



BENCHMARKING THE EASE OF STARTING A BUSINESS IN BARBADOS

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Abstract

It is a commonly held view that the cost, time and complexity involved in starting a business in Barbados are prohibitive. This point of view, however, has never been verified by a substantive study on the ease of starting a business. This paper presents benchmark estimates of the time, cost and number of procedures needed. The results of the study suggest that while Barbados is among the countries with the lowest number of procedural requirements, there are still some bottlenecks which should be addressed.

Keywords: Entry regulation, Bureaucracy, Entrepreneurship

1. Introduction

The last two decades have witnessed an unparalleled rise in new regulation, accompanied by significant deregulation of some industries (Gausch and Hahn, 1997). Financial liberalisation, for example, has brought an increasing focus on prudential regulation and the supervision of financial entities. Lee and McKenzie (1991) argue that these changes have challenged policymakers to examine their systems and, indeed, the work on measuring the cost of regulation has served to advance reform in this area (Djankov, et al, 2002; Centre for Strategy and Evaluation Services, 2002; Klapper, et al, 2004).

The measurement of regulatory costs is especially important for developing countries like Barbados, since excessive government involvement can restrict entrepreneurial activity and stymie economic development. In their study on the costs of doing business in small states, Winters and Martin (2003) conclude that country size impacts significantly on the cost of doing business, leaving these countries at a relative disadvantage. In light of waning foreign direct investment inflows, the erosion of trade preferences and declining commodity prices, these territories have encountered difficulties in selling their goods at world prices. The conventional prescription is to boost competitiveness in order to attract investment. To do this, the authors conclude that small states would have to reduce factor payments to below world averages. However, this adjustment may not be possible, as the cost of inherited disadvantages can be so large that there is no above-zero factor price that will induce investment.

Winters and Martin further indicate that there is no evidence to suggest that small states have consistently implemented bad policies, so that poor policy-making cannot be considered a contributing factor to these countries' present predicament. The authors therefore suggest that the policy response must come mainly from the international community, which must recognise the inherent disadvantages that constrain small

states and provide support through aid, trade, Mode IV mechanisms¹ and investment preferences. Nevertheless, they acknowledge that this must be accompanied by an effort on the part of smaller countries to reduce their costs as much as practicable.

Such an effort requires the prior identification of areas of potential cost reduction. In the Barbadian context, it is widely believed that Government regulation is a significant cost factor for business start-ups, although the literature on the subject is extremely limited. However, the impact can be gauged to a certain extent by examining inputs from Government, the local private sector and foreign investors.

In terms of Government's position on the matter, the Prime Minister has spoken on the issue of business facilitation in his annual Economic and Financial Statements. In recent years, he has highlighted the inefficient and overly bureaucratic procedures in the Customs, Excise and VAT administrations, the Town and Country Planning Department and the Barbados Port Authority; resource constraints in the judicial system; as well as the inadequate regimes for pan-Caribbean companies and Small and Micro Businesses; as areas in which regulation has had a restrictive effect on business.

Although written a decade ago, Goddard (1994) provided a private sector perspective on the issue, which in many respects is still applicable today. He asserted, "*Government is too big, gets in the way of business activity and costs too much, in both respects*". Goddard felt that Government's structure needed to be overhauled and modern technology brought to bear on the efficiency of a wide range of activities, including the courts, the public registries and the management of various ministries. He therefore called for the institution of a more transparent system for the distribution of information to the public, the decentralisation of decision-making and the strengthening of reporting procedures and greater

¹ The term Mode IV mechanisms refers to measures under WTO agreements which allow foreign workers to enter a country on a temporary basis

accountability. Furthermore, respondents in a 1999 survey of companies' expectations carried out by KPMG identified the four most onerous constraints on companies operating in Barbados as the level of taxation, the inefficiency of public services, the cost of utilities and the unavailability of skilled staff.

From a foreign investor's point of view, Maxwell Stamp (1991) argued that the main deterrents to doing business in Barbados were the lack of "overall skill, interest and efficiency in attracting and accomplishing business". In fact, according to their report, ease of doing business was the second-ranked concern for US businesses in selecting among offshore locations. One of their respondents cited "*extreme delays and paperwork associated with activities, such as import/export of bonded goods, that involved the Government*" as the reason for closing its Barbadian operations.

This paper aims to supplement the literature on this issue, focusing mainly on barriers to market entry in Barbados, in order to pinpoint areas that may hinder economic development, and offer advice on how to remedy any problems identified. The structure of the study is as follows. Following the introduction, Section 2 examines why governments regulate markets, while Section 3 supplies a brief analysis of the effects of regulatory barriers. Section 4 gives the methodology used, while Section 5 presents the results. Section 6 concludes.

