

EFFECTS OF RED TAPE ON BUSINESS AND ECONOMIC DEVELOPMENT

Red Tape Survey

Working Paper
WP/23/03

MAY 2023



CENTRALE BANK
CURAÇAO & SINT MAARTEN

CBCS Working Paper
Economic Analysis & Research Department

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Development**

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Reggie Martes*
R.Martes@centralbank.cw

May 2023

The views expressed are those of the author and do not necessarily reflect those of the Centrale Bank van Curaçao and Sint Maarten (CBCS).

ABSTRACT

Many developing countries, including Curaçao and Sint Maarten, experience slow or even negative economic and productivity growth. One of the possible reasons for this is the presence of red tape where over-bureaucratization and over-regulation obstructs business performance in terms of dynamic adaptation, innovative power, and entrepreneurial activities. This paper provides the results of a survey conducted between December 2021 and February 2022 among private companies to obtain a better understanding of how red tape affects business performance and, ultimately, economic development in Curaçao and Sint Maarten. The survey was developed based on existing literature on the subject and input of experts.

JEL Classification Numbers: C83, D73, G28

Keywords: Administrative requirements, regulatory compliance, bureaucracy, red tape, survey.

**I would like to express my sincere appreciation to Candice Henriquez, Eric Matto, Nathan Sulvaran, Guy Cozijns, Steven Damiana, Prof. dr. Jakob de Haan, Sharilyn Bryson and Jude Houston for their interest, support, and valuable contribution to this paper.*

1. Introduction

The economic performance of Curaçao and Sint Maarten has been weak over the past decade. In Curaçao, the average real GDP growth between 2010 and 2021 was -2.0% while Sint Maarten registered an average real GDP contraction of 1.0%.¹ Meanwhile, public debt of both countries has increased sharply over the past decade, surpassing 50% of GDP. In addition, the unemployment rate in both Curaçao and Sint Maarten reached double digits by 2020². To a great extent, the weak economic performance in Curaçao can be ascribed to the spillover effects of the deep economic and humanitarian crisis in Venezuela that caused also a change in the country's economic structure. Consequently, the economy of Curaçao became less diversified with the share of tourism increasing at the expense of other industries such as oil refining, international financial services, and free-zone activities. Meanwhile, Sint Maarten was severely hit by Hurricane Irma in 2017 that caused massive destruction to the island's infrastructure. The economic situation in both countries was aggravated further by the COVID-19 pandemic that basically brought economic activity to a standstill in 2020.

According to Kloeze (2012), high government deficits and debt, and low economic growth prompt governments to come up with structural reforms to boost competitiveness and reduce unemployment. Several studies have emphasized the need to address structural weaknesses in both Curaçao and Sint Maarten to achieve a higher pace of growth, improve debt sustainability, and reduce unemployment. One of these structural weaknesses is the presence of red tape as it affects economic development and slows the pace of growth. According to Djankov et al (2006) identifying and implementing reforms that reduce red tape can accelerate economic growth.

Measuring and analyzing red tape is a challenging task. Firm-level studies on the consequences of red tape on private business performance are scarce (Witteloostuijn and de Jong, 2011). Research on the impact of red tape in Curaçao and Sint Maarten is limited. One study in Curaçao indicated that even after the government of Curaçao took several measures to reduce red tape, the problems identified as main burdens to firms were still not mitigated (Cozijns, 2018).³

In a study conducted by the OECD in 2005, a number of administrative barriers, in particular for starting a new business, obtaining permits for foreign nationals, and migration regulations, were identified as a burden in Curaçao. Years later, i.e., 2013, a study on the long-term economic development of Curaçao, the so-called TAC report, showed that the same barriers were still clearly present, like cumbersome customs clearing procedures and complex labor law regulations (TAC report, 2013).

¹ Excluding the economic shock caused by the COVID-19 pandemic, the average real GDP growth is -0.9% for Curaçao and -0.4% for Sint Maarten over the period 2010 – 2019.

² In 2020, the unemployment rate in Curacao was 19.1% (CBS labor force survey) and 14.9% in Sint Maarten (projection of CBCS as there was no labor force survey by the Statistics department).

³ For example, in Curaçao, the government initiated the Investment Task Force Committee in 2013 to speed up the release of stalled projects.

Additionally, business associations have criticized the government procedures as being inefficient and called for reducing the burden caused by red tape. International organizations like the IMF and the OECD also questioned and addressed the issue of red tape in both Curaçao and Sint Maarten.⁴ Still, there is hardly any academic research into the effects of regulation and red tape on business performance and economic development in Curaçao and Sint Maarten.

Internationally, extensive research has been done on different areas of red tape. Considering that several studies indicated that there is a negative effect on business performance and economic growth, it is important to analyze to what extent red tape affects public and private organizations' performance and, indirectly, the economies of Curaçao and Sint Maarten.

The main purpose of this study is to get insights into the effects of red tape on business performance and economic development and provide recommendations to minimize the negative impact of red tape. The paper is structured as follows. First, in section 2 a review of the existing literature is provided, followed by the variables and methods used to gather the needed data in section 3. In section 4, the data and results will be described and analyzed. The conclusion and policy recommendations are discussed in section 5.

2. Literature review

2.1 Defining and measuring red tape

There are various names used to refer to the problems associated with excess or unnecessary rules and procedures, including administrative tape, red tape, bureaucracy, and regulatory burden or compliance. In this research paper, all the above-mentioned names are used to address the subject. Rosenveld (1984) provided a definition of red tape which is still applicable today:

"Guidelines, procedures, forms and government intervention that are perceived as excessive, unwieldy, or pointless in relationship to decision-making or implementation of decisions".

This definition includes an important aspect of red tape that is often underscored, namely excessive rules and regulations.

A key concept that was used in studies on red tape in public organizations, which was primarily developed by Bozeman (1993), implies excessive or meaningless paperwork and unnecessary rules or procedures. In a later research, Bozeman (2000) defined red tape as *"rules and procedures that remain in force and entail a compliance burden but do not serve the legitimate purposes the rules were intended to serve"*. Red tape can mean different things to different managers, which may hamper validity. In general, various empirical studies on this subject focus

⁴ For example, the IMF reports on the Article IV Consultation with the Kingdom of the Netherlands—Curaçao and Sint Maarten in 2019 and 2021 emphasized the importance of addressing red tape in both countries.

on administrative burden in organizations.

Researchers define the term red tape in various ways but, in general, all these definitions share the same concepts. Pandey and Kingsley (2000) define it as *"burdensome administrative rules and procedures that have negative impacts on the organizations' effectiveness"*. Moynihan and Herd (2010) focused on the impact of red tape on organizations and how the organizations perceive red tape. According to these authors, red tape is a broad term that can be described as procedures and rules imposed on public and private sector organizations that can have a negative effect on these organizations. It can consist of conditions, laws, rules, or procedures drafted and/or imposed by the government or within (private) organizations that may negatively affect effectiveness of a countries' business environment.

Some studies aim to quantify red tape in terms of costs for organizations and economies. The World Bank Group uses the well-known annual Doing Business (DB) indicators, a worldwide comparative measurement of the time spent by small and medium sized companies dealing with red tape. Doing Business (2020) captures several important dimensions of the regulatory environment as it applies to local businesses. It provides quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. It is a tool to measure how the business environment is affected by licenses. In addition, it measures regulation on employing workers. The gathered data and analyses provide a benchmark for economies to compare and compete towards more efficient regulation. In addition, it provides valuable indicators for the private sector and other stakeholders interested in a country's business climate.

Another measurement tool that has been used over the last few years is the Standard Cost Model (SCM). According to the World Bank Group (2010), the SCM has become the regulatory reform tool of choice in the European Union and OECD countries for identifying and reducing regulatory compliance costs. SCM provides a relatively simple methodology to measure and communicate administrative burdens imposed on the private sector, like businesses' paperwork obligations arising from compliance with governments' regulations. It was developed in the Netherlands in the early 2000s and enables an analysis of how specific regulatory requirements determine certain administrative activities, which are quantified in terms of time and costs. By measuring the cost on society or the savings obtained, SCM is a powerful tool in creating political commitment for regulatory reform and raising awareness about ongoing reforms. Due to its detailed measurement requirements, it is, however, difficult to apply the SCM model in developing and emerging economies, where data availability is relatively poor.

Moreover, a popular tool for measuring the extent of red tape is through surveys. Surveys are also used to measure how the private sector is affected by licenses. A survey often calculates the average cost of licenses for a representative sample of firms with a focus on the total regulatory compliance cost for companies.

All these tools have a different focus and/or angle. The DB methodology is mostly used to compare countries' position in dealing with red tape, the SCM looks for detailed compliance costs for each individual license, while the survey methodology can provide more reliable information about the actual administrative costs and delays that businesses face (see Table 1). The SCM has a significant advantage in being less costly in terms of time and money, while the survey provides more robust data on the full range of experiences of a representative sample of businesses, which then can be used for a rigorous scientific analysis.

Table 1 Red tape measurement tools

Doing Business Indicators	Standard Cost Model	Business Surveys
Time and cost a firm should expect to spend if a standardized process in a certain predetermined scenario is carried out in accordance with the law.	Annual administrative burdens imposed on the private sector by information obligations ("obligations arising from regulation to provide information and data to the public sector or third parties").	Annual administrative burden per firm.
<i>E.g., time and cost that a small or medium sized enterprise spends when applying for a construction permit and utility connection to build a warehouse with a number of predefined features.</i>	<i>E.g., a legal requirement to keep a register of sales, or to submit a license application.</i>	<i>E.g., time spent dealing with licenses annually per firm, official costs, hiring of external staff, and waiting time for each license.</i>

Source: World Bank - Measuring red tape in developing countries 2010

2.2 Determinants of red tape

Due to the inefficiencies in government organizations in the early 2000s, several reforms were proposed around the world. In this period, reforms were based on the private management philosophy, embedded in neoclassical economics, that recommends privatization, market competition, and deregulation (Evetts, 2009). The new public management (NPM) idea was introduced with a vision to facilitate cooperation and consensus-seeking via more flexible and flat organizations (Marinetto, 2003). But these ideas generated adverse outcomes as the decentralization of public services was accompanied by increased centralized control over the strategies and policies of the decentralized units. This paradox is an example of the often-observed counter-expected results of policy initiatives: decentralization leads to centralization and to formalized and rigidly structured hierarchies rather than flexible and network type of organizations (Diefenbach, 2007).

