive public private dialogue), the priorities can be refined beyond the World Bank's DB reports, which base rankings on measures of cost and time compared to other country benchmarks only.

The Caribbean region is complex and heterogeneous. At the country level, differences in business climate priorities emerge. There are elements of complementarity at the regional level, however, and it is here that these very different countries can work together to overcome common challenges. It is hoped that this assessment assists in prioritizing an agenda for business climate policy reform that can inform national and regional action plans for designing, implementing, evaluating, and sustaining reform measures.

Table 13: Identification of Regional Reform Priorities

World Bank Doing Business 2016 Report	*Compete Caribbean – Private Sector*			**Top regional priorities**
	PROTEqIN 2014 Enterprise Surveys	**PSARs**	**Public-private dialogue/CGF**	
1. Registering property 2. Getting credit 3. Resolving insolvency 4. Paying taxes 5. Starting a business	1. Inadequately educated workforce 2. Cost of Finance 3. Access to finance 4. Crime, theft and disorder 5. Tax rates	1. High cost of energy 2. Infrastructure and logistics – transportation (national and cross-border) 3. Access to finance 4. Human capital - skills and employment 5. Weak innovation and lack of supportive institutions	1. Skills development and training 2. ICT development and expansion 3. Customs and trade reform 4. Improving access to finance 5. Tax rates and administration	• Human capital – skilled and trained workforce • Access and cost of finance • Tax rates and tax administration • Improving various indices on the Ease of Doing Business Ranking • ICT and connectivity

Source: Authors' analysis of the documents cited in the first row of the table

Table 14: Identification of National Reform Priorities

Country	PROTEqIN 2014 Surveys	Doing Business	PSARs	Public-private dialogue/CGF	Top three priorities
Antigua and Barbuda	• Tax rates • Inadequately educated workforce • Customs and trade regulations	• Paying taxes • Getting credit • Resolving insolvency • Registering property	• High tax rates • Access to finance • Customs and trade regulations • High cost of electricity • Ineffective private–public sector engagement	• Starting a business and a "one-stop-shop" • Skilled workforce to match market demand • Access to reliable technology • Infrastructure –air and sea	1. Tax rates and tax administration 2. Access to finance 3. Inadequately skilled labor force
Bahamas	• Inadequately educated workforce • Access to finance • Tax administration	• Registering property • Getting credit • Starting a business • Getting electricity	• Access to finance • Inadequately trained workforce • Infrastructure and cost of energy • Customs and tariff rates • Innovation and ICT	• Uncoordinated approach to PSD • Immigration and labor • Property ownership and registration • Access to finance	1. Access to Finance 2. Inadequately educated workforce (therefore immigration and labor policy) 3. Registering poperty
Barbados	• Inadequately educated workforce • Tax rates • Access to finance	• Protecting investors • Enforcing contracts • Dealing with construction permits • Registering property	• Access to finance • Enabling environment for business • Investment in innovation • Labor regulation • Infrastructure and cost of energy	• (no CGF)	1. Access to Finance 2. Inadequately educated workforce 3. Different aspects of the enabling environment for business
Belize	• Access to finance • Customs and Trade regulations • Tax rates	• Getting credit • Starting a business • Enforcing contracts • Registering property	• Access to finance • Labour force skills • Corporate tax and administration • Poor infrastructure • Technology and innovation	• Taxation • Transportation infrastructure and connectivity • Skills development for workforce • Energy and renewable resources	1. Access to Finance 2. Corporate tax rates and administration 3. Workforce skills 4. Transportation infrastructure and connectivity
Dominica	• Access to finance • Macro-economic environment • Cost of Finance	• Registering a property • Getting credit • Resolving insolvency • Dealing with construction permits	• Access to finance • Coordination between public and private sectors • Cost of electricity, transport and trade • Inadequately trained workforce	• Access to finance • Corporate taxation • Skilled workforce to match labour market • Infrastructure and logistics	1. Access to finance 2. Labor force skills 3. Infrastructure and logistics (electricity, transport and trade)
Grenada	• Crime, theft, and disorder • Access to finance • Customs and trade regulations	• Resolving insolvency • Registering property • Trading across	• Access to finance • Cost of doing business • Inadequately trained	• Energy costs • Trade and business logistics • Establishing a business	1. Access to finance 2. Customs, trading across borders, logistics 3. Different costs of