2. Why do Governments' Regulate Markets?

For analytical purposes, Government regulations are commonly classified into three non-mutually exclusive groupings, namely economic, social or process regulations. Economic regulations refer to restrictions on prices, quantity, entrance and exit conditions, while social regulations refer to regulations that affect a wide array of industries, typically environmental, public health and safety regulations. Governments' management of the operations of the public and private sector, such as paperwork

requirements and administrative costs incurred by both the producers and consumers is labelled process regulation.

On the question of why governments regulate, clearly the objective is not to deter business activity. The motivations are seemingly more altruistic, the protection of public interest with the aim of obtaining the best outcome for all concern, at least in the opinion of the public interest theorists. Pigou's (1938) public interest theory of regulation holds that unregulated markets exhibit frequent failures, ranging from monopoly to externalities. In its bid to counter these failures and protect the public, governments pursue social efficiency through regulation. Regulation is, therefore, considered in the context of the wider role of government in the society and the economy generally, which are broadly defined as allocative, distributive and stabilising.

However, much of the literature has been preoccupied with government's role in addressing market failure, which arises when the conditions necessary to achieve the market efficient solution fail to exist or are contravened in one way or another (MacVoy, 1992). The accepted view is that the market system of any economy is unlikely to operate efficiently, with the tendency being to produce too much of some goods and an inefficient amount of others. In extreme cases of complete market failure, the market will fail to exist, so that certain goods are not produced at all. Furthermore, some goods or services cannot be produced under perfect competition because of prohibitive economies of scale, in which case government regulation or a subsidy is needed to ensure economically efficient output and reduce income inequality. The existence of public goods to be shared equally by all, such as police and defence, and divergence between private and social valuation (called externalities), necessitate government intervention.

Government regulations seek to correct for these anomalies in the market-determined system. The regulatory role of government is essentially part of its allocative function. Governments attempt to normalise the decisions of consumers and producers thereby reducing the monopoly element and

externalities. They set up a system of regulation and control, which will produce information needed to serve the public interest. Registrations and other processing rules effectively allow governments to track business activity.

The public interest theory as applied to entry, holds that the government screens new entrants to make sure that consumers buy high quality products from “desirable” sellers. Such guidelines reduce market failures, such as low quality products from fraudulent firms, and externalities, such as pollution. The objective is to ensure that companies meet minimum standards to provide a good service. The prediction is that stricter regulation of entry should be associated with socially superior outcomes.

An agreement with public interest theory begs the question, what is the public interest? This seemingly innocuous question is highly contentious, as, while most theorists accept that there is a role for governments, few agree on the exact nature of that role.

The public choice theory (Tullock, 1967) sees the government as less benign and regulation as socially inefficient. One view is that regulation is ‘acquired’ by the industry and is designed and operated primarily for its benefit, so that industry incumbents are able to acquire regulations that create rents for themselves, since they typically face lower information and organisation costs than do dispersed consumers. A second strand of the public choice theory argues more directly that regulation is pursued for the benefits of politicians and bureaucrats (McChestney 1987).

Generally, the view is that the inefficiency arising from government regulation is largely related to information asymmetries. Governments lack the ability to regulate companies because they do not have the necessary information and the companies that have this information are not motivated to share. These information asymmetries imply that economic regulation will rarely achieve a first best or efficient outcome. This does not mean that guidelines are not useful for increasing efficiency when an industry is

subject to increasing economies of scale or there are network externalities. These arguments simply suggest that effectiveness of regulation is limited. Moreover, the effectiveness of government control is often constrained in a rapidly changing environment. In addition, some regulatory instruments, such as quotas, licenses and subsidies, encourage inefficient rent-seeking activities and there is a strong incentive to use such instruments for political gain. These shortcomings must be weighed in considering alternatives. The issue, therefore, is not a matter of if to regulate, but what should be the nature and scope of the regulatory framework.

3. The Effects of Regulation

The scope of government activity is far-reaching, requiring both resources and rules (regulations), and consequently varies across countries. In developing countries, it is expected and argued that market failures are greater, including incomplete markets and extreme information asymmetries, so that the divergence between private and social cost is more significant than in developed countries; consequently, governments have an expanded role. The problem of market failure is compounded by the scarcity of resources and income inequality that plague developing countries in their bid to attain an adequate rate of economic growth. Admittedly, just as there is potential for many kinds of market failures, there is also potential for government failures (Gausch and Hahn, 1997), as noted previously.

According to Gausch and Hahn (1997), there was lower productivity in regulated industries that translated into higher costs for products and inputs produced domestically and reduced a country’s ability to pursue a successful export-led strategy. Using this evidence from developed countries, Gausch and Hahn argued that developing countries should be mindful of the adverse impact economic regulation has on productivity and efficiency as they seek to accelerate their economic growth. This was particularly relevant to these countries where inefficient bureaucracies and high levels of corruption are prevalent, which could potentially translate into substantially higher cost of the various kinds of regulations. Gausch

and Hahn also argued that earlier studies on the effects of government directives underestimated the true cost of government rules by largely ignoring the adverse impact that regulation typically has on innovation. In a related study, assessing the economic impact of different labour regulation on employment growth, Gausch (1997) found that less onerous labour restrictions on firms usually led to robust employment growth and conversely, more onerous labour restrictions meant less robust growth.