Private and public organizations aim to design cheaper, smaller, and more effective systems. To find a balance in being more efficient and maintaining or delivering better service remains a challenge to most organizations. As a result, governments try different ways to improve performance, e.g., by reducing costs through decentralization of services and imitating private sector styles of managing. In this context, the added value of regulations causes a lot of debate.

Rules are needed in democratic societies, but how many regulations are required remains an open question. There is a tendency that the amount and detail of regulations continue to grow indefinitely in many countries, resulting in more bureaucracy and red tape (De Jong & Witteloostuijn, 2015). The focus on developing regulations is essential to regulate and serve general interests of a community, but this essence also brings a stream of bureaucracy with it.

DeHart-Davis (2008) made a distinction between “green” and “red” red tape. On the one hand, regulations may have positive side-effects, such as a contribution to democratic equality (green), but, on the other hand, regulations may also have negative effects as they embody obligations, rights, and interests and, therefore, constrain the allocation of attention, priorities and perceptions (red). Rules can also be varying, inconsistent and obligatory. Furthermore, it is difficult for policymakers to know exactly from the beginning how a particular regulation will turn out in practice; one cannot foresee all future contingencies *ex ante* when introducing a regulation to solve a particular problem. As policymakers are not aware of the marginal effect of an additional regulation, they will continue to create new ones under the presumption that each regulation by itself is green and will have a particular (unknown) goal to serve.

Nevertheless, procedures, regulations and guidelines are important to achieve environmental, economic, and social targets, and to protect the rights of employees, employers, consumers, and investors. However, the legal system must be dynamic and practical, and not set in stone to block activities, while offering stability. Similarly, the procedures should not produce counterproductive gaps between legal rules and actual practices or behavior. It is important to keep a stable balance between legal matters, economic growth, and societal development (Witteloostuijn and De Jong, 2011). To keep up with new developments, legal rules and procedures also must evolve over time.

Typically, red tape in organization procedures and systems is caused by a multitude of factors ranging from corruption, poor management skills, lack of formal procedures, poor design of procedures, and little oversight of the performance of procedures to staff simply not following procedures. Since there are several factors that can cause red tape, “one-size-fits-all” reforms typically introduced and adopted by governments are unlikely to achieve the desired results (Brewer and Walker, 2010).

2.3 Consequences of red tape

Research shows that that a good (efficient) business environment (because of low red tape burden) could lead to lower costs and, consequently, higher net incomes for businesses resulting in more government revenues and improved country competitiveness. For instance, Djankov et al. (2006) found that economies with good business regulatory environments grow faster than those without. Barseghyan (2008) showed that entry costs can increase the informal sector and decrease job creation, which in turn is likely to hurt economic performance. Moreover, Freund and Bolaky (2008) covered the effects of a country’s openness to trade in areas including business entry, labor productivity, and property registration. They found that

trade leads to higher living standards in economies with flexible regulatory environments but not in those with rigid regulatory environments.

Over time, a variety of instruments and analyses, such as regulatory impact assessments, cost/benefit analyses and regulatory burden measurement frameworks have been developed to better assess the impact of red tape on business performance (Witteloostuijn and De Jong, 2011). Various government institutions and (international) organizations are using these types of instruments to measure or reduce the administrative burden on business performance and economic growth.

According to Rauf (2020), the existence of red tape has directly and indirectly disturbed working systems of businesses, resulting in lower productivity and profitability. Many countries experience slow productivity growth. One of the possible causes for this could be over-bureaucratization and over-regulation that obstruct dynamic adaptation, innovative power, and entrepreneurial activity (Witteloostuijn and De Jong, 2011).

Red tape has not only impacted businesses but also weakened countries' economies. The main concern regarding red tape is excessive rules and regulations. The stringent implementation of these can gradually weaken the effectiveness of public and private organizations. In most developing countries, these policies and regulations are old, weak, and fail to fulfill the purpose they were intended for (Subramanian and Kruthika, 2012). As a result, organizations in these countries are impacted by delays induced by red tape because actions are not completed on time. In addition, there is a higher chance of corruption in public organizations, and programs fail to be executed by the date promised. This may lead to undesirable beliefs in the community that government officials most of the time must be bribed to complete their work in a timely manner. In addition, it harms economic growth by generating inefficiencies and wasting resources (Djankov et al., 2006).

Red tape also affects businesses' decision-making and the workforce of public organizations (Subramanian and Kruthika, 2012). When a government organization has a centralized decision structure, it tends to affect the performance of a business more as the centralized decision-making reduces employee empowerment. This is one of the reasons why governments may consider privatizing public organizations as these organizations perform poorly and dissatisfy their customers. In addition, a high degree of red tape in an organization can exhaust employees and, as a consequence, good but unsatisfied employees may leave. Therefore, prevalence of red tape can have negative effects on public organizations by affecting the motivation and performance of their workforce, impeding change, among other things.

2.4 Public-private differences in red tape

Much of the early debate concerning red tape focused on the question whether public or private organizations have higher levels of red tape (Buchanan, 1975). In general, public organizations are expected to have higher levels of red tape because of the political scrutiny and

separation of powers in public administration (Baldwin, 1990). Nevertheless, employees of businesses perceive higher levels of red tape than those of public organizations according to Buchanan (1975). This unexpected result led to a stream of research on public-private differences of red tape. Most of these studies found that red tape is higher in public organizations than in private ones, contradicting Buchanan's results. For example, Bozeman (1993) and Pandey and Kingsley (2000) confirm that public organizations are more likely to have higher levels of red tape than private organizations. This resulted in the increased outsourcing and privatization of government tasks in the 1990s and early 2000s (Kloeze, 2012).

2.5 Research on red tape in Curaçao and Sint Maarten

Even though red tape has been an issue for decades in Curaçao, it is not clear how much has been done to tackle or reduce red tape concerns effectively. Addressing red tape is, however, a complex matter as it requires cooperation and action from different stakeholders. In addition, it is quite an exercise to calculate the costs associated to administrative tape in a detailed and comprehensive manner as regulatory costs can refer to various types of costs including, administrative, compliance, capital, and opportunity costs.

Although not much research has been done so far on the impact of red tape in Curaçao, several international organizations or consultancy firms, including the IMF, the OECD and TAC, have provided recommendations on how to address this issue as it is a barrier to sustainable economic growth. However, according to Cozijns (2018) there are no studies that quantify the impact of red tape on the private or public sector in Curaçao, let alone the impact on GDP growth. Recently, La Cruz & Van der Veur (2021) designed an action plan for reducing red tape in Curaçao based on the Ease of Doing Business methodology of the World Bank.

In the case of Sint Maarten, no specific research on red tape has been done but there seems to be concerns on the extent of red tape. Although Sint Maarten has registered higher economic growth figures than Curaçao over the years, one cannot conclude that red tape did not hinder economic growth in Sint Maarten. Sint Maarten faces similar socio-economic issues as many other Caribbean countries, including high government debt, structural trade deficit, small scale, high degree of openness, vulnerability to natural disasters, low degree of competitiveness, and middle-income trap (Van Buiren and Gerritsen, 2020). Red tape may amplify the negative impact of these characteristics and, as a result, affect the country's economic development.

3. Data and method

This section describes the data and methodology used in this study.

3.1 Survey and sample

A survey was designed based on literature review and the input of several experts, including research specialists and experts from the chambers of Commerce of Curaçao and Sint Maarten.

In addition, a pilot survey was conducted that provided valuable feedback from various respondents of the business community. The assessment by the experts and business community yielded a set of tailor-made questions. Also, the categories and wording of a few items were modified based on the feedback received. Thereafter, the final version of the survey was inserted in the application Survey Monkey, which provided a link that was sent to the participants. The survey was conducted from end-November to mid-December 2021 in Curaçao and from mid-February to the end of March 2022 in Sint Maarten.

The questionnaire contained 23 questions divided into four sections: (1) questions on the characteristics and performance of the business, (2) time and cost spent on regulatory compliance, (3) administrative and regulatory requirements, and (4) recommendations on how to reduce red tape in Curaçao and Sint Maarten. The survey contained primarily multiple-choice questions and some open questions. The type of questions and their order were designed in such a way to avoid boredom by the respondents, as the easy questions were asked first, followed by the more technical questions, and some open questions at the end.

From the database of the respective chambers of Commerce, a random sample of 1,532 companies in Curaçao and 1,341 companies in Sint Maarten were selected, stratified over the sectors of the economy. The representative stratified random sample method was used to obtain a good representation of each economic sector in the sample.

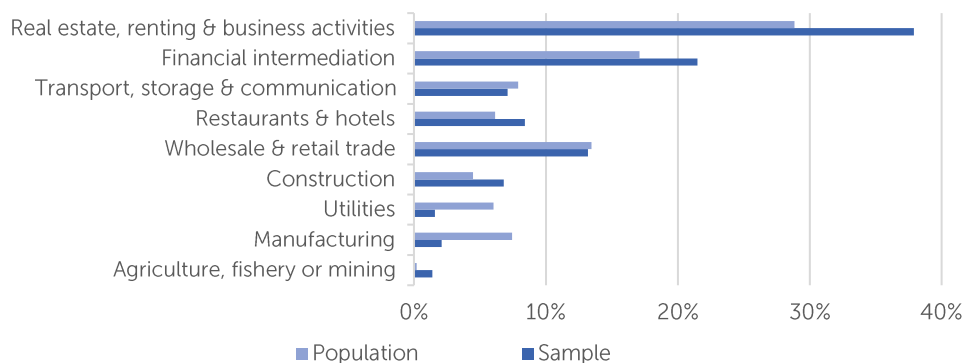
A communication strategy was implemented in such a way to obtain satisfactory response rates. The surveys were sent by email to all companies that were selected in the sample. The email explained the purpose of the study that was presented as a collaboration between the Central Bank of Curaçao and Sint Maarten and the respective chambers of Commerce. In addition, the respondents were assured that their answers would be treated with confidentiality and anonymity. The respondents were sent four reminders via email to encourage them to complete the survey. The survey was announced via press releases in the local media (i.e., newspapers and radio stations) and through the CBCS' social media platforms. In addition, the chambers of Commerce promoted the project on their social media platforms to help reach more respondents. Furthermore, different business associations were approached to promote the project via their respective platforms. Companies in the sample were also called by phone to control whether they had received the survey and to encourage them to complete it.

