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CARIBBEAN ECONOMICS

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Quarterly



Finance for Firms

Options for Improving
Access and Inclusion



IDB Caribbean Economics

Finance for Firms: Options for Improving Access and Inclusion

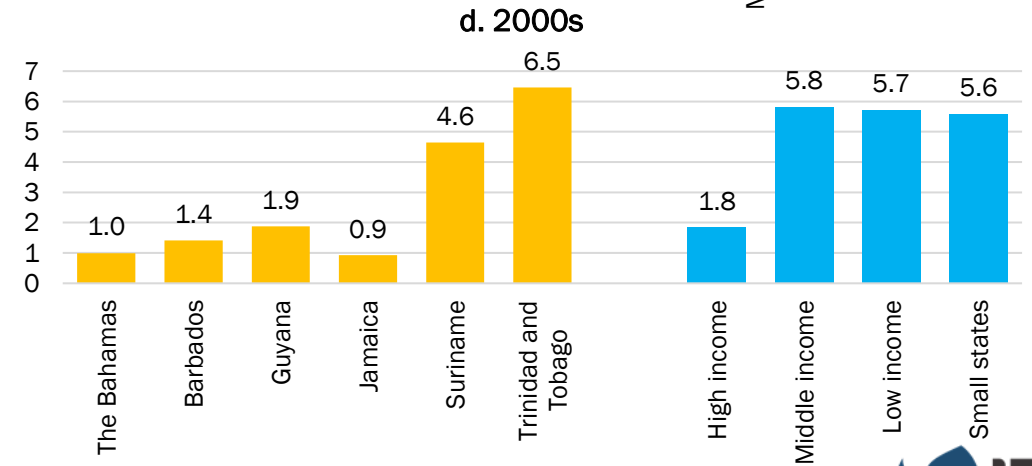
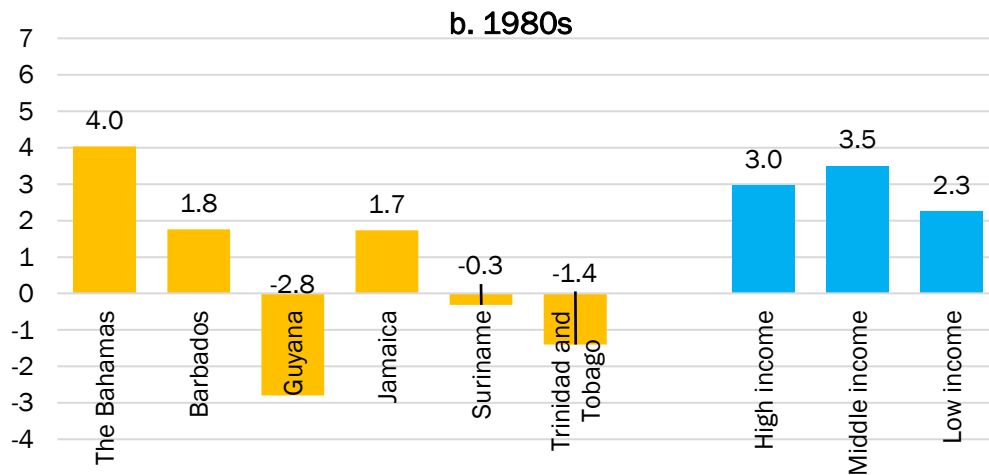
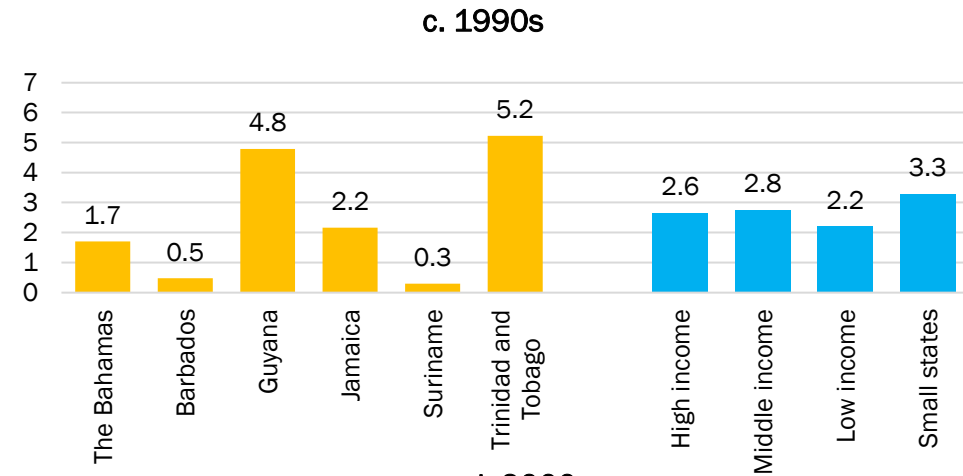
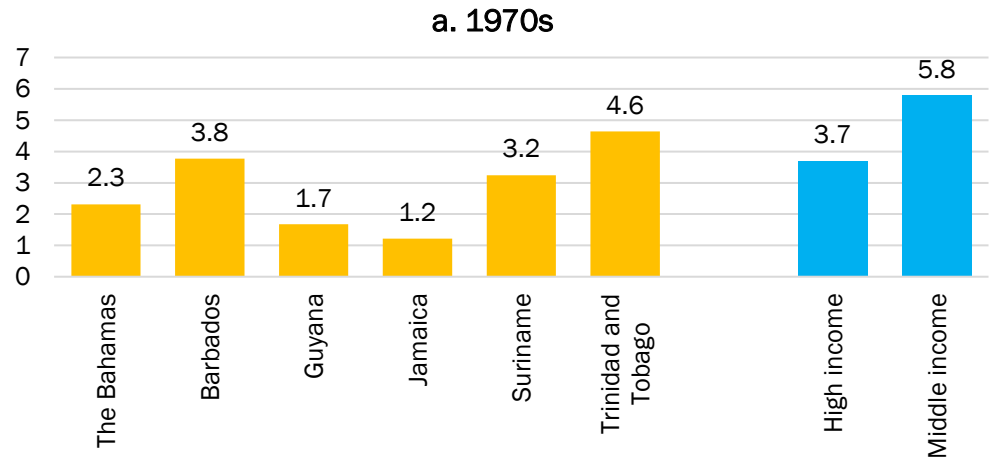
Henry Mooney, Economics Advisor
September 2022