Ultimately, the concern about the regulatory system is a concern about the efficient use of resources and growth. Incentives to investment are clearly a crucial part of this equation. Burns and Riechmann (2004) argued that regulatory instruments have a powerful effect on investment and forms part of the motivation for introducing higher-powered regulatory regimes and contracts, but can also lead to unintended distortions on investment behaviour, if the appropriate mix of incentives and institutional framework is not adopted. An appropriately designed regulatory framework is important, but may be difficult to attain in practice because of the problem of asymmetric information that makes it hard to achieve both an optimal level of cost and service quality.

According to Burns and Riechmann (2004), the appropriate legal design must include collecting and monitoring of some of the worst imbalances, related to welfare and distributional costs. If the wrong incentives are put in place then payment is made for information of no value, a cost that falls directly on the consumer. Generally, incentive-based regulation should avoid distorting firms' input choices and should promote balanced incentives across different regulated products. In addition, output-based regulation required a proper definition of output.

Another dimension of the question of the impact of government rules on investment examined regulations governing entry. Klapper, Laeven and Rajan (2004) examined regulations governing entry across firms in Western and Eastern Europe and concluded that entry guidelines hampered entry especially in industries that should have high entry. Furthermore, this study found that value added per employee in naturally

“high entry” industries grows more slowly in countries with onerous entry restrictions. More importantly, bureaucratic entry regulation was found to be neither benign nor welfare improving.

Entry guidelines serves to screen in the public interest. However, setting up protectionist entry barriers means that incumbent firms might ensure themselves more growth, but the lack of competition may make them inefficient. Klapper and others (2004) argued that the evidence is supportive or consistent with the view that entry rules are framed with private interest in mind rather than for public interest. An earlier study by Djankov, La Porta, Lopez-de-Silanes and Shleifer (2002) obtained similar results in examining the regulation of entry of start-up firms in 85 countries. They concluded that the official costs of entry are extremely high and more fundamentally that the findings supported the public choice view that entry regulation benefits politicians and bureaucrats.

Klapper, Laeven and Rajan (2004), nevertheless agreed that not all regulation inhibits entry; some rules, such as intellectual property rights and those that lead to a better, more developed financial sector, lead to greater entry in industries that do more R&D or need more external finance. However, they admit that the issue of identifying the optimal degree of government intervention in normalising the environment that firms operate in had not been resolved and was a matter for further research.

4. Measuring Regulatory Barriers

4.1 Potential Approaches

Evaluating the degree of regulation is a complex task. Economic researchers have approached the problem of quantifying barriers using two broad approaches: comparing regulated and unregulated firms (Stigler and Friedland, 1962; Peltzman, 1973; Collins, Saxena and Wansley, 1996; Berman and Bui, 2000; Hoek, 2002) and detailed indices of the variation in the intensity of constraints (World Economic Forum, 1979; Nicolletti, Scarpetta and Boylaud, 2000; Morisset and Neso, 2002).

The first approach measures the effects of government intervention by comparing matched samples of firms, or the same firms before and after regulatory changes. While the comparison approach may provide ballpark estimates of the effects of regulatory changes, it suffers from three key shortcomings. First, the approach assumes that the specified economic model sufficiently accounts for all other factors, excluding the regulatory change, which may explain industry performance or behaviour. Secondly, this approach is not able to properly account for variations in the intensity of regulation, as the variable of interest is measured using a dummy variable. And finally, while this technique may provide reasonably accurate results for firms or markets with similar characteristics, it is very difficult to undertake cross-country comparisons, as nations differ in terms of development, government bureaucracy and a host of other factors which can not be easily quantified.

The second approach requires the researcher to compile information on the obstacles encountered by firms in a particular industry or country. One drawback of this technique is that it relies on respondents' perception of the degree of government barriers. Therefore, while one can identify from the index that public institutions may be a problem in a particular country or regions, it does not allow the researcher to identify the specific issue that is offending business persons.

An improvement on this opinion-based survey approach is to obtain estimates of the time and cost taken to fulfil regulatory barriers from both the public and private sector. These studies are usually quite detailed and therefore require a lot of time to compile the requisite data. Once the information is acquired, however, the approach can provide important insights into regulatory bottlenecks that governments need to rectify.

One of the more ambitious projects using this approach is that by Djankov, Porta, de Silanes and Shleifer (2002). These authors, using information harvested by local representatives, government officials and various reports and publications from 85 countries, attempt to construct a database of the procedures, cost

and time required to start a new enterprise. The study collects records on five key procedural areas: screening, tax, labour/social security-related, safety and health and environment. Djankov, Porta, de Silanes and Shleifer's (2002) approach also forms the basis for the entry regulations section of the *Doing Business* report (2003) of the World Bank.