Of the companies that were approached, 775 completed the survey, of which 440 in Curaçao and 335 in Sint Maarten. Hence, the average response rate was approximately 27.0%. This is higher than for business surveys held in the Netherlands and OECD international surveys, which report response rates of between 10-20% (Van Witteloostuijn & De Jong, 2011). Furthermore, it is in line with the targeted sample size from the population with a confidence interval of 95%, a margin of error of 5%, and a standard deviation of 0.5.

A representative sample of the populations of businesses in Curaçao and Sint Maarten is a prerequisite for this study to come up with good results and recommendations. Graphs 1A and

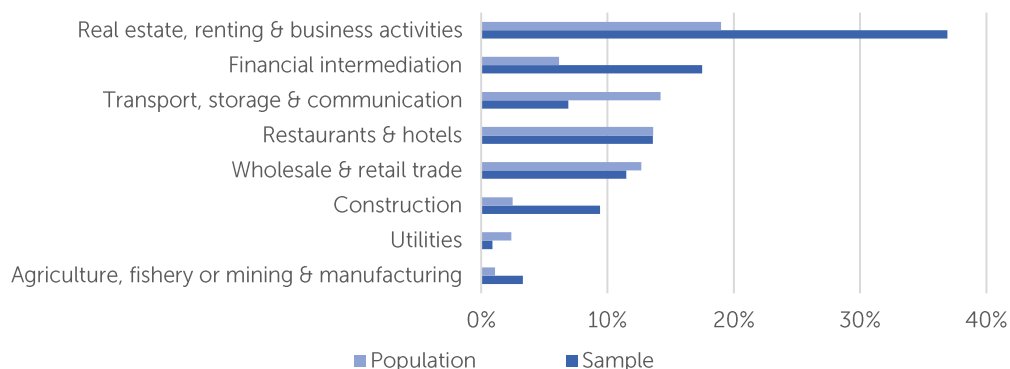
1B compare our sample and the distribution of firms of each island according to sector. The graphs show that our sample is reasonably representative of the populations of both Curaçao and Sint Maarten. Graph 1A shows the distribution of the sectors in Curaçao, while Graph 1B shows that of Sint Maarten.

Graph 1A Sample vs population Curaçao



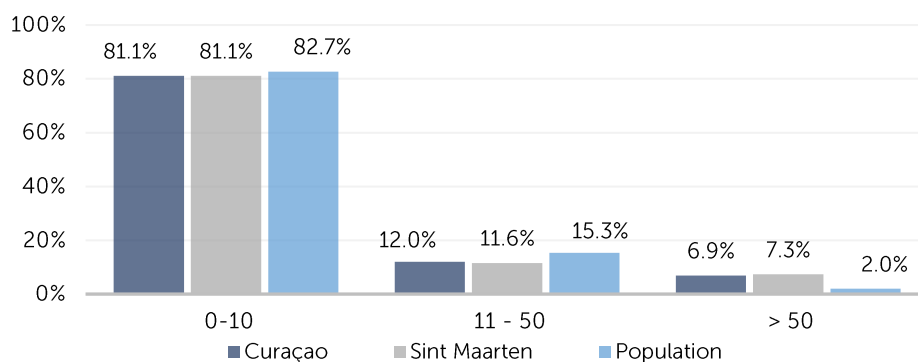
In Curaçao, however, the sample differs considerably from the population in the sectors real estate, renting and business activities, utilities and manufacturing. Meanwhile, in Sint Maarten, there are large differences in the sectors financial intermediation, construction, real estate, renting & business activities, and transport, storage & communication.

Graph 1B Sample vs population Sint Maarten



The sample is also a decent representation of the population distributions by firm size measured by the number of full-time employees in the countries. In Graph 2, the firm size by number of employees is classified as small (0-10), medium (11-50) and large (>50). The overwhelming majority of the firms in Curaçao and Sint Maarten are small or medium-sized enterprises. Over 80.0% of the respondents employ less than 10 employees.

Graph 2 Firm size by number of employees



**For illustration purposes, the average population of firm size of both islands combined was used.*

3.2 Variables and hypotheses

Secondary data of firm performance are not publicly available in Curaçao or Sint Maarten. Most firm performance data, including revenue, size, and profit, are registered with the tax authorities, but cannot be shared with third parties. In addition, due to their size and legal status, most companies are not required to publicly report performance data. This lack of data makes it difficult to perform, for example, a year-to-year comparison between firm performance and regulatory burden to assess whether adjustments should be made to the regulatory framework.

To analyze and test how red tape affects business performance, data were collected on four categories of variables in the survey. Each category was included in a separate section of the survey. Table 2 shows the four categories of variables and their description. In addition, the table indicates the number of the question that was used to collect data on a particular variable.

Table 2 Variables

Variable	Description	Question
Firm indicators:		
Industry	Economic sector	Q1
Firm age	Years active in business	Q2
Firm size	Turnover and FTE's	Q3 and Q4
Type of business	Legal status	Q5
Local/foreign	Export/import company	Q6
Red tape variables:		
Regulatory cost	Yearly cost of administrative requirements	Q7
	Development on cost of complying	Q8
	Time spent per week	Q9
	Amount of staff members to manage compliance	Q10
	Rate on regulatory compliance cost	Q11
	Rate on various actions cost	Q12
<hr/>		
Regulatory burden	Reporting same info	Q13
	Government consultation	Q14
	Prevention of growth, innovation or profitability	Q15 and Q16
	Government actions	Q17
	Institutions burden on compliance	Q18
	Days to open new business (open question)	Q20
	Difficulties to open business (open question)	Q21
<hr/>		
Recommendations	Administrative requirements	Q19
	New policies to improve business (open question)	Q22
	Adjust policies to improve growth (open question)	Q23

To compare among sectors, firm size, and status, data were collected on characteristics of the firm in the first section of the survey. These data were also used as control variables to examine whether characteristics such as age of firm or firm size (in terms of turnover or number of employees) affect the perceived administrative burden. Also, the data were used to assess whether the extent of administrative burden differs between economic sectors or firms with a different legal status.

In the second section, data were collected on the red tape variables, i.e., regulatory compliance and administrative requirements. The respondents were asked: (i) to quantify costs in monetary terms related to time and number of personnel spent on administrative requirements, and (ii) whether these costs have increased over time. In addition, some questions covered profitability and innovation impediments caused by red tape, and inquired which ((semi) government) organizations created administrative burden on businesses.

Respondents were asked to evaluate and rate regulatory compliance procedures and actions in the third section of the survey. These were measured using a five-point Likert scale with

categories ranging from not costly to very costly. Empirical studies performed by Bozeman (2000) showed that Likert-type of scales can be used to measure the effect of red tape.

The final section was aimed at gathering recommendations from the firms on how to reduce red tape in Curaçao and Sint Maarten. Apart from using a Likert scale to obtain insights into what measures should be taken to reduce administrative requirements, some open questions were included to gather more information on difficulties perceived by firms and changes in legislation and policies that firms consider essential to reduce red tape.

To obtain more insights into the burden of administrative requirements on businesses, two hypotheses were constructed and tested.

The first hypothesis is to test whether firm size matters when it comes to regulatory burden. According to the OECD (2001), larger firms tend to report higher regulatory burden. Hence, if size matters when it comes to regulatory burden, then authorities would have to consider treating businesses differently regarding compliance and administrative procedures depending on their size (e.g., small versus large businesses).

Hypothesis 1 – H1: Larger firms face a higher regulatory burden than small firms.

Second, it is also important to see whether there are differences in regulatory burden across sectors of the economy. Identifying the regulatory difficulties across sectors can help in making more efficient (tailor-made) procedures for specific issues companies encounter in their sector.

Hypothesis 2 – H2: Regulatory burden differs across economic sectors.

4. Empirical analysis

This section provides the empirical analysis of the data collected through the survey. The section is divided into three subsections; the descriptive statistics, the statistical analysis on the findings of red tape on business and economic development, and a discussion of the results.

4.1 Descriptive statistics

In this section, descriptive statistics are used to provide insights into firm characteristics, and regulatory costs. Specifically, the mean, standard deviation (SD), and correlations are shown for each country separately.

Table 3A Curaçao: descriptive statistics

	Mean	SD	1	2	3	4	5	6	7	8
1 Firm age	2.9	1.1	1.0							
2 Annual turnover	2.7	1.8	0.6	1.0						
3 FTE	1.7	1.3	0.4	0.7	1.0					
4 Legal status	2.3	1.1	0.6	0.5	0.3	1.0				
5 Annual cost of administrative requirements	2.2	1.5	0.4	0.6	0.6	0.4	1.0			
6 Complying with government regulation	1.9	1.2	-0.3	-0.3	-0.2	-0.2	-0.2	1.0		
7 Weekly time spent on regulatory requirements	2.6	1.6	0.1	0.2	0.2	0.2	0.3	-0.1	1.0	
8 Amount of staff managing compliance	1.7	0.9	0.4	0.6	0.6	0.4	0.6	-0.2	0.3	1.0

The descriptive statistics show that the average age of firms in Curaçao that participated in the survey have been active 5-10 years (a mean of 2.9 on a scale of 1-4 with 3 being 5-10 years) with turnover being on average approximately NAf.100.000-500.000 annually.⁵ On average, the firms have 6-10 employees (on a scale of 1-6 with 2 being 6-10 FTEs), and their legal status is a limited liability company (NV or BV). The total cost of administrative requirements per year is on average around NAf.5.000-20.000⁶ while firms spend 6-10 hours per week on government regulatory requirements.

Table 3B Sint Maarten: descriptive statistics

	Mean	SD	1	2	3	4	5	6	7	8
1 Firm age	2.9	1.1	1.0							
2 Annual turnover	2.8	1.7	0.6	1.0						
3 FTE	1.7	1.3	0.4	0.6	1.0					
4 Legal status	2.5	0.9	0.4	0.5	0.3	1.0				
5 Annual cost of administrative requirements	2.5	1.4	0.4	0.6	0.4	0.4	1.0			
6 Complying with government regulation	1.9	1.2	-0.3	-0.3	-0.2	-0.2	-0.2	1.0		
7 Weekly time spent on regulatory requirements	2.6	1.5	0.0	0.1	0.1	0.1	0.2	0.0	1.0	
8 Amount of staff managing compliance	1.7	1.0	0.4	0.5	0.5	0.3	0.5	-0.2	0.2	1.0

Similar to Curaçao, the respondents in Sint Maarten are on average 5-10 years in business with an annual turnover of around NAf.100.000-500.000. The firms employ around 6-10 employees

⁵ On a scale of 1 to 6 with 3 being NAf. 100.000-500.000.

