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ECONOMIC REFORM AND ENTREPRENEURSHIP IN BARBADOS

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Abstract

In the last few years, Barbados has been able to maintain a sustainable economic situation under trying times in the world economy. This institutional research investigates whether a framework conducive to enhancing entrepreneurial behavior will cause entrepreneurship. It looks at the economic reforms undertaken between 1990 and 2010 to see how they have proven to be effective in the achievement of a stable economic system that stimulates entrepreneurial development. Interviews were conducted with ten key Government officers to ascertain what took place in past two decades. It was noted that before the reform much of the business environment was agro based, however the reform has opened up the economy for entrepreneurial ventures and foreign capital. The research has shown that economic policies are needed and there are many issues to solve along the way.

Keywords: Entrepreneurship, Economy, Reform, Barbados

1. Introduction

The history of the Barbados economic reform is tied to the social and political platform of the country and the focus of this research is trying to unravel economic reform and link it to entrepreneurship progress. Barbados is the wealthiest and most developed country of the Eastern Caribbean countries and enjoys one of the highest per capita incomes in the Caribbean and Latin America. Historically, the Barbadian economy was dependent on sugarcane cultivation and related activities. However, in recent years the economy has diversified into light industry and tourism with about four-fifths of GDP and of exports being attributed to services. Offshore finance and information services are important foreign exchange earners and thrive from having the same time zone as eastern US financial centers and a relatively highly educated workforce. As cited by the CARICOM Secretariat¹, Barbados' tourism, financial services, and construction industries have been hard hit since the onset of the global economic crisis in 2008, which caused the economy to contract 4% in 2009 and grow below 1% annually since 2010. Barbados' public debt-to-GDP ratio rose to from 56% in 2008 to 83% in 2012. The paper is divided into three parts: the Barbados economic reform, Barbados entrepreneurs and problems in the Barbados economy.

¹ Please see www.caricom.org

2. Literature Review

2.1. Traditional Approach to Economic Development

Over the past two decades, economic development has become an increasingly interesting field of research. Much of the research stems around the global macroeconomic issues such as the determinants of economic growth, what they are and how they are measured, and also the microeconomic theories and how developing economies have responded to such theories.

Much of the economic development theories and models seek to explain and predict how: economies develop or diminish over time periods, barriers to growth can be identified, what causes them and how they can be overcome and finally how Government can stimulate, sustain or accelerate growth with the development of policies. Sentongo-Kabuka (1991) in his writings summarizes the traditional economic development as:

- the achievement of economic “development” concentrated on the maximization of national economic growth, economic growth viewing the growth rate of Gross National Product (GNP) as the critical indicator;
- the achievement of Western living standards and levels of industrialization through the transfer of labor from the agricultural sector to the industrial of the economy; and
- the integration and interdependence of the Third World nation into the global marketplace.
- Satisfaction of Sentongo-Kabuka's underlying principle suggests that development requires substantial investment in capital equipment to foster growth. In countries like Barbados, however this is capital that is not readily available or accessible. This means that to foster growth in places like Barbados the right conditions for such investment would have to be created.

Rostow (1967) in his earlier writings coincide with Sentongo-Kabuka (1991) when he highlighted his typology reflecting five stages of economic development through which a country passes where the society moves from relying heavily on agriculture, utilizing poorly developed production methods and techniques to a high mass consumption characterized by a shift to production of durable consumer goods and services. He further went on to state that the history of developed countries suggests a common pattern of structural change. This system is very in-keeping with the stages of economic development that Barbados has passed through. However, Rostow's research is based on Western countries and leaves gaps in the research for SIDS and regions with varying cultures. Noticeably, Barbados cannot be said to have gone through all the stages. The stage of high mass production was skipped as much of the major industrial development in the Region was taken on by neighboring Trinidad and Tobago due to their low energy cost and wages bill.