The Centre for Strategy and Evaluation Services (2002) utilises a similar approach to Djankov, Porta, de Silanes and Shleifer for the European Union. However, rather than collecting information for a single firm type, they dissect regulatory requirements for individual enterprises, general partnerships, private limited and public limited companies. As a result, estimates of the number of procedures, time and cost needed to start a business can be compared across firm types and countries.

4.2 Methodology

The current study uses a similar approach to Djankov, Porta, de Silanes and Shleifer (2002). It employs three measures to evaluate the ease of starting a business in Barbados: the estimated number, duration and cost of procedures that an entrepreneur must complete. To accomplish this goal, the paper attempts to generate a database describing all of the entry regulations required of start-ups in Barbados. The implicit assumption made throughout the study is that the greater the number of procedures, time and cost involved, the more difficult it is to start a business.

Most of the information was collected from interviews with representatives from both the public and private sector. These usually took the form of a 30-minute meeting, where questions were asked regarding the procedures necessary to start a business, the cost and any special conditions that one was likely to encounter. During the interviews, the authors also took the opportunity to solicit suggestions for changes to particular regulatory hindrances. For those areas of the survey where only basic information

was required, phone discussions were employed or were cropped from the relevant legislation or websites.

A potential establishment in Barbados can incorporate either as a domestic or external company, where an external corporation is defined, according to the Companies Act, as “... *a firm or other body of persons, whether incorporated or unincorporated, that is formed under the laws of a country other than Barbados.*” Under these two broad sub-divisions, one can sub-divided even further. An external company can be separated into exempt insurance companies, offshore banks or international business companies, while domestic entities take the form of unincorporated, non-profit or limited liability establishments.² For example, an Exempt Insurance Company can incorporate either as a domestic or external company. For the purposes of this study we list the general requirements to begin trading as a domestic or external company, along with the special requirements for unincorporated, non-profit, exempt insurance, international business and offshore banking entities.

The authors attempt to incorporate both official and un-official procedural requirements. Obtaining financing, for example, is not a direct part of the start-up process, however, it represents an initial step that most companies must take. While some individuals might employ their savings to start a business, the average entrepreneur must source financing from a financial institution. This step requires a feasibility study and a business plan.

The time it takes to complete required steps is measured using official time and estimates obtained from discussions with entrepreneurs, lawyers, government officials and other persons involved with the business start-up process. In estimating the time taken for each of the procedures, the authors chose to be

² Note that exempt insurance companies, offshore banks and international business companies can also register as a domestic firm, but would need to incorporate as a separate legal entity from its parent company.

conservative in most instances, taking the most pessimistic estimate of the time needed for each procedural stage.

An estimate of the official cost for each procedure is also compiled, along with any special requirements or exemptions: these include legal fees, stamp duties, etc. For some items, such as legal expenses and feasibility studies, the cost can vary between each project. In these instances, the median cost needed to complete the transaction is used.

The procedures and estimates of the cost and time needed provided in this study, despite the authors’ best efforts, most likely represent a best-case scenario. For example, approval for some licenses usually needs to wait for a meeting of a particular board or committee. Therefore, if the applications are submitted at the wrong time in the meeting cycle the time lag could be significant. Foreign owners who are unfamiliar with local customs and nuances may also encounter some difficulty with the system.

5. Evaluating the Ease of Starting a Business

5.1 Basic Results

Table 1 gives the number of procedures a start-up has to complete. These are divided into three categories: registration, core and particular formalities. Core formalities are composed of those steps, besides registration, that all companies must complete before they can begin providing goods and/or services. These include securing a feasibility study, business plan, business finance, registration with the National Insurance Department, Inland Revenue and the VAT department, Town and Country Planning, a company seal and depositing the minimum capital in a financial institution. The particular formalities, on the other hand, are not required by all types of business entities and include such items as a liquor license and a permit from the Child Care Board (see Table A1 in the Appendix for further details).

Table 1: Number of Procedures Required to Start a Business in Barbados

Type of Company	Number of Procedures				
	Registration	Core Formalities	Sub-total	Particular Formalities	Total
<i>Domestic</i>					
Incorporated	3	8	11	8	19
Unincorporated	1	8	9	8	17
Non-profit	3	8	11	8	19
<i>External</i>					
Exempt Insurance	5	4	9	5	14
International Business	4	4	8	5	13
Offshore Bank	6	4	10	5	15

Registration encompasses all those activities that have to be completed to facilitate the issuance of a business licence. Offshore banks have the largest number of procedural requirements (six). These are to ensure that the application is from a reputable enterprise and that the safety and security of the local financial sector is maintained. On the other hand, only a name search is required for unincorporated entities, implying that they can be registered in a single step. For all the other types of businesses, registration requires four steps on average.