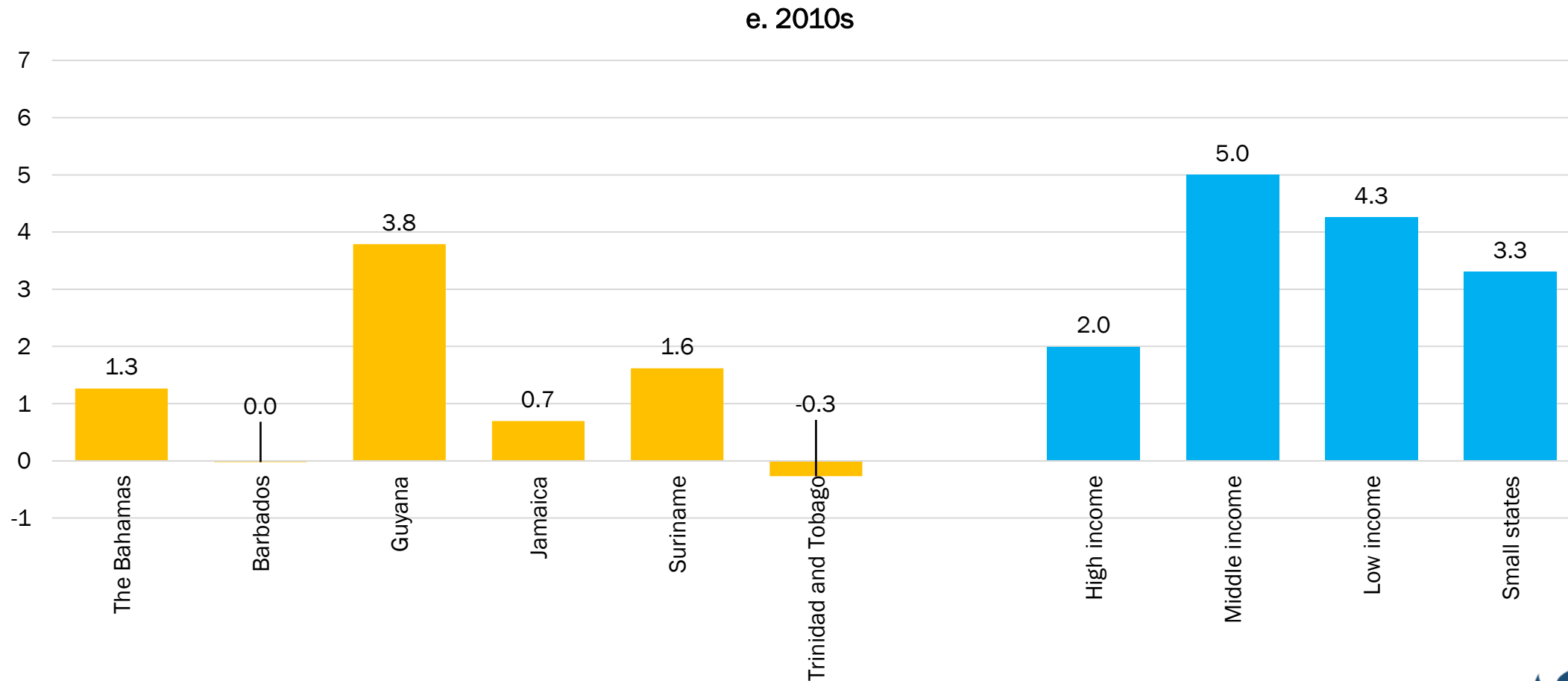
The Backdrop: Growth & Development

SLOW AND DECELERATING GROWTH IN CCB ECONOMIES...

Caribbean real GDP growth has been volatile, and lagged comparable economies...

