
Facilitating informal sector traders in the Caribbean: the case of Guyana, Dominica and Jamaica

Martin Franklin
COTE 2010

Order of Presentation

- Background to the presentation
- Shuttle Traders
- Comparative Findings from 3 Empirical Studies of Shuttle Traders
- Challenges Faced by the traders
- Recommendations and Suggested Policies

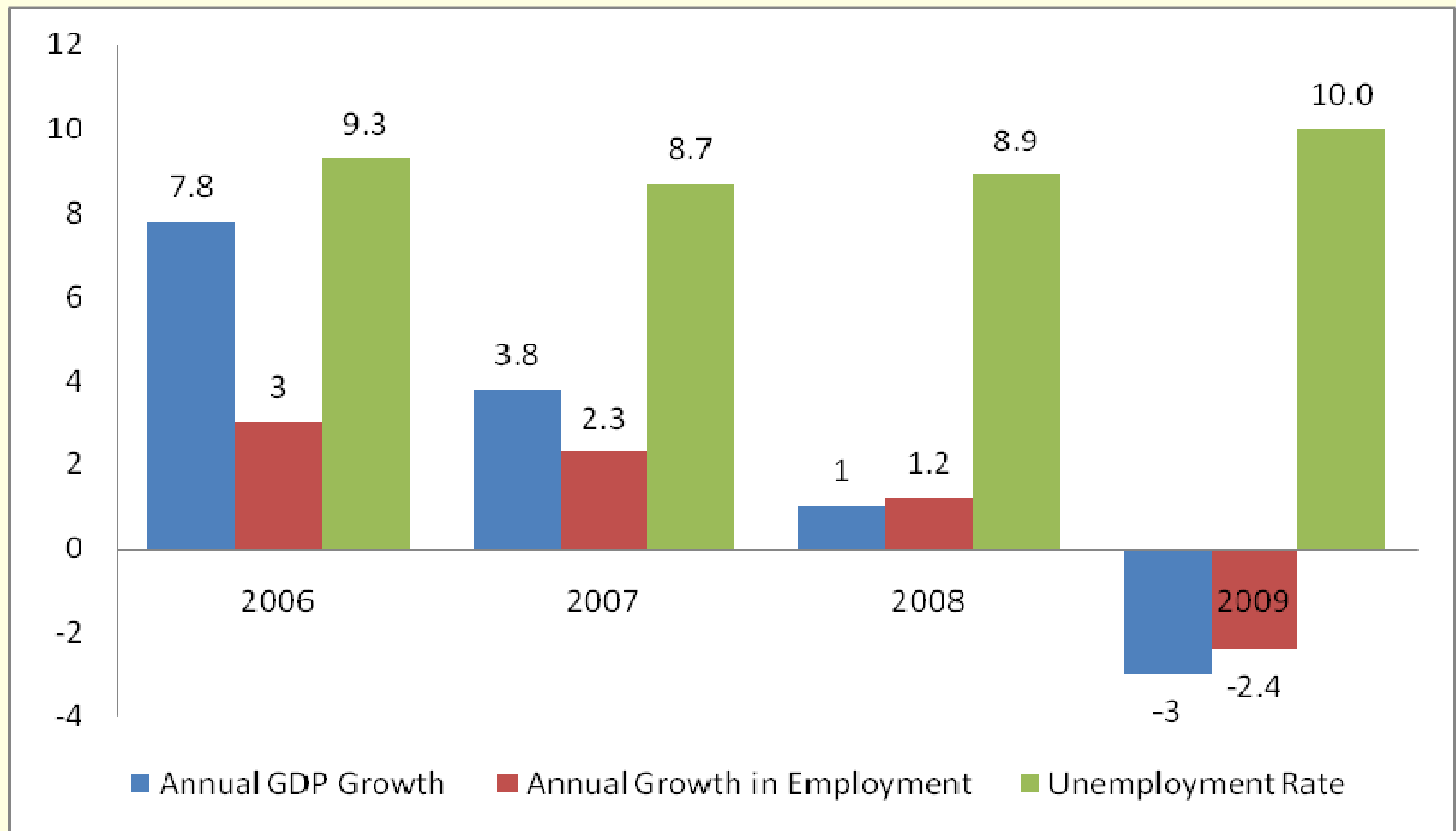
State of Caribbean Economies

- Caribbean economies Have been facing major challenges in the rapidly changing global environment :
 - trade liberalisation
 - the evolving knowledge economy
 - the advances in ICTs
 - changes in commodity markets and financial markets
 - security threats
 - the impact of the global financial crisis.