Although relatively few formalities are required to start a business in Barbados, a number of days are needed to complete these transactions. Unincorporated enterprises can complete the registration process in approximately five days compared to 17 for incorporated companies and 92 for non-profit entities. The additional time necessary for incorporated business arises from the need to obtain articles of association, etc. prepared by a lawyer and submitted to the Corporate Affairs and Intellectual Property Office, while for non-profit ventures tests must be done regarding whether the proposed activity can be considered a charitable venture³.

³ According to Section 2 of the Companies Act, Cap 243 a charity is take to mean “any institution (corporate or not which is established for charitable objects or purposes, and which is intended to and does operate for the public benefit, and is subject to the control of the high court in the exercise of its jurisdiction with respect to charities.”

Table 2: Time Required to Start a Business in Barbados

Type of Company	Time (Days)				
	Registration	Core Formalities	Sub-total	Particular Formalities	Total
<i>Domestic</i>					
Incorporated	17	264	281	199	480
Unincorporated	5	159	164	199	363
Non-profit	97	159	256	199	455
<i>External</i>					
Exempt Insurance	34	24	58	49	107
International Business	19	24	43	49	92
Offshore Bank	114	24	138	49	187

Turning to external entities, it takes offshore banks an average of 114 days to complete the procedures required; the longest registration period for all companies considered. Most of this time is drawn on by the Central Bank of Barbados to ensure that all due diligence procedures are followed. Without this step, it would take approximately 24 days to register an offshore bank in Barbados. Similarly, for exempt insurance companies the registration time is on average 34 days, with most of this employed to obtaining the consent of the Supervisor of Insurance (15 days). International Business Companies, on the other hand, can be registered in under 20 days, almost the same as for domestic incorporated businesses.

To complete the other core formalities, it takes at least 17 weeks on average. Looking first at domestic companies, for a unincorporated entity the duration is 159 days, with a large proportion of this taken up attempting to obtain a business plan, feasibility study, finance and town and country planning permission. For incorporated businesses, which require a slightly more detailed business plan and other documents, the wait can be as much as 264 days. For most external companies, since they would have already secured financing for the project, the registration only takes 24 days, most of which is needed to obtain a VAT license.

Many of the particular formalities required by some businesses take too long to complete. For example, acquiring small business status takes approximately 90 days and involves a number of steps: (1) the Ministry of Commerce and Consumer Affairs has to determine the eligibility of the applicant; (2) the declaration order and an Attorney General's certificate has to be obtained from the Attorney General's Chambers; (3) the application has to be approved by Cabinet and subsequently gazetted, and; (4) the Ministry of Commerce and Consumer Affairs has to print the Certificate of Registration. Small business status is necessary to benefit from a reduction in the corporate tax rate payable to 25%, exemption from import duties on plant and equipment (raw materials not included), technical assistance and access to the Central Bank of Barbados' Credit Guarantee Scheme. Similarly, for a liquor license and a permit from the Child Care Board, approval must be garnered from the Board of these institutions. As a result, the process usually takes one to two months to complete.

Estimates of the cost of completing each of these formalities are provided in Table 3. Registration for incorporated enterprises requires the largest initial capital outlay, approximately \$2,505, the bulk of which is legal fees for the preparation of articles of incorporation, notice of directors, notice of address and other documents required by the Corporate Affairs and Intellectual Property Office (CAIPO). For unincorporated entities, the cost of registration is a lot lower, since only a check on the uniqueness of the company name and an application form is required from CAIPO.

The cost of registering an external company is on average seven times larger than for a domestic entity. For offshore banks, a potential investor requires around \$33,000 to complete the registration process. Most of this cost, approximately \$25,000, accrues to the Central Bank of Barbados to pay for the all the due diligence procedures it must undertake. For exempt insurance and international business companies the cost of registration is approximately four times more than for a domestic concern, most of which is for legal fees.

Table 3: Amount Required to Start a Business in Barbados

Type of Company	Cost (BD\$)				Total
	Registration	Core Formalities	Sub-total	Particular Formalities	
Domestic					
Incorporated	2505	10250	12755	1100	13855
Unincorporated	100	5250	5350	1100	6450
Non-profit	150	5246	5396	1100	6496
External					
Exempt Insurance	13454	246	13700	2854	16554
International Business	7954	246	8200	2854	11054
Offshore Bank	32954	246	33200	2854	36054

Whilst the registration stage is the most costly part of the start-up process for an external company in Barbados, for domestic enterprises the core formalities are the most prohibitive barrier. Most of the costs in this stage are due to the outlay for preparing a business plan and feasibility study. For an incorporated enterprise, the study conservatively estimates that a business plan costs approximately \$10,000, twice the costs of an unincorporated entity. As a result, some micro-finance institutions (for example, the Barbados Youth Business Trust) have been using template business plans to reduce the expenditure required for this stage of the start-up process. With the exception of obtaining business finance and a company seal, most of the other core requirements are costless.