The dependency theory is one that also fits this research. As Barbados is a small developing nation, its balance of payments highlights its dependency on external nations. The dependency theory argues that in some countries there is an over reliance on another nation. The dependency theory uses political and economic theories to enlighten how the process of international trade and domestic development makes some Lesser Developed Countries (LDC) more economically dependent on developed countries. The model further illustrates how powerful developed nations dominate powerless LDCs. Osvaldo (1969) defined dependency as an explanation of the economic development of a state in terms of the external influences (such as political, economic, and cultural) on national development policies. While Dos Santos (1971) emphasizes the historical dimension of the dependency relationships in his definition which reflects that dependency is a historical condition which shapes a certain structure of the world economy such that it favors some countries to the detriment of others and limits the development possibilities of the subordinate economics...a situation in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected.

Based on the traditional approaches to economic development identified, much of the observation for this paper takes into account the following:

- the role of economic distribution among the various stake holders (public, private and NGOs)
- the varying types of investment financing: domestic vs. foreign financing, public vs private borrowing
- the orientation of output: domestic consumption, import substitution, export promotion
- the pricing policy: government regulation vs. market mechanisms (policy towards FDI)
- monitoring and control over strategic economic levers: banking, insurance, telecommunications, transport, utilities etc.

2.2. Economic Development and Entrepreneurship

Entrepreneurship is a multi-faceted social dynamic operating under economic constraints. When conducting explanatory research on entrepreneurship four broad themes of inquiry can be identified: (1) entrepreneurship, growth and development; (2) the entrepreneurial personality and psychology; (3) the entrepreneurial circumstances; and (4) the entrepreneurial process (Bjerke, 2000). Consequently, institutional context directs entrepreneurial alertness to the identification of opportunities and highlights that entrepreneurs are alert to gaps and profit prospects in society.

Therefore, economic growth and progress require that entrepreneurial alertness is directed toward activities which unlock positive sum gains (Boettke *et al.* 2003). Rauch and Evans (2000) argue that the quality of state institutions in the process of economic development is an increasing focal point of research. This inference is particularly relevant in the context national analysis. It is also noted that economic competition is driven by the search for profits, which can take two forms: (1) innovative entrepreneurship and, (2) systematic exploitation of existing opportunities. The combination of these two forms of economic competition results in dynamic competition according to Fusari (1996).

3. Methodology

The investigation looked at country specific economic indicators from Barbados. Interviews were conducted with ten key Government officers from various Ministries so as to ascertain the economic reform measures undertaken during this period of review. These interviews served to study the private and public sector relative importance and issues related to an economic reform policy. Additional statistical data was sourced to gain insight into Gross Domestic Product per Capita and Gross National Product per capita in Barbados.

Based on current research it is hypothesized that institutional framework conducive to entrepreneurial behavior will cause entrepreneurship. In addition, economic development would cause high rates of entrepreneurship. Therefore:

- a) Research Question (1) states that if a growth in Gross Domestic Product occurred, higher rates of entrepreneurship should coincide;
- b) Research Question (2) states that higher the Gross National Incomes will generate higher rates of entrepreneurship for the country.

4. Findings/Analysis

4.1. The Barbados Economic Reform

The economy of Barbados has been mainly dependent on sugarcane cultivation before 1970s. In the 1980s there was some diversification into manufacturing and tourism and now in recent times, much of the diversification stems around tourism and the offshore sector. In an effort to

ramp up the contribution of entrepreneurship and the offshore sector, many of the major deficiencies were identified and put under review. Some of these deficiencies included:

