Exploring Firm Level Innovation and Productivity in the Caribbean

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EXPLORING FIRM-LEVEL INNOVATION AND PRODUCTIVITY IN DEVELOPING COUNTRIES

The Perspective of Caribbean Small States

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Are Caribbean businesses innovating?

Non-innovators 15%

Potential Innovators 59%

Innovators 26%
BARRIERS TO INNOVATION AND FIRM PRODUCTIVITY IN THE CARIBBEAN

WHAT ARE THE OBSTACLES TO INNOVATE?

Only 26% of firms in the region are innovating.

Firms face four main barriers to innovation with cost (financial resources and direct public funding for innovation) being the greatest perceived barrier.

What can we do to lower these barriers and increase innovation in the region?
THERE IS A NEGATIVE RELATION BETWEEN INNOVATION AND ACCESS TO FINANCE

LIMITED FINANCIAL ACCESS HURTS INNOVATION IN THE CARIBBEAN

Access to finance constraints negatively affect innovation, affecting process innovation more than product innovation.

Firms with financial access

Firms without financial access
Does competition hinder or help innovation in the Caribbean?

The current level of competition in the region is below the maximum threshold, which may indicate that there is still room to stimulate an increase in innovation expenditure by promoting more competition.

Competition from the informal sector also stimulates innovation expenditure by firms, and exerts even more pressure than formal competition.
The use of foreign material inputs by domestic firms increases the likelihood that the firm will undertake product or process innovation and positively affects labor productivity.

Despite the prior, foreign firms were not found to influence the local firm’s decision to innovate and did not have knowledge transfer spillovers or an innovation effect.
HOW DO FIRMS RESPOND TO UNRELIABLE POWER SUPPLY?

Firms with higher exposure to outages are less likely to introduce innovations in goods or services and may experience long-term consequences on firm performance and industry development.

42% of firms own generators for their electricity needs.

A one-standard deviation increase in outages is associated to a 3% reduction in employment.
About public support programs...

• Larger, more productive, domestic firms more likely to participate

• Firms that participate *increased*:
  – Sales
  – Ability to develop new products/processes
  – Innovation expenditure
  – Productivity
  – Training of employees

→ Female-led firms participate less, as well as those that admit to having avoided taxes
Thank you

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