

Ease of Doing Business

The Bahamas

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Group

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Abstract

From productivity performance indicators derived from the World Bank, The Bahamas is underperforming relative to our Caribbean economies and even other small economies within Latin America and the Caribbean. This policy brief outlines and explains these deficiencies using the enterprise surveys of the World Bank and the Compete Caribbean PROTEqIN database and describes the four major 'bottlenecks' to private sector output growth and productivity, while suggesting what policy measures will be required to improve productivity and cost competitiveness, and spur economic growth within the archipelago.

JEL codes: I31, I38

Keywords: Doing business, productivity and bottlenecks

Background

With a per capita Gross Domestic Product (GDP) of over US\$23,000, the Bahamians living on the archipelagic islands have a standard of living among the highest in the Western Hemisphere at roughly US\$8,000 above the regional average of Latin America and Caribbean economies (CIA Fact Book, 2015). The service sector (tourism and financial services) contributes roughly 70 percent of total GDP and most of the tax revenues and employment. Currently, 62 percent of the employed workforce is engaged in the private sector; while 22 and 16 percent are employed in government and self-employed related activity, respectively. (Department of Statistics, The Bahamas). The Government of the Bahamas (GoBH), like all governments worldwide, is relied upon to maintain a stable socio-economic environment, and promote prudent macroeconomic policies for a robust business climate that will foster private sector investment, improved factor productivity through enhanced technological innovation, and strengthen cost competitiveness. The active management of the micro, macro, and socio-environment creates a stable business climate, where firms are better able to plan and execute strategies while combining a skilled, productive workforce, with invested capital and technology for a higher rate of return on investment.

Measuring the contribution of the Caribbean private sector, including Bahamian firms to the rest of small economies (ROSE), indicators for factor productivity, employment, and output growth appear between one-fifth and less than half of the levels observed among ROSE countries, contributing to weaker productivity, lower cost competitiveness and delays in sales and output growth within the Bahamian sphere. This policy brief outlines and explains these deficiencies using the enterprise surveys of the World Bank and the Compete Caribbean PROTEqIN database, describes the major 'bottlenecks' to private sector output growth and productivity, while suggesting what policy measures will be required to improved productivity, cost competitiveness and spur on economic growth within the archipelago.

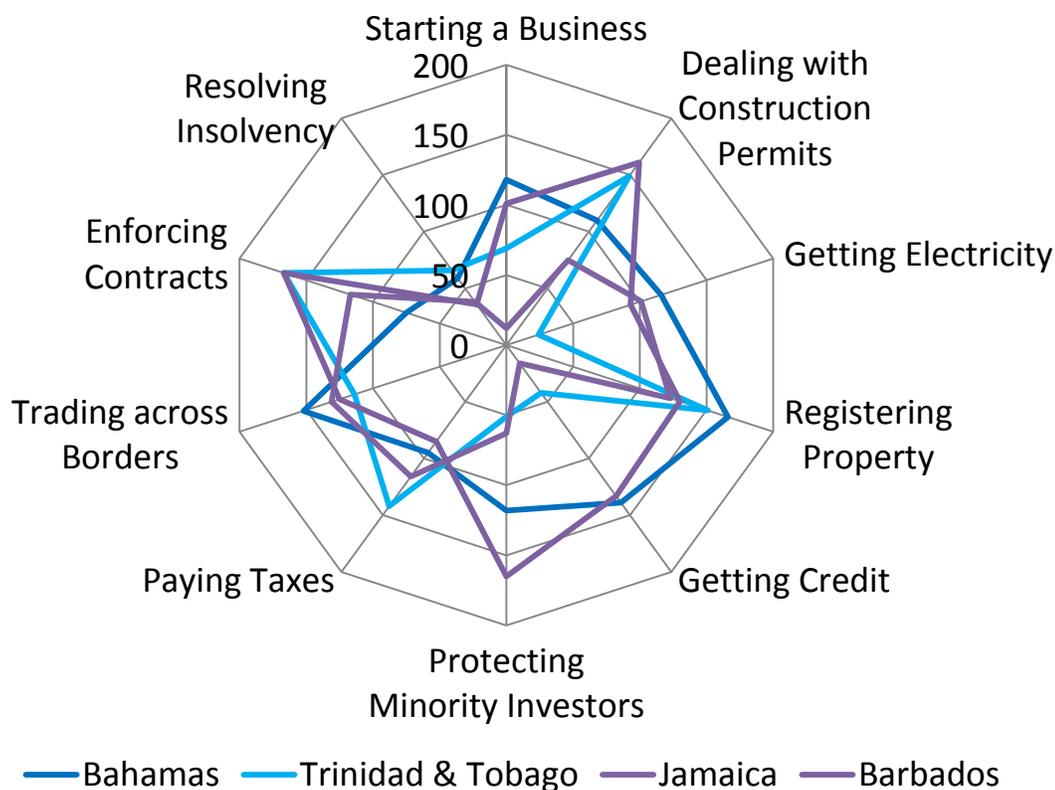
Figure 1: Benchmark Measure



Source: World Bank Enterprise Survey

To understand how effective governments are in fostering private sector growth and encouraging enterprise contribution, the World Bank produces the Doing Business Indicators, comprising ten measures ranging from the ease with which private companies can pay their taxes to registering property. For The Bahamas, the results (see figure 2) against major Caribbean economies show that greater efforts are needed in seeking to improve the trading across borders, ease the costs and the means of obtaining credit, reduce energy costs, registering property, and protecting minority investors. These factors were cited among the indicators for the archipelago in the World Bank Ease of Doing Business Indicators.

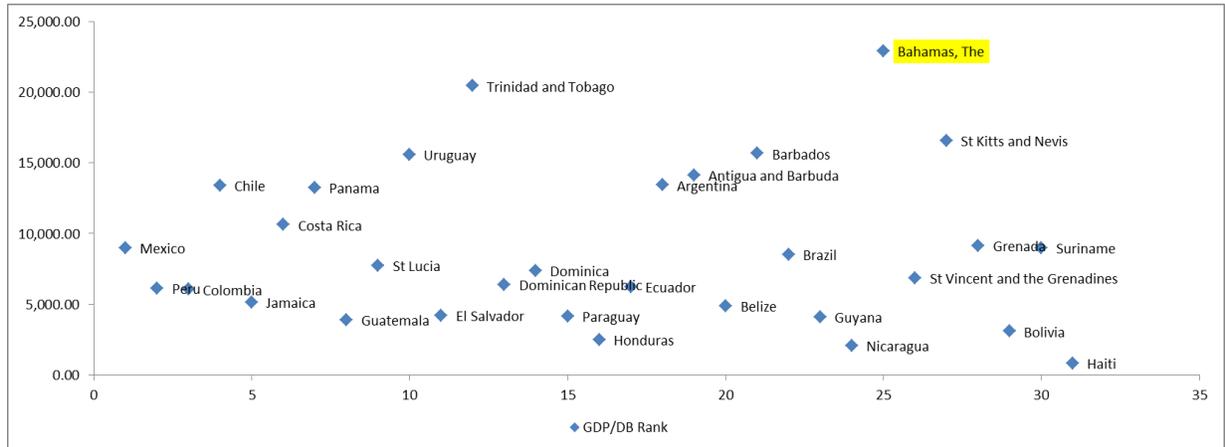
Figure 2: Doing Business Indicators



Source: World Bank's Ease of Doing Business Report 2016

This weakened performance has resulted in The Bahamas measuring closer to the lower quartile rank (25th), among the 32 countries of Latin America and the Caribbean, below Jamaica (5th), St. Lucia (9th), Trinidad and Tobago (12th), Dominica (14th) and Antigua and Barbuda (19th) in the World Bank Ease of Doing Business Report. Among the same group, the results within the sub-indices, The Bahamas is ranked second to last (31st) in trading across borders, 29th on registering property, 27th and 23rd on obtaining electricity and credit respectively, and 17th on the ease of starting a business. The islands, however, measured 14th in the paying of taxes.

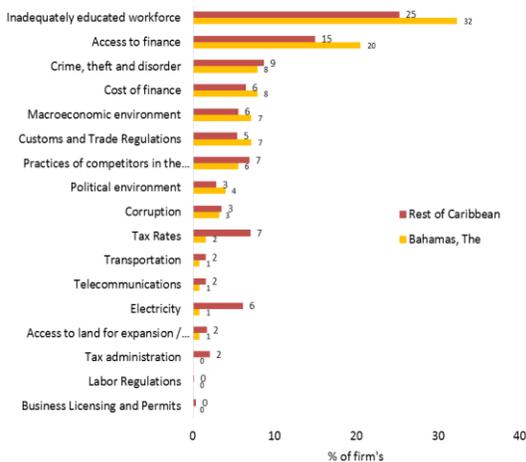
Figure 3: Doing Business Ranking 2016 (Latin America & the Caribbean)



Source: World Bank's Ease of Doing Business Report 2016

