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INFORMALITY AND ECONOMIC UNITS IN THE CARIBBEAN

Informality and economic units in the Caribbean

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Foreword

Informality in the Caribbean region is a pervasive and deeply rooted phenomenon. Whether taking the form of employment in the informal sector or informal employment in the formal sector, the informal economy represents a substantial share of the economic activity in a number of countries. It reflects, most often, the hardship and impossibility of workers attaining decent working conditions and of economic units growing and fully harnessing their development potential.

In line with the 2015 International Labour Conference Recommendation No. 204 "Concerning the transition from the informal to the formal economy" and the call for evidence-based policy-making, the ILO Office for the Caribbean commissioned four country studies (Barbados, Guyana, Jamaica and Saint Lucia), during the third quarter of 2016 to deepen the understanding of the features of informal economic units, how they are regulated, and the degree to which compliance with existing regulation is warranted. The present summary overview allows for the examination of such dimensions highlighting similarities and differences across countries and proposes some key policy options for consideration.

There are many offices and individuals whose efforts have made this work possible that I would like to acknowledge. Michael Witter authored the Jamaica and Barbados studies, as well as the sub-regional overview. Akilah Procope, Aurelia Bruce, Deborah Barrow and Syan Bhagwatsingh authored the Saint Lucia Study. Shameza David, Kevin Fogenay, Chevy Devonish, and Sydney Armstrong authored the Guyana study. Diego Rei provided key inputs and research supervision for national and sub-regional studies. The Decent Work Team of Port of Spain, Florence Bonnet, Juan Chacaltana, Claudia Ruiz, Judith Van Doorn and Peter Wickham provided most useful comments and information throughout the process, as well as Gennike Mayers who provided editing review. Finally, I would like to thank the informants across the four countries who agreed to attend interviews and focus groups and contributed to the depth of the study.

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Glossary

CARICOM- Caribbean Community

ECLAC- Economic Commission for Latin America and the Caribbean

GDP – Gross Domestic Product

ILO – International Labour Organization

IMF – International Monetary Fund

MIMIC - Multiple Indicator-Multiple Cause

MLSS – Ministry of Labour and Social Security (Jamaica)

NIS – National Insurance Scheme (Saint Lucia)

OECS – Organization of Eastern Caribbean States

UN- United Nations

UNDP – United Nations Development Programme

I: Introduction and background

Facilitating the transition of micro and small enterprises - which are the main generators of employment in Caribbean - from informality to formality, is a key strategy for reducing informal employment in the Caribbean. Such a goal is fully aligned with the ILO's Recommendation No. 204 concerning the "Transition from the Informal to the Formal Economy" which the ILO member States adopted during the 104th Session of the International Labour Conference in June 2015.

This Study seeks to synthesize four national studies on Barbados, Guyana, Jamaica and Saint Lucia to determine the reasons for economic units to function informally and the frequency of informal economic units[1]. It is intended to draw some general conclusions about the prevalence and forms of informal economic units in the wider Caribbean region, so as to design a regional strategy for formalization that is sufficiently customized to be relevant to the individual countries.

The four studies were guided by a common terms of reference that revolved around three questions:

1. What is the current regulatory framework for economic units and could it lead to decent work deficits?
2. What are the common features of economic units not complying with regulation(s) or not covered by those and how many are there?
3. Why economic units choose not to/are not in the position to comply with regulation(s), even if the regulations are legally required?

All of the studies relied essentially on secondary data, and the data constraint varied across the selected countries. At the same time, in all the countries, interviews and focus groups were conducted with a mixture of informal operators as well as government and private sector informants with knowledge of informal operators.

The four countries studied reflect the geographical spread of the region, the shared historical experience, but also differences in the sizes of the territories, natural resource endowment, population, and economies. All of them are burdened by high or growing national debt, and share the common high degree of dependence on the global economy.

The present paper collates the findings of the national studies, and seeks to extrapolate the general features of informal economic units in the region. It is structured as follows:

- The first section presents an overview of the characteristics of the region as well as country specific ones relevant to understanding the informality phenomenon.
- The second presents estimates of the number and extent of informal economic units.

[1] The focus of the study is on informal economic units, defined as (a) units that employ hired labour; (b) units that are owned by individuals working on their own account, either alone or with the help of contributing family workers; and (c) cooperatives and social and solidarity economy units which carry out economic activities that are -- in law or in practice -- not covered or insufficiently covered by formal arrangements. Notwithstanding the above, when needed, reference to the job-based concept of informal employment, i.e. jobs which are, because of the nature of the employment relationship or of the nature of the enterprise -- in law or in practice -- not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefit, is made.

- The third provides an overview of the legal framework in place in the different countries.
- The fourth analyses the issue of compliance with legislation and barriers or enabling factors existing in each country.
- The fifth provides some policy implications and suggestions to facilitate the transition of informal economic units to the formal economy.
- The sixth concludes the paper.

II: Regional characteristics and individual traits

The four Caribbean countries studied – Barbados, Guyana, Jamaica and Saint Lucia share a common historical experience as British colonies exporting sugar and other primary agricultural commodities using un-free (slave and indentured) labour. In more recent times, Guyana has also engaged in the export of crude materials, and the other three countries have transitioned to tourism-led economies. All four economies are now predominantly service economies, highly integrated in the global economy with the service sectors accounting for 65.9 per cent of GDP in Guyana to 82.9 per cent in Saint Lucia. All are also highly indebted economies, with Jamaica incurring the highest national debt of 125 per cent of GDP. For historical reasons, their legal traditions and labour relations, and particularly their labour laws, are very similar.

There are of course significant differences that qualify the impact of historical experiences on the labour market. The relative land abundance of both Guyana and Jamaica have facilitated the growth of a large small-farmer class, and hence, a significant agricultural sub-sector of small-scale, and particularly, subsistence production. Saint Lucia is still adjusting to the loss of preferential access for its bananas to export markets, and is in the early stages in the transition to a tourism-led economy. Barbados is relatively land-scarce, and transitioned out of dependence on sugar exports into a tourism-driven economy several decades ago. While all are highly indebted economies, Jamaica has borne high adjustment costs in its debt management strategies, which has impacted employment and earnings both directly and indirectly for the past three decades.

All four countries studied are members of CARICOM and span the geography of the region, from Jamaica in the north-west to Barbados and Saint Lucia in the east, and Guyana in the extreme south-east. Guyana lies on the South American continent, while the other three are island states.

In 2015, Barbados ranked highest on the UNDP's Human Development Index at 57, followed by Saint Lucia at 89, Jamaica at 99, and Guyana at 124. This was the same order of ranking of the national income per capita for the four economies.

Jamaica has the largest English-speaking population in CARICOM and has the most differentiated economy of the four. The Jamaican study, while able to access the most data on the economy and society, is still insufficient to fully comprehend and analyse the phenomena of informal economic units. At the same time, it is arguable that the Barbadian State has a relatively greater reach over its population than the other countries, partly due to its tradition of governance, its culture and the flat, relatively contained geography. The previous feature stands in contrast to the huge land mass of Guyana with the population concentrated on a tiny coastal strip, and the mountainous interiors of Jamaica and Saint Lucia. The reach of the Guyanese State into the interior where two of its most important export industries of mining and forestry are done, is quite limited.

This Study focuses on three issues:

1. the size and/ or number of informal economic units;
2. the extent to which economic units and their workers are covered by the legal framework and its requirements; and
3. the extent to which economic units do comply with the respective laws governing business enterprises, including the tax regime, the labour code, or social security schemes. Reference to informal employment indicates the broader context of informality in the economy.