5.2 Regional Comparison

The results of this analysis should not be considered in a vacuum. After all, the ease of doing business is not only a key element in local entrepreneurial activity, but is also a significant determinant of foreign direct investment. The data is therefore meaningless unless compared with that of other destinations competing for investment. Given the similarities between Barbados and the other English-speaking CARICOM territories in the eyes of investors, it is worth attempting a regional comparison.

The only such country with data available for comparison with the Barbadian case is Jamaica, which was represented in the World Bank's "Doing Business" survey. The survey report ranked Jamaica among the top 10 countries in the world that regulate business the least⁴. For comparative purposes, the information required for the World Bank's survey was extracted from the results for Barbados. The two sets of data are presented in Table 4 and Table 5 below.

Table 4: Results of Doing Business Survey for Jamaica (Entry Regulations)

Nature of Procedure (2004)	Formalities	Duration (days)	US\$ Cost
Check availability of name	1	1	0.00
Pay stamp duty	2	1	263.18
Obtain a registration certificate	3	1	132.19
Obtain National Insurance (NIS)	4	28	0.00
Register for income tax	5	2*	0.00
Obtain Taxpayer Registration Number	6	1*	0.00
Register for VAT	7	1*	0.00
Totals:	7	31	\$395.37

*Runs simultaneously with previous procedures

Table 5: Reconciliation of Barbados Results with World Bank Survey

Nature of Procedure (2004)	Formalities	Duration (days)	US\$ Cost
Check availability of name	1	5	15.00
Make a company seal	2	1	23.00
Obtain Registration Certificate	3	5	375.00
Notarisation of articles of association	4	2	862.50
Registration for social security	5	1	0.00
Obtain Taxpayer Registration Number	6	1	0.00
Register for VAT	7	21	0.00
Totals:	7	36	\$1,275.50

From the summary statistics, the two countries' profiles appear quite similar. For example, they both have roughly seven procedural requirements for companies wishing to set up in their respective jurisdictions. However, the time spent on the various procedures, as well as the overall dollar cost, both appear to be lower in Jamaica.

Looking in more detail at the time factor, significant variations across similar procedures can be detected between the two countries. Take for example the ease with which companies can register in Jamaica. It takes only one (1) day to check the company name and a maximum of three (3) days to file the company deeds to the Registrar of Companies, one (1) day with expedition. In contrast, it takes five (5) days to check the company name and another five (5) to file the necessary company deeds in Barbados. An even more glaring example is the fact that, while it only takes one (1) day to register for the General Consumption Tax (GCT) (this is a form of VAT) in Jamaica, it can take as long as three (3) weeks for the same formality to be concluded in Barbados. The only point in Barbados' favour comes in the area of registering for social security. This process takes only one (1) day in Barbados, versus twenty-eight (28) days in Jamaica. However, it should be noted that in Jamaica one could obtain a clearance letter to procure an NIS number and a tax number in just one (1) day.

When it comes to monetary costs, the main similarity between the two countries is that neither of them levies any fees on companies registering for social security or tax purposes. In Jamaica, fees are charged for stamp duty and registration in the order of US\$263.18 and US\$132.19, respectively. Meanwhile, in Barbados, notarising the companies' documents and registering the company cost US\$862.50 and US\$375.00 each. There is also a US\$15.00 charge for checking a company name in Barbados, whereas there is no cost to do so in Jamaica. The overall cost in US dollars is therefore lower in Jamaica than in Barbados, but, in accordance with the World Bank methodology, the cost in each country must be weighted by its respective GNI *per capita*. This calculation reveals that, given the higher spending power

⁴ See article in Jamaica Gleaner published Wednesday, March 17, 2004.

of its population, overall start-up costs in Barbados are relatively less expensive at 14.2% of GNI per capita, than for Jamaica at 15.5% of GNI per capita.

Before drawing any conclusion from these results, however, it is necessary to issue a few provisos with regard to what appear to be a number of inconsistencies in the data for Jamaica. For one thing, the World Bank reported in the summary table that it took just one day to file the company deeds with the Registrar. However, in the detailed breakdown it is stated that this formality normally takes three days, and that an additional fee would be required in order to expedite the process for it to take only one day.

Yet another discrepancy was found in the Jamaican data in relation to the last three procedures. In the summary table, these procedures, (which last two days, one day and one day, respectively) are said to run simultaneously with previous procedures so that they are not included in the overall count. On the contrary, in the breakdown it is stated that the three run simultaneously with each other, not necessarily with previous steps. This means that the total number of days necessary to set up in Jamaica could be 33 and not 31; this is not clear.

Finally, questions arose as to how the procedure “Notarisation of the Articles of Association”, suggested in the World Bank survey form should be interpreted. In the case of Barbados, this was interpreted as the process of having a lawyer draw up the relevant documents and included as one of the procedures necessary for setting up. Strangely, the data for Jamaica did not include this as a separate step. It is unclear if this was because no such step existed (which the authors feel is highly unlikely), if it was subsumed under another procedure, such as filing the company deeds with the Registrar, or if it was a misinterpretation of the survey form. At any rate, this point may have skewed the results of the comparison against Barbados.