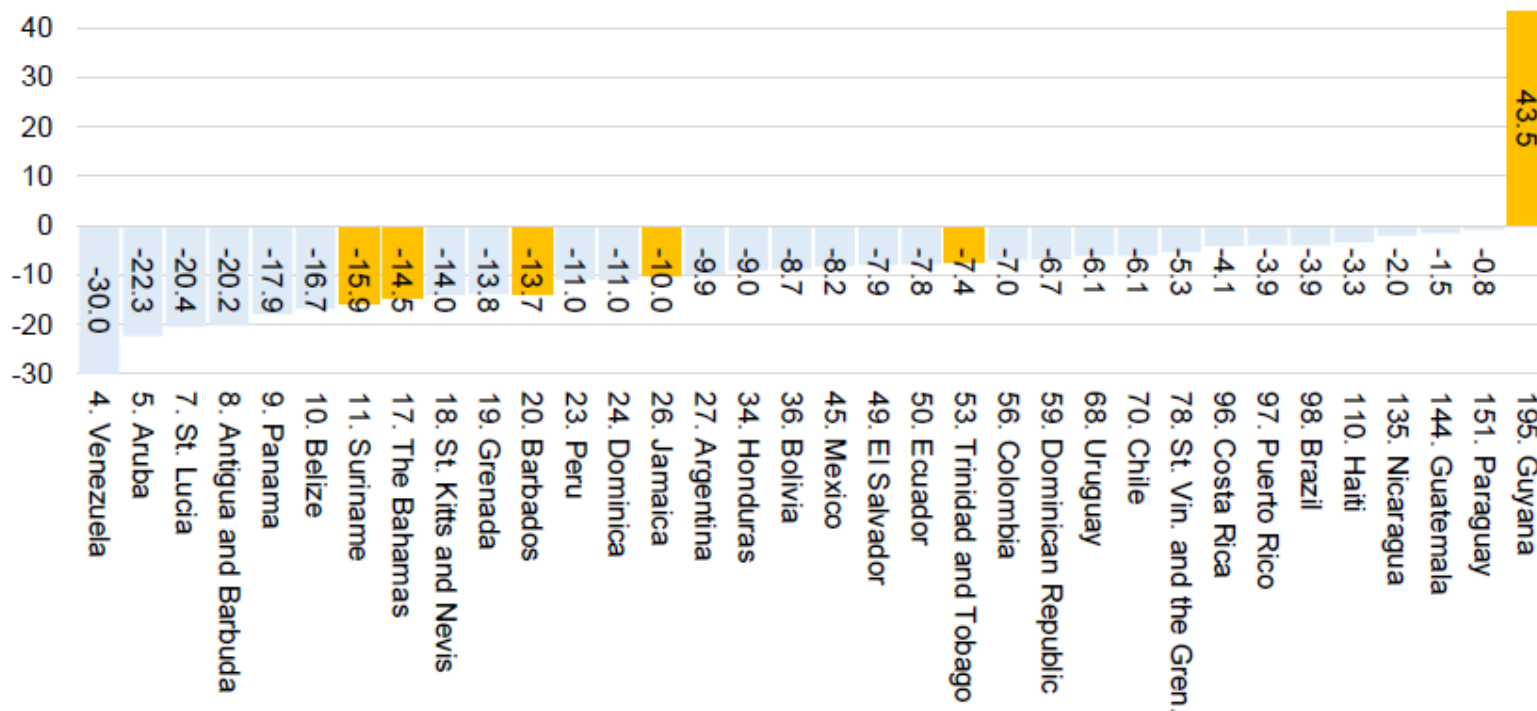


Relative performance fell further behind during the past decade...



COVID-19 Shock to Growth (2020): Unprecedented for many...

Figure 4. The COVID-19 Shock to Growth: Caribbean Economies Among the World's Worst Affected (Percent change in real GDP for 2020)



Source: Authors' calculations based on data from the International Monetary Fund's April 2022 *World Economic Outlook*.

Note: Latin American and Caribbean countries ranked by severity of shock compared to 195 countries globally.

Major Challenge: Productivity in Decline

KEY TO FASTER PROGRESS...

Growth Accounting: by factor of production.

$$Y = A \cdot K^{\alpha} \cdot L^{\beta}$$

where:

Y = total output

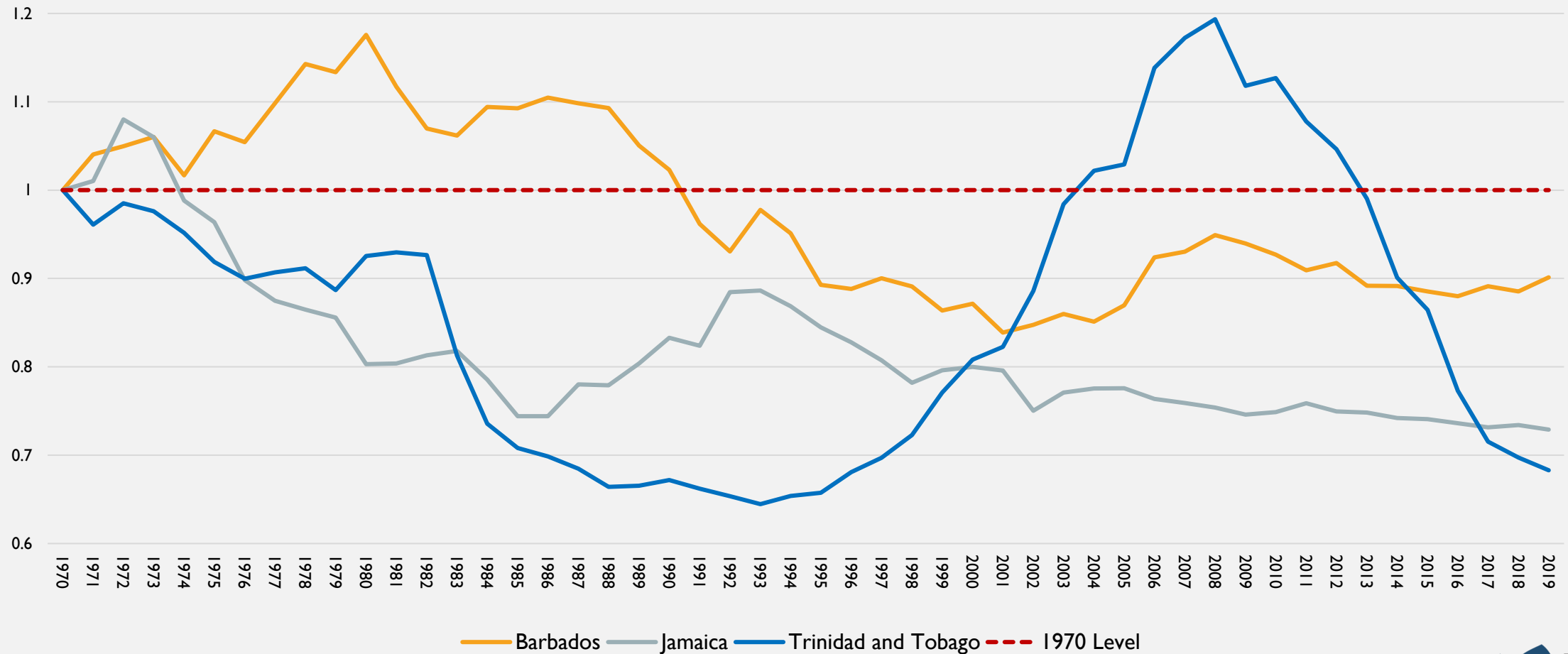
A = Total Factor Productivity (TFP)

K = capital input

L = labor input

α , β = inputs' respective shares of output.