III: Estimates of informal economic units

There are few estimates of the sizes of the informal economies and the number of informal economic units in the Caribbean countries which are the object of this Study. While all of the available figures are limited, they allow - at least by triangulating the results - to have a relatively solid idea of the scale of the phenomena. **Table III.1** shows indicators of informality for the four countries. The Peters and the Vuletin estimates of the size of the informal economy allow for some comparison among the economies because they use the common methods, respectively the Macro Electric and the Currency Demand Approach[2] and the MIMIC multiple indicator-multiple causes (MIMIC) method[3]. The ECLAC estimate for Saint Lucia was based on the 1-2 survey methodology[4] and allows for the estimation of the contribution of Informal Sector Enterprises contribute to GDP. As it can be noted, ECLAC's estimate for Saint Lucia is much lower than Vuletin's which compares better with the estimates for the other countries in the Study.[5]

For the four countries, Vuletin's estimates of the informal economy as a percentage of GDP are ranges of estimates generated by three models, with only the estimate for Jamaica (35 per cent) being the same for all three models. At the high end is Guyana with 57.3 per cent, followed by Saint Lucia with 52 per cent and at the low end is Barbados with 24.3 per cent.

Peters' paper allows for comparison amongst three of the four countries object of this study and across two different methodologies. The latter, however, do not provide consistent results between them as the estimates based on currency demand indicate a substantially smaller size of the informal economy for both Barbados and Guyana than what other studies suggest. At the same time, the estimates based on electricity consumption appear more consistent with the ones from other studies. Specifically, the macro electric estimates show relatively similar higher bounds for the estimates of the informal economy as a percentage of GDP in Barbados (between 32.7 and 45.7 per cent of the GDP in 2012), Guyana (between 31.7 and 41 per cent of GDP in 2013) and Jamaica (between 34.2 and 42.6 per cent in 2012)[6]. Conversely, the estimates based on the currency demand method gauge the relative size of the informal economy much smaller in two countries: 16.06 per cent of GDP in Barbados (2008) and 18.4 per cent in Guyana (2013). In Jamaica, the relative size is more consistent with that derived through other methodologies (40.31 per cent).

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2 A. Peters, 2017, p. 19-32

3 G.Vuletin, 2008, p.7.

4 Through the 1-2 methodology the Labour Force Questionnaire is used in stage one and then the HUEM questionnaire is administered once the respondent is identified as a household unincorporated enterprise operator based on a number of criteria to ascertain informality (in line with statistical standards). By construction no informal household unincorporated enterprise has ten workers or above. ECLAC, 2010, p.6.

5 The difference can be explained by the fact that the two estimates do not refer to the same concept. Vuletin attempted to mesure the informal economy defined as "--- comprise[ing] those economic activities that circumvent the costs and are excluded from the benefits and rights incorporated in the laws and administrative rules covering property relationships, commercial licensing, labor contracts, torts, financial credit and social systems."(2008:3) ECLAC was concerned with measuring the set of activities of the household unincorporated enterprises with some market production.

6 In all three countries, differences are due to the assumptions behind the estimate of the elasticity. In Jamaica, only the estimated elasticity is considered as Peters (p.23) deems it "likely more accurate."

Table III. 1: Measures of Informal Economic Units

	Estimate of economic informality, % of GDP	Own account workers as % of employed	Informal employment as % of total employment	Informal economic units	Formal businesses reporting competition with informal businesses, %	Formal businesses reporting competition with informal businesses, as major constraint, %
Barbados	38 in 2007 (Greenidge et al:) Between 24.3 and 36.6 in early 2000's (Vuletin, 2008) Between 16 and 45.7 (based, respectively, on currency demand and on electricity consumption, in 2013) (Peters (2017)	15.4[7]	5.5 (1998)[8]	7,408-9,821[9]	49.0 – World Bank 52.0 - PROTEqIN	11.9[10]
Guyana	Between 36.7 and 57.3 in early 2000's. Self employed with informal job: 67 or 89.4. Salaried workers with informal main job: 39. (Vuletin, 2008) Between 18.4 (currency demand) and between 31.7 and 41 (macro electric) in 2013 (Peters, 2017)	21.8[11]	48.3-52.6[12]	50,000-83,000	59.8 – World Bank 63.0 - PROTEqIN	29.0 World Bank[13]
Jamaica	35.0 in in early 2000's (Vuletin, 2008) Between 34.2 and 42.6 in 2012 (Peters 2017)	36.2[14]	49.8[15]	214,712-225,245[16]	66 – World Bank 76 - PROTEqIN	35.1 – World Bank[17] 55 - PROTEqIN[18]
Saint Lucia	41.5 and 52.0, in early 2000's (Vuletin 2008) 8.0 (ECLAC, 2010)	26	30.6[19]	n.a.	18.2 – World Bank 23.3 – LACES (2011)	15.1[20]

Calculation of informal employment for Guyana, Jamaica, and Saint Lucia follows the ILO definition, i.e. own-account workers and employers who have their own informal sector enterprise, contributing family workers, employees who have informal jobs, members of informal producers' cooperatives, and own-account workers engaged in the production of goods exclusively for final

7 Barbados Labour Market Information System, Government of Barbados- Ministry of Labour, 2017, https://labour.gov.bb [accessed 17 July 2017].

8 Greenidge et al (2007: 2201cited a survey conducted by the Barbados Statistical Services Department (BSSD) in 1998 that there were "6904 persons employed in the informal economy".

9 The estimate is based on the elaboration of figures on the total number of self-employed presented in Caribbean Development Bank (2012: 44) "Barbados Country Assessment of Living Conditions 2010 Volume 1: Human Development Challenges in a Global Crisis: Addressing Growth and Social Inclusion", http://www.caribank.org/uploads/2012/12/Barbados-CALC-Volume-1-MainReport-FINAL-Dec-2012.pdf and on the figures from the Census (2010) and the Ministry of Labour (2015) regarding the total number of own account workers and employers in the economy.

10 World Bank, 2010, Enterprise Survey Barbados, www.enterprisesurveys.org/data

11 ILO elaboration of Guyana Labour Force Survey, third quarter 2017).

12 The estimates are from ILO analysis of the Guyana labour force survey (third quarter of 2017). The 1st figure refers to the case considering self-employed workers in informal employment if they do not have a full set of written accounts. The 2nd figure considers the latter as a necessary condition for formal employment.

13 World Bank,2010, Enterprise Survey Guyana. (Based on 2010 World Bank Enterprise Survey).

14 STATIN, Labour Force Survey, 2015, Table 3.1, http://65.183.5.244:8090.

15 STATIN, Labour Force Survey, 2015, http://statinja.gov.jm/labourforce/newlfs.aspx.

16 Witter, 2016, Table II.4 (own calculation based on data from STATIN).

17 World Bank, 2010, Enterprise Survey Jamaica, www.enterprisesurveys.org/data

18 PROTEqIN, 2014, Productivity, Technology and Innovation in the Caribbean-Jamaica Survey.

19 ECLAC, 2010, Table 23, p.47. Note that the text below Table 23 refers to it, but says that informal employment is 27.3 per cent of the total.

20 David, 2016, p.3, Figure 3.7, p.11

use by their household.[21] It is also important to note that in Jamaica, there is a large small farmer sector within the agricultural sector, which accounted for 16.6 per cent of total employment and about 6 per cent of GDP in 2016. "Informal employment in the first sense (in the whole Jamaican economy),[22] and following the definition, is most prevalent in the "wholesale and retail trades, and repairs", which accounts for 35.5 per cent of informal employment, followed by "construction" with 16.3 per cent."[23] In Saint Lucia, available data from national surveys indicate that informal sector enterprises and related employment are particularly prevalent among small farmers, and in the service and craft occupations[24].

The last two columns of table III.1 summarize data on competition with informal enterprises extracted from the World Bank enterprise surveys and the IDB funded PROTEqIN surveys. Both sets of data suggest that Jamaican enterprises face competition from informal enterprises more frequently and that this competition is a major obstacle to them. At the other extreme, enterprises in Saint Lucia reported competition from informal enterprises with the lowest frequency, and only Barbados regarded competition from these enterprises as a major obstacle less frequently than Saint Lucia.