Impact of the Global Financial Crisis

- the fall in global demand and consumer spending in our markets
- the decline in commodity prices
- the decline in remittances from our diaspora
- Negative overall growth rate (*first time in almost to decades*)
- Increasing unemployment

Growth Rates for GDP and Employment and the Unemployment Rates for CARICOM Countries (exclusive of Haiti) 2006 – 2009 (ILO 2009)



Labour Markets in the Caribbean

- The labour markets in the English-speaking countries of the Caribbean have seen significant changes over the past decades as a consequence of both demographic changes and changes in the structure of production.
- These changes usually resulted in a reduction in the demand for labour, high levels of unemployment, reduced labour income and increased levels of poverty.

Labour Markets in the Caribbean

- The slowing down of Caribbean economies has resulted in the slow growth in formal sector employment over the past three years and more so decline in formal sector employment in 2009
- The decline formal sector employment has brought with it growth in the number of self-employed persons associated with the increase in small and micro-enterprises (SMEs) and also the informal sector .

Labour Markets in the Caribbean

- Dual labour markets – formal and informal employment
- The concept of dual markets can be traced to Lewis (1954) on the employment dynamics between the “capitalist” and “subsistence” sectors in the economy in the context of the “unlimited supply of unskilled workers from the subsistence sector.
- Equate “capitalist” with formal and “subsistence” with informal
- Accordingly, the expansion in formal employment tends to result in less informal employment.

Labour Markets in the Caribbean

“Informal employment has been a significant feature of the Caribbean labour markets especially in Guyana, Jamaica and to a lesser extent, T&T.” (Downes , 2006)

Some estimates of informal employment as a % of total employment:

- Barbados 12.8%
- Jamaica 37.9%
- St. Lucia 30.5%
- T&T 8.5%

Freije (2001)

Factors that contribute to the Growth of the Shuttle Trade

- Steps required to set up /register a formal business
- Tax burden
- Market Failure
- Unemployment
- Differential Price Structures
- Education & the Labour Market Mismatch

Vuletin (2008) identified four causal variables:
Tax Burden, Labour Market Rigidity, Agriculture
and Inflation

Relative Contribution of Causal Variables to the Size of the Informal Economy in Caribbean Countries (Vuletin 2008)

Country	Tax Burden	Labour Rigidity Index	Importance of Agriculture	Inflation
The Bahamas	0.0	54.6	42.3	3.1
Grenada	57.1	0.0	40.9	2.0
St. Kitts and Nevis	34.0	32.4	28.1	5.5
Trinidad and Tobago	61.4	26.5	6.5	5.6
Barbados	65.6	0.0	31.2	3.2
Antigua and Barbuda	60.5	31.3	6.1	2.1
Dominica	43.2	24.7	30.7	1.4
Jamaica	36.2	33.3	17.6	12.9
Guyana	46.3	0.0	47.6	6.1
St. Lucia	32.9	16.4	48.7	2.0
Dominican Republic	23.9	44.4	26.3	5.4
Belize	22.9	26.7	49.3	1.1
St. Vincent and the Grenadines	33.8	23.9	41.0	1.2

Informal Employment – The Shuttle Trade

The informalization of the labour market is today manifested by among other developments, the presence of hucksters, higglers and informal commercial importers (ICIs) in the market places from Georgetown in Guyana to Kingston in Jamaica.

- Higgler - a person who only buys and sells, is resident within the towns and operates only within the towns.
- ICI – a person who buys goods in neighbouring country for retail sale on return home.
- Huckster – a female entrepreneur who purchases agricultural produce in her own country and sells to another country.

Taylor (1988)

Empirical Studies of Higglers, Hucksters, Informal Commercial Importers (ICIs) from the Literature

- Smikle and Taylor (1977)
- Taylor (1988)
- Le France et. al. (1985)
- Witter and Kirton (1990)
- Witter (1989) and Witter (1998)
- Lagro (1988) and Lagro (1990)
- Lagro and Plotkin (1990)
- Mantz (2003) and Mantz (2007)
- Mulakala (1991)
- Holder (1988)

Recent Empirical Studies

- ICIs in Guyana; Intra Caribbean trade, Non-agricultural goods, 2007, Sample Size - 62; Location - Georgetown
- Hucksters in Dominica; Intra Caribbean trade, English-speaking/French-speaking trade, Agricultural goods, Existence of the DHA, 2008, Sample Size - 48; Location - Roseau and Portsmouth
- Shuttle Traders in Jamaica; Extra Caribbean Trade, Non-agricultural goods, 2008, Sample Size - 50; Location - Kingston

Recent Empirical Studies

- Common Sampling Design - purposive sampling
- Common Survey Instrument - A structured questionnaire
 - demographics of ICIs,
 - details of their trade,
 - problems encountered in their trade
 - suggestions for improving their trade
 - administered in a face-to-face mode.