		borders • Getting credit	workforce • high tax rates	• Access to finance	doing business
Guyana	• Public Administration • Crime, theft, and disorder • Tax rates	• Getting credit • Getting electricity • Resolving insolvency • Trading across borders	• Uncoordinated BSOs • Property rights • Access to finance • Corporate taxation • Technology and innovation	• (no CGF)	1. Access to finance 2. Taxation
Haiti	• (no PROTEqIN)	• Resolving insolvency • Starting a business • Protecting investors • Registering a property	• Poor access to basic services e.g. water, sanitation, education. • Ease and cost of doing business • Access to finance • Infrastructure - transport, electricity and telecommunications	• (no CGF)	(as the PROTEqIN survey was not conducted in Haiti, nor did the country engage in CGF, there are not enough points of information to determine the agenda)
Jamaica	• Tax rates • Practices of competitors • Crime, theft, and disorder	• Paying taxes • Trading across borders • Registering property • Enforcing contracts	• Access to finance • Corporate taxes • Crime • Cost of energy and other inputs (water, transportation, ICT)	• Access to finance for MSMEs • Corporate tax • Processing times for business applications • Logistics and Infrastructure for regional hub • Education to meet labour market needs	1. Taxation (rates and administration) 2. Access to finance 3. Crime 4. Logistics for trading across borders
St. Kitts and Nevis	• Macro-economic environment • Cost of finance • Access to finance • Crime, theft and disorder	• Resolving insolvency • Registering property • Getting credit • Paying taxes	• Cost of doing business • Access to finance • Electricity and Infrastructure • Adequately trained workforce	• Logistics and infrastructure • Property registration • Energy costs • Skills gap in workforce	1. Cost and access to finance 2. Energy and infrastructure 3. Property registration 4. Skills in the workforce
St. Lucia	• Inadequately educated workforce • Access to finance • Customs and trade regulations	• Getting credit • Resolving insolvency • Registering property • Paying taxes	• Cost of doing business • Access to finance and taxes • Electricity and infrastructure • Adequately trained workforce	• Trade facilitation • Labor supply and skills for workforce • One-stop-shop for investment • ICT and connectivity	1. Access to finance 2. Skills in the workforce 3. Trade facilitation 4. Various costs of doing business
St. Vincent and the Grenadines	• Access to finance • Cost of finance • Inadequately educated workforce	• Resolving insolvency • Registering property • Getting credit • Paying	• Access to finance • Corporate taxation • Electricity and Infrastructure • Technology and	• Access to finance • Access to business information • Development of ICT	1. Access to finance (and cost) 2. Taxation (levels and administration) 3. Technology

		taxes	innovation	• Support to SMEs	infrastructure
Suriname	• Inadequately educated workforce • Cost of finance • Macro-economic environment	• Enforcing contracts • Starting a business • Registering property • Getting credit	• Structure of institutions supportive to business • Access to finance • Ease and cost of doing business • Technology and innovation	• Access to finance • Decentralization of economy • Innovation in education • PPPs	1. Cost and access to finance 2. Workforce skills 3. Various costs of doing business
Trinidad and Tobago	• Labour regulations • Inadequately educated workforce • Crime, theft ,and disorder	• Enforcing contracts • Registering property • Dealing with construction permits • Paying taxes • Trading across boarders	• Registering property • Crime, theft, and disorder • Access to finance • Inadequately trained workforce	• Continuity of government policies • Productivity • Port operations • Construction permits and other regulatory approvals for business	1. Skills/productivity in the workforce and labor regulations 2. Registering property 3. Crime, theft and disorder

Source: Authors' analysis of the documents cited in the first row of the table.

References

Alborta, G. 2014. *Private Sector Assessment Report of The Bahamas*. Ed. Economist Intelligence Unit. Christ Church, Barbados: Compete Caribbean. Accessed at: http://competecaribbean.org/psars/2014-the-bahamas-private-sector-assessment-report/

Compete Caribbean. 2015. Private Sector Assessment Report of Belize. Ed. Economist Intelligence Unit. Christ Church, Barbados: Compete Caribbean. Accessed at: http://competecaribbean.org/psars/2014-belize-private-sector-assessment-report/

_____. 2015. Private Sector Assessment Report of Haiti. Ed. Economist Intelligence Unit. Christ Church, Barbados: Compete Caribbean. Accessed at: http://competecaribbean.org/psars/2014-haiti-private-sector-assessment-report/.