Productivity (TFP) in decline since the 1970s—now below levels of 50 years ago...

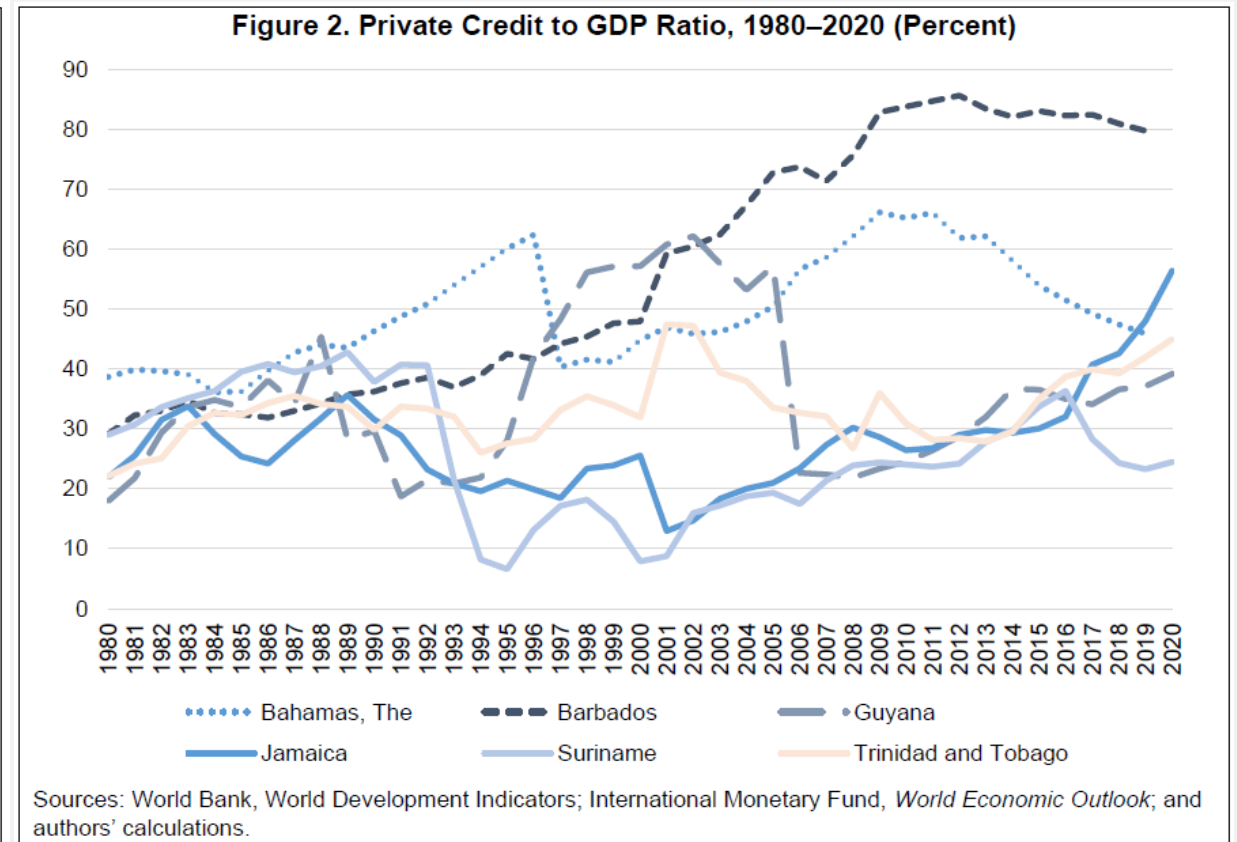
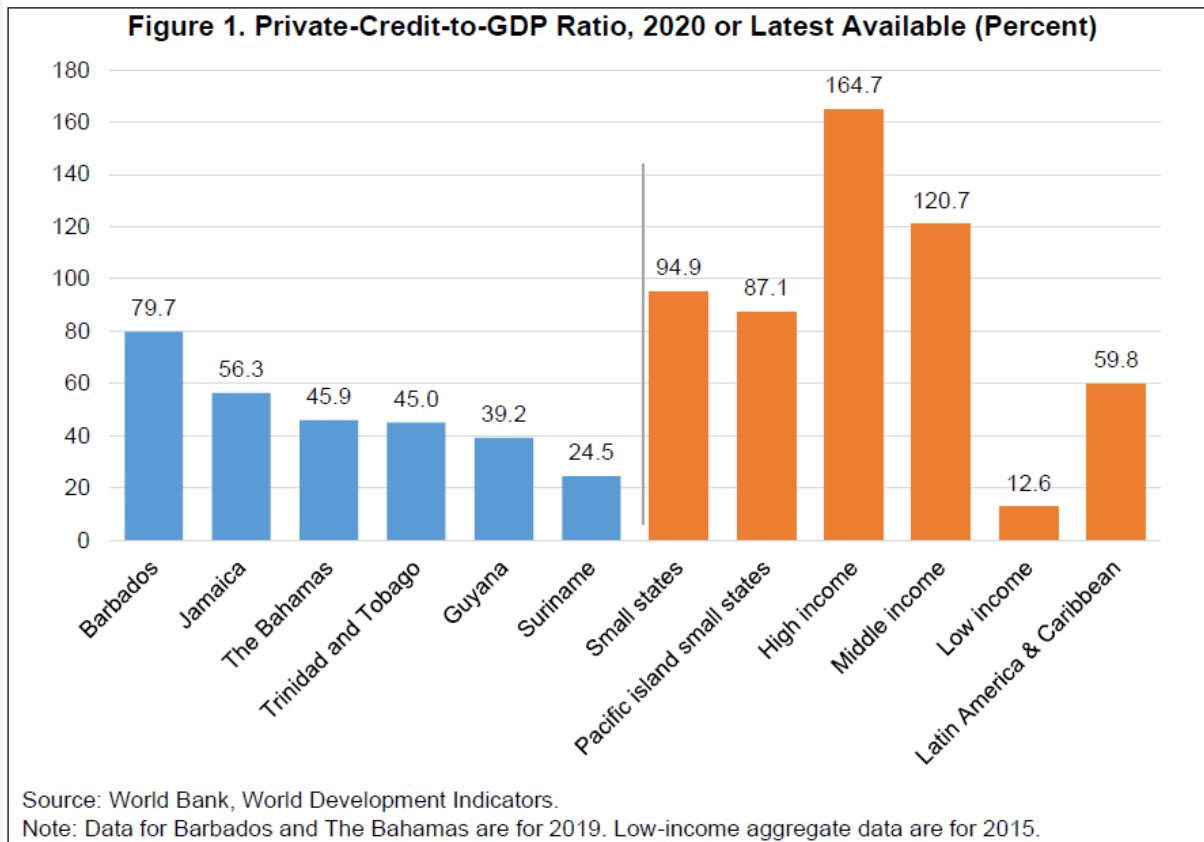


