

**Binding Constraints:
Does Firm Size Matter?**

José P. Mauricio Vargas

Noviembre, 2012

Binding Constraints: Does Firm Size Matter?

José P Mauricio Vargas*

ARU Foundation

Abstract

Using firm level data from the 2010 Enterprise Survey for Bolivia, we attempt to find evidence to support the idea that distinct formal firms (according to their size) have a distinct likelihood of facing obstacles. We propose that a potential endogeneity between firms' constraints and firm size should be considered.

After calculating estimations from an IV-ordered probit with an ordinal endogenous regressor, the results suggest that the firm size affects the constraint level reported by firms, but not for all kind of obstacles. 'Corruption', 'Political Instability', and 'Crime, Theft and Disorder' are obstacles common to all firms; 'Electricity' and 'Transportation' are binding constraints to medium and large firms; and 'Access to Financing' is a binding constraint to small firms.

These findings are important because they can be directly extrapolated to public policy that is focused on the performance of firms.

JEL Classification: D22, L25.

Keywords: Firm, Size, Constraints, IV-oprobit.

*This document was prepared as a background paper for the Bolivian case study IADB Research Network project Strengthening Mobility and Entrepreneurship: A case for the Middle Class. All views expressed in this paper are those of the author and do not necessarily reflect those of the IADB or the institutions to which they are affiliated. Comments are welcome to mvargas@aru.org.bo. I would like to thank Jeffrey Wooldridge, David Roodman, Werner Hernani-Limarino, and the assistants to the Applied Research Workshops (Universidad Católica Boliviana) for their helpful comments in early stages of this research, and Edgar Cáceres and Carola Tito for their able research assistance. All errors are my responsibility.