IDB Invest

DEBrief

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The Impacts of the COVID-19 Pandemic on Firms in the Caribbean

- The pandemic has had significant negative impacts on the sales, employment, and capacity utilization of Caribbean firms, particularly in the services and retail sector.
- Firm priorities have shifted post-pandemic, with greater emphasis on access to digital payments and telecommunications.
- Women-owned/led firms and SMEs have been hit hardest.
- Firms that implemented telework or supply chain strategies were more resilient and cut fewer jobs.
- Technical assistance focused on digitalization and market and client diversification are among firms' top demands for recovery.

8 DECENT WORK AND ECONOMIC GROWTH

CARIBBEAN CONTEXT

The Caribbean region has been hit particularly hard by the COVID-19 pandemic. Data from the International Monetary Fund estimates that economic activity in the region fell by 9.9% in 2020, higher than the average economic contraction in Latin America for the same period (6.8%).[1] Caribbean tourism-dependent economies are also expected to be the last to economically recover (only in 2024) due to the slow resumption in tourism.[2]

Using newly released data from the Innovation, Firm Performance, and Gender (IFPG) survey carried out with nearly 2,000 firms in 13 countries,[3] an IDB Invest study quantifies the impacts of COVID-19 on Caribbean firms. Recent studies have reported on the impact of the pandemic on businesses around the world,[4] however given the typical scarcity of data for Caribbean countries, the existing evidence has not covered this region. Having a better understanding of these impacts is key to support the private sector in the region on the road to recovery.

MAIN FINDINGS

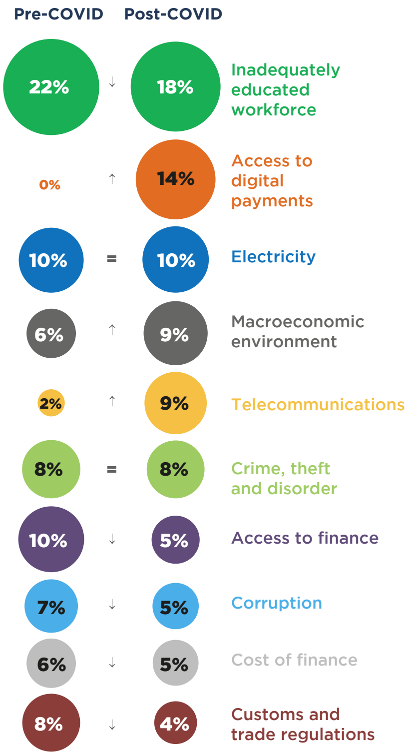
Disparate pandemic impacts could be due in part to differences in the length and stringency of lockdown measures. Combining the IFPG survey with data from the World Bank's COVID-19 Follow-up Surveys[5] and the Oxford University Stringency Index,[6] a positive correlation is seen between lockdown stringency levels and the proportion of firms reporting a decline in sales. This pattern is observed across countries worldwide, and the correlation is stronger for the Caribbean, suggesting that lockdown measures that restricted mobility have indeed affected economic activity.[7]

Overall, 90% of firms have qualified the impact of COVID-19 on their business as negative. Perceptions of impact vary by country, with as much as 18% of firms in Barbados reporting a neutral or positive impact from COVID-19, while only 5% of firms reported the same in Jamaica and Trinidad and Tobago. The three most prevalent impacts for the region as reported by firms were lower sales (89%), lower capital utilization (85%), and reduction in labor (34%). Overall, firms in services and retail experienced greater declines in each of these areas compared to manufacturing firms.

The pandemic has caused a shift in firm priorities. Before the pandemic less than 1% of firms perceived access to digital payments as a major obstacle to doing business (Figure 1). However, since the pandemic, access to digital payments has become the second highest ranking challenge for firms (14%). An inadequately educated workforce remains the top concern for firms.