Bearing these caveats in mind, the foregoing analysis reveals that entry procedures are generally less time-consuming in Jamaica than in Barbados, but the fees involved represent a higher cost relative to local spending power.

5.3 *International Comparisons*

The above analysis augurs well for Barbados as it relates to the ease with which businesses can set up, that is, compared to Jamaica, a regional counterpart and likely competitor in the market for foreign direct investment (FDI). Indeed, globalisation has intensified the competition for FDI and so, in many respects, our competitors are not just within the Caribbean. Furthermore, attracting FDI is not the only consideration, as globalisation has also provided opportunities for local companies to expand more easily than before beyond national borders.

As a consequence, it is important to compare the business facilitation environment in Barbados, not just with Jamaica, but also the rest of the world. In this regard, using data taken from the World Bank study and based on the approach developed by Djankor, Porta, Lopez-de-Silanes and Shleifer (2002), comparisons are undertaken with Latin America and the Caribbean, the G7 countries and finally the best and worst performers covered in this study. These comparisons allow us to gauge where we are vis-à-vis the competition as well as to ascertain what is the international best practice.

Table 6: Comparing Barbados and Latin America and the Caribbean

Region or Economy	Number of Procedures	Duration (Days)	Cost (% GNI per Capita)	Min. Capital (% GNI per Capita)
Latin America & Caribbean	11	70	60.1	32.3
Barbados	7	36	14.2	0
Argentina	15	32	15.7	9.3
Bolivia	15	29	175.5	4.8
Brazil	17	155	11.7	0
Chile	10	28	10	0
Colombia	14	43	27.4	0
Costa Rica	11	77	25.7	0
Dominican Republic	10	78	25.2	2.3
Ecuador	14	82	47.4	11.3
El Salvador	12	115	125.1	133.2
Guatemala	15	39	62.8	33.4
Haiti	12	203	176.1	214.5
Honduras	13	62	73.3	39.9
Jamaica	7	31	15.5	0
Mexico	8	58	16.7	16.4
Paraguay	17	74	157.6	0
Panama	7	19	25.1	0
Puerto Rico	7	7	1	0
Uruguay	11	45	48.2	212.4
Venezuela	13	116	15	0

According to Table 6 above, Barbados compares favourably with Latin America and the Caribbean generally. In all categories - the number of procedures, the duration for processing, measured in days as well as cost as a percentage of GNI per capita - the figures for the region as a whole are well above those for Barbados. Indeed, as it relates to the number of procedures, Barbados is among those countries with the lowest number, based on the countries covered in the survey. In addition, there are few countries that have fewer days for processing paper work than Barbados. Another interesting observation is the number of them that are among some of the worst cases with regard to business facilitation, such as Haiti, El Salvador and Brazil. These countries have in excess of 10 procedures and take over 100 days to process paperwork, which is well above the averages for most regions of the world.

Table 7: Comparing Barbados and OECD Countries

Region or Economy	Number of Procedures	Duration (Days)	Cost (% GNI per Capita)	Min Capital (% GNI per Capita)
Barbados	7	36	14.2	0
OECD: High income	6	25	8.4	47
Canada	2	3	1	0
France	7	8	1.1	29.2
Germany	9	45	5.9	49.1
Italy	9	13	23.3	11.6
Japan	11	31	10.7	74.9
United Kingdom	6	18	1	0
United States of America	5	5	0.6	0

As Table 7 shows, Barbados also compares favourably with the OECD region, with only one procedure more than their average and about 40% fewer procedures than major economies like Germany and Japan. In contrast, regarding the duration, most G7 countries took fewer days than Barbados to process paperwork, with the exception of Germany. Similarly, costs as measured by percentage of GNI per capita were lower for all G7 countries, with the exception of Italy, when compared with Barbados.

Table 8: Comparing Barbados with the Best/Worst Performers

Region or Economy	Number of Procedures	Duration (Days)	Cost (% GNI per Capita)	Min. Capital (% GNI per Capita)
Barbados	7	36	14.2	0
Puerto Rico	7	7	1	0
Australia	2	2	2.2	0
Canada	2	3	1	0
United States of America	5	5	0.6	0
Denmark	4	4	0	49.8
Congo, Dem Rep	13	188	551.9	270.6
Haiti	12	203	176.1	214.5
Indonesia	12	151	130.7	138.2

A comparison of Barbados with the best and worst performers, as given by the number of procedures, duration and cost, further reinforces the point that Barbados' current business facilitation practices are well within international norms (see table 8 above). However, there is still substantial room for improvement. The international standard has been set by Australia and Canada, where there are only two procedures and roughly the same number of days for processing at negligible costs. Denmark and the USA followed with four and five procedures and days duration, respectively. In contrast, Haiti, Indonesia and Congo, Democratic Republic are at the other end of the spectrum, requiring 12-13 procedures and in excess of 150 days to process at costs exceeding the averages for the major regions of the world.

