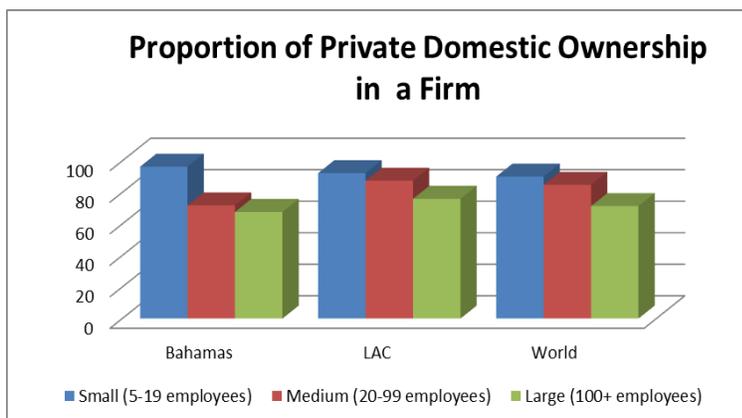


Source: Enterprise Survey

The average firm in The Bahamas

The average firm in The Bahamas is a sole proprietorship that is 24.2 years old and has 38 employees. There is a slightly lower level of private domestic ownership in the private sector. Less than 85% of firms are privately owned and domestic, a proportion which is below the average of 89.3% for the Latin America and the Caribbean (LAC) region. Approximately 11.4% of the average private firms were foreign owned. This is slightly higher than the average across LAC (8.9%) and the rest of the world (10%).



Source: Enterprise Survey

The Compete Caribbean Program funded the first Enterprise Survey in The Bahamas between June and October 2011. The survey included 150 firms. Just under half (70) of the interviewed firms were small firms (1-19 employees), 55 were medium-sized firms (20-99 employees), and 25 were large firms.

The results indicate that the average firm in the Bahamas is a sole proprietorship that is 24.2 years old and has 38 employees. For Bahamian firms, the use of internal finance for investment is significantly higher than that of the LAC region, averaging 83.1%. Small firms are more reliant on internal financing than most other countries in LAC. Almost 87% of the cost of new investment for small firms is sourced internally.

Most of the interviewed firms sell their output to the domestic market even though small firms in the Bahamas are almost twice as likely to export as the LAC average. Firms in the Bahamas are almost twice as likely to have an internationally recognized quality certificate compared to the LAC average. Businesses identified an inadequately educated workforce as the most severe constraint.

The average number of permanent employees in a small firm is 9 persons, 37 in a medium-sized firm and 207 in a large firm. In 2010, the average Bahamian firm had a 3.2% growth in real annual sales—one of the highest in LAC—and an annual labor productivity growth of -1.4%, slightly lower than the -1% for LAC. Also in 2010, employment in the average firm grew by 4.9% (LAC, 4.8%).

The Bahamas has the lowest percentage of firms with female participation in ownership at 18.3% (40.4% for LAC), as well as the lowest proportion of women in top management positions 15%, compared with 20.8% for LAC countries. The country also has the lowest proportion of permanent female full-time workers at 34.1%, followed by Trinidad and Tobago with 41.6%.

The average firm has a top manager with 22.6 years of relevant experience working in the chosen sector. Small firms have top management with a slightly lower level of experience in the specific sector (20.7 years) compared to medium-sized firms (25.8 years) and large firms (23.4 years).

Table 1: The average firm in The Bahamas 2010

| | The Bahamas | LAC | Lower Middle Income |
|--|-------------|------|---------------------|
| Age (years) | 24.2 | 20.3 | 16.0 |
| Percent of firms formally registered when started operations | 92.8 | 86.8 | 84.5 |
| Private domestic ownership (%) | 85.3 | 89.3 | 86.7 |
| Private foreign ownership (%) | 11.4 | 8.9 | 9.7 |
| Government/state ownership | 0.0 | 0.1 | 0.5 |
| Percent of firms with female participation in ownership | 58.3 | 40.4 | 37.4 |
| Percent of firms with female in top management position | 33.2 | 20.8 | 20.6 |
| Average number of temporary workers | 3.9 | 5.1 | 8.0 |
| Average number of permanent, full-time workers | 38.3 | 44.8 | 47.1 |
| Percent of full-time female workers | 44.3 | 37.9 | 32.9 |

Source: Enterprise Survey

How do firms finance their operations?

