https://www.thenassauguardian.com/business/idb-report-reveals-small-businesses-continue-to-struggle-to-find-funding/article_f9a50b80-6c7e-5df6-a759-27c4dcdd3da1.html

IDB report reveals small businesses continue to struggle to find funding

By Chester Robards
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excerpt

By The Nassau Guardian

A new Inter-American Development Bank (IDB) report suggests having The Bahamas' credit bureau offer more businesses credit reports in order to improve the success of small businesses in attaining funding, which the report contends is an extremely burdensome venture for businesses in The Bahamas.

The report, entitled "Finance for Firms: Options for Improving Access and Inclusion", explains that a 2020 survey by Compete Caribbean Partnership Facility, a private sector development program, found that 99 percent of firms said they would not apply for a bank loan or line of credit.

"Only 12 percent of these firms believed that they had sufficient capital," the report states.

"The remainder did not apply for credit for several reasons, including collateral requirements (11 percent), unfavorable interest rates (13 percent), and complex application procedures (11 percent).

"Micro, small, and medium-sized enterprises (MSMEs) are particularly vulnerable to these concerns, because they are less likely to have a dedicated team or person to handle complex loan applications (which may also include know your costumer requirements), more likely to be asset-light (especially in an economy that is service-oriented), and more likely to be seen as risky and thus warrant higher interest rates."

The report suggests that to cut through these concerns, the newly established credit bureau could be made to develop credit reports for these kinds of businesses in order to improve their chances of being favored for financing.

"Operationalizing the credit bureau to offer business credit reports would go a long way to reducing collateral requirements, decreasing approved interest rates, and broadly increasing the confidence of approval for at least some MSMEs," the report said.

"However, The Bahamas' only credit bureau offers credit reports for businesses that have or had a credit facility with a partner institute as recently as April 2018. Therefore, this narrow requirement may limit the scope of businesses that need financing but only have substantial, creditworthy relationships with utility companies, contracts with suppliers, and/or long-term rental agreements."

The report paints a grim picture of access to credit for MSMEs in The Bahamas. It does though credit the actions of the government for attempting to bridge the funding gap through the development of the Access Accelerator/Small Business Development Centre, which helps companies to access financing through government guaranteed loans and grants.

The report reveals that Compete Caribbean's Productivity, Technology, and Innovation in the Caribbean (PROTEqIN) Enterprise Survey found that in 2014, local companies saw access to capital and costs associated with financing as "very severe obstacles" for their business.

"Although the share of credit as a percent of GDP [gross domestic product] has stayed relatively steady for the last five years, access to and the cost of finance, especially during the pandemic, has worsened drastically since 2014," the report said.

"In 2014, 28 percent and 11 percent of Bahamian firms said that access to and the cost of finance were major or very severe obstacles, respectively, according to Compete Caribbean's Productivity, Technology, and Innovation in the Caribbean

(PROTEqIN) Enterprise Survey. By December 2020, these figures almost doubled to 52 percent and 19 percent respectively, according to Compete Caribbean's Innovation Firm Performance and Gender (IFPG) Survey.

"The decrease in the perceived access to and cost of finance is not surprising considering the unique macroeconomic conditions and the fact that domestic banks were broadly tightening their balance sheets in preparations for expected defaults and increase in nonperforming loans,"

It adds that these firms also lack the size and capacity to raise money through the equity markets, and therefore are locked out on that front.

"Beyond debt, MSMEs face difficulties raising funding through equity markets because the Bahamas International Securities Exchange (BISX) expects market capitalization of at least US$1 million or US$400,000 for companies wishing to list equity or debt, respectively. The BISX also requires that firms provide the last three years of audited financial statements."

There have, however, been continued talks of the development of a sort of junior stock market. And firms such as crowdfunding platform ArawakX have stepped in to fill in a portion of the funding gap for small companies.