6. Conclusions

This study has succeeded in breaking new ground, in that it is the first attempt (to the authors' knowledge) to measure the extent of entry regulation in Barbados. The results of the study imply that setting up a business in Barbados is a relatively simple process. On balance, the number of procedures, time and cost involved compare favourably with other regional and international jurisdictions. In addition, the issue of the notarisaton procedure raised in connection with the Barbados/Jamaica

comparison holds equally for the cross-country comparison. This means that the comparison might be underestimating the relative business-friendliness of the Barbadian regime. If this step were omitted from Barbados' data, the number of steps involved in registration would be 6 rather than 7, the number of days required would be 34, not 36, and the overall cost of registration would be just 4.6% of GNI instead of 14.2%. This would place Barbados much higher up in the international rankings.

Still, there remains considerable scope for improvement if Barbados is to catch up to the best performers. Also, the World Bank survey does not capture a number of the areas where the worst bottlenecks tend to occur. The survey for Barbados did attempt to consider these areas and consequently was able to detect a number of issues requiring remedial action. Given these findings, the authors recommend a number of actions to ease the present constraints on entrepreneurial initiative in Barbados.

Firstly, Government must find ways of simplifying the process of obtaining small business status. Mention has already been made of the importance of this step in accessing various incentive schemes and the fact is that this step has proved so onerous as to become a serious obstacle to would-be entrepreneurs. Secondly, the comparison of Barbados and Jamaica served to emphasise the relative inefficiency of the Barbadian VAT registration system. This system needs to be re-examined and completely overhauled. Thirdly, the Town and Country Planning department can often throw a spanner in the works for entrepreneurs seeking to establish business premises and therefore needs to be reorganised. And as a final example, the fact that businesses wishing to acquire some licences (for example liquor licences) have to wait until the monthly meeting of a board can often constitute a serious setback.

In general, many of the inefficiencies in the system arise due to the need for coordination between various Government departments. It is therefore imperative that policymakers do more than pay lip service to the concept of the one-stop shop. The benchmarking aspect of this paper should be quite useful in this respect. After all, the rationale behind any such exercise is the identification of best practice and the

application of the procedures and processes that have led to it. Coming out of the present study, it was concluded that Australia and Canada are the countries applying best practice. From the data it was determined that the common feature of their entry regulation systems was the effective use of information technology to facilitate information sharing, rationalise resources and speed up processes. The Government of Barbados would do well to emulate their example, harnessing the available technology to improve the efficiency of entry regulation.

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Appendix

Company Registration

- 1 Have articles of incorporation, notice of directors, notice of address and statutory declaration by attorney regarding the directors prepared for submission to CAIPO.
 - 2 Check the uniqueness of the company name and obtain a company registration form.
 - 3 File articles of incorporation, notice of directors, notice of address and statutory declaration by a attorney regarding the directors with corporate affairs.
 - 4 Consent of resident attorney to act as a director.
 - 5 Consent of the Supervisor of Insurance.
 - 6 Consent of the Central Bank of Barbados.
 - 7 Consent of the Minister.
- ### ***Core Formalities***
- 8 Obtain business plan
 - 9 Obtain feasibility study
 - 10 Obtain business finance
 - 11 Register with the National Insurance Department
 - 12 Register with the Inland Revenue Department
 - 13 Register with the Value Added Tax Department
 - 14 Make a company seal.
 - 15 Town and Country Planning
- ### ***Particular Formalities***
- 16 Obtain a liquor license (if selling liquor)
 - 18 Obtain a permit from the Child Care Board (if entering the child care business)
 - 19 Register with the Barbados Association of Medical Practitioners (if one is setting up in the medical profession).
 - 20 Register with the Ministry of International Transport (if one is opening a travel agency).
 - 21 If import licenses are required.
 - 22 If duty free concessions are available
 - 23 Register with the Computer department of Customs and receive an Import Number
 - 24 If you are a manufacturer, register with the approved undertaking division of Customs if you will duty concessions, and with the Consumption tax Division to pay consumption tax.

- 25 Register with the Certification Department of the Export Promotion Division of the Barbados Investment and Development Corporation to facilitate duty free entry of your products into USA, Canada, Venezuela, Columbia and CARICOM member countries
- 26 If you propose to start a food processing business, restaurant or bar, childcare operation or nursing home, obtain a doctor's certificate from a medical practitioner.
- 27 Fill out the relevant application form for an operating license from the Ministry of Health.
- 28 Is there a requirement to notify the Ministry of Labour to start operations and hiring employees?
- 29 Obtaining Small Business Status
- 30 If registering as an external company