Approximately 97.6% of Bahamian firms have a savings and/or chequing account. Whilst all large and medium-sized firms are banked, 4.3% of small firms are not. This is slightly better than the LAC average, where 92.9% of firms are banked. For Bahamian firms, the use of internal finance for investment is significantly higher than that of the LAC region, averaging at 83.1% (LAC, 63.2%). In The Bahamas, small firms are more reliant on internal financing than most other countries in LAC. Almost 87% of the cost of new investment for small firms is sourced internally, compared to 64% in the average LAC country and 71% in the rest of the world. This is also true for large firms; almost 95% of their investment is financed by internal resources compared to 62% in LAC and 66% in LAC. In fact, even though, slightly more in line with LAC averages (62.5%), even medium-sized firms have a greater portion of their investments financed internally (72%). Commercial banks

finance about 11.7% of firm investments, while equity and stocks account for 2.2% and supplier credit accounts for 1.5% of the average firm’s new investments (*see financial indicators table*).

Nonetheless, only 34.2% of the firms have a bank loan or line of credit compared to 47.6% in LAC. These loans are heavily collateralized. Almost 81% of current loans had to be collateralized with banks requiring fixed assets amounting to 231.6% of the value of the loan in collateral. This level of collateral is much higher than LAC averages (197.3%). Medium-sized firms have to pledge a significantly higher amount of collateral (252.8%) to secure loans than other firms.

TABLE 2: Financial Indicators for the Bahamas & LAC

| Financial Indicators | The Bahamas | Small Firms (1-19 Employees) | Medium-sized Firms (20-99 Employees) | Large Firms (100+ Employees) | LAC |
|--|-------------|------------------------------|--------------------------------------|------------------------------|-------|
| Internal Finance for Investment (%) | 83.1 | 86.4 | 71.8 | 94.6 | 63.2 |
| Bank Finance for Investment (%) | 11.7 | 9.7 | 20.2 | 2.2 | 20.3 |
| Trade Credit Financing for Investment (%) | 1.5 | 2.5 | 1.0 | 0.0 | 7.5 |
| Equity, Sale of Stock for Investment (%) | 2.2 | 1.4 | 2.6 | 3.2 | 4.3 |
| Other Financing for Investment (%) | 1.5 | 0.0 | 4.4 | 0.0 | 4.7 |
| Working Capital External Financing (%) | 28.5 | 33.1 | 21.5 | 26.8 | 43.0 |
| Value of Collateral Needed for a Loan (% of the Loan Amount) | 231.6 | 160.0 | 252.8 | n.a | 197.3 |
| % of Firms with Bank Loans/Line of Credit | 34.2 | 28.4 | 43.6 | 35.0 | 47.6 |
| % of Firms with a Checking or Savings Account | 97.6 | 95.7 | 100.0 | 100.0 | 92.9 |

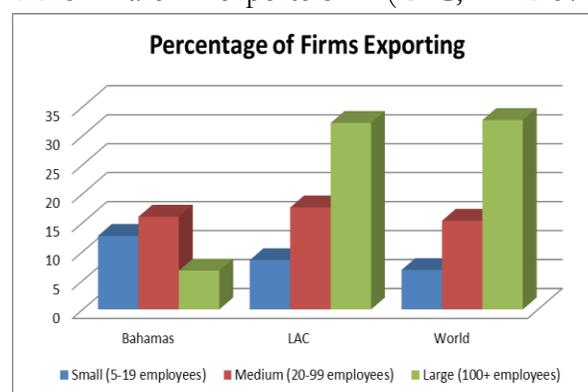
Source: Enterprise Survey

Where do firms sell their output?

In the Bahamas, most of the interviewed firms sell their output to the domestic market. Over 87% of interviewed firms sell their output on the domestic market. Large firms sell the most of their output on the domestic market (95%) compared to 79.5% in LAC.

Nevertheless, about 20% of the interviewed firms are exporters. This is slightly less than other small Caribbean countries like Antigua and Barbuda (26.5%), and St. Vincent and the Grenadines (24%), where maritime transport is much more expensive and less coordinated. Small firms in the Bahamas are almost twice as likely to export as the average small firm in LAC. Approximately 23% of small Bahamian

firms are exporters (LAC, 12.5%).



Source: Enterprise Survey

Whilst almost 7% of the average firm’s sales are exported, it takes about 6.1 days to clear direct exports through customs, slightly less than the 9.4 days required in the rest of LAC. Similarly,

to clear imports through customs requires an average of 10 days.

A significant amount of Bahamian firms use material inputs and/or suppliers of foreign origin. Over 80% of firms indicated that the use of foreign inputs and/or suppliers. This is much higher than the 71.1% average in LAC and the 63.6% average for the rest of the world. Likewise, only 46.3% of total input for the manufacturing sector is sourced domestically. This is almost 20 percentage points lower than the LAC and World averages.

Which firms use technology and how?

