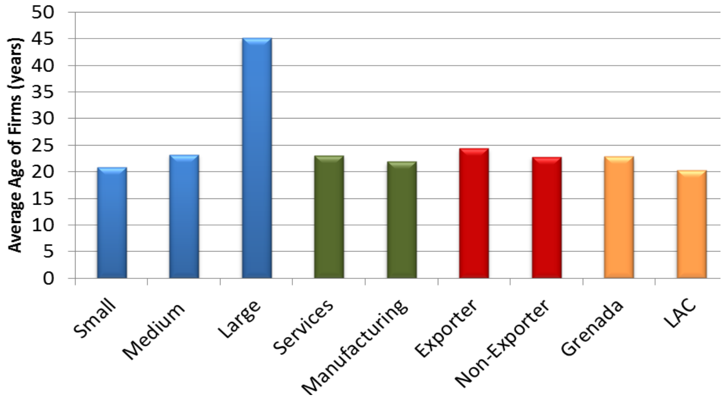
Enterprise Survey Country Bulletin

Grenada

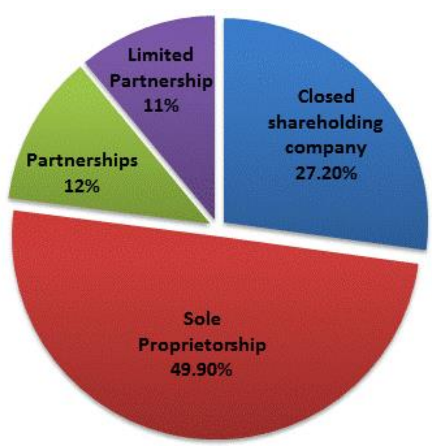


The average firm in Grenada

The average age of a firm in Grenada increases with the number of employees in the firm. On average, small/micro firms (5-19 employees) are in existence for 20.8 years, medium-sized firms (20-99 employees) for 23.2 years, and large firms (more than 99 employees) for more than 45 years.

Firms in the services sector are slightly older than manufacturing firms, while firms that export at least 10% of more of their sales directly exist for longer than firms that do not export.

The majority of firms in Grenada are legally registered as sole proprietorships (49.9%), followed by closed shareholding companies (27.2%). Within firms with two or more partners the largest owner controls 80.8% of the firm. Notably, the proportion of



With funding from the Compete Caribbean Program, the Enterprise Survey was conducted in the Grenada between April and August 2011. This Enterprise Survey round had 153 respondents from the private sector in the Grenada.

On average, firms in the services sector in Grenada are slightly older than manufacturing firms, while firms that export exist for longer than firms that do not export. Grenada has a proportion of firms with internationally recognized quality certifications that is twice as high as the average LAC country.

Grenada's small firms have the most experienced managers in the entire Caribbean region. In addition, the firms in Grenada have top managers with more experience across all firm sizes than the averages for both the LAC region and upper middle income economies.

The main constraints to business cited in Grenada are: high corporate tax rates; an inadequately educated workforce; and, limited access finance. On average, the majority of firm financing is sourced internally in Grenada.

ownership of the largest owner diminishes as firms get larger (representing 84% for small firms, 74.7% for medium-sized firms, and 69% for large firms), in keeping with the LAC trend.

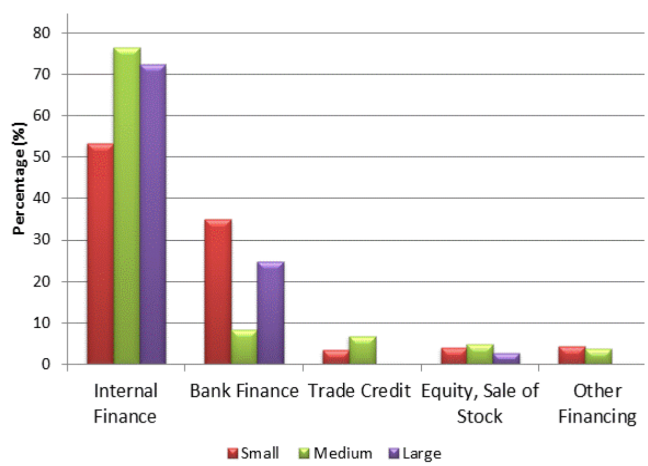
Across the Caribbean, most firms register as soon as they commence operation (79%). In Grenada 71.1% of firms indicated that they were formally registered at the time they started operation. This level of formality is the lowest in the Caribbean and falls short of both the upper middle income country average (90.4%) and LAC average (86.8%). Firms that were not formally registered when they began operating remained that way for approximately 6.3 years before formally registering. Small firms operated without formal registration for about half as long (4.2 years) as medium-sized (10.8 years) and large firms (10.9 years). Also, manufacturing firms operated without formally registering for approximately 3.5 times longer (15.8 years) than services firms (4.5 years). Notwithstanding this, there are about 4 times more services firms (28.6%) than manufacturing firms (7.1%) who identify the practices of the competitors in the informal sector as a major constraint to the performance/growth of their businesses.