- 1) Duplication of resources geared towards business development. This was observed based on the fragmentation and centralization of services offered. Due to the inadequate communication structures, many delays were anticipated in decision making.
- 2) Lack of transparency and accountability was prevalent within Ministries. Due to the fact that there was only strategic planning and no tactical planning and line budgeting. This led to much of the generalization and emphasis on interpretation by senior officers.
- 3) Reactive decision making and policy development which led to a lag in taking advantage of opportunities identified.
- 4) Overly cautious in the following of procedures and regulations as such, much emphasis was placed on adherence and conformance. This created a challenge with productivity improvement and overall continuous improvement within the overall management of the sector.
- 5) In addition to these four deficiencies, a number of other issues existed in the 1980s. These included:
 1. Fiscal deficits that were getting increasingly worst
 2. Debt burdens and high interest rates
 3. Unfavorable trade conditions created through globalization and new trading blocks
 4. Global economic liberalization

However, despite these insurmountable challenges, in recent years, Barbados has been able to stabilize its economic development as new policies are introduced that facilitate an enabling environment for entrepreneurial development.

4.2. Entrepreneurship before the Economic Reform

Before the economic reform much of the entrepreneurship stemmed from the agricultural sector and was based on white plantation owners and their role in sugar cane production. The formulation of the many businesses then came forth from moneys earned in the sugar industry and therefore a limited number of Barbadians were able to set up entrepreneurial ventures even if they identified a suitable opportunity. Much of the entrepreneurship among the masses was then basic mom and pop operations in retail type stores operating from within the environs of the household. It should also be noted that the heads of the major entrepreneurial enterprises were not efficient entrepreneurs and following a gradual and continuous shift from an agro economy unprecedented changes in ownership in enterprises were carried out. Subsequent to the economic reform, the emerging entrepreneurs have been able to come from all classes and have been able to pursue the many industries.

4.3. Results from Assessing the Reform

In general, the Barbados economic reform has slowed down the declining rate of economic growth between 2004 and 2009 and has stimulated slight growth from 2010 to 2012 as shown in Figure 1 below.

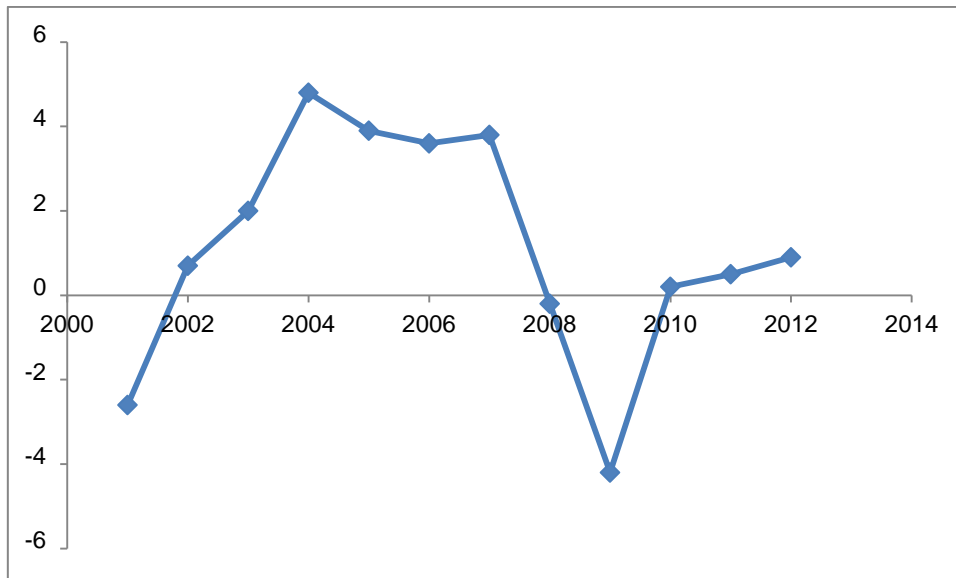


Figure 1. Real GDP growth percentage

Source: World Development Indicators, www.data.worldbank.org/data-catalog/world-development-indicators

The reform was basically focused on stimulating economic growth through creating an enabling environment for entrepreneurship, business development, and micro financing; while streamlining government policies and protocols to match international standards.

Pounder (2012) highlights a list of the major established government policies that constitute the Economic reform as it relates to Entrepreneurship.