Source: [Caribbean Quarterly Economic Bulletin \(January 2022\)](#)

Financial Development: Lagging behind peers...

SOURCES OF CAPITAL REMAIN CONSTRAINED...

FINDING 1. Financial depth improving, but still limited compared to peers...



FINDING 1. Equity markets developing, but trade volumes and availability remain limited...

Figure 3a. Stock Market Capitalization/GDP, 2020 (Percent)

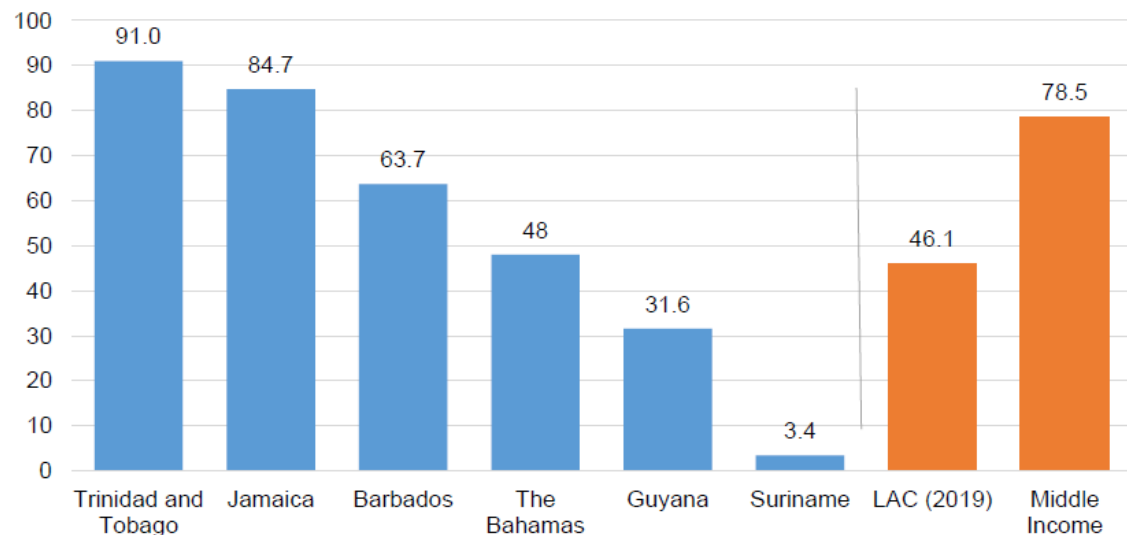
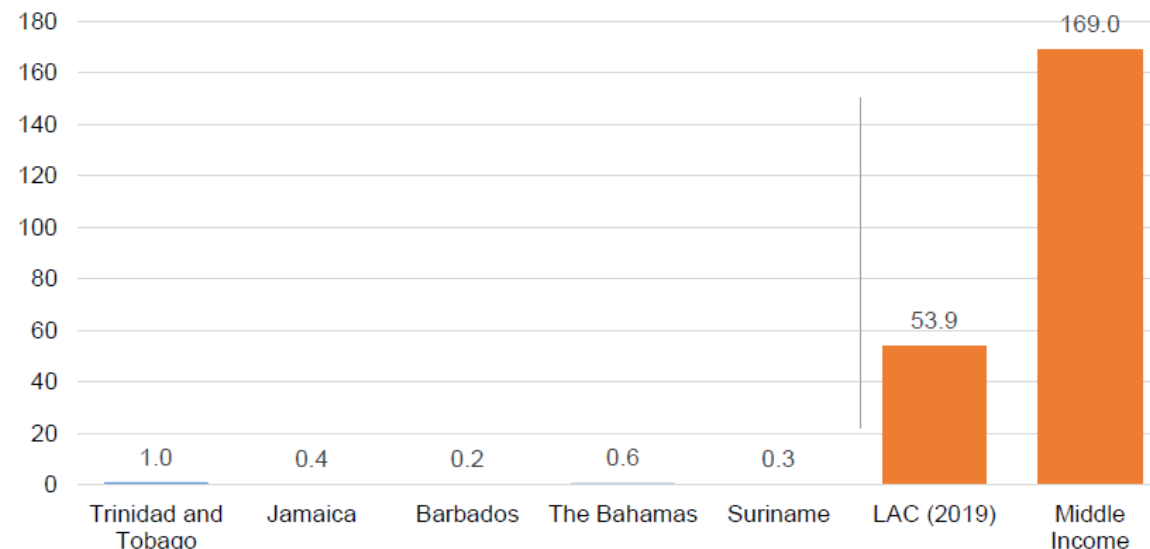


Figure 3b. Turnover Ratio, 2020 (Percent)