Table 1: The Average Firm in Grenada

Indicator	Grenada	LAC	Upper Middle Income
Age (years)	22.9	20.3	17.5
Percent of firms formally registered when they started operations (%)	71.1	86.8	90.4
Private domestic ownership (%)	82.0	89.3	87.7
Private foreign ownership (%)	13.6	8.9	9.8
Government/state ownership (%)	0.2	0.1	0.7

How do firms finance their operations?

On average the majority of firm financing is sourced internally in Grenada (60.4%). This ratio however is slightly below the LAC average of 61.8%. This source of financing is especially important to medium-sized sized firms, who finance approximately 77% of their own investments internally. In Grenada, the sourcing of investment funds is more diversified in small and medium-sized firms. Relatively, small firms seem to have the most evenly distributed mix as it relates to their resources for investment (Internal 76.5%, Banks 8.3%, Trade Credit 6.8%, and Equity 4.8%, other 3.7%).

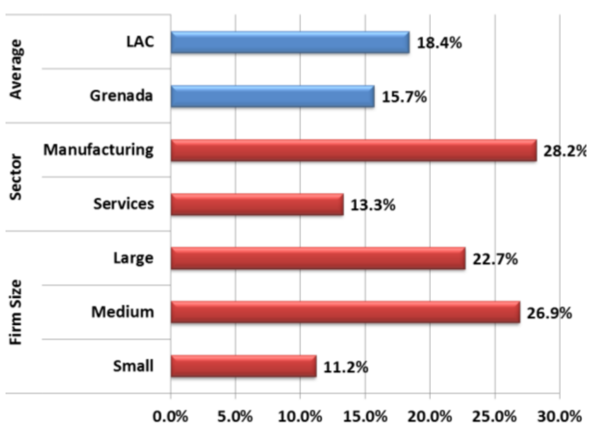


Notably, large firms surveyed do not use trade credits as a source of investment finance, while both small and medium-sized sized firms do.

In Grenada, there is a larger proportion of small (58.6%) and medium-sized (42.7%) firms that indicated that they need loans than large firms (22.7%). On average, 28% of firm investments are financed by banks, with small and large firms primarily being the recipients of that financing. However, less than 40% of the firms in Grenada use banks to finance investments.

Where do firms sell their output?

Grenada has one of the lowest percentages of exporter firms in the Caribbean. Of the firms interviewed, only 15.7% of them were exporters, compared to 18.4% for LAC and 20% for upper middle income countries. On average, more medium-sized firms (17%) export directly (at least 1% of sales), than both small (7.1%) and large (13.7%) firms. Additionally, there is more than double the proportion of exporters in the manufacturing (28.2%) sector than in the services sector (13.3%).

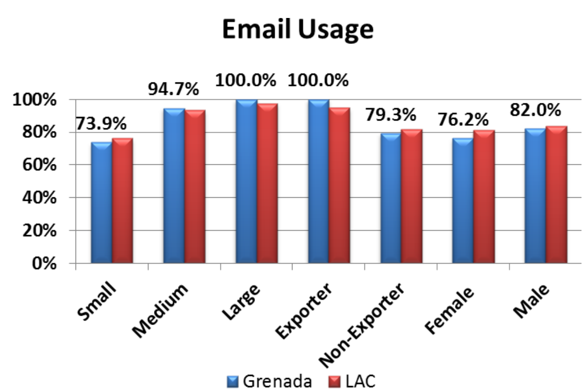


As a result of the low number of exporting firms, the majority of total firm sales are domestic (93.8%), with firms that have a female top manager recording a smaller proportion of domestic sales to total sales (86.6%) than firms with a male top manager (96%).