⁶ On a scale of 1 to 6 with 2 being NAf. 5.000-20.000.

on average and their legal status is on average a limited liability company (NV or BV). The companies spend on average NAF.20.000-50.000 annually on administrative requirements. In terms of time, companies spend on average 6-10 hours per week on government regulatory requirements.

In both countries, the annual costs of administrative requirements are positively correlated with annual turnover and number of employees, pointing out that firm size may matter. In other words, larger firms face higher costs due to administrative requirements.

4.2 Statistical analysis

In this section, the answers of the respondents are further analyzed, and some hypotheses are tested. The section includes firm size, sectoral, and efficiency analysis. In addition, the recommendations the respondents provided on how to reduce red tape are discussed.

Firm size

Various studies concluded that firm size matters when it comes to administrative burden. According to a study conducted by the OECD (2001), larger firms tend to report higher regulatory burden. In addition, De Jong and Van Witteloostuijn (2015) indicated that the level of administrative burden varies with firm size. Firm size can be proxied by the number of employees or yearly income. To test whether in the case of Curaçao and Sint Maarten firm size is related to the level of administrative burden, an independent t-test was conducted to compare the mean of two different samples (small versus large firms):

- *Overall cost of complying with government regulations*

A test was conducted on whether there is a difference between small and large businesses regarding the overall costs of complying with government regulations. In this regard, the total number of employees was used to distinguish between small and medium-to-large firms.⁷ In the case of Curaçao, the null hypothesis⁸ was rejected (p-value was 0.001) for a significance level of 5%. Hence, it can be concluded that indeed the firm size matters in Curaçao. In addition, 51.9% of the small businesses indicated that the overall costs of complying with government regulations increased between 2015 – 2019, while this was 68.7% among large businesses.

Meanwhile, with a p-value of 0.066, there is no statistical difference between the regulatory burden of small and large firms in Sint Maarten at a 5% confidence level. These results do not support the findings of Van Witteloostuijn and De Jong (2015) that there is a difference between small and large firms in dealing with administrative burden.

- *Time spent per week on government regulatory requirements*

Table 4 shows the time in hours that small businesses (0-10 full-time equivalent FTE) spend per week on regulatory requirements compared to medium to large businesses (11 FTE or more).

⁷ The distribution of firm size by number of employees is divided by small (0-10) and medium (11-50) to large (>50) sized firms.

⁸ H0: Larger firms do not face higher regulatory burden than small firms.

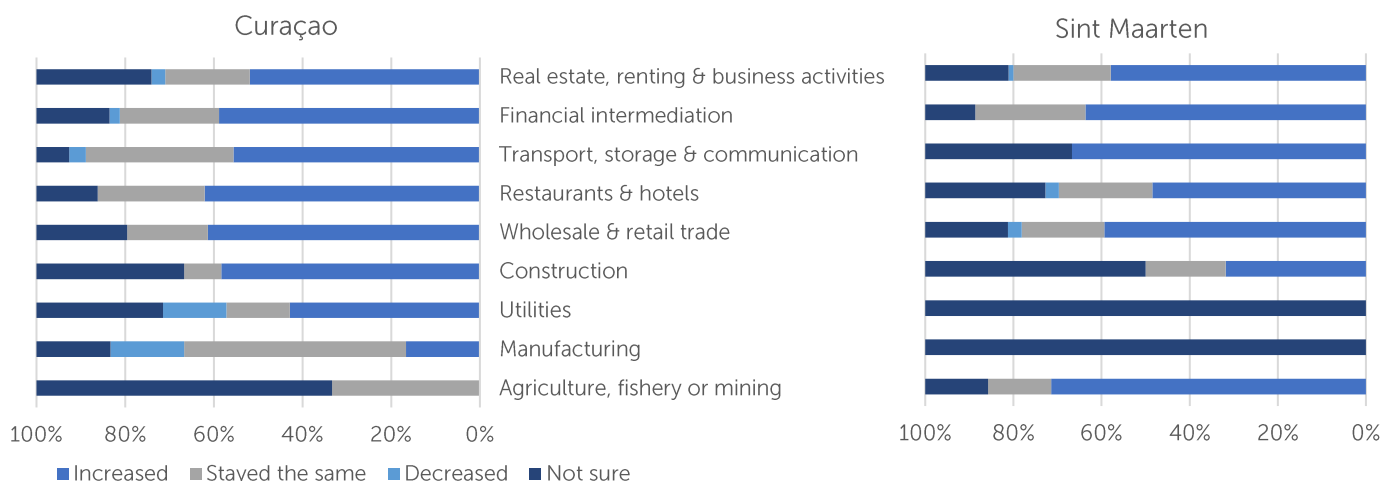
Table 4 Time (in hours) spent per week on regulatory requirements			
		Sint Maarten	Curaçao
0-10 FTE's	0-10 hours	78.6%	80.1%
	11 -20 or more hours	10.2%	8.4%
	Outsourced	11.2%	11.5%
11- 100 FTE's	0-10 hours	77.5%	58.0%
	11 -20 or more hours	10.0%	34.8%
	Outsourced	2.5%	7.2%

A test was conducted to assess whether there is a difference between small and medium to large businesses regarding the amount of time spent per week on government regulatory requirements. For Curaçao, the firm size matters as the null hypothesis that there is no difference is rejected at a 5% significance level with a p-value of 0.003. The results indicate that large firms in Curaçao spend more time per week on government regulatory requirements than small firms. As shown in Table 4, 80.1% of small businesses in Curaçao spend between 0 and 10 hours per week on regulatory requirements while only 8.4% spend more than 10 hours per week. In the case of medium to large businesses, 34.8% spend more than 10 hours per week on regulatory requirements. For Sint Maarten, by contrast, the null hypothesis is not rejected as the p-value of 0.435 indicates that there is no statistical difference when it comes to small or medium to large businesses on time spent on regulatory requirements. This is also showed in the table as approximately 10% of both small and large businesses spend more than 10 hours per week on regulatory requirements.

Sectoral analysis

The perceptions of the respondents in Curaçao and Sint Maarten are more or less equal with regards to the time and costs spent on regulatory compliance. In both countries, more than half of the respondents indicated that the overall costs of regulatory compliance increased over the period 2015 – 2019. Meanwhile, around 20% believe the costs remained the same. Only 2% of the respondents believe the overall cost of regulatory compliance decreased. Graph 3 indicates how survey respondents from different economic sectors perceive the development in the cost of compliance over the period 2015 – 2019 in both countries.

Graph 3 Cost of complying per sector in Curaçao vs Sint Maarten



Graph 3 shows that in Curaçao, restaurants & hotels, wholesale & retail trade, and financial intermediation are the sectors with the highest share of respondents that indicated that the cost of complying with government regulations increased. In Sint Maarten, the share of businesses that experienced an increase in the cost of complying with government regulations was the highest in the transport, storage & communication, financial intermediation, and agriculture, fishery or mining sectors.

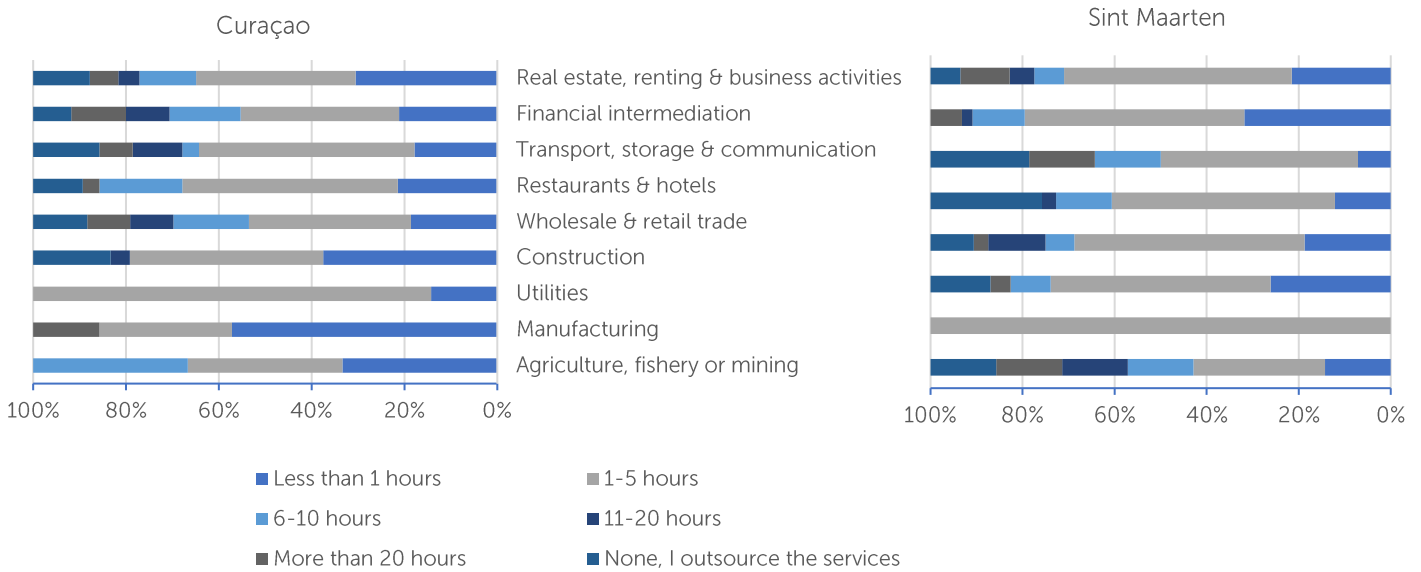
Further analysis using one-way ANOVA⁹ was conducted to test whether there is a difference between sectors regarding regulatory burden, using three separate indicators, i.e., (1) total cost spent on administrative requirements, (2) number of FTEs a business employs to handle regulatory compliance, and (3) time spent per week on regulatory requirements. In the case of Curaçao, the null hypothesis that there is no difference is rejected (p-value was 0.001) for a significance level of 5% when looking at total cost spent on administrative requirements and number of FTEs used to manage regulatory compliance. However, when it comes to the time spent per week on regulatory requirements the null hypothesis cannot be rejected as the p-value was 0.499 and thus greater than 0.05. Therefore, it can be concluded that regulatory burden (specifically total cost of administrative requirements and number of FTEs that handles compliance) differs statistically across economic sectors while the amount of time spent on regulatory requirements does not.