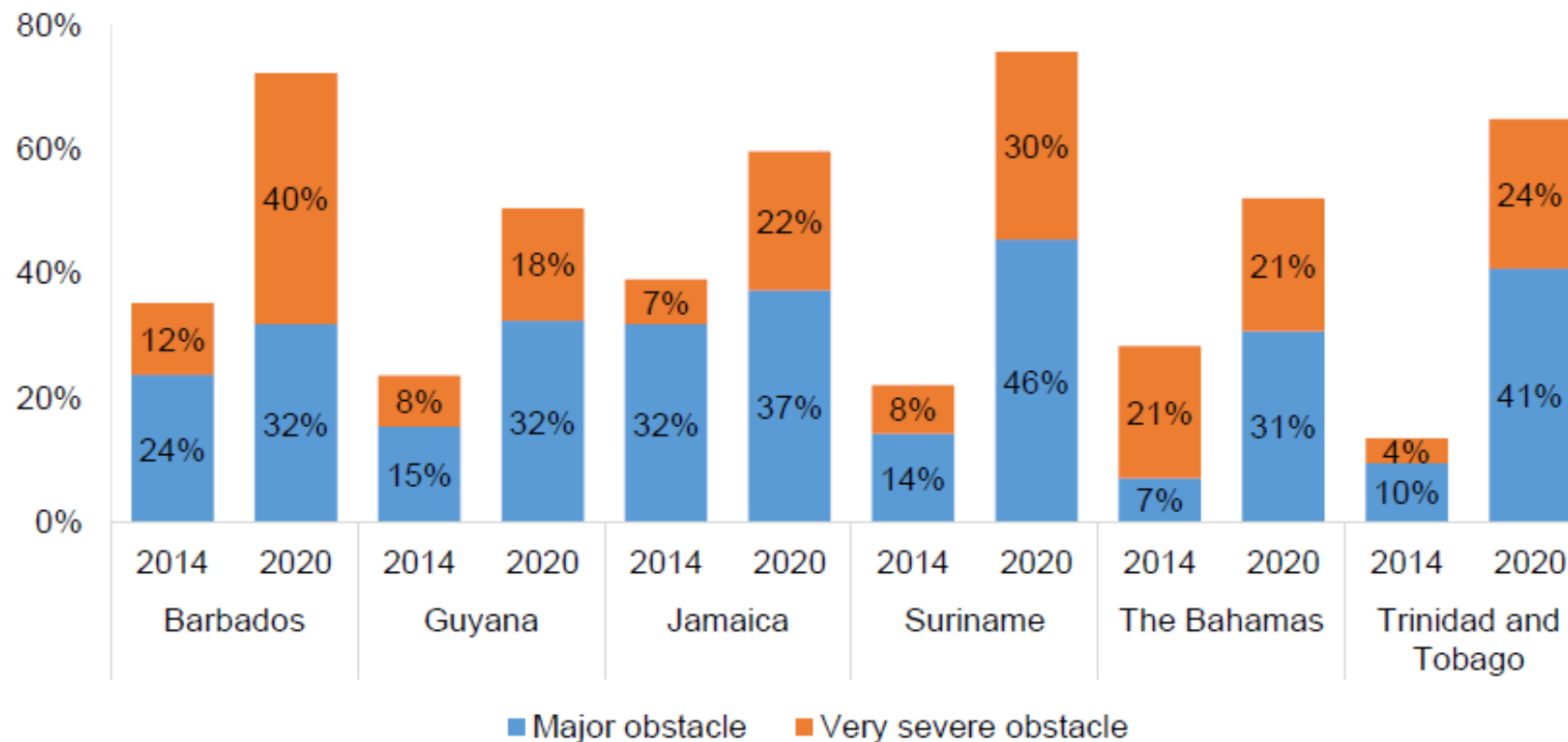


Enterprise Surveys: Firms need more funds...

FIRMS REPORT ACCESS / COST OF FINANCE AS KEY BARRIERS...

FINDING 2. COVID-19 shock drove a deterioration of access vs. 2014...

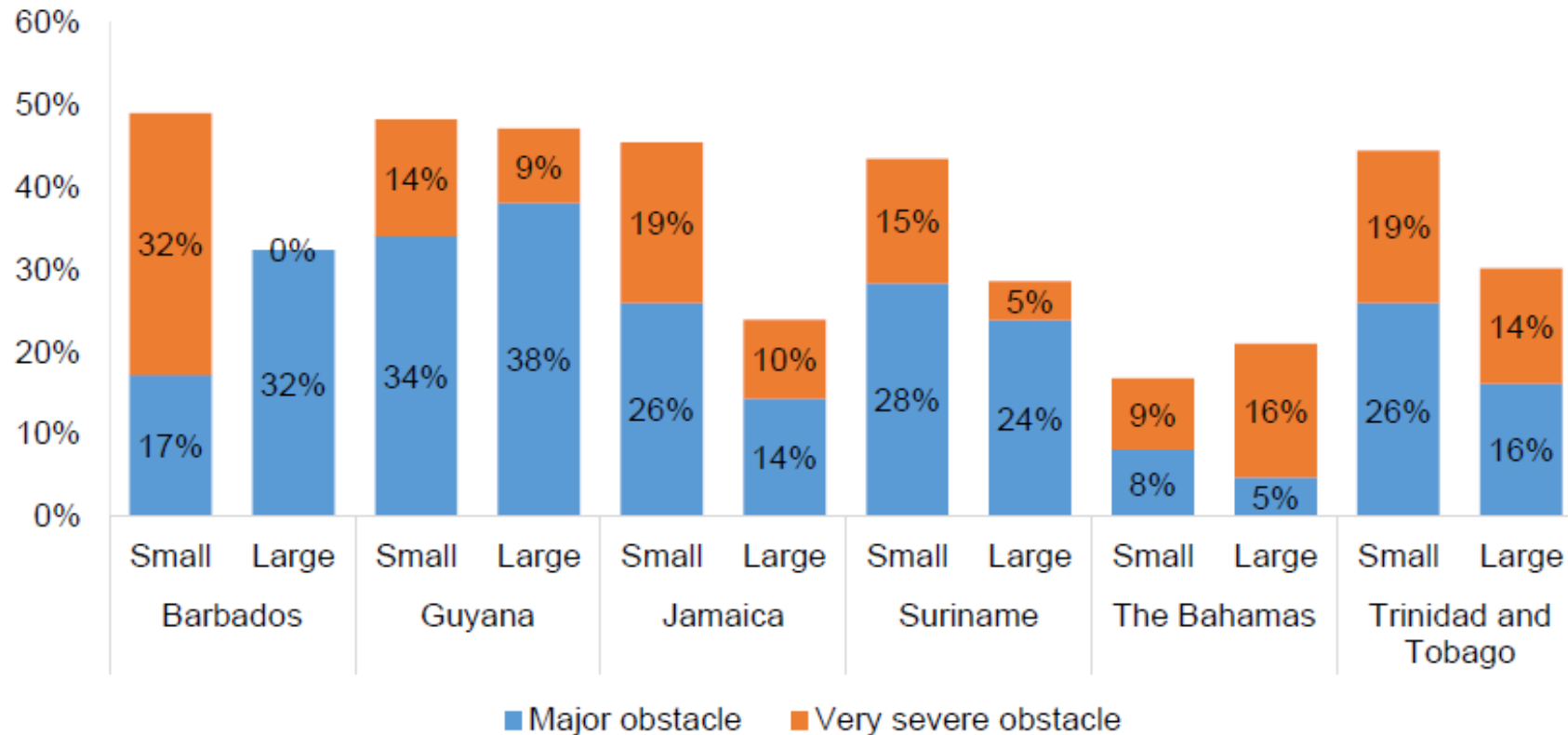
Figure 5. Survey-Reported Barriers to Financial Access for All Firms, 2014 vs. 2020
a. Barriers to Credit Access (e.g., Collateral Requirements)



FINDING 3. Smaller firms in the Caribbean face outsized challenges...