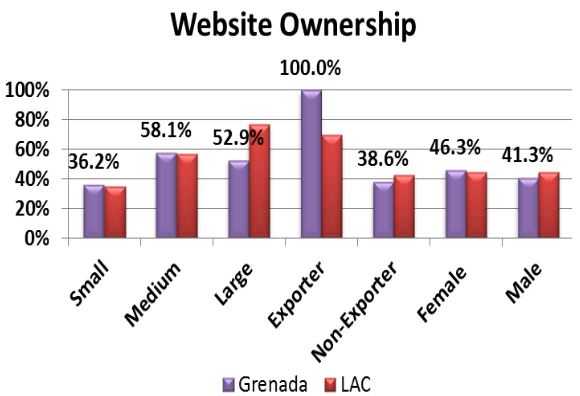
Approximately 92% of the manufacturing firms indicated that they use material inputs and/or supplies of a foreign origin. The proportion of total inputs that are domestic (41.8%) versus those that are of a foreign origin (58.2%) are slightly skewed towards foreign inputs. This trend reflects both the reality observed for the entire LAC region (domestic 61.8%, foreign 38.2%) and the world (domestic 63.6%, foreign 36.4). The data also indicates that small manufacturing firms use more domestic inputs (46.9%) than medium-sized firms (35.5%).

Which firms use technology and how?

In Grenada, the larger the firm (based on the number of employees) the higher the proportion of firms of similar size that use email to interact with clients/suppliers. Specifically, all of the large firms interviewed indicated that they use emails to interact with clients/suppliers, with the corresponding proportions for medium-sized and small firms being 94.7% and 73.9%, respectively. Across business sectors, the use of emails to interact with clients/suppliers is more common in services firms (82.1%) than in manufacturing firms (72.6%) while there are a higher proportion of firms with a male top manager (82%) that indicated that they use emails to interact than female managed firms (76.2%).



Contrary to the data observed across the LAC region, there is a higher proportion of medium-



sized (58.1%) firms having their own website than small (36.2%) or large (52.9%) firms in Grenada (across LAC, the proportions are 34.9% of small firms, 56.9% of medium-sized firms, and 76.8% of large firm). With regard to website ownership across all different sizes of firms, the country compares favourably to some of the regional leaders (Guyana 46.1% and the Dominican Republic 48.9%) but still falls short of the LAC average (44.8%).

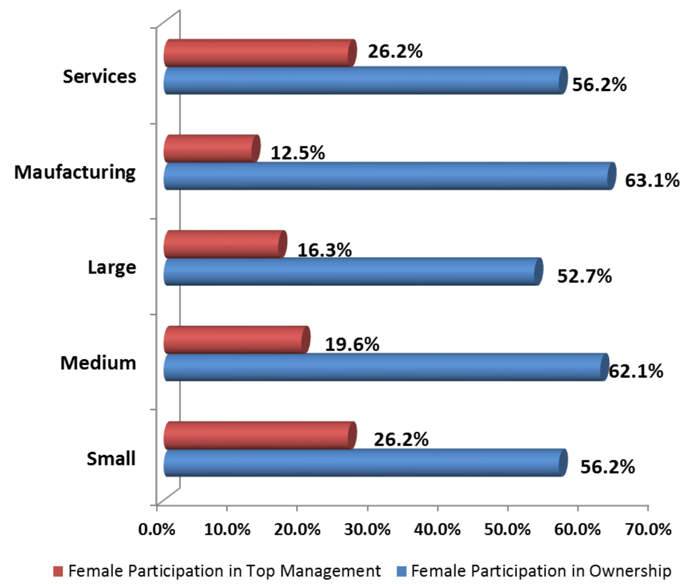
The country edges out the average LAC country (12.8%) with regard to the percentage of manufacturing firms that use technology licensed from foreign companies (15.2%). However, Grenada has one of the lowest levels of firms that indicate that they use email to interact with clients/suppliers (80.6%).

How is the workforce structured?

Grenada's small firms have more experienced managers than small firms from any other country in the entire Caribbean region (22.9 years). In addition, the firms in Grenada have top managers with more experience across all firm sizes when compared to the averages for both LAC and upper middle income economies.

Notably, in the average Grenadian firm, there are approximately 25 full-time workers and 2 temporary workers, while the typical LAC firm employs approximately 45 full-time and 5 temporary workers.

Of these 25 full-time workers in the average Grenadian firm, approximately 11 (45.9%) of them are female. In firms where the top manager is female there tends to be more full-time permanent female workers (16 workers,



63.7%) than in firms where the top manager is male (10 workers, 40.2%).

Moreover, firms that have female participation in the ownership structure (57% of all firms interviewed) tend to be twice as likely to have a female top manager as a male top manager.