Meanwhile, for Sint Maarten, the null hypothesis cannot be rejected (p-value >0.05) for a significance level of 5%. This means that total cost spent on administrative requirements (p-value 0.096), number of FTEs used to manage regulatory compliance (p-value 0.745), and time spent per week on regulatory requirements (p-value 0.59) do not statistically differ across economic sectors.

The amount of time spent (by employees) on regulatory requirements also indicates the extent of red tape burden. In this regard, the respondents were asked to indicate how much time their business spends per week on government regulatory requirements. As shown in Graph 4, this varied between Curaçao and Sint Maarten but most businesses spend around 1-5 hours per week on regulatory requirements. In Curaçao, businesses in the wholesale & retail trade (35%), and financial intermediation (36%) sectors spend more time on regulatory requirements. In these two sectors, more businesses indicated spending more than 6 hours per week on regulatory requirements. Meanwhile, businesses in the agriculture (33%), utilities (86%), construction (42%), and restaurants & hotels sectors (46%) spend less time on a weekly basis, mostly between 1-5 hours, on regulatory requirements. Businesses in the construction (17%) and transport, storage & communication (14%) sectors tend to outsource the services to comply with government regulatory requirements the most.

⁹ The One-way ANOVA test is used to compare means among three or more independent groups. In this case, it refers to the independent sector groups (see appendix for the statistical tables).

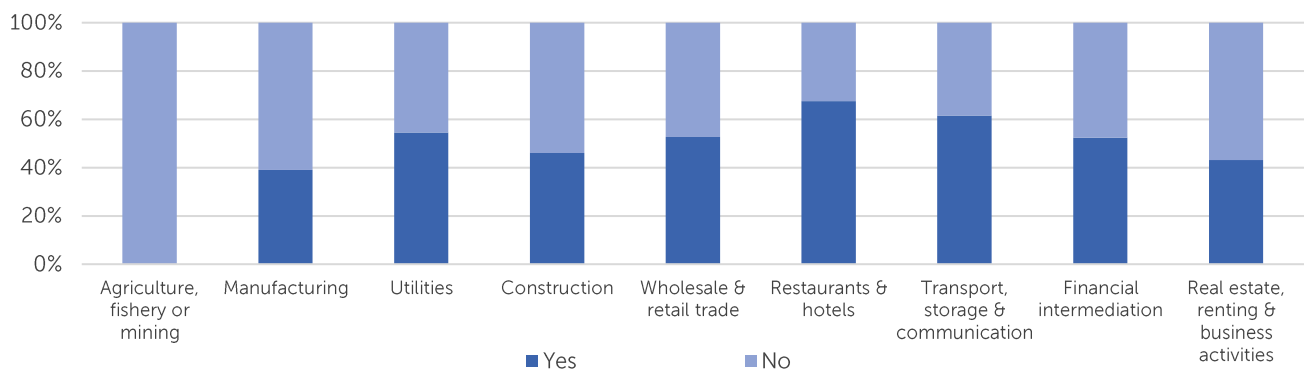
Graph 4 Time spent on regulatory requirements per sector



In Sint Maarten, most businesses (> 45%) in the utilities, construction, wholesale & retail trade, restaurants & hotels, financial intermediation, and real estate, renting & business activities sectors spend around 1-5 hours per week on regulatory requirements. Businesses in the agriculture, fishery or mining (43%) and transport, storage & communication sectors (29%) spend more than 6 hours per week. Furthermore, businesses in the restaurants & hotels and transport, storage & communication sectors tend to outsource the handling of regulatory requirements.

Profitability is an important measure of business performance and success. If administrative obligations are costly, they can put a drag on a business' performance and affect its profitability. For this reason, respondents were asked if complying with regulatory requirements affected their business profitability (see Graph 5A en 5B).

Graph 5A Curaçao: Effect of regulatory requirements on business profitability



As shown in Graph 5, most businesses in the real estate, renting & businesses activities, agriculture, fishery or mining, manufacturing, and construction sectors in Curaçao indicated that complying with regulatory requirements does not affect their profitability. In the other sectors, however, businesses indicate that their profitability is affected by regulatory requirements.

Graph 5B Sint Maarten: Effect of regulatory requirements on business profitability



Businesses in Sint Maarten in the agriculture, fishery or mining, wholesale & retail trade, restaurants & hotels, and transport, storage & communication sectors mostly indicated that regulatory requirements affect their business profitability.

After analyzing the effects of regulatory requirements per sector using cost of compliance, time spent on regulatory requirements, and business profitability, it can be concluded that the regulatory burden differs per economic sector. In Curaçao, businesses in wholesale & retail trade, restaurant & hotels, and transport, storage & communication sectors experience the highest burden. Meanwhile, businesses in transport, storage & communication and wholesale & retail trade indicated to have the highest burden in Sint Maarten. For both countries, sectors with significant added value are perceived to experience the highest burden.

Business efficiency analysis

The respondents were asked on a scale of 1 (not costly) to 5 (very costly) how costly regulatory compliance procedures are for their businesses. On average, auditing and compliance monitoring was perceived as being the costliest for businesses in Curaçao, while this came as the second most costly for businesses in Sint Maarten. Meanwhile, the respondents in Sint Maarten indicated that dealing with the follow-up and liaising with regulators was the costliest on average, while it was the second most costly for businesses in Curaçao (see Table 5).

Table 5 Costliness regulatory compliance procedures

	Curaçao	Sint Maarten
Completing paperwork	3.13	3.30
Complying with and implementing regulatory requirements	3.15	3.39
Finding information and monitoring changes	3.21	3.44
Auditing and compliance monitoring	3.43	3.62
Understanding the obligations and regulatory requirements	3.11	3.46
Hiring and training staff in compliance processes and activities	3.29	3.50
Dealing with the follow-up and liaising with regulators	3.36	3.65

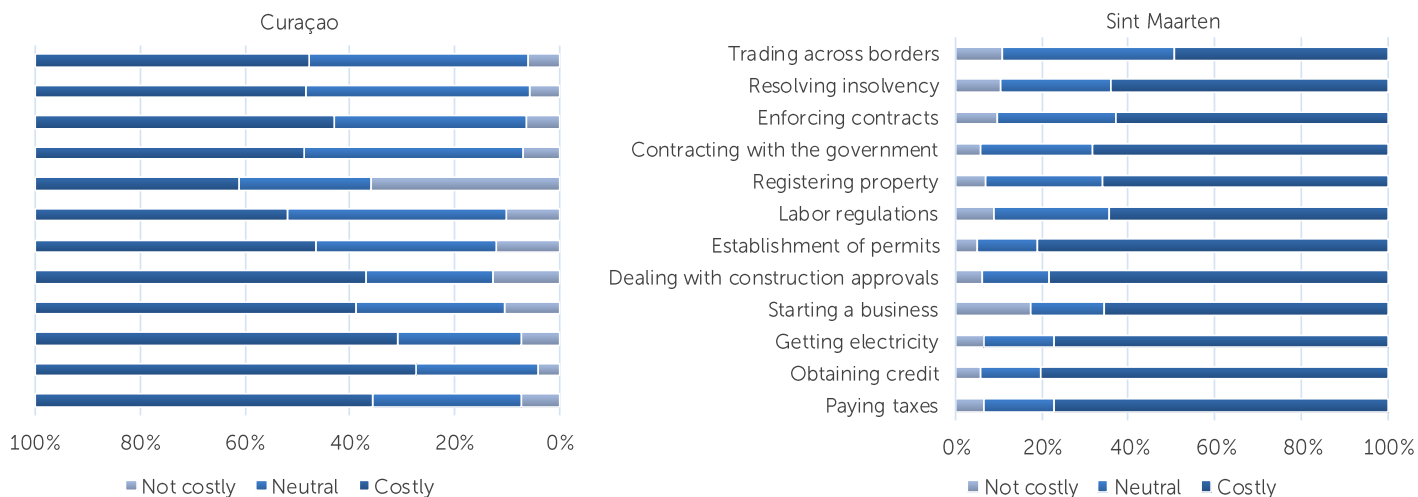
These results indicate that dealing with the follow-up and liaising with regulators and auditing & compliance monitoring put most pressure on companies on both islands. The respondents indicated that the main reason thereof is that the administration system of the government is not properly managed and, as a result, includes time-consuming procedures. Consequently, it creates unnecessary work resulting in tension, frustration, and extra costs among businesses in the private sector. In addition, the overall communication with the government is poor as government organizations (such as tax authorities) take too much time to answer petitions or to respond on requests. Furthermore, respondents indicated that on top of these issues, they have to deal with government errors and omissions which make the process even more burdensome. Hence, there is a clearly identified need for improvement by the government in follow-up and communication with businesses, especially when it comes to auditing and compliance.

Several tools to measure the effects of red tape have been developed by researchers, field experts, and international organizations. A well-known measure is the “Ease of Doing Business Index” of the World Bank. The World Bank has been publishing this index since 2003. The Ease of Doing Business Index is a worldwide comparative measurement tool with various indicators aimed to measure the costs to firms of dealing with red tape (World Bank, 2020). It is a tool to measure how the business environment is affected by regulations. It provides quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, obtaining credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. Regretfully, Curaçao and Sint Maarten are not included in the World Bank’s Ease of Doing Businesses Index survey sample. Therefore, a question that covers the indicators of the Ease of Doing Business Index was included in the survey. The collected data can be used as a benchmark to compare and analyze to some extent regulation efficiencies between Curaçao and Sint Maarten, and with other countries.

According to the respondents, the top five most costly administrative procedures for businesses in Curaçao are (1) paying taxes, (2) obtaining credit, (3) getting electricity, (4) establishment of permits, and (5) dealing with construction permits.

Meanwhile, the respondents in Sint Maarten indicated that (1) paying taxes, (2) obtaining credit, (3) getting electricity, (4) starting a business, and (5) dealing with construction permits are the top 5 most costly actions for their businesses (see Graph 6).

Graph 6 Administrative procedures costs for a company



The assessment of the administrative procedures costs provides valuable insights into the business climate in the two countries. When it comes to administrative procedures, paying taxes is the costliest action according to the respondents in both Curaçao and Sint Maarten. This implies that businesses perceive tax compliance as quite costly or that the process for petitions or objections takes too long, which may disturb business continuity in both countries.