While based on a limited sample, the World Bank survey allows for some analysis of sectoral trends. In Barbados, while 49 per cent of the firms reported facing competition from informal operators and/or firms, "of the 64 (..) firms reporting this, 22.0 per cent were in the hotel and restaurants subsector, and 17 per cent in the food subsector (of manufacturing)."[25] This may suggest that these are the economic subsectors in which informality is prevalent in Barbados.

To be noted that, except for Barbados, agricultural economic activity accounts for a significant share of the informality of the economies. By extension, other Caribbean economies with large sectors of small farming are also likely to have pervasive economic informality. Apart from agriculture, informal enterprises are most prevalent in construction and in service industries, such as retail and wholesale trades, transportation, and tourism services. This pattern is also likely to appear in the rest of the Caribbean, which are also primarily service economies.

Taken together, the indicators suggest that enterprise informality is significant in all four countries, but is most pervasive in Guyana and Jamaica and probably least in Barbados. In addition to a high estimate for the size of the informal economy, Guyana leads in the share of informal employment in total employment, and in the perceived amount and significance of competition from informal operators faced by formal businesses.

Again, apart from Barbados, the economies had high rates of informal employment as shown in **Table III.1**, ranging from of 5.5 per cent for Barbados to 52.5 for Guyana.

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21 Tull, 2009, pp.2-3.

22 Working in a privately owned enterprise that hires less than 10 persons and does not pay NIS.

23 Witter, 2016, p.12.

24 An analysis of framework for the formalization of economic units in Saint Lucia, prepared for the ILO, November, 2016, p.10, citing ECLAC, *Measurement of the informal sector and informal employment in Saint Lucia.* Santiago: Central Statistics Office, 2010.

25 PROTEqIN equivalency table, https://mydata.iadb.org/Private-Firms-and-SME-Development/Productivity-Technology-Innovation-in-the-Caribbea/y3wf-hhn6/data

Perspectives on the reasons for informality

Perceptions

All the studies undertook interviews and convened targeted small focus groups of informal operators and bureaucrats with experience in dealing with informal operators. The perspectives of the participants about the main reasons for economic units to remain informal are synthesized in what follows.

The main reasons for the persistence of informal economic units revolve around (i) perceived costs that are outside the income earning abilities of the operators, (ii) lack of information about how to register the business, how to register for the social security schemes and taxes, and labour legislation requirements , and (iii) lack of knowledge about the benefits of formalization.

Table III.3 summarizes the reasons for informality in the countries studied.

Table III.3: Reasons for informality

Country	Reasons for informality
Barbados	1. Cost. Heavy perceived tax burden and perception of informality as a way of survival for the unemployed. 2. Lack of Information. Lack of information on the benefits of formalization
Guyana	Poor compliance with the social security scheme: 1. Cost. Do not perceive the benefits or consider rates too high and contribution too little or do not earn enough to contribute or have no time or consider themselves too old to start contributing. 2. Fleeting activity. Do not plan to be in the sector this long 3. Lack of knowledge Do not think it is compulsory or does not know how to register and start contributing 4. With regards to the compliance with fiscal obligations, the high rate of taxes and complicated, time-consuming tax code were cited as the main issue.
Jamaica	1. Lack of knowledge. Operators reckon that registration is not necessary for operations 2. Cost. Operators reckon that they cannot afford registration
Saint Lucia	1. Lack of Information. Non-compliance with social security because of lack of understanding of the benefits 2. Cost. Operators reckon that they cannot afford registration and they do not 3. need financing which can only be accessed by formalization. Also there is fear of political victimization for complaints under the labour code. 4. Weak enforcement capabilities of the State 5. Lack of knowledge. Lack of knowledge of what is necessary for formalization

Beyond the summary table presented above, it is interesting to highlight a few key findings regarding the operators of informal economic units. The Guyanese study emphasized the problem of informal operators' lack of understanding the business and other relevant regulations, because they found the language too difficult and the attitude of State representatives off-putting and even intimidating. As a result, operators did not know much about the benefits of formalization and perceived the costs as high. This interpretation of responses from operators resonates with the responses from Jamaican and Saint Lucian informal operators as well. This suggests that a proper and appropriate education programme, supported by adequate communication strategies tailored to the informal operators, could go a long way in encouraging them to register their operations, and especially to contribute to the respective social security schemes.

For Barbados, slightly different and more multi-faceted. Vuletin (2008) cited the tax burden as the main reason for the informal economic activities.[26] In a 2002 comparative study of informal employment and social security coverage in Barbados, Trinidad and Tobago and Venezuela,[27] the policy prescription for Barbados was to launch an "affiliation campaign" through several approaches to disseminate information. The implication was that there was insufficient knowledge of the benefits of the NIS scheme. There is also the view in Barbados that the informal economy is part of the social safety net, since it allows people who lose their jobs in the formal economy to generate income from small-scale livelihoods.[28]

Overall, one of the key findings seems to be that by way of a caveat, it is useful to distinguish those operators who have a vision of building a business and those who see their activity as a survival livelihood with no desire or capacity for growth. This latter group is not likely to respond to encouragement for formalization. However, the social cost of their post-working years is real, and ways have to be found to encourage them to invest in the social security scheme as a way to build a minimum pension for themselves.

Business and social environment

Table III.4 shows some indicators of the ease of doing business in the countries studied. Jamaica, at the rank of 67th in the world, was the easiest of the group, and Guyana was the hardest, with a rank of 124th. Basically, the group splits into two with Saint Lucia (86th) close to Jamaica and Barbados (117th) close to Guyana.

Table III.4: Comparative indicators – ease of doing business

	Doing Business (World Bank)	Starting Business (World Bank)	Total tax payments per year	Hours paying taxes per year	Tax rate on profit	Hours per payment
Barbados	117	101	28	237	34.7	8.5
Guyana	124	99	35	356	32.3	10.2
Jamaica	67	12	11	268	34.3	24.4
Saint Lucia	86	66	35	110	34.7	3.1
Average for Latin America and the Caribbean			28.9	342.6	46.3	11.9

Source: World Bank, Doing Business database, downloaded on March 8 2017, http://www.doingbusiness.org/Rankings

On the criterion of paying taxes, the time taken per tax payment in Jamaica was the highest by far – approximately 2.5 times that of Guyana, 3 times that of Barbados, 8 times that of Saint Lucia, and more than twice the average for Latin America and the Caribbean. Time taken per tax

26 Vuletin, 2008, p.14.

27 Samuel Freije and Patricia Monteferrante, Common problems of back door neighbors: Social security and informal employment in Barbados, Trinidad/Tobago and Venezuela: Executive summary, 2002, https://publications.iadb.org/bitstream/handle/11319/4408/Common%20Problems%20of%20Back%20Door%20Neighbors:%20Social%20Security%20and%20Informal%20Employment%20in%20Barbados,%20Trinidad/Tobago%20and%20Venezuela.pdf?sequence=2, p.6.

28 This view was articulated by the former Governor of the Central Bank of Barbados and reported in Rhonda Thompson, "People have to live" in the NationNews, January 19, 2011, http://www.nationnews.com/nationnews/news/19158/-people-live.

payment in the other three countries was less than the regional average. On the other hand, the average tax rates were about the same in all countries.

While the above data cannot be taken at face value[29], it is clear that the above ranking and associated procedures may represent a disincentive for micro and small businesses to formalize. The financial and opportunity cost of complying with the procedures could be huge and might disproportionately affect them. The reasons presented in **Table III.3** seem to confirm such a finding, even if the emphasis is put on different aspects. In the case of Barbados, Guyana and Saint Lucia, high tax rates which include social insurance contributions, are mentioned as one of the reasons deterring registration. In Jamaica, the high cost of registration is identified as a major obstacle for the transition to formality. It appears clear that facilitating conditions (not only to initially register, but also to maintain the registration) targeted at micro and small businesses could indeed help to foster compliance with business, tax, labour and social security regulations.

When analysing economic agents' decisions it could also be worthwhile to indirectly assess the potential incentive (or disincentive), which the country's governance performance could play. While **Section VI** describes some of the key measures currently in place potentially benefitting micro and small enterprises, a broader in-scope analysis would hinge on the average quality of the services, which economic agents could expect in exchange for compliance. **Table III. 5** below presents selected indicators taken from the World Bank Governance Indicators database.

Table III.5 Comparative indicators – Selected governance indicators, 2015.

	Government effectiveness Score (-2.5 to +2.5) and percentile Rank. Higher values correspond to better governance	Regulatory quality score Higher values correspond to better governance	Rule of law score Higher values correspond to better governance	Control of corruption score Higher values correspond to better governance
Barbados	1 (79)	0.51 (69)	1.05 (82)	1.79 (93)
Guyana	-0.34 (42)	-0.55(31)	-0.5 (36)	-0.77(23)
Jamaica	0.25 (63)	0.11(56)	-0.23 (48)	-0.33(48)
Saint Lucia	-0.08 (50)	0.28(63)	0.62(73)	0.45 (69)

Source: World Bank, Worldwide Governance Indicators database, downloaded on March 8 2017: http://info.worldbank.org/governance/wgi/#doc

The reasoning is as follows: to the extent that a government is able to provide better public services[30], better regulation[31], and a better legal environment[32], and is able to limit corruption, the incentive

[29] The World Bank Doing Business rankings are based on a typical firm having 60 workers. In all the countries considered, lower payments and (at times) simplified procedures do exist for smaller businesses. The data presented are nonetheless symptomatic of the potential bureaucratic burden existing in each country.

[30] Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures (..).

[31] Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development

[32] Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

to formalize should be greater and, at the same time, the enforcement of regulation should deter agents from remaining informal. Not surprisingly, there is a positive correlation between the scoring on governance indicators and the previously presented extent of the informal economy, with Barbados and Saint Lucia scoring better on both dimensions, and Jamaica and Guyana lagging behind. The analysis of the reasons to remain informal presented in **Table III.3** seems to partially confirm, with some nuances, the findings related to governance performance scores. In Guyana, ignorance of the benefits is claimed to be one of the reasons preventing formalization, while the actual extent or perhaps quality of the benefits may be questioned if one is to rely on the governance quality. In Saint Lucia, fear of victimization and weak enforcement capabilities of the State seem to match the low scores in terms of government effectiveness.

IV: Legal framework for business units

All the economies studied inherited their legal systems from England. Saint Lucia is somewhat of an exception since it also uses the French legal system based on the Napoleonic Code. The country studies focused on the legislation governing registration of business units, taxation, labour relations, national insurance and social protection performances related to the work status or employment relationship, and the frequency of compliance.

All of the countries had legislation requiring every business unit to register at least its name, every income earner to pay taxes and contribute to the social security scheme, and every business unit to comply with the labour laws. Very limited-if none at all- exceptions do exist. The central questions were whether any of these laws exempted any type of business unit, and if not, what was the degree of compliance with each and why. Ultimately, the research sought to discover why unregistered or unincorporated business units (informal enterprises) did not formalize their operations. By implication, the investigations should reveal motivations that could inform potentially successful approaches to these enterprises registering themselves and complying with the laws and regulations governing business units.

Registration of business

In Jamaica, traders in livestock, vendors in parochial markets and firms established for social welfare and charitable activities[33] are exempted from the requirement to register. Barbados has special legislation exempting charities and a Small Business Development Act, 1999-23, designed to facilitate the growth of small business,[34] but there are, in general, no exceptions for the registration of business names. In Barbados, Guyana and Jamaica, however, business names need not be registered for businesses carried on in the surnames of the partners, and a few other exceptions.[35] For emphasis, it is important to note that in no country an exception is made for small or microenterprises, in particular, on the basis of their size.

Table IV.1 shows the comparative costs of registering business names. In Jamaica, there is a small tri-annual renewal fee, and in Guyana there is an annual renewal fee.

Table IV.1 Business Name Registration Costs

	Cost of registering a business, US$
Barbados	US$390 of which US$15 for name search and reservation and US$375 for registration (incorporation).
Guyana	US$36 (minimum), of which US$5 for name search and reservation and 31 for registration fees and document certification (renewed annually at US$12).
Jamaica	US$25 of which US$5 for name search and reservation and US$20 for registration fees for sole traders (the smallest entity). The latter is to be paid every three years.
Saint Lucia	US$47 (for an individual).

Sources: Corporate Affairs and Intellectual Property Office Barbados; Companies Office of Jamaica; Ministry of Business Guyana; Government of Saint Lucia

33 Specifically, these are firms established for social or welfare purposes, public service, religion, charity, education, art, science etc. whose income and profits are used solely for that purpose.

34 "Small Business Development Act", 2006, https://www.investbarbados.org/docs/Small%20Business%20Development%20Act%20-%20Cap.%20318C.PDF

35 Business Names (Registration) Act, section 3, http://www.wipo.int/wipolex/en/text.jsp?file_id=228993, and Registration of Business Names Act (Cap. 317, consolidated as of 1989) Section 4.

Taxation

The two main forms of taxation are (personal or corporate) income taxes and sales taxes.[36] In all the countries studied, both have exceptions for special groups, and thresholds for liability. **Table IV.2** presents the summary thresholds for each country. In all cases, many micro and small businesses fall below the income and revenue thresholds, but remain liable for zero taxes.

Table IV.2: Comparative Tax Thresholds

	Sales Tax	Income Tax
Barbados	Required to register if turnover is greater than US$100,000 (2016)[38]	Personal Income Tax threshold is US$17,500 (2017)[39]
Guyana	Required to register for tax payment if turnover is greater than US$48,000 per annum (2017)[40]	Commercial companies have to pay 40% of Chargeable Profits or 2% of Turnover whichever is higher. Personal Income tax threshold is US$3,667 for salaried workers[41] (2017) and US$3,460 for self-employed[42]
Jamaica	Required to register if turnover is greater than US$23,000 (2017)[43]	Self-employed income tax threshold is US$6,176[44] (2017)
Saint Lucia	Required to register if turnover is greater than US$148,000 (2016)[45]	Personal Income Tax threshold (applicable to self-employed chargeable income) is US$6,665[46] (2017)

In Barbados, small businesses may be eligible to pay a concessionary rate of tax, if they are properly registered.

While thresholds may be useful to determine an indicative profit amount which may be seen by small businesses as an intuitive limit vis-a-vis the obligation to pay taxes and /or formalize, the literature on enabling business environments teaches us how a number of tax elements may play a detrimental role for compliance with tax obligation.

Chart IV.3 shows summary tax indicators for the countries considered.

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36 This is called the Value Added Tax (VAT) in Barbados, Guyana, and Saint Lucia, and the General Consumption Tax (GCT) in Jamaica.

37 "Barbados Revenue Authority, Vat Changes Now in Effect", 2015.

38 KPMG, Barbados Income Tax, 2016.

39 Guyana Revenue Authority, Value Added Tax (VAT) registration, (n.d.).

40 There is a deduction of $720.00 GYD allowed. See Income Tax Amendments, Guyana Revenue Authority, http://gra.gov.gy/publications/notices/576-income-tax-amendment-self-employed-persons.

41 Tax Administration Jamaica, General Consumption Tax, (n.d.), https://www.jamaicatax.gov.jm/general-consumption-tax-1/#who_is_required_to_register.

42 Tax Administration Jamaica, Self-Employed – Income Tax Threshold and Rates, (n.d.), https://www.jamaicatax.gov.jm/Self-employed/#Income Tax Payments.

43 Banks, A., "VAT Introduced In Saint Lucia, (n.d.), https://www.tax-news.com/news/VAT_Introduced_In_Saint_Lucia____57550.html.

44 Amendments to VAT Legislation, Saint Lucia VAT Implementation Unit, www.vat.gov.lc.

Table IV.3: Comparative Tax Indicators. 2017

Economy	Paying Taxes Distance to Frontier	Paying Taxes rank	Payments (number per year)	Time (hours per year)	Total tax rate (% of profit)	Postfiling index (0 being least efficient and 100 being most efficient)
Latin America & Caribbean	58.63	N/A	28.9	342.6	46.3	44
Barbados	72.7	85	28	237	34.7	73.6
Guyana	59.27	136	35	256	32.3	31
Jamaica	65.18	116	11	268	34.3	19.5
St Lucia	78.09	65	35	110	34.7	87.2

Source: World Bank Doing Business indicator Database, Download September 6 2017
http://www.doingbusiness.org/data/exploretopics/paying-taxes

As it can be seen, in the four countries studied, the hours spent paying taxes and the total tax rate were less than the regional average for Latin America and the Caribbean.

Two out of the four countries (Barbados and Saint Lucia) score well regarding the postfiling index, an indicator of efficiency in tax payments. Conversely, only Jamaica seems to enjoy a relatively simplified tax payment system in terms of number of payments (which however, do seem to take longer than in the rest of the LAC region). According to the summary indicator in Table IV.3 column one - distance to frontier- all the countries perform better than the LAC average. The inference that can be drawn from the mixed picture showed by the data seems to be:

1. the threshold for paying taxes is relatively low compared with national per capita income so that even relatively small businesses may be called upon to honour fiscal obligations and
2. the inefficiencies and time losses implied by paying taxes (which a formal economic unit may be required to do) may be a higher deterrent than the actual tax rate. Micro and small businesses may be particularly hindered by such time losses.

Social security schemes

In Saint Lucia, employers and employees are both required to register for the social security scheme. In particular, every business "where at least one person will be employed- either on a part-time or full-time basis then you must register with the National Insurance Office within seven days of starting."[45] Registration is optional for own account workers (no employees).

All persons engaged in productive activity, including self-employed, are required to register for the National Insurance Scheme (NIS)[46] in Barbados, Guyana and Jamaica. The contribution rates vary as shown in **Table IV. 4**. In all countries, arrangements are in place for voluntary contributions (payments to be made when not employed).

45 National Insurance Corporation, Employer Registration, http://stlucianic.org/about-us/frequently-asked-questions/employer-registration/.

46 Saint Lucia calls its social security scheme, the National Insurance Corporation (NIC). All the other countries in the study use the name National Insurance Scheme (NIS) for their social security schemes.

Table IV.4: Summary of Indicators of Social Security Requirements, Benefits and Compliance

	Social Security – registration is a legal requirement? Y/N	Main benefits provided	Contribution rate, % of monthly income	Compliance with Social Security Regulations
Barbados	Y	**Short Term:** Sickness Benefits, Maternity Grant/Benefit, Unemployment Benefit, Employment Injury, Funeral Grant, Severance **Long term:** Survivors' Grant/Pension, Non-contributory Old Age Pension, Contributory Old Age Pension/ Grant, Invalidity Grant/Benefit	For Self-employed: 13.5% For employees: Employer – 6.75% Employee – 6.75%	More than 80 % of employed workers contributing
Guyana	Y	Short Term: Sickness, maternity, sickness medical care Industrial Benefits: Injury, Injury medical care, death, disablement. Note that self-employed (intended as own account workers) cannot benefit from industrial benefits. Long term: Old age, funeral, invalidity, survivors', constant attendance	For Self-Employed: 12.5 For employees: Employer - 8.4 Employee - 5.6	Relatively low rate of contribution by the self-employed as well as delinquent large employers[48] NIS Annual Report 2013: 40% of self-employed (intended as own account workers) registered, but only 11.8% actively contributing
Jamaica	Y	**Short term:** Employment Injury Benefits **Long Term:** Retirement, Widows'/Widowers' Invalidity, Special Child, Orphan, Anniversary Pensioners, Funeral Grant; NI Gold Health Plan	For self employed pay 5% of annual income over JMD 20,800 (USD 161, 2017) and up to JMD 1,500,000 (USD 11,641, 2017) For employees: Employer - 2.5% Employee - 2.5%	40% of the employed labour force is covered; 19% have NIS only, and 21% have NIS and some other Pension Plan
Saint Lucia	Own account workers are not required, but "entitled"[50] to contribute	**Short Term:** Employment Injury (not for self employed), Maternity, Sickness plus Maternity and Funeral Grant **Long term:** Retirement Pension, Invalidity, and Survivors' benefits.	For self employed: About 10% (for mid point earning class) For employees: Employer - 5% Employee - 5%	65.1% of the [49] employed labour force is registered in 2016 but – reportedly- only 6% of the self employed

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47 The Guyanese study highlights how this situation is due to the weak capacity of NIS for enforcement and by the fact that benefits are generally perceived to be low, and contributions perceived to be high.

48 National Insurance Corporation Act, Section 12, p.82, http://stlucianic.org/download/get/nicact/90/.

49 This estimate was computed as the number of workers in Saint Lucia in the first quarter of 2016 with social security coverage in Table 34, as a percentage of the total employed labour force in Table 12. See Central Statistical Office, Saint Lucia: Quarterly Labour Force Survey Series Results, 2015-2016, Tables 12, 34, http://192.147.231.244:9090/stats/index.php/statistics/labour.

50 Coverage of Self-employed persons, National Insurance Corporation, http://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/---sro-port_of_spain/documents/presentation/wcms_547509.pdf.

The previous overview of the social security schemes highlights a number of facts:

1. There is virtually no de jure exclusion from social security. Self-employed workers could contribute. The issue arises for those who choose not to do so and for the employees of employers not contributing on their behalf.
2. There is a fair homogeneity in terms of number of benefits available across countries for contributors to the social security system, as well as in terms of relative size of the contributions. While the actual benefits to be received for each of those may be more or less favourable depending on the country, the studies highlight further elements which seem to contribute to reducing the appeal of the system. One is the lack of awareness of what the actual benefits are or could be. Contributing to the social security system may appear to be a concrete present sacrifice while the lack of knowledge about benefits or the remoteness/ uncertainty about future utility hinders the recognition of its advantages.

Labour legislation

With its history of labour union based political parties, it is not surprising that the CARICOM-Caribbean has an extensive portfolio of labour legislation covering all the aspects of a modern labour regime. Legislation protects the rights of workers to union representation; covers safety and health issues at the workplace; prohibits unfair dismissal; establishes minimum wages; prevents discrimination on any basis; provides for maternity leave; and institutionalizes dispute resolution. Some examples of the legislation that speaks to these issues are a selection of labour laws from Barbados and Jamaica in the **Appendix**. Some of the legislation needs to be updated to take account of the global changes in technology, employment practices, and the commitment to the ILO's Decent Work Agenda.

For the purposes of this study, the analysis of the legislative text shows that the laws cover all business establishments, and make no exception for enterprises of any size, in any sector, and of any legal status. However, compliance varies within each country according to a variety of factors, such as the sector (export vs. domestic, manufacture vs. retail, agriculture vs. finance), and the size of the business unit. The next section on compliance helps to shed some light on the main enabling or hindering elements.

V: Findings on compliance

Compliance with legal requirements regulating economic units and their workers is affected by a number of factors: quality of the norms; incentives; likelihood of penalty; and cultural, social and economic elements may all play a role in ensuring a higher or lower degree of compliance. To summarize the findings, the national studies indicate that Barbadian operators tended to be the most compliant with the legal requirements for operating a business. Not surprisingly this is paired with a relatively low size of the informal economy and best regulatory framework. At the same time, it appears that weak enforcement capacity is common to all four countries. Below selected elements of compliance are presented.

Registration

The Companies Office of Jamaica is mounting education programmes and providing mobile facilities in a campaign to register informal operators. The education programme addresses misconceptions about the costs and other challenges of registration, as well as the potential benefits that accrue to registered business units. In Barbados, informed opinion is that the rate of registration is less than moderate, and that micro-enterprises tend to be less compliant than small businesses.

Tax

Notwithstanding the caveats mentioned above regarding the "paying taxes" indicators of the Doing Business database, analysis shows that only Guyana ranks close to the Latin America and Caribbean Average for the Doing Business indicator on distance to frontier on (see Table IV.3 at page 15) "paying taxes". While the role of inefficiencies and time losses has been underscored above, it is interesting here to present indicators for Jamaica.

Table V.1 shows the percentages of each category of enterprise registered for each type of tax. It is easily seen that the rate of compliance is very low among micro-entrepreneurs, and lower than for small entrepreneurs for all types of tax. Similar results were hinted at by the focus group discussion in Barbados (which referred to the level of tax compliance among the micro, small and medium enterprises as being 'moderate').

Table V.1: Jamaica: Levels of Filing Tax Returns, % of taxpayers[51]

Taxpayers	Type of tax	2014/15	2013/14
Small	Company Income Tax	55	35
	Education Tax	38	43
	PAYE[52]	49	50
	Personal Income Tax	62	48
Micro	Company Income Tax	30	18
	Education Tax	6	10
	PAYE	13	14
	Personal Income Tax	25	19

Source: Tax Administration of Jamaica, "National Compliance Plan, 2015/16", Table 3, p.9

In terms of counteraction, it is worth noting that the Tax Administration Authority of Jamaica has prepared a national compliance plan, which includes building its technological capacity to monitor potential and registered taxpayers.

Social security

Compliance with the Social Security Scheme[52] was highest in Barbados (more than 80 per cent of employed workers) as **Table IV.3** shows, and lowest in Guyana and Jamaica. In all cases, the non-compliance was highest among the self-employed and in those sectors where there was a high presence of self-employment. The reasons for non-compliance as detailed in the Guyana report point to the fact that many self-employed persons are unaware of the benefits of the Guyanese NIS, or think that the contribution rates are too high, or simply do not know anything about the scheme. Further, in all countries, the capability of the State to enforce compliance is perceived to be weak.

Labour legislation

Budgetary indicators for Jamaica suggest that the capacity for enforcing compliance with labour legislation has been declining in recent years due to the reduction in budget and staff. The increased number of complaints swamped the capacity of the Ministry. The budget of the MLSS for compliance declined from 3.15 per cent of its recurrent budget in 2008/9 to 1.88 per cent in 2015/16.[53] As a consequence, the Ministry of Labour and Social Security (MLSS) is unable to monitor the operations of informal economic units. A telling example is that when the labour code was revised to allow individuals to bring disputes to the MLSS, in 2015, 72.4 per cent of the disputes were brought by non-unionized workers as individuals, whereas the labour unions (in principle present in formal units only) brought only 8.5 per cent.

The Ministry of Labour in Saint Lucia similarly is perceived by informants as not fully able to

51 PAYE is the acronym for "pay as you earn", or tax deductions from salaries and wages.

52 The Social Security scheme is called the National Insurance Scheme (NIS).

53 Witter, M. 2016, Table V.3, p.34.

monitor even the formal enterprises, and focuses on those enterprises that have high health risks. According to the national report prepared for this project the perception is that there is "poor implementation [of the Labour Code] and insufficient oversight by the relevant authorities."[54]

In Barbados, a focus group convened for this study believed that business operators' compliance with labour legislation was less than moderate, generally weaker for Labour law than Business Operations, and especially lower for microenterprises than small and medium enterprises.

54 Procope et. Al,2016, p.28.

VI: Challenges and opportunities for formalization

Targeting those interested in growth

A strategy for formalization should distinguish between those entrepreneurs who envisage, or at least would like to, grow their businesses and put them on sustainable bases, and those who see their operations as temporary, or are satisfied with subsistence livelihoods. It is the former group that will respond to education programmes and to the potential benefits of access to finance, access to wider markets, and greater profitability. Ultimately, interviews and/or statistical profiling will be necessary to identify potential members of this group. Some possible discriminant factors are the age, education levels of the entrepreneurs, participation in growing economic sectors, investment of personal assets, evidence of record keeping, and a record of training in business and technical areas relevant to their businesses. Conversely, as the mini-survey of informal enterprises in Jamaica revealed, several micro entrepreneurs are quite content with the level of their operations, either because they were earning sufficient to cover their needs, or they felt that they were too old to take on the challenges of formal businesses. Similar results emerged in Guyana and Saint Lucia and may be common among micro entrepreneurs in the Caribbean

The focus on the latter group should be on getting them to contribute to the social security schemes and other savings programmes that can generate an income after they have ceased working. The case of Jamaica is very striking. Only 19 per cent of employees contribute to the NIS, 8 per cent contribute to the NIS and a private pension scheme, and 13 per cent contribute to the NIS and a public pension scheme, for a total of 40 per cent of employees with some coverage to support them in retirement. Inevitably, the burden of maintenance for such persons will fall on their families and, directly and/or indirectly, on the State's social protection programmes.

Access to finance

The World Bank's Doing Business Survey for 2016 uses the indices in **Table VI.1** below to estimate access to credit. The higher the values of the indices, the more enabling the conditions to gain access to credit.[55] It is clear that Jamaica leads the group, with Guyana following, even if Barbados ranks higher than Guyana on the Legal Rights index.

Table VI.1: Indices of Getting Credit

	Strength of Legal Rights Index (0-12)	Depth of Credit Information Index (0-8)	Credit Registry Coverage (% of adults)	Credit Bureau Coverage (% of adults)
Barbados	7.0	0.0	0.0	0.0
Guyana	3.0	7.0	0.0	16.4
Jamaica	9.0	7.0	0.0	23.3
Saint Lucia	5.0	0.0	0.0	0.0

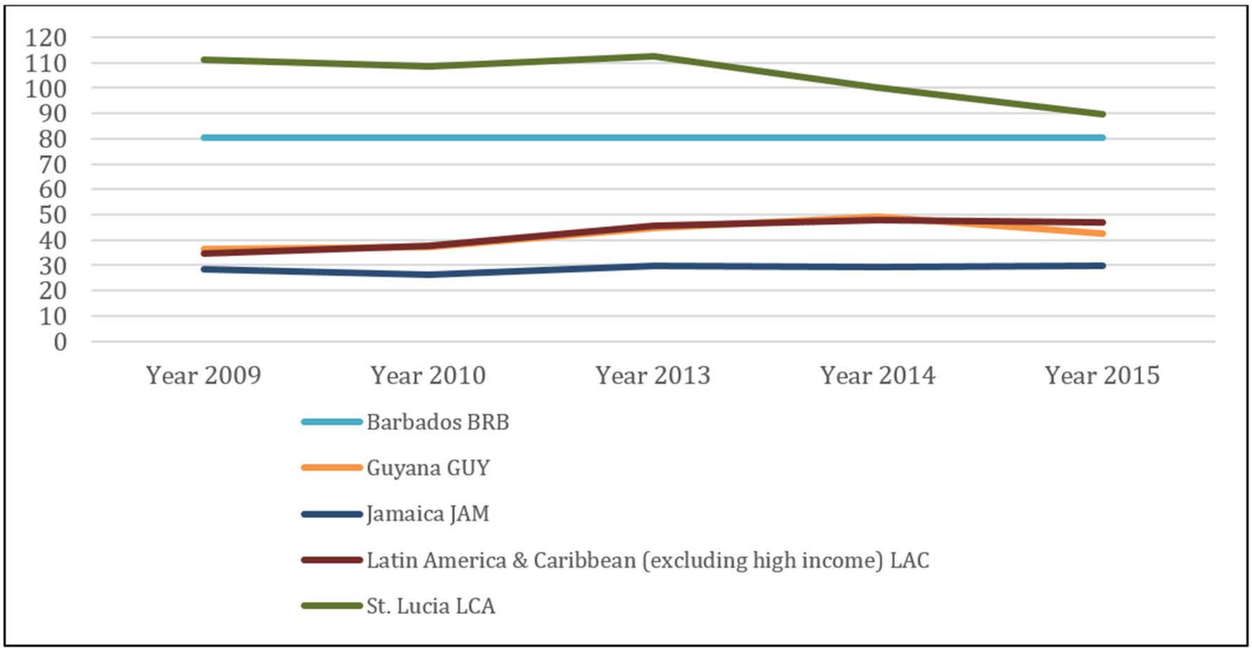
Source: World Bank, Doing Business – Getting Credit, http://www.doingbusiness.org/data/exploretopics/getting-credit

55 The Indicator measures the legal rights of borrowers and lenders with respect to secured transactions through one set of indicators and the reporting of credit information through another.

At least two countries score particularly well in terms of depth of Credit information (Guyana and Jamaica) and Barbados and Jamaica score relatively well in terms of Legal Rights index. The implication does not however, appear obvious. There seems to be no clear direction of causality between the informality and the access to credit performance. In other words, it is not clear whether informality causes low access to credit or vice versa. An initial assessment would suggest that access to credit bears no direct influence on the choice of agents to register or not.

Another imperfect proxy variable for measuring potential availability of credit to smaller enterprises is the ratio of domestic credit to the private sector to total gross domestic product.[56] **Figure IV. 1** below presents the evolution of such an indicator.[57]

Figure IV. 1. Domestic Credit to Private Sector as percentage of GDP, 2009-2015



Source: World Bank World Development Indicators, Download 7.3.2017.

In this case, conversely with the above indicator, there seems to be a correlation between informality and the relative extent of credit, with Saint Lucia and Barbados, the countries where informality is lower, showing a ratio of domestic credit to the private sector to the GDP that is twice that of Guyana and of the Latin American average, and almost three times that of Jamaica. To summarize, the level of refinement of the credit system and its complexity and capacity to enforce legal rights do not seem to be a strong factor in formalization choices, while the actual access to finance may play a role.

Partially confirming the above in the case of Jamaica where changes have been introduced to expand the number of beneficiaries. Indeed, in Jamaica, access to credit has long been recognized as a major constraint for the micro, small and medium sized enterprises, both because of the Commercial Banks' low appetite for risk, as well as the traditional reliance on collateral-based lending, which excludes persons with little capital. In a paper prepared by an economist at the

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56 The assumption is that the higher the ratio the more accessible the credit could be to micro and small enterprises which are less likely to access credit internationally.

57 Data for Barbados refer to 2009.

Bank of Jamaica in 2012, the licensing of two credit bureaus and other reforms introduced to allow for moveable property as collateral were reviewed, and other non-traditional lending programmes used in other countries were recommended for Jamaica.[58] By 2015, the micro-financing industry had developed to the point where there were two industry associations,[59] and one of them introduced a code of conduct for its members.[60] Some of these institutions lend to individuals as persons, without requiring formalization of their business operations. Similarly, a credit bureau was also established in Guyana in 2015, and now covers "16.4 per cent of the adult population."[61] Within the Caribbean, there exists a Caribbean Micro Finance Association with membership of institutions from nine Caribbean countries, including the four that have been the focus of this study.

Notwithstanding the efforts to reach out to micro and small enterprises, it is important to note that simple access to finance may not be a guarantee for formalization and the larger goal of achieving growth and decent work. What is needed is channelling credit toward productive enterprises, which will need to formalize and contribute to the tax base, without compromising the livelihoods of the poorest share of the population and the efforts to alleviate extreme poverty. Targeting mechanisms for formalization, including conditioned access to financial services, may be a solution to explore for the Caribbean, but would need to be based on a systematic approach where costs do not outweigh benefits for the small informal entrepreneur.

Other incentives for formalization

In addition to access to finance, there are at least two other sorts of incentives, which were considered in the studies.

Business support services. The four countries have all established a number of enterprise support mechanisms and institutions providing business support services. For instance, the Jamaica Business Development Corporation (JBDC), the Small Business Bureau in Guyana, the Small Business Development Centre in Saint Lucia, or the Barbados Chamber of Commerce are only few of the existing bodies providing assistance to entrepreneurs in various forms, from training to legal assistance, to counselling. What emerges from the country studies is that if the services of such bodies are known and utilized by entrepreneurs, those same entrepreneurs are most likely to already be operating formally. Moreover, access to business support services appears to seldom be an incentive *per se* for transitioning to the formal economy. Indeed, very few of the informants across the four countries mentioned such services as potentially appealing. The implications are several. On the one hand, awareness-raising and extension of the coverage of such services to the informal economy may contribute to growth of a number of units. On the other hand, there must be, as in the case of access to finance, some sort of conditionality mechanism in providing certain services and this must consider the ensemble of costs and benefits the entrepreneurs are likely to face.

58 Andrene S., Financing the Micro, Small and Medium Enterprises (MSMEs) Sector in Jamaica: Constraints and Prospects for Leasing, Factoring and Microfinance, November 2012.

59 Jamaica Micro Financing Association (JaMFA) and Jamaica Association for Micro Financing (JAMFIN).

60 Blossom O.N., The Microfinance Industry - Building Quality Through Self-Regulation in The Gleaner, 6 February, 2015, https://hosted.law.wisc.edu/wordpress/wjlgs/files/2015/02/Hollander-PDF.pdf.

61 Wilburg, K., Guyana's Access to Credit considerably improved in Kaiteur News Online, 21 January, 2017. http://www.kaieteurnewsonline.com/2017/01/21/guyanas-access-to-credit-considerably-improved-world-bank-report/.

Government Procurement. Access to markets can encourage those informal operators who wish to grow their businesses to undertake the requisite registrations. One potential market is government procurement. A recent paper by Margaret Rose[62] outlines the reform process for public procurement systems in the Caribbean and argues that States that have adopted budgetary conservative policies are less able to use the procurement processes to support particular socio-economic goals. She cites Trinidad and Tobago as an exception due to its relative financial independence based on its oil wealth.[63] In Jamaica, procurement guidelines require open competition that includes international firms. As a result, established Jamaican firms that are regarded as large in the local market, are often out-competed. In such a system, micro and small firms are incapable of competing. To grant access to public procurement for micro and small firms through targets for procurement for this sector, or based on a preferential basis will require a fundamental change of public policy that seems unlikely under the present agreements that Jamaica has with the international financial institutions. In Guyana, the Small Business Act of 2004 includes a provision which allows for small businesses to get 20 per cent of Government contracts. In the past, the execution of the latter was virtually non-existent but the current government plans to implement it. A similar measure setting aside 40 per cent of Government procurement has been discussed during the past nine years in Barbados but never materialised.

To conclude, a word of caution is warranted. Whichever incentive is thought of to stimulate transition to formality, it must hold true for micro and small entrepreneurs that the benefits from transitioning to the formal economy do outweigh the costs. A dynamic perspective is needed and considerations about the short-term (registration) and the long-term (compliance, taxation and closure) costs are warranted. In turn, it is a precondition for success that, within a context of systemic and progressive improvement of the services and goods provided by the State, entrepreneurs have clear, easily understandable and time consistent information about both present and future costs and benefits related to formalization. Adequate reforms may complement such information sharing. ILO (2014) presents a number of reforms undertaken in the Latin American and Caribbean region to facilitate transition to formality for micro and small enterprises. These include: (i) interventions to streamline administrative procedures for business start-up, maintenance and closure, (ii) reduction in the cost of taxation,[64] (iii) simplification in the access and payment of social protection[65] and (iv) interventions aimed at strengthening inspection and compliance[66].

62 Margaret Rose, Public Procurement Policy Considerations in the Caribbean: Trade, Governance & Development, http://www.roselawcaribbean.com/wp-content/uploads/2014/08/Public-Procurement-Policy-Considerations-2014.pdf.

63 As an example, in Trinidad and Tobago, the FairShare programme is designed to guarantee small businesses access to a share of government procurement.

64 These include: (1) Special tax regimes for micro and small enterprises, 2) simplification of accounting standards, reporting requirements and payment facilities within the general tax regime, 3) information and technical assistance, and 4) improved inspection to reduce tax evasion

65 These include: 1) lower contribution rates, 2) integrated contributions into one single payment 3) simplified calculation methods for social security contributions, 4) adapted payment schedules 5) exemptions, 6) gradual contribution rates and, 7) social security subsidies in times of economic crisis.

66 Including information sharing, courses on labour law and training for inspectors.

VII: Conclusion

The four national studies focused on the national legal framework governing the operation of business units - registration, tax liability, social security contributions and the labour code. Virtually none of the legal frameworks exempted any private business units operated for a profit from any of the laws, benefits or obligations.

The research showed that compliance varies across countries, across sectors within economies, and across the components of the legal frameworks. The principal reasons for non-compliance, in no particular order, are: lack of knowledge of the legal requirements for conducting business and the benefits of observing them; the perception that compliance is not affordable on the low incomes earned; and the weak capacity of the States to enforce regulations. In addition, there is a stratum of economic operators who see their activities as survival or subsistence livelihoods, with no desire, and often no capacity, to expand their businesses.

Certainly, the four national studies and the regional synthesis point to further and deeper investigations into the motivations for operating informally, as the basis for formulating strategies to formalize those operators who are so inclined and able. There is need for more appropriately communicated and customized education on the requirements for conducting business successfully, as well as access to the supporting business services. Reforms aimed at reducing costs and simplifying procedures are also a priority if formalization of economic units is to be pursued. A key lesson from the studies is, however, that any strategy finalized in support of transition to formality has to take account of the capacities of the States themselves to enforce the legislation and regulations, and to provide – in a transparent and meritocratic way- incentives and supporting services for the transition to formal business units.

The experiences of the four countries studied can be extrapolated to the rest of the Caribbean, with due caution that recognizes the individual particularities of countries. Saint Lucia shares many socio-economic features with the rest of the OECS countries, and Guyana's size, geography and population diversity are similar to the corresponding features of Belize and Suriname. The Jamaican and Barbadian experiences are probably particular, but with lessons for Trinidad and Tobago.

Appendix: Legislation

Table 1: Principal Labour Laws of Barbados

1	Employment Rights Act (2012)	Confers rights such as the right to written communication regarding the particulars of employment and the right to be consulted regarding prospective placement on short time or before being laid-off. There are also rights relating to redundancy and re-hiring
2	Trade Unions Act (1964)	Consolidates and revises trade union law
3	Accident & Occupational Disease (Notification) Act (1952)	Provides for the notification of accidents and occupational diseases
4	Employment Exchanges Act (1955)	Regulates employment exchanges
5	Employment (Miscellaneous Provisions) Act (1977)	Regulates the Employment of Women, Young Persons and Children
6	Employment of Women (Maternity Leave) Act (1976)	Grants maternity leave to female employees and provides protection of the employment during leave
7	Holiday with Pay Act	Provides for holidays with pay for employees
8	Labour Department Act (1943)	Prescribes the duties of the Chief Labour and other officers of the Ministry of Labour and for related purposes.
9	Labour Clauses - Public Contracts Act (1952)	Imposes the Convention relating to Labour Clauses in Public Contracts
10	National Insurance and Social Security Act, Subsidiary Legislation A1-T1	Establishes a system of national insurance and social security for Barbados providing payments by way of sickness benefit, maternity benefit, invalidity benefit, funeral grant, old age contributory grant or pension, non-contributory old age pension and survivors benefit and such other benefits as may be specified in the Act ----
11	Occupational Training Act, Subsidiary Legislation (1979)	Provides for the training of persons in all branches of economic activity in Barbados
12	Protection of Wages	Provides for the protection of wages of workers
13	Radiation Protection Act (1971)	Gives effect to Article 10 of the Radiation Protection Convention, 1960, Convention No. 115 of the International Labour Conference, relating to the protection of workers against ionising radiations
14	Recruitment of Worker Act (1993)	Enforces conventions relating to recruitment of workers
15	Safety and Health at Work Act (2005)	Makes provision for securing the health, safety and welfare of persons at work and consolidates the laws relating to health, safety and welfare in the workplace and related matters
16	Severance Payments Act Subsidiary Legislation A1-F1	Provides for the making by employers of severance payments to employees who cease to be employed in circumstances amounting to redundancy and for related matters
17	Sugar Works (Minimum Wage and Guaranteed Employment) Act, subsidiary Legislation A1	Provides for the prescribing of minimum wages and guaranteed employment for workers employed in the sugar industry and for matters incidental thereto or connected therewith.
18	Shops Act (2015)	Defines a shop, shop assistant and outlines benefits and protections that persons in these categories are to enjoy
19	Wages Councils Act (1955)	Provides for the establishment of Wages Councils
20	Trade Disputes (Arbitration and Enquiry) Act	Establishes an Arbitration Tribunal and a Board of Enquiry in connection with Trade Disputes and to make provision for the settlement of such disputes, and for the purpose of enquiring into economic and industrial conditions in the Island
21	Better Security Act (1920)	Provides protection against avoidable dangers to human life and valuable property
22	Domestic Employees (Hours of Duty) Act (1961)	Establishes hours of duty of domestic employees

Source: https://labour.gov.bb/labour-legislation

Jamaica

Table 2: Principal Labour Laws of Jamaica[67]

Legislation	Brief Description of Coverage
Trade Union Act, 1919	Covers all workers as defined "workers" means *all persons employed in trade or industry*, whether or not in the employment of the employer with whom an industrial dispute arises"
Labour Relations and Industrial Disputes (LRIDA) Act, 1975	Covers all workers as defined "employer" means a person for whom one or more workers work or have worked or normally work or seek to work; "worker" means an *individual who has entered into or works or normally works* (or where the employment has ceased, worked) *under a contract*, however described, in circumstances where that individual works *under the direction, supervision and control of the employer* regarding hours of work, nature of work, management of discipline and such other conditions as are similar to those which apply to an employee
Employment (Termination and Redundancy) Payments Act, 1974	Covers all employees, except central and local government employees "employee" means an *individual who has entered into or works* (or, in the case of a contract which has been terminated, worked) *under a contract with an employer*, whether the contract be for manual labour, clerical work or otherwise, be express or implied, oral or in writing, but does not include- (a) any person employed by the Government; or (b) any person employed in the service of the Council of the Kingston and St. Andrew Corporation or in the service of any Parish Council, and "employer" and any .reference to employment shall be construed accordingly.
Holiday with Pay Act, 1974	Sets out the conditions under which workers are entitled to holidays and sick leave with pay or such gratuities and benefits
Minimum wage Act, 1938	Legislates the minimum wage for certain categories of workers. The amendment of the law in 1974 set up Minimum Wage Advisory Commission with authority to set different minimum wages for different categories of workers
Maternity Leave Act, 1979	Covers all female workers who are at least 18 years old and were continuously employed, for a minimum of 52 weeks by the same employer as at the date the maternity leave begins "worker" means an *individual of the female sex who has entered into, or works under, a contract with an employer*, whether the contract is express or implied, and (if it is express) whether it is oral or in writing and whether it is a contract of service or of apprenticeship, and includes any such individual employed in the service of the Government (including service in the Jamaica Defence Force and the Jamaica Constabulary Force), and "employer"
Employment (Equal pay for men and women) Act	Covers all workers
Social Protection	
The Factories Act	Covers workers on "premises on which steam, electric, water and other mechanical power is used in the industrial and manufacturing processes and being operated for gains or commercial activities ---(as well as) ---the building and construction industries and operations relating to docks and shipping – with 10 or more persons
The Occupational Safety and Health Act - proposed	Covers all workers, more broadly defined than in previous legislation Draft being prepared to replace Factories Act

[67] There are two other pieces of legislation which do not bear directly on the issues addressed in this report. They are the Employment Agencies Regulation Act and the Foreign Nationals and Commonwealth Citizens (Employment) Exemptions Regulations (1964). Employers are required to register under the Employment Agencies Regulation Act (EARA) and The Factories Act.

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