- a) Establishment in 2001 by the BIDC of a Special Technical Assistance Programme (STAP) for small and medium-sized businesses;
- b) Subvention to support the Barbados Youth Business Trust
- c) Establishment of the Barbados Investment Fund which offers equity financing for small- and medium-sized enterprises providing funds for capital works and working capital
- d) Establishment by the Government in 2003 of an Innovation Fund;
- e) Establishment by the Government in 2008 of a National Microenterprise Programme
- f) Waiver of Duties and Taxes on inputs (1994) which facilitated the reduction of the cost of doing business
- g) Export Allowance based on rebates for exporters that will help facilitate expanding accessible markets by reducing costs of exporting
- h) Introduction of the Export Credit Insurance Scheme which offers coverage against non-payment by foreign buyers and reducing the risk of doing business internationally
- i) Introduction of the Enhanced Credit Guarantee Scheme which enables the provision of credit facilities to exporters and expands accessible market opportunities by reducing costs of exporting
- j) Export Finance Guarantee Scheme was set up and geared towards easing the process of accessing finance for exporting
- k) Introduction of a productivity and innovation tax credit to qualifying businesses that incur expenditure on (1) process innovation that results in the development of a new manufacturing process or improved products and services; (2) organizational innovation that establishes a new venture for improved productivity; or (3) service innovation that results in the development of new services for local or international markets. The credit will allow for 25% of qualifying expenditure to be deducted by the taxpayer in the year the expenditure was incurred. The tax credit can be carried forward for three years if it cannot be utilized in the year the expenditure is incurred;

- l) Introduction of a Market Research and Development Allowance which allows manufacturing and tourism industries to be granted an allowance equivalent to 150% of certain expenditure incurred to develop markets outside of CARICOM.

From 2000 to 2005 to 2010 respectively the GDP per capita (US\$) in Barbados went from 10,890 to 13,622 to 14,497. The composition by sector is estimated to be 3.1% agriculture, 13.6% industry and 83.3% services. From revenue generation perspective, as growth recovers tax collections are expected to recover. On the expenditure side, control over the magnitude of petroleum is clearly the most important element in keeping expenditures within the overall budget limits. Growth and more particularly entrepreneurial and business development growth have been slow over the past five years. However it is viewed that economic reform of policy and administrative actions as identified in Pounder (2012) can help to overcome obstacles in the speedy recovery of the business sector. This is supported by the road map showcased by the government for fiscal consolidation and the determination to contain the fiscal deficit. The government of Barbados has come to the realization that opening up to the outside remains essential to Barbados' development. It is believed that in general, the Barbados economic reform has support entrepreneurial development. The extent of the support is however shy of what was expected.

As shown in figure 2, from 2001 to 2007 there is a steady growth rate for the GNI per capita in Barbados. 2008 shows a dip in the figures while 2009 shows a spike. However, another dip is shown in 2010 and slight recovery shown in 2011.