Divanbeigi, R. and R. Ramalho. 2015. *Business Regulations and Growth*. Washington, DC: World Bank. Accessed at http://documents.worldbank.org/curated/en/694641468188652385/pdf/WPS7299.pdf

DCED (Donor Committee for Enterprise Development). 2008. *Supporting Business Environment Reforms: Practical Guidance for Development Agencies*. London, United Kingdom: DCED.

EIU (Economist Intelligence Unit). 2015. *Private Sector Assessment Overview Report*. London, United Kingdom: EIU.

Hallward-Driemeier, M. and L. Pritchett. 2015. “How Business is Done in the Developing World: Deals versus Rules.” *Journal of Economic Perspectives* 29(3): 121-40.

Howell H. and P. Holden. 2009. “Enhancing Access to Finance in the Caribbean.” IDB Discussion Paper. Washington, DC: Inter-American Development Bank.

Howell, H., et al. 2016. *Policy Reforms in Business Climate and Innovation in LAC: Lessons Learned from the IDB’s Experience with Policy-based Loans*. Washington, DC: Inter-American Development Bank.

Jamaludin, F., Klyuev, V. and S. Serechetapongse, A. 2015. “What Drives Interest Rate Spreads in Pacific Island Countries?” Washington, DC: International Monetary Fund.

Jules, D. 2011. *TVET- A CXC Perspective*. *The Caribbean Examiner.* Bridgetown, Barbados: Caribbean Examinations Council.

Moore, W. 2014. Private Sector Assessment Report of Barbados. Ed. Economist Intelligence Unit. Inter-American Development Bank; Compete Caribbean. http://competecaribbean.org/psars/2014-barbados-private-sector-assessment-report/

Pew-MacArthur Results First Initiative. 2014. “Evidence-Based Policymaking: A Guide for Effective Government.” Philadelphia, PA: The Pew Charitable Trusts. http://www.pewtrusts.org/~/media/assets/2014/11/evidencebasedpolicymakingaguideforeffectivegovernment.pdf.

Pricewaterhouse Coopers. 2005. Investing in Latin America: When, Where, and How. https://www.pwc.com/us/en/deals/assets/050636_lats_roundtable_brochure_aa2.pdf

Pricewaterhouse Coopers and World Bank Group. 2013. *Paying Taxes 2014: The Global Picture. Doing Business 2014*. Washington, DC: World Bank Group. Accessed at: http://documents.worldbank.org/curated/en/143331468313829830/Paying-taxes-2014-the-global-picture

Randall, R. 1998.”Interest Rate Spreads in the Eastern Caribbean.” Washington, DC: International Monetary Fund.

Ruprah, I., Melgarejo, K.A. and Sierra, R. 2014. “Is there a Caribbean Sclerosis? Stagnating Economic Growth in the Caribbean.” Washington, DC: IDB.

SALISES (Sir Arthur Lewis Institute of Social and Economic Studies). 2014a. Private Sector Assessment Report of St. Kitts and Nevis. Ed. Economist Intelligence Unit. Christ Church, Barbados: Compete Caribbean. http://competecaribbean.org/psars/2014-st-kitts-and-nevis-private-sector-assessment-report/

_____. 2014b. Private Sector Assessment Report of St. Lucia Ed. Economist Intelligence Unit. Inter-American Development Bank; Compete Caribbean. http://competecaribbean.org/psars/2014-st-lucia-private-sector-assessment-report/

Ticon Holdings. 2011. Investment Climate Study prepared for Caribbean Association for Invsetment Promotion Agenices and Caribbean Export Development Agency. St Michael, Barbados: Caribbean Export Development Agency

Van Wyk, J., W. Dahmer, and M. Custy. 2004. Risk Management and the Business Environment in South Africa. *Long Range Planning* 37(3): 259–76. https://www.researchgate.net/publication/220022191_Risk_Management_and_the_Business_Environment_in_South_Africa

World Bank. 2009. *Doing Business Report 20*09. Washington, DC: World Bank.

_____. 2010. *Doing Business Report 2010.* Washington, DC: World Bank.

_____. 2015. *Doing Business Report 2015*. Washington, DC: World Bank.

_____. 2016. *Doing Business Report 2016*. Washington, DC: World Bank.