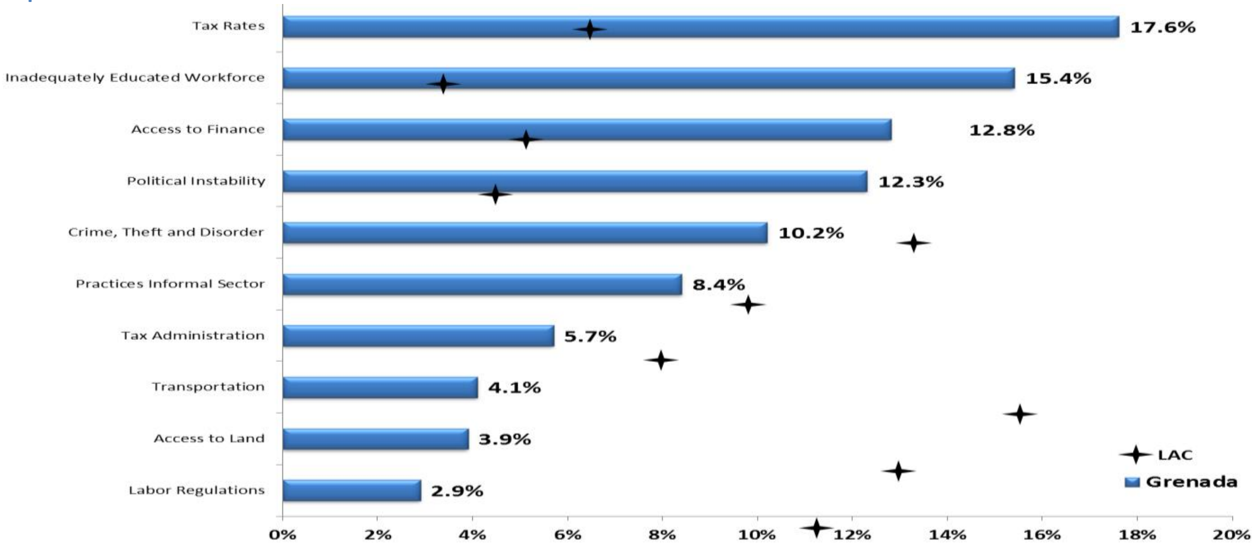
Also, medium-sized firms tend to have the largest proportion of females in the ownership structure (62.1%), while small firms tend to have the greatest proportion of female top managers (26.2%) across all firms sizes.

Looking at the business sector of the firm, manufacturing firms tend to have a larger proportion of females that participate in ownership (63.1%), while there are more services firms with female top managers (26.2%) and permanent full-time female workers (47.5%).

What are the main constraints to the growth of firms in Grenada?

The main constraints to business in Grenada are found to coincide with some of those of the CARIFORUM region. The top 3 issues identified by the Enterprise Surveys 2010 are outlined and explored in more detail below:

Top 10 Constraints to Firms in Grenada



Corporate Taxes. According to respondents, high corporate tax rates (45.3% of profit) are the most pressing constraint to firms in Grenada. Approximately 17.6% of the firms interviewed identified the tax rates administered in the country to be the leading obstacle to the business environment, while a total of 40% of firms identified it as one of the top 10 constraints in the country. In Grenada, tax rates are of more concern to small (44.4%) and large (39%) firms, while for the LAC region the most affect firms are small (35.5%) and medium-sized sized firms (35.7%).

Approximately 28% of firms identified tax administration as a major constraint to their development. Notably, it takes senior management 7.7% of the typical work week to deal with the requirements imposed by government regulations.

Large firms are most affected by the number of visits or required meeting with tax officials (5.8 meetings), double the LAC average, while small and medium-sized firms only have to attend 1.6 and 2.8 meetings, respectively. However, it is worth noting that if there are visits by tax officials the actual number of meetings increases (to 2.5 for small firms, 4.5 for medium-sized firms and 7.8 for large firms). Additionally, a significantly higher proportion of manufacturing firms identified tax rates as a major constraint (58.2%) as compared to services firms (36.5%). In Grenada, rates of informal taxation (7.1%) are lower than the average LAC country (10.9%).

Inadequately Educated Workforce. Despite primary school enrolment of 100% of gross enrolment, when over-aged and under-aged students are accounted for, an adult literacy rate of 96% and tertiary school enrolment as a percentage of the total population of 52.8%, 15.4% of the firms interviewed in Grenada identified an inadequately educated workforce as one of their leading constraints. Note that in this instance the term inadequately educated workforce pertains to the identification of the labour skill level as a major constraint and not the number of educational degrees or the quality of education provided.

In addition to the 15.4% that believe an inadequately educated workforce is the most important constraint, an additional 23.4% of firms identified this as a major constraint to their development. In particular, this is of greatest concern to medium-sized enterprises (52.3%), as well as enterprises that export 10% or more of their sales (48.2%).