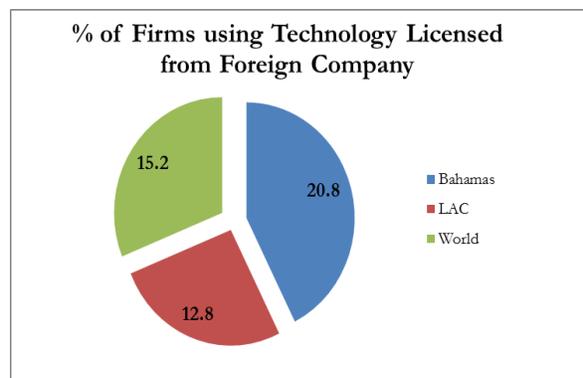
About half of the firms in the Bahamas have their own website (LAC, 44.8%). Consistent with the trend in other regions, the likelihood of having a website increases with size. Only 37.2% of small firms have a website compared to 61.9% of medium-sized firms and 81.4% of large firms.

On the other hand, almost 90% of firms use emails to interact with clients/suppliers compared to 82.9% of firms in LAC. All large firms use emails to interact with their clients, 99% of medium-sized firms and 82.1% of small firms.

Firms in the Bahamas are almost twice as likely to have an internationally recognized quality certificate compared to the LAC average. Over 31% of firms have this certification compared to 16.7% in LAC.

Of the manufacturing firms interviewed, about 20.1% use technology licensed from foreign companies, compared with the LAC average of 12.8% and the world average of 15.8%. Exporting firms are over three times more likely

to use technology licensed from foreign companies (46.9%) compared with non-exporters (14.1%).



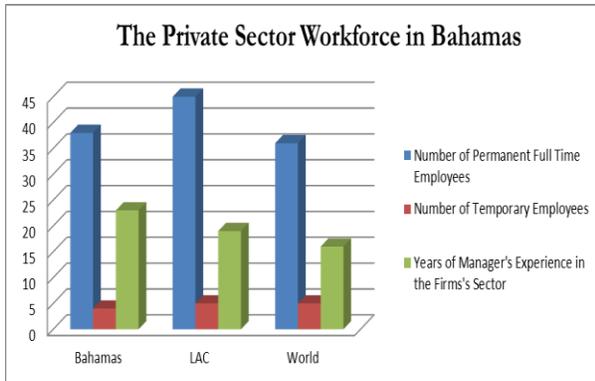
Source: Enterprise Survey

How is the workforce structured?

The average firm has about 38 employees. Differentiating by size, small firms have about 9 workers, medium-sized firms have about 37 workers and large firms employ about 203 employees.

Males account for almost 56% of the permanent private sector workforce, a lower proportion than in most other LAC countries (62.1%). Large firms tend to have more male workers (64%) compared to medium-sized firms (54%) and small firms (56%).

Bahamian firms have top management that is slightly more experienced than other LAC countries. The top manager in most Bahamian businesses has 22.6 years of experience compared to 19.3 years in a firm in the average LAC country. Managers in medium-sized companies (25.8 years) tend to have more experience than managers in small and large firms, 20.7 and 23.4 years, respectively.



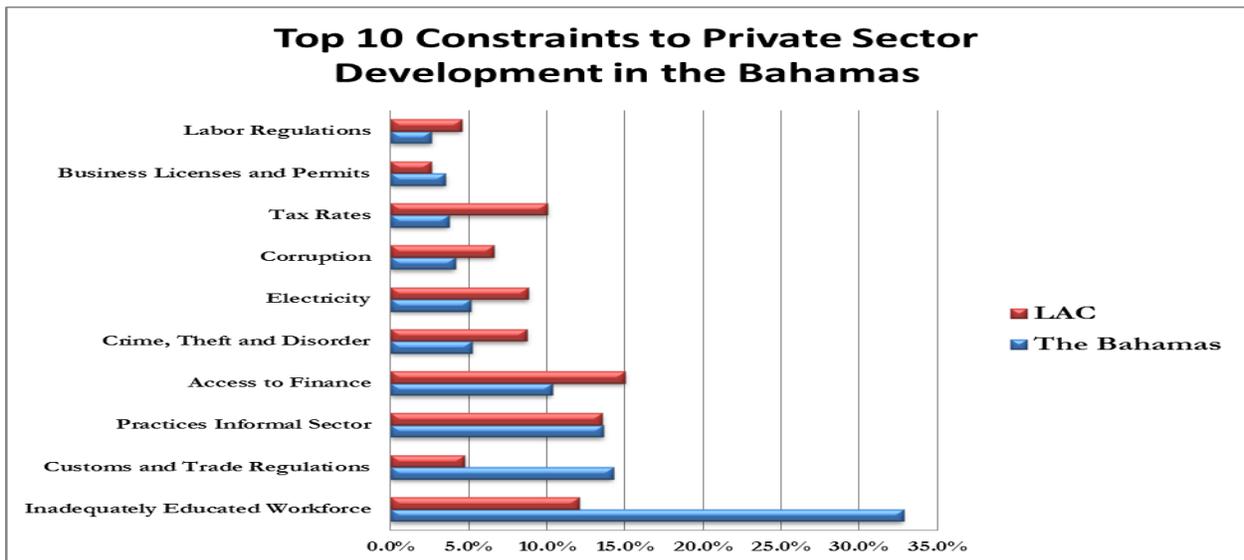
Source: Enterprise Survey

Most large Bahamian firms provide formal training for their employees. Almost 75% of large firms offer formal training, 56% of medium-sized firms and only 19.4% of small firms.

