Document of the Inter-American Development Bank

**The Bahamas**

**Credit Enhancement Program for Micro, Small and Medium Enterprises**

**(BH-L1046)**

**Demand Analysis**

This document was prepared by Sebastian Vargas (IFD/CMF)

Analysis of the Demand of Credit for MSME in The Bahamas

* 1. The present analysis provides an estimate of the size of the program’s targeted population and an estimate of the amount of potential demand that the project is facing. For this purpose, we rely on survey and business registry data for Bahamas.
  2. **Sources**. The sources for the present document are the Small Business Development Centre of Bahamas (SBDC) and the Productivity, Technology and Innovation (PROTEqIN) survey[[1]](#footnote-1). SBDC is the executing agency for this program. Data on the number of business licenses in Bahamas (our best available measure for the number of MSME in the country) comes from SBDC’s internal calculations which in turn are based on data from the Department of Inland Revenue. PROTEqIN is a survey that was conducted in 2014 for 14 Caribbean territories. This survey, among other topics[[2]](#footnote-2), provides data at the firm level on business financing.
  3. **Number of MSME.** We can approximate the number of MSME in The Bahamas by utilizing the information on registered business licenses in the country. Table 1 summarizes the information provided by SBDC. The classification of MSME is based on SBDC definition[[3]](#footnote-3). From this, we can infer that our target population of MSME (regardless of whether they need financing or not) has a size of 22.516 firms for 2018.

**Table 1. Number of registered business licenses in The Bahamas**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2016** | **2017** | **2018** |
| MSME | 18.670 | 23.465 | 22.516 |
| Large | 404 | 409 | 435 |
| Total | 19.074 | 23.874 | 22.951 |
|  |  |  |  |

Source: SBDC

* 1. **Demand of Credit.** For the estimation of the potential demand for credit we combine the estimates of total number of MSME with the results of the finance module of the PROTEqIN survey. The statistics from the survey have been constructed using SBDC definition of MSME.
  2. Given that we are looking to estimate the number of MSME that require financing but are unable to access to credit due to market failure, we select some results from PROTEqIN that can help us identify this portion of the total population. To monetize the value of the demand we will use as an assumption an average loan amount of US$62.680, which corresponds to the estimate provided by SBDC for our program[[4]](#footnote-4). Table 2 resumes our estimates.
  3. In first place, we see that 50% of MSME declare not having applied for a loan or credit line in the last year before the survey. From this group, 72% declared not doing so because perceived financing constraints[[5]](#footnote-5). This accounts for 8.157 MSME that, using our average amount of credit per firm, yields to a potential demand of US$ 511 million. However, as a conservative measure we will assume that only a 50% of those MSME are interested in applying for a loan. Hence our potential demand estimate reduces to US$ 256 million.
  4. We can also approach the estimation from the perspective of the firms that finance their investments and working capital from other sources rather that banks. Although the structure of the survey does not make it clear whether all this firms would seek bank financing if they where provided the right conditions, we can use the estimates from this approach to build a range of a possible potential demand for our project.
  5. Thus, PROTEqIN results indicate that 38% of MSME invested in the last year previous to the survey. Of this group, 79% financed them from internal funds or credit from suppliers and advances from customers. This implies that a total of 6.875 MSME could potentially seek to finance their investment from banks, with and a corresponding potential demand of US$ 431 million. Like the previous estimate, we will assume that only a 50% of those MSME are interested in applying for a loan to finance their investments. Hence our potential demand estimate reduces to US$ 215 million.
  6. Similarly, the survey indicates that 86% of MSME finance their working capital from internal funds or credit from suppliers and advances from customers. This implies a pool of 19.319 MSME that could potentially seek to finance their working capital from banks, which implies a potential demand of US$ 1.211 million. Assuming that only a 50% of those MSME are interested in applying for a loan to finance their investments, our potential demand estimate reduces to US$ 605 million.

**Table 2. Potential Demand Estimates**



* 1. Hence, we have a range of a potential demand that could go from US$215 million to US$605 million. Following a conservative approach, we opt to consider for this analysis the smallest amount, noticing that is smaller than the one derived from the most direct question regarding credit constraints.
  2. **Conclusions - Dimensioning the Program**. Given these calculations, we see that the US$35.7 million that the program will mobilize (backed by the US$22 million destined for guaranteeing loans to MSME) would correspond to 16.6% of the potential demand of US$215 million. Thus, we can conclude that there is enough demand for the funds of the program and that there remains a considerable finance gap to be addressed by the financial system in The Bahamas.

1. http://competecaribbean.org/proteqin/ [↑](#footnote-ref-1)
2. Sales, supplies, foreign trade and competition, innovation, conflict resolution, crime prevention, business environment and government relations, labour and skills, performance among others. [↑](#footnote-ref-2)
3. Under US$5 million in annual revenue and less than 50 employees. [↑](#footnote-ref-3)
4. See the Economic Analysis of the operation. [↑](#footnote-ref-4)
5. The other 28% declared not needing financing. [↑](#footnote-ref-5)