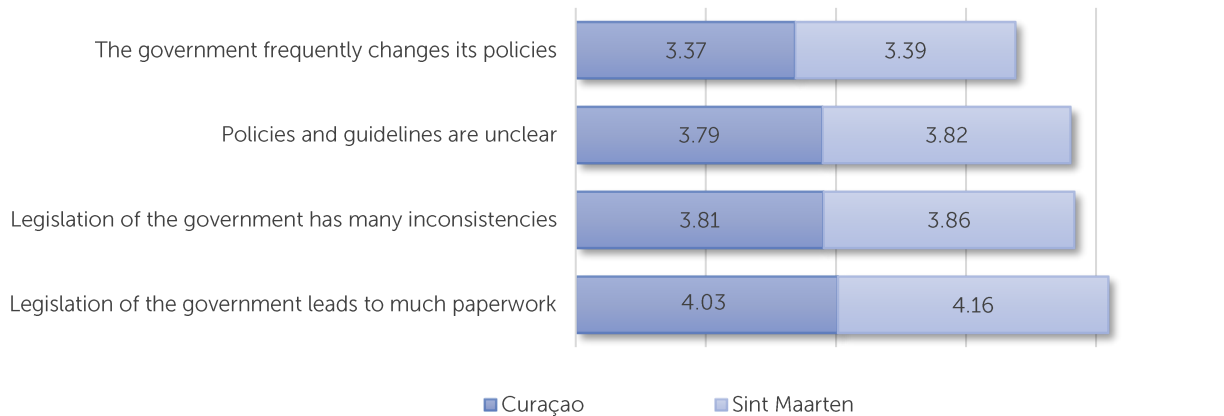
Furthermore, in both countries, businesses indicated that obtaining credit (e.g., loans or financial approvals) and getting electricity are cumbersome. Meanwhile, starting a business (obtaining registration or crib number)¹⁰ is identified as a long process in Sint Maarten. Obtaining permits such as construction permits, establishment permit (*vestigingsvergunning*) and, foreign exchange license (*deviezenvergunning*) are more of a burden in Curaçao. The fact that obtaining credit was viewed as the second most costly procedure for a company may indicate the struggles businesses encounter in getting finance to grow or operate their businesses. This can be a bottleneck to economic growth for the islands.

According to the World Bank (2020), it takes approximately 100 days (i.e., 3 months) to open a business in a poor regulatory environment. In the case of Curaçao and Sint Maarten, the respondents indicated that it takes on average 6 months to open a new business. Hence, it can be concluded that both Curaçao and Sint Maarten may be categorized as having a (very) poor regulatory environment as it takes almost 200 days to open a business.

The respondents were asked to indicate to what extent they agree or disagree with the statements presented in Graph 7 on a scale of 1 to 5 with 1 being totally disagree and 5 totally agree.

¹⁰ A unique personal number for individuals or businesses registered with the tax authorities.

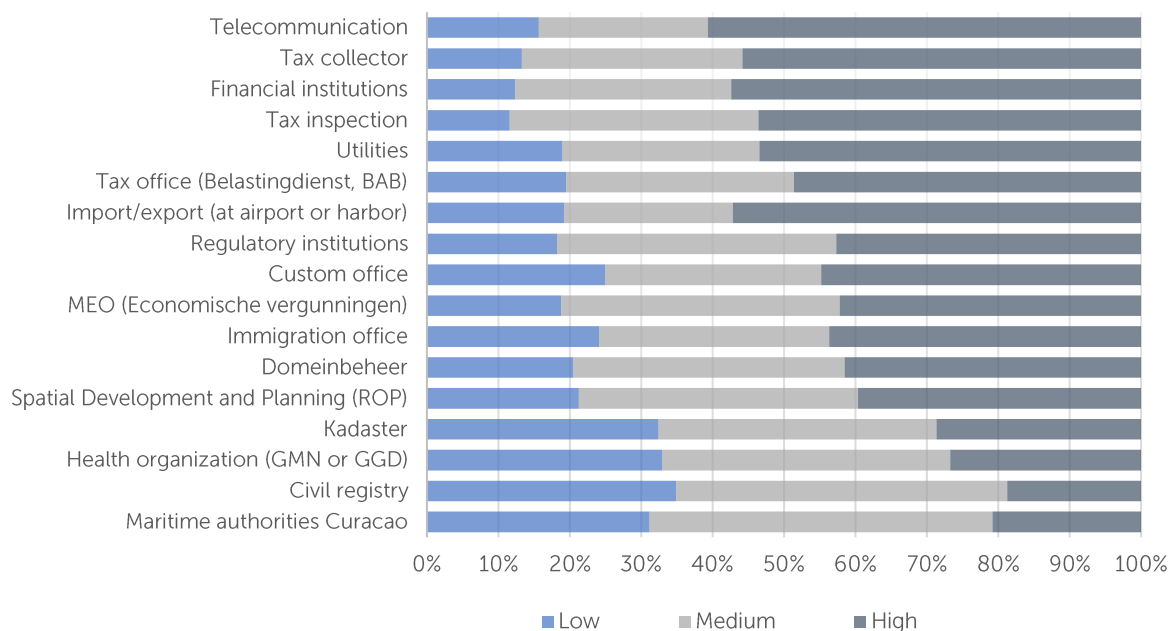
Graph 7 Policies, guidelines and legislation



Of the four statements, the companies in both Curaçao and Sint Maarten agreed on average the strongest with the statement “Legislation of the government leads to much paperwork”. The statement that came in second was “Legislation of the government has many inconsistencies”. A lot of paperwork may reduce effectiveness, while inconsistencies may lead to uncertainty or lack of clarity.

Businesses who participated in the survey expressed the challenges they face to meet the rules and procedures set by different institutions. For example, in many cases, different institutions or departments apply different criteria, different forms and differing ways for supplying the information that is needed when applying for a business license. This is so even though sometimes the institutions require the same or similar information. The respondents were also asked to indicate the burden of regulatory compliance that some institutions pose on their business on a scale of 1 to 5 (with 1 being the lowest and 5 being the highest). These institutions include regulatory and (semi) government institutions, telecommunication companies and financial institutions. Graph 8 provides an overview of the answers of the respondents in Curaçao, and Graph 9 provides the same information for Sint Maarten.

Graph 8 Cost of dealing with institutions Curaçao



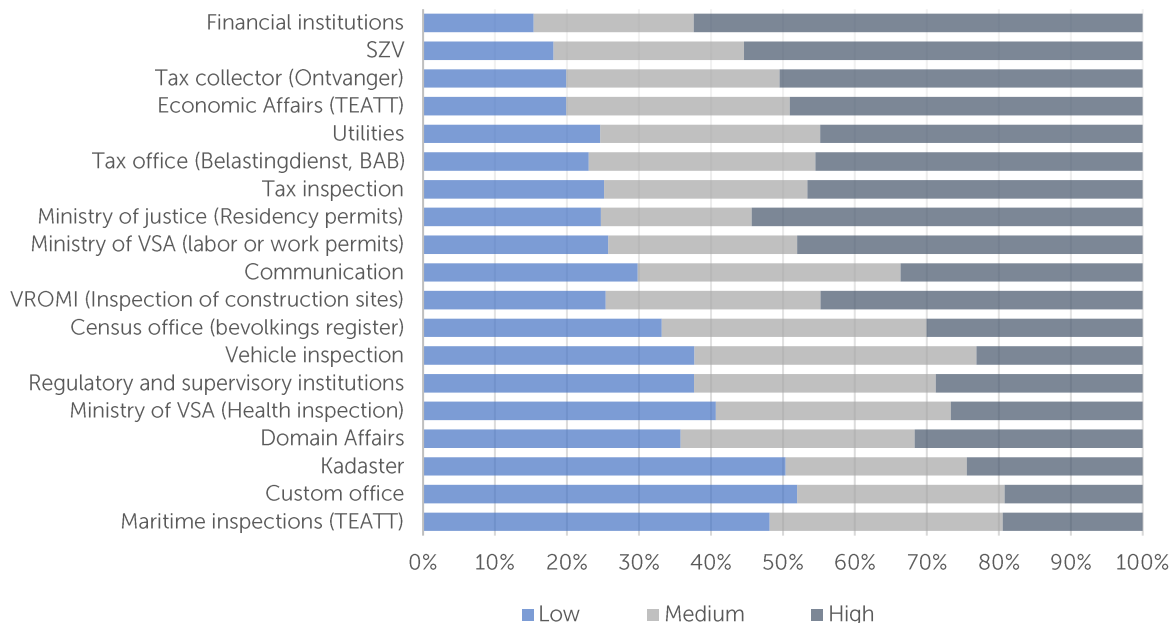
To businesses in Curaçao, dealing with the telecommunication companies was considered to pose the greatest red tape burden, with over half, i.e., 56%, of the respondents citing a high burden and 22% a medium burden. The top five institutions that impose the most red tape according to businesses in Curaçao are:

1. Telecommunication companies
2. Tax collector (Ontvanger)
3. Financial institutions (including commercial banks, insurance companies and credit unions)
4. Tax inspection
5. Utility company (electricity and water)

Other institutions that pose a high red tape burden to companies in Curaçao are the airport and harbor, regulatory institutions, and the customs office. Institutions that, according to the respondents, have the lowest administrative burden are the civil registry and the maritime authorities.

In terms of the amount of the burden, the financial institutions (3.70) on average pose the highest burden of regulatory compliance to businesses in Curaçao, followed by the tax collector (3.69) and tax inspection (3.68).

Graph 9 Cost of dealing with regulatory institutions Sint Maarten



In Sint Maarten, financial institutions, i.e., commercial banks, insurance companies and credit unions, are considered the ones that cause the highest burden to companies. Among the respondents, 54.8% considered the burden posed by financial institutions high while 19.6% indicated that the burden was medium.

The top 5 institutions that pose the highest burden to companies in Sint Maarten are:

1. Financial institutions
2. Social & Health Insurances (SZV)
3. Tax collector
4. Ministry of Tourism, Economic Affairs, Transport and Telecommunication (TEATT) with regards to business and director’s licenses
5. Utility company (Water and electricity).

Other institutions that also put a high burden to companies are the Ministry of Public Housing, Spatial Planning, Environment and Infrastructure (VROMI), the Ministry of Justice, and the Ministry of Public Health, Social Development and Labor.