Responding to this challenge, approximately 46% of the firms in Grenada offer formal training, with the proportions across firm size categories increasing as the number of employees in the firm increases (small 37.3%, medium-sized 65%, and large 74.7%). Additionally, there are almost double the percentage of firms that export (10% or more of sales) who offer formal training as compared to non-exporting firms that offer formal training (43.9%).

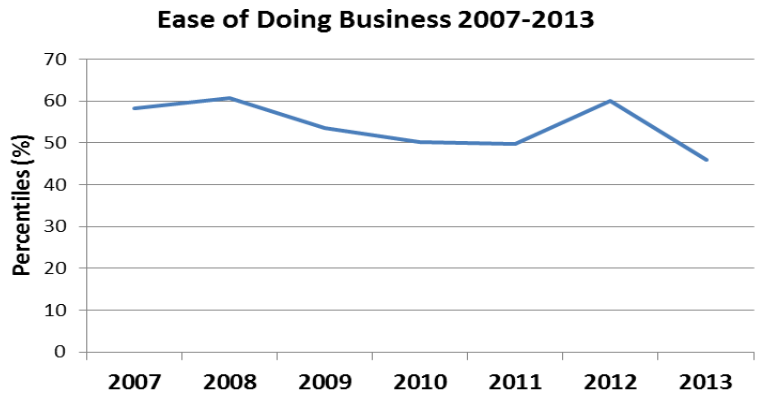
Access to finance. In keeping with LAC averages, access to finance was mostly indicated by small (27.6%) and medium-sized (19.6%) firms as a major constraint to their development. To a much lesser extent, only 7.3% of large firms indicated that access to finance was a major constraint. Markedly, Grenada has historically been ranked above the 40th percentile of countries included on the Doing Business Report, with regard to getting credit. In the most recent report (2013), the country fell 7 positions in this indicator, resulting in a 2 percentile fall from the 46th to 44th percentile.

In Grenada, all medium-sized and large firms, and 98.2% of the small firms have savings or chequings accounts. Approximately half of the firms interviewed in Grenada have a bank loan of line of credit, spread fairly evenly across firms based on the number of employees. An average of 47.5% of the firms interviewed, mostly large firms (77.3%), indicated that they did not apply for a loan in the last fiscal year because they did not need it. Of the firms that were able to access loans, 66.6% of them required collateral. These firms were mostly medium-sized firms (83.5%) and firms that have a female top manager (75.3%).

Collateral requirements in Grenada (220.1%) are the third highest in the region, slightly behind The Bahamas (231.6%) and the Dominican Republic (234.4%). Services firms are the most affected by the high levels of required collateral (245%) as compared to the loan collateral requirements placed on manufacturing firms (127.7%).

How has the business environment changed over the past five years?

Historically, the Grenadian economy has been ranked within or above the 50th percentile of countries included in the World Bank Doing Business Report. This observation existed until the most recent report, 2013 where Grenada fell to the 44th percentile of economies included. As it relates to rankings, Grenada's best ranking occurred in the 2008 report (70/178) which corresponds to the fiscal year 2006-2007 and its worst ranking was in the 2013 (2011-2012) round when the country was ranked 100th out of 185 developing economies.



Grenada undertook its first Doing Business reform in fiscal year 2008-2009 when the country targeted the trading across borders and enforcing contracts indicators. For the next four fiscal periods including the last fiscal year 2011-2012, the country has continuously targeted the trading across borders indicator with the most recent reform being the implementation of ASYCUDA World software for customs procedures. Notably, Grenada was listed 2nd on the list of countries that improved the most in trading across borders in fiscal year 2009-2010. In addition, the country has made reforms in the area of starting a business by transferring responsibility for the commercial registry from the courts to the civil administration and the registering property indicator by appointing a registrar to focus only on property.

- To access the Enterprise survey data for Grenada visit http://www.enterprisesurveys.org/
- Also see the Compete Caribbean website for an electronic copy of this bulletin: www.competecaribbean.org

Compete Caribbean is a private sector development program that provides technical assistance grants and investment funding to support productive development policies, business climate reforms, clustering initiatives and Small and Medium Size Enterprise (SME) development activities in the Caribbean region. The program, jointly funded by the Inter-American Development Bank (IDB), the United Kingdom Department of International Development (DFID) and the Canadian International Development Agency (CIDA), supports projects in 15 Caribbean countries. The program's estimated value is US$40.0 million, of which DFID and CIDA contributed US$32.55 million. Projects in the OECS countries are implemented in collaboration with the Caribbean Development Bank.

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