1. These estimates remove two outliers in the data: Guyana, which is estimated to have grown by 40% as a result of oil discovery, and Venezuela, which is estimated to have contracted by over 30% for two consecutive years.
2. IMF (2021). Regional Economic Outlook Western Hemisphere.
3. Conducted by the Compete Caribbean Partnership Facility.
4. See, for example, Apedo-Amah et al. (2020). Unmasking the Impact of COVID-19 on Businesses. Or Muzi et al. (2021). Productivity and Firm Exit during the COVID-19 Crisis.
5. See https://www.enterprisesurveys.org/en/covid-19.

Figure 1. Biggest Obstacles for Doing Business (pre- and post-COVID-19)

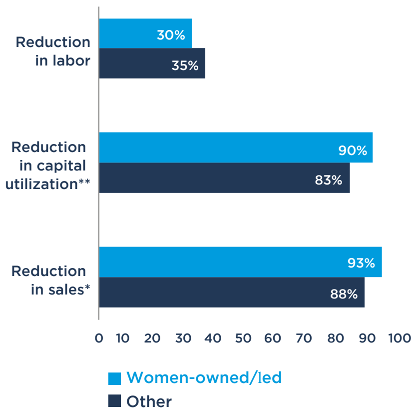


Note: Figure presents the top 10 obstacles identified by firms in the post-COVID period and compares against their position pre-COVID (% of firms selecting each category).

Impacts on women-owned/led businesses[8] and SMEs have been larger. Women-owned/led firms were significantly more likely to report reduced sales (93%) and capital utilization (90%) when compared to the rest of firms. Despite this, there were no statistically significant differences in reduction in labor (Figure 2). One possible explanation is that women-owned/led firms may have used different business tactics to cope with the pandemic. Another possibility is that they tend to operate with "barebones" staffing with limited room for cuts. For example, prior to the pandemic, women-owned/led firms had 33 employees on average compared to 53 for other firms. Among SMEs, 36% reported experiencing a reduction in labor, versus 20% of large firms.

Firms that implemented telework and supply chain strengthening strategies were more likely to be resilient. Among firms that had no change or an increase in their workforce during the pandemic (i.e., more resilient firms) 39% implemented strategies related to telework and 27% to maintaining supply chains, as opposed to 9% and 8%, respectively, for firms that reported workforce reductions. Firms that implemented strategies related to sustaining their supply chains were more likely to maintain or increase their sales, capacity utilization, and workforce.

Figure 2. COVID-19 Impacts on Firms - Gender Differences (% of firms)



*Note: * Statistically significant at the 10% level, ** at the 5% level, ***at the 1% level.*

Targeted firm support is needed for a private sector-led recovery. Almost one-third of firms see bankruptcy or insolvency as a major risk brought on by the crisis. On average, firms expect it will take at least 13 months before they make a complete recov-ery. Additionally, 34% of firms consider that they will require technical assistance to ramp up their operations post-COVID, particularly related to training programs for employees on digitalization and online production and operation; networking programs to develop new foreign markets or attract new clients; and diversification of marketing and operations support programs.

LOOKING FORWARD

Public policies and development finance institutions (DFIs) have a key role to play in supporting firm recovery on a path to sustainable growth in the Caribbean. On the policy side, improving the business environment and worker skills in this new highly digital economy, as well as continued support for infrastructure and logistics investments are among the top priorities. For DFIs such as IDB Invest, spurring recovery calls for facilitating access to short- and long-term financing for firms, particularly for smaller firms in the most affected sectors and segments, as well as deploying technical assistance to help firms reignite their operations. ■

Additional Information

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This DEBrief summarizes the findings of the study by Acevedo et al., (2021), The Impacts of the COVID-19 Pandemic on Firms in the Caribbean, which is part of IDB Invest's Development through the Private Sector Series.

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6. The Oxford Stringency Index is a composite measure of the strictness of "lockdown style" policies that primarily restrict people's behavior.
7. For more on the effects of the pandemic on economic activity and mobility in the region, see the IDB Group's Coronavirus Impact Dashboard.
8. Women-owned/led firms refer to those that are predominantly or entirely owned by women or at least 20% owned by women with a female top manager.