On average, the companies indicated that, with an average score of 3.79 out of 5, the financial institutions pose the greatest red tape burden in Sint Maarten. The Social & Health Insurances (SZV) ranks second with a score of 3.61, followed by the Ministry of Justice (3.54).

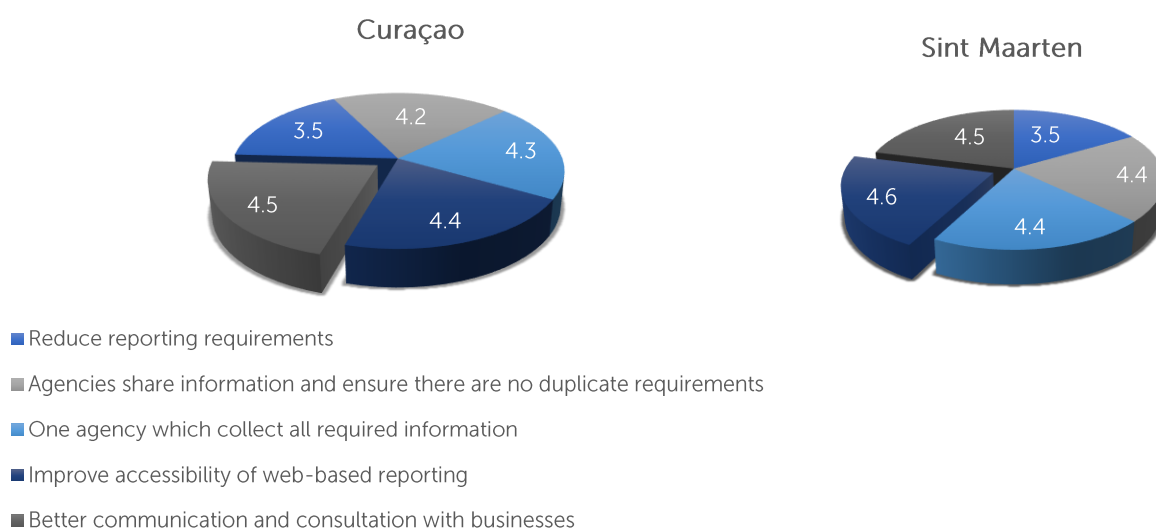
In conclusion, in both Curaçao and Sint Maarten, the financial institutions, the tax collector and utility companies are in the top 5 institutions that pose the greatest red tape burden. The most frequent criticism from the respondents was that the burden was too high either in terms of time (it takes too long) or in costs (it is too expensive). In the case of the financial institutions, firms indicated that the difficulties to open bank accounts and receive financing approvals and the high banking fees were posing a high burden. Regarding the tax collector office, respondents pointed that dealing with wrong tax assessments and drafting of tax objections are

time consuming and costly to businesses. Furthermore, Utilities are perceived as unreasonably expensive in both countries while the processes to get electricity and water connection can be very lengthy.

Respondents' recommendations

Businesses were also requested in the survey to provide recommendations on how to improve the business environment in such a way that it will result in better business performance and development. Therefore, respondents were asked which measures should be taken to reduce administrative requirements. Most businesses in Sint Maarten indicated that improvement of web-based reporting is the best measure to reduce the administrative burden. Moreover, better communication and consultation with businesses (e.g., when developing new regulations) was key in reducing the administrative burden (see Graph 10).

Graph 10 Measures to reduce administrative requirements



Meanwhile, the Curaçao respondents found better communication and consultation with businesses as key in reducing administrative burden. Next, respondents considered improvement of web-based reporting crucial. Noteworthy is that the already established reporting requirements scored on average the lowest for both islands.

Furthermore, some open questions were included to obtain more detailed information on the difficulties to open a business. Also, the respondents were asked to provide recommendations on which existing or new actions or policies need to be adjusted or included to reduce red tape and, consequently, improve business development. In general, the respondents described in detail their main concerns and recommendations.

In Sint Maarten, respondents indicated that the amount of paperwork and the fact that they have to provide the same documentation to different agencies is very inefficient. It takes too long to obtain business or directors licenses, work permits, police records, and to open bank accounts. The respondents experience it as an extensive process as too many institutions' approvals are

required before one can (legally) open a new business. The procedures are not streamlined between relevant departments. Departments which provide commercial licenses, labor permits and or establishment licenses (e.g. Ministry of TEATT, Labor or Justice) put a lot of delay in processing and providing the required documentation. At the notaries, procedures are perceived as taking too long and the services provided are too expensive. These issues arise because there is no centralization and sharing possibility of information, digitalization, and responsibility takers to follow-up or provide feedback behind the online system for registration and granting permits. Various required documents (license, crib number, bank account, and inspections) are interdependent. Hence, if obtaining one of the documents takes too long, one cannot move to obtain another required document.

In line with these issues, respondents recommended to aim for simpler processes, less paperwork, more digitalization, centralization of information, and better collaboration between the government agencies. This means a more efficient web-portal where businesses can upload and submit required documents and streamline this information for institutions who use it. Legislation should be introduced to support a comprehensive database where documentation is shared securely among and between government departments. Perhaps using a system like the SZV employer portal, which provides digital filing and a system where you can track progress of your requests, and introduction of a maximum number of days to approve applications and permits will also help to make the processes more efficient.

Moreover, respondents proposed to make the labor law more flexible (for seasonal workers) and to speed up the procedures to obtain work and residence permits, and renew permits for skilled foreign workers. This will make Sint Maarten more attractive for young professionals or expats. Also, legislation should be introduced to ensure that a company can be incorporated and become fully active within days. Banking regulations need to be adjusted resulting in simpler and faster ways to open bank accounts. Although these factors are rather related to cost of doing business than to red tape, respondents emphasized the need to lower banking fees, and to improve access to finance by introducing a development bank that provides loans at lower interest rates to help businesses grow. Acceptance of digital signatures and proper digital online payment methods from the likes of PayPal, Venmo and/or CashApp can help businesses and especially SMEs to export digital services. Facilitate and allow client reviews (KYC) via digital uploads to accelerate and make the experience for customers or businesses more efficient was also recommended. Reduction of the burden related to compliance with tax regulations post-filing procedures such as filing, paying and handling tax disputes, and digitalization of the Tax department are also perceived as crucial.

In Curaçao, respondents mostly pointed at the lengthy waiting time, inconsistencies, and unnecessary steps to obtain permits including establishment permit (*vestigingsvergunning*), work permit and directors license, the difficulties to open a bank account, and the high and inefficient taxes. Respondents indicated that obtaining permits and licenses is a cumbersome process as different forms must be filled out at various locations and this is time consuming as

one has to make various appointments. The major problem lies in the implementation at the various government agencies. There are numerous departments that individually issue permits, permissions or exemptions, including the Ministry of Economic Development (MEO), Land Registry, Department of Domain Affairs, and the Department of Urban Planning (ROP) of the Ministry of Traffic, Transport and Spatial Planning (VVRP). The shortage of employees, funds, and training opportunities at the government departments also cause inefficiencies in these processes. In addition, there is no comprehensive digital system to handle requests, permits or registrations and the government does not apply deadlines to respond on requests. Repetitively providing the same information at different institutions is also perceived as inconvenient. Furthermore, the high costs and length of time it takes to incorporate a company at the notary weighs on businesses. Meanwhile, the respondents indicated that the high rates that commercial banks apply and the tremendous paperwork that they require also pose a high burden. Some respondents even indicated that requirements such as establishment and director's permits are unnecessary and could be abolished.

To solve these problems, respondents suggested to digitalize and centralize processes, information, and registrations, shorten time to receive feedback and handle paperwork, eliminate unnecessary permits, and aim for more collaboration between institutions and transparency for required procedures. Procedures can be simplified to become more transparent and efficient by centralizing and digitalizing information and registrations via an online (portal) application system. It is important to simplify registrations and use this digital portal as a one stop shop for businesses. This can be done by merging all public registers, including Kadaster, chamber of Commerce (KVK), vehicle registration, population registry, testaments, and pledges, into one online smart publicly available register. Another option is to create a one-stop shopping window for businesses where all the required actions to obtain permits and licenses can be performed. As a result, the number of required documents, permits and registrations can be reduced (some of them even eliminated). Hence, the time involved in paperwork can be shortened considerably. Then again, more priority has to be given to providing feedback and timely responses.

Furthermore, businesses in Curaçao raised their concerns on laws or barriers that hinder businesses, including labor laws, the immigration laws for expats or foreign workers, establishment and director's licenses, and the law on admissibility conditions "*fictieve weigering*" which allows government departments to take as long as a year to answer permit requests. In addition, they recommended accepting more competition for notaries to speed up the processes and lower costs, and set guidelines for banks to open accounts faster and handle requests in a reasonable time.

To be more competitive in today's world, the introduction or modification of permits and legislation needs to be done faster. Adjustment and/or reduction of import duties and foreign exchange regulations for businesses could attract more (foreign) investors and increase the country's competitive advantage. More interconnection or data sharing between institutions can

allow for more digital compliance (KYC) at banks to speed up the processes in opening bank accounts and financing approvals. Respondents in Curacao also emphasized the need for lower banking fees. Furthermore, e-commerce payment options like PayPal, Strike and Tikkie can also facilitate (international) business transactions in Curaçao.

5. Conclusion and recommendations

5.1 Conclusion

In general, democratic societies cannot function properly without rules and regulations. The public and private sector need rules and regulations to protect and enhance economic positions of institutions, businesses, and citizens. However, when they are outdated, poorly designed or excessive, rules and regulations can become a burden (red tape), by creating unnecessary costs to firms and barriers to trade, investment opportunities or other economic activities. Mostly, adjustment of current or introduction of new legislation is part of a lengthy institutional process. Consequently, red tape cannot be eliminated immediately as it requires various actions and cooperation by different institutions and changes in legislation. Furthermore, in today's world, rules and regulations are not only coming from governments or local or national regulatory authorities but also from international organizations, which makes it even more complex to adhere and comply to, particularly if the international rules and regulations do not suit your country. As a result, especially small firms¹¹ are faced with legal requirements that have little to do with their local circumstances.