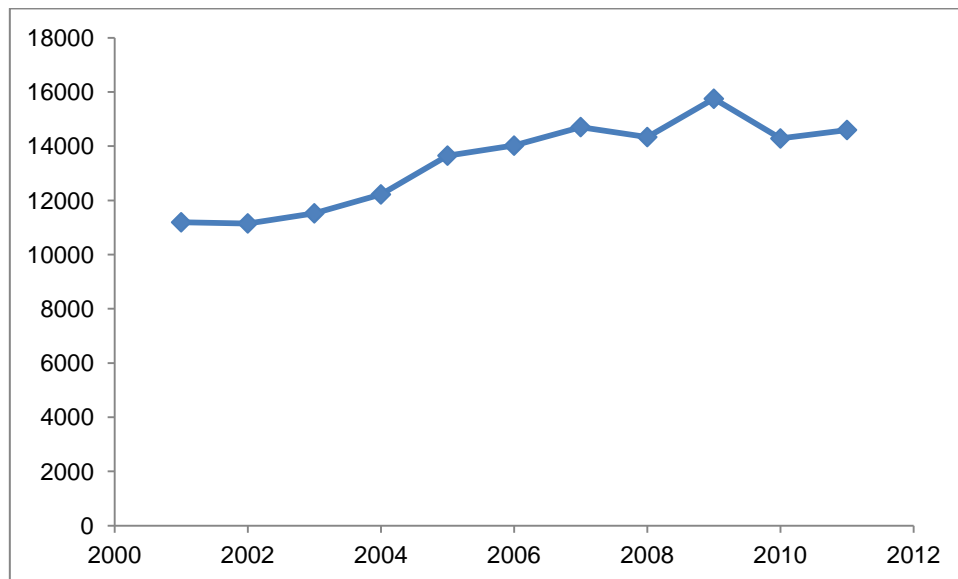


Figure 2. Gross national income US\$

Source: World Development Indicators, www.data.worldbank.org/data-catalog/world-development-indicators

As shown in Figure 2, the economic reform highlighted by Pounder (2012) has shown that the Barbadian political administrators having recognized that the global economy was changing and as such made a conscious decision to undergo rigid but prudent management practices for the betterment of the economy. The prudent Government quite rightly understood that there was an impending shift away from the sugar production. In collaboration with the economic reform is a set of educational and social reform factors that have also complimented the economic reform.

4.4. Constraints Identified in the Barbados Economy and Potential Solutions

Access to the market and development of local and regional markets has been identified as a priority area. The importance of market access in shaping global and regional patterns of economic development has not gone unnoticed by entrepreneurs and policy decision makers. The better this market access is, the higher a country's level of income, therefore there is a need for stronger pushes in the area of export promotion within the CARICOM trading block.

Access by the local entrepreneurs in the economy to international markets has been challenging to say the least. There is a need for a reduction of custom fees and tariffs, of non tariff trade barriers, stimulating exports, diversification of new markets and rehabilitation of public administration.

The archaic way of communicating has hindered progress in business development and leading the society into the information age by modernizing the public information systems would go a long way in improving competitiveness of the entrepreneurs. A modern information system would give rise to an environment characterized by demands for timely delivery of information and services, and a requirement for ready access. It is envisioned that such a system would enable entrepreneurs to actually conduct transactions for those services such as paying tax or claiming and receiving benefits.

5. Conclusions and Limitations

The case of Barbados shows that economic development causes entrepreneurship, and entrepreneurship causes economic growth as highlighted by the GDP and GNP graphs shown in this research which is based on the economic reforms set out by the government of Barbados. There is enough visual evidence and support from GDP and GNP figures to show that research question (1) and research question (2) are proven to be positive as they relate to showing higher rates of entrepreneurship in Barbados which stem from Economic reform.

This research identifies a small fragment of the mechanisms of entrepreneurship, and provides basic observed support for the causal relationship between economic development and entrepreneurship at the national level. Moreover, this study serves as a starting point to further assess the institutional framework on economic growth, and consequently entrepreneurship. Richer measures for institutional framework are the key obstacle faced by future research. Moreover, there are various measures for economic development. Utilizing a different measure of economic development may yield different results. Consequently, a different method of generalization is crucial to find further support for conclusions brought forth by this research.

The research also shows that market access is indeed an important determinant of Barbados' economic development. The GDP and GNP per capita results do show that the importance of market access has increased slightly over the last decade. The research also reflects the positive impact of economic policy improvements on Barbados' overall market access, and the subsequent contribution to overall economic development levels. Overall, the research lends support to the view that current efforts to improve market access by investing in import and export initiatives have its benefits.

It is also noted that policy conducive to entrepreneurship must promote economic development first to be successful. As assessed by the literature, social and institutional frameworks are key in the development and sustainability of the entrepreneurial sector. The impact of social and legal reform is also relevant for additional generalizability.

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