Similarly, a higher percentage of Bahamian firms have female top managers than the LAC average. Almost 33% of firms have at least one top manager that is female (LAC, 20.8%).

What are the main constraints to the growth of firms in The Bahamas?

The top 10 obstacles to the business environment in The Bahamas are highlighted below. Businesses identified an inadequately educated workforce as the most severe constraint. Approximately 34.2% of the interviewed firms indicated that an inadequately educated workforce was a major constraint, and 32.8% argued that this was the most severe constraint to their development. This is the case mostly for small and medium-sized firms, with over 80% of large firms citing that as a major constraint to running a business in the country.



Source: Enterprise Survey

In this instance, the term inadequately educated workforce pertains to the identification of the labor skill level as a major constraint and not the number of educational degrees or the quality of education provided.

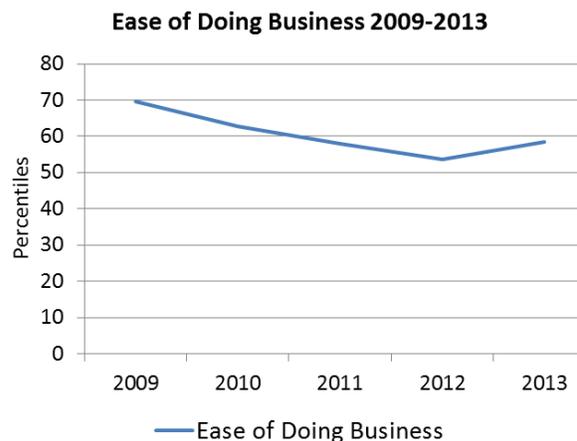
Customs and trade regulations in the country were identified as a major constraint by 21.8% of firms compared with the LAC average of 19.7%, which influences a firm's decision to explore foreign markets. Similarly, 14.2% of firms indicated that this was their most severe constraint to growth.

Of the interviewed firms, 13.6% indicated that the practices of firms in the informal sector are the most severe constraint to their business. Almost 68% of registered firms indicate that they compete against unregistered or informal firms. This is slightly higher than the LAC average of 62.3%. From the available data, this is more of a concern for small and large firms where 74.6% and 76.7% respectively, report that they compete with informal firms. On the contrary, only 52.6% of medium-sized firms seem to have this problem. Nevertheless, there is a high level of formality. Almost 93% of interviewed firms were registered at the start of operation. On the other hand, firms that indicated they were unregistered when they started operation, continued to operate in the informal sector for 0.4 years, significantly less than the LAC average of 1.1 years.

Improving access to credit can help firms grow and explore new avenues in terms of trade. The Bahamian firms' ability to access finance is a major constraint for 12.9% of firms. In fact, 10.3% of firms indicated that this is their most severe constraint to growth. This is especially true for the medium-sized firms in the manufacturing sector; although this is one of the lowest in the LAC region, with Jamaica and Antigua and Barbuda coming behind with 40.5 and 41.0%; it is still significant for the country.

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

The Bahamas was first included in the Doing Business report in 2009, which is representative of fiscal year 2007/2008. Upon its inclusion, The Bahamas economy received a relatively high ranking, being contained within the 70th percentile. Over the next 4 years, the ease of doing business in the Bahamas economy dwindled. This resulted in the economy falling 30 positions and being contained within the 54th percentile of the countries analysed. Following this, the country witnessed a slight increase in DB 2013 causing the country to return to its DB 2011 level (58th percentile).



Over the period of analysis, The Bahamas achieved one reform with a positive effect on the Doing Business indicators. This is reflected within DB 2009 and occurred during fiscal year 2007-2008, when the government made transferring property faster by introducing a computerized system at the Registry of Records. This reform resulted in a 2-position jump for the country's ranking with regard to the registering property indicator and witnessed in the DB 2010 report. Notably, the country also

undertook a reform with negative consequence on its ranking in DB 2012 (fiscal year 2010/2011), when the government made transferring property more costly by increasing the applicable stamp duty fees.

- To access the Enterprise survey data for The Bahamas 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.