The aim of this study was to get insights into the effects of red tape on business performance and economic development and provide recommendations to minimize the negative impact of red tape. This was done through a survey that was conducted among private businesses in Curaçao and Sint Maarten. The respondents provided their feedback on the bottlenecks they face when it comes to administrative requirements. In summary, businesses indicated that:

- Overall cost of complying with government regulations increased during 2015-2019 in both Curaçao and Sint Maarten.
- Large firms tend to report higher regulatory burden compared to small businesses in Curacao, while in Sint Maarten there is no statistical difference.
- Large firms spend more time per week on government regulatory requirements than small firms in Curaçao, while in Sint Maarten there is no statistical difference between large and small firms. Most businesses spend approximately 1-5 hours per week on regulatory requirements.
- Complying with regulatory requirements affects the profitability of most businesses in Sint Maarten, while in Curaçao most respondents did not indicate that it affected their profitability. Profitability in the restaurants & hotels sector was the most affected by regulatory requirements.

¹¹ Majority of firms in Curaçao and Sint Maarten are small businesses.

- The costliest regulatory compliance procedures for businesses in Curaçao and Sint Maarten are auditing and compliance monitoring, and dealing with follow-up and liaising with regulators, mainly because of the poorly managed government administration system.
- When it comes to administrative procedures, paying taxes (specifically compliance with tax regulations) is the costliest action according to the respondents in both Curaçao and Sint Maarten. Obtaining credit (e.g., loans or financial approvals) and getting electricity are perceived as quite cumbersome procedures.
- The burden to attain permits such as construction permit, establishment permit (*vestigingsvergunning*), and foreign exchange license (*deviezenvergunning*) are also perceived as excessive as it takes too long to receive these permits.
- In Curaçao and Sint Maarten, the respondents indicated that it takes on average 6 months to open a new business, due mainly to the lengthy waiting time for permits and the opening of bank accounts.
- Companies indicated that improvements are needed in government legislation as it has many inconsistencies and leads to too much paperwork.
- Respondents on both islands perceive the financial institutions (commercial banks, insurance companies, and credit unions), the tax collector (*Ontvanger*), and the utility companies as the ones that pose the highest red tape burden on businesses.

The results of this survey indicate that business owners in both Curaçao and Sint Maarten perceive the governments to be more of a hurdle than a help in realizing their dreams of creating and running a successful business. This does not need to be or remain this way. By taking the necessary actions both governments and institutions can reduce the regulatory burden. These actions should be based on, among other things, the feedback received from businesses on the perceived red tape burden, and international best practices regarding reducing regulatory burden. However, a credible balance between legal matters, economic growth, and societal development should be observed when reforms are considered. This can help improve the overall performance of public and private organizations, and ultimately foster economic growth.

5.2 Recommendations

The results showed that the governments of both Curaçao and Sint Maarten should take measures to remove or at least reduce red tape to increase the value added of private businesses to the economy. Most of the literature analyzed provides evidence in favor of the hypothesis that an increase in the regulatory burden increases the costs of compliance. In addition, the responses of most respondents also tend to lean towards the notion that regulatory requirements are needed to facilitate but not to disturb businesses.

After reviewing existing literature and analyzing responses from the survey, the following recommendations are proposed to address red tape concerns to improve the business

environment:

The governments of Curacao and Sint Maarten:

- Governments or related institutions should come up with a framework to measure the progress in reducing red tape. Setting a yearly target (e.g., shorten time to grant permits by 2 weeks) to reduce waiting time and, hence, delays in business creation and development. This must be agreed to by each department and responsible ministry.
- Prioritize the digitalization of registrations, processes, and procedures to increase effectiveness and eliminate a lot of challenges businesses are encountering, like too much paperwork, lengthy waiting time, and providing same information to different agencies. A comprehensive digital system can help the centralization and sharing of information (between institutions) which contributes to the streamlining of registrations, processes and approvals.
- There is a great need for clarity and clear communication from the government regarding the requirements, regulations, legislation and procedures, when establishing a company. In particular, clear and complete information should be provided at one central point, preferably web-based (online), where the information is up-to-date at all times. Therefore, focusing on better communication and consultation with businesses and using web-based reporting are crucial for improvement of the business environment.
- The government should prioritize the simplification of tax procedures as it is perceived as the worst red tape bottleneck for businesses.
- Improve business dealings with regulators, including compliance and enforcement, through easy-to-use online tools and implementing a "one stop shop" to cut regulatory overlap and duplicated reporting requirements between different government departments.
- Improve business transactions services and notarial transfers by increasing the cap on the maximum number of notaries to reduce waiting time and related costs.
- Enforce (via legislation) feedback and deadlines for responses and processing of requests (e.g. permits) and approvals. Focus more on outcomes and/or reduce required documents or even eliminate unnecessary permits (e.g. establishment and directors permits). Reducing the number of licenses required by business continues to be an important tool used in many countries to reduce administrative burden (OECD, 2006).
- Carry out business impact assessments when introducing new legislation to explicitly consider the impact on competition and the resulting costs for businesses.
- Modernize laws that hinder business development like labor laws, immigration laws for foreign workers, and licenses.
- Establish a committee to monitor ongoing projects and measure desired output every month/quarter. Projects that are stuck at any level within a department can then be reconsidered or prioritized.
- Lastly, include a clause in new regulation requiring a review or reform of legislation at

least every five years to avoid red tape continuing to exist by default.

Financial institutions and utility companies:

- Financial institutions and utility companies should simplify the processes to obtain credit and electricity connection as these are perceived as time consuming and costly for businesses.
- Banking regulations need to be reviewed resulting in simpler and faster ways to open bank accounts.
- Financial institutions should make compliance requirements more practical. Allow for client reviews (KYC) via digital uploads to accelerate and make the experience for customers or businesses more efficient, and lower the frequency on requesting for same (original) documentation.

In addition to the recommendations to reduce red tape, businesses pointed out that lower banking fees and lower water and electricity prices would reduce cost of doing business and therefore encourage more business transactions. Therefore, according to the respondents, the organizations that regulate or control prices should tackle or regulate high banking fees and high water and electricity prices.

These steps alone will not solve all the issues that business owners brought forward in the survey. If adopted properly, government agencies will be thinking first and foremost about how to be an ally of businesses and lay the groundwork for a stronger partnership with each industry. Promoting economic growth implies helping (small) businesses to flourish. Unfortunately, still many businesses cannot capitalize on local and global opportunities or, worse yet, fail due to the amount and complexity of red tape that they face. Simplification of administrative procedures and lowering the cost of doing business are crucial to support economic growth in both Curaçao and Sint Maarten.

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7. Appendix

Curaçao

FTE		N	Mean	Std. Deviation	Std. Error Mean
Gov_regulation	>= 3.00	67	1.5075	0.9108	0.1113
	< 3.00	287	1.9895	1.2304	0.0726

		Levene's Test for		Independent Samples Test							
		F	Sig.	t	df	Significance		Mean	Std. Error	95% Confidence	
						One-Sided p	Two-Sided p	Difference	Difference	Lower	Upper
Gov_regulation	Equal variances assumed	13.736	0.000	-3.018	352	0.001	0.003	-0.4821	0.1597	-0.7962	-0.1680
	Equal variances not assumed			-3.628	128.824	0.000	0.000	-0.4821	0.1329	-0.7450	-0.2192

ANOVA

Cost_redtape

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	81.002	8	10.125	4.928	<.001
Within Groups	719.171	350	2.055		
Total	800.173	358			

Tests of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Cost_redtape	Based on Mean	6.835	8	350	<.001
	Based on Median	2.991	8	350	.003
	Based on Median and with adjusted df	2.991	8	336.538	.003
	Based on trimmed mean	6.426	8	350	<.001

ANOVA

Staff_manage_compliance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	25.287	8	3.161	3.871	<.001
Within Groups	286.613	351	.817		
Total	311.900	359			

Tests of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Staff_manage_compliance	Based on Mean	3.736	8	351	<.001
	Based on Median	4.678	8	351	<.001
	Based on Median and with adjusted df	4.678	8	297.252	<.001
	Based on trimmed mean	4.327	8	351	<.001

ANOVA

Time_spent

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	19.401	8	2.425	.920	.499
Within Groups	914.292	347	2.635		
Total	933.694	355			

Tests of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Time_spent	Based on Mean	1.763	8	347	.083
	Based on Median	.830	8	347	.577
	Based on Median and with adjusted df	.830	8	337.393	.577
	Based on trimmed mean	1.650	8	347	.110

Sint Maarten

FTE	N	Mean	Std. Deviation	Std. Error Mean
Gov_regulation >= 3.00	41	1.6341	1.0667	0.1666
< 3.00	209	1.9761	1.2459	0.0862

Independent Samples Test

	Levene's Test for		t-test for Equality of Means					95% Confidence		
	F	Sig.	t	df	Significance One-Sided p	Two-Sided p	Mean Difference	Std. Error Difference	Lower	Upper
Gov_regulation Equal variances assumed	3.405	0.066	-1.642	248	0.051	0.102	-0.3419	0.2082	-0.7520	0.0681
Gov_regulation Equal variances not assumed			-1.823	63.403	0.037	0.073	-0.3419	0.1876	-0.7167	0.0328

ANOVA

Cost_redtape

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	28.119	8	3.515	1.713	.096
Within Groups	496.622	242	2.052		
Total	524.741	250			

Tests of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Cost_redtape	Based on Mean	9.286	7	242	<.001
	Based on Median	3.710	7	242	<.001
	Based on Median and with adjusted df	3.710	7	179.025	<.001
	Based on trimmed mean	8.775	7	242	<.001

ANOVA

Staff_manage_compliance

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	5.076	8	.635	.639	.745
Within Groups	243.290	245	.993		
Total	248.366	253			

Tests of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Staff_manage_compliance	Based on Mean	1.599	7	245	.136
	Based on Median	.637	7	245	.725
	Based on Median and with adjusted df	.637	7	204.602	.725
	Based on trimmed mean	1.384	7	245	.212

ANOVA

Time_spent

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	31.951	7	4.564	1.976	.059
Within Groups	552.098	239	2.310		
Total	584.049	246			

Tests of Homogeneity of Variances

		Levene Statistic	df1	df2	Sig.
Time_spent	Based on Mean	3.372	6	239	.003
	Based on Median	1.233	6	239	.290
	Based on Median and with adjusted df	1.233	6	211.357	.290
	Based on trimmed mean	2.975	6	239	.008

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CBCS CURAÇAO

Simon Bolivar Plein 1, Willemstad, Curaçao
Phone: (599 9) 434 5500, Fax: (599 9) 461 5004

CBCS SINT MAARTEN

Walter Nisbeth Road 25, Pondfill, Philipsburg, Sint Maarten
Phone: (1721) 542 3520, Fax: (1721) 542 4307