Summary Attributes of Hucksters in Dominica and ICIs in Guyana and Jamaica

Characteristic	Guyana	Dominica	Jamaica
% Females	73	52	90
Modal Age Group	21 – 30	41 – 60	41 – 50
Place of Residence	Guyana	Dominica	Jamaica
% with highest level of education to at least Form 5	77	21	26
Modal Number of children	2	4	3
% operating as sole traders	85	8	71
Modal Number of Employees per non-sole trader	1	1	2
Average number of farmers supplying produce for the trade	Na	11	Na
% with prior Supervisory or Managerial experience	12	6	0
% who own a vehicle	66	67	61

Summary Attributes of Hucksters in Dominica and ICIs in Guyana and Jamaica

Characteristic	Guyana	Dominica	Jamaica
% who have a Fixed Deposit account	34	15	52
% who have Life Insurance Coverage	26	15	10
% who own a House	45	69	74
% who belong to Credit Unions	2	33	6
Median Length of service	8 years	15 years	15 years
% of traders who buy and sell in a foreign country and in their home country	90	90	0
Average trip costs	US\$500	EC\$1903	US\$1,520
Mean Profits per trip	US\$257	EC\$2,140	US\$550

Summary Attributes of Hucksters in Dominica and ICIs in Guyana and Jamaica

Characteristic	Guyana	Dominica	Jamaica
% of traders had an alternative source of income	38	60	16
% of ICIs who have no problems in conducting their trade	57	48	29
% who sought loans from local financial institutions	64	41	19
Success Rate for loan applications	75%	92%	42%
Means of travel abroad	Air	Sea	Air
Form of transport of goods purchased abroad for the trade	Checked Baggage	Checked Baggage	Checked Baggage
Access to a Traders Association	No	Yes	No

Challenges Faced by Traders

- Financing
- The Completion of Documents required by the various public authorities e.g. Customs, Ministry of Trade, Port Health, Ommigration
- Other competing traders
- Suppliers
- Airline Staff
- Local Health Officers at the ports of entry
- Economies of Scale
- Market Access
- Supervision of children

Other Challenges Faced by Traders as members of the Informal Sector

- higher cost of capital from financial institutions for business growth;
- lack of access to business development opportunities to help in expanding the business or operating it efficiently;
- diminished legal rights;
- limited ability to achieve economies of scale;
- restrictions on advertising and the size of business location;
- costs of evading taxes (no access to social security benefits)
- costs of avoiding detection/penalties (e.g. possible relocation and payment of bribes).

Wedderburn (2009)

Decision Options

The decision options available to policy makers:

- Facilitate the development of the trade
- Formalise the trade

Facilitating the Trade

- Traders' Association be formed in Guyana/strengthened in Dominica/re-engineered in Jamaica
- Provide training for development into vertically integrated SMEs
- Explore opportunities provided by CSME
 - Economies of scale
 - Wider market access
- Better understanding of the trade by governments so as to make an intervention towards sustainable economic growth and job creation
- Develop the Legal Framework so that it recognises the assets of traders and create a system of giving value to those assets so that they can access capital from financial institutions
- Intensify Labour Market Reform

Traders' Association

- Lobby with Customs, Immigration, Trade Ministry, Port Health, Airlines, Sea freight companies – Establish Help Desks as a minimum
- Lobby for the building/upgrading of facilities for sale of goods
- Representation on boards that control facilities
- Lobby with vocational education providers to mount lifelong training for traders
 - Book keeping/accounting
 - Principles of Business
 - Computer literacy/Use of ICTs for networking, marketing & procurement
 - Cross border trading
 - Entrepreneurship and Innovation

Traders' Association

- Make representation for Retirement Planning (e.g. IRA)
- Provide access to Social Security Benefits for assistants to the traders
- Establish an Outreach to children of traders
 - Academic excellence
 - Extra Curricula Activities
 - Crossing the digital divide
 - Career Planning
 - Entrepreneurship & Innovation

Making the trade formal

- Intensify Labour Market Reform
- Re-engineer steps for setting up formal businesses
- Recognise the positive and negative features
- Policy recommendations should aim to support the positive aspects and suppress the negative aspects.
- Negative aspects include the loss of government revenue, the under-reporting of national economic statistics, and possible misallocation of public funds due to the unknown size and structure of the informal sector.
- Positive aspects are the creation of employment and income and the eventually, the contribution to government revenues resulting from the indirect taxes applied to informal activities.

Other positive aspects to participation in the informal economy

- ability to circumvent high costs and restrictive bureaucracy in opening and operating formal businesses;
- reduced labour costs for employees (e.g. social security benefits and health care benefits);
- tax avoidance/evasion;
- realisation of the desire for independence;
- potential to earn income;
- business opportunities in a stagnant economic market;
- conscious/subconscious opposition to inefficient government institutions.

Making the trade formal – Policy Options from (Vuletin, 2008)

Dominant Causal Variable	Policy Option for Reducing the Degree of Informality
High tax burden	Lowering and homogenizing effective tax rates across all sectors in the economy
Labour market rigidity	Accelerate labour market reforms and enhance flexibility
Inflation	Tightening monetary policy and stabilizing prices

END

Thank You