Figure 6. Survey-Reported Barriers to Financial Access for Firms by Size, 2020

b. Barriers from Cost of Credit (e.g., Interest Rate) by Firm Size

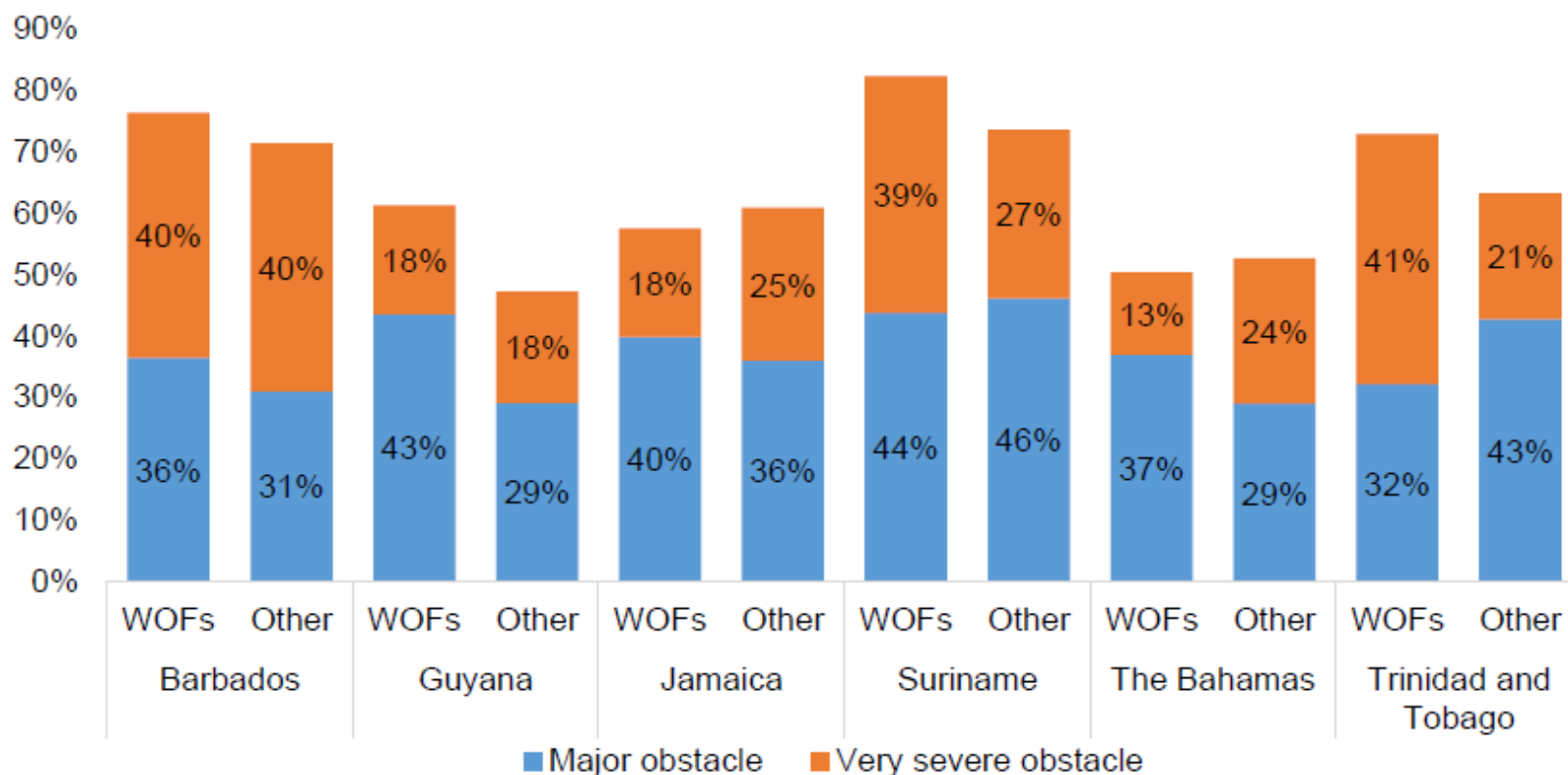


Source: [Caribbean Economics Quarterly \(July 2022\)](#)

FINDING 4. Firms owned and/or operated by women face greater difficulty...

Figure 7. Severity of Survey Reported Barriers to Financial Access by Gender, 2020

a. Barriers to Credit Access (e.g., Collateral) by Gender



Policies and Reforms that can help...

RESEARCH POINTS TO REFORMS WITH POTENTIAL...

While too many to list, some key reforms and policies worth highlighting...

Reform	Objective
Macroeconomic Stability and Policy Prudence	Avoid crowding out and bolster investor sentiment through predictable growth, interest rate, inflation, and policy environment
Availability of Credit Information	Facilitate creditor decision making and project risk assessment via improved creditor information (e.g., credit registries and bureaus, information availability, credit scoring, etc.)
Property Rights and Insolvency Procedures	Encourage investment via improvements in property rights, judicial institutions and processes (e.g., bankruptcy courts, contract enforcement, collateral attachment and seizure, workout mechanisms, etc.).
Credit Sector Competition	Avoid concentration and limited participation by facilitating market entry, while ensuring regulatory and prudential standards are met to avoid systemic risks (e.g., new entrants, new technologies, etc.)

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Thank you!

Henry Mooney

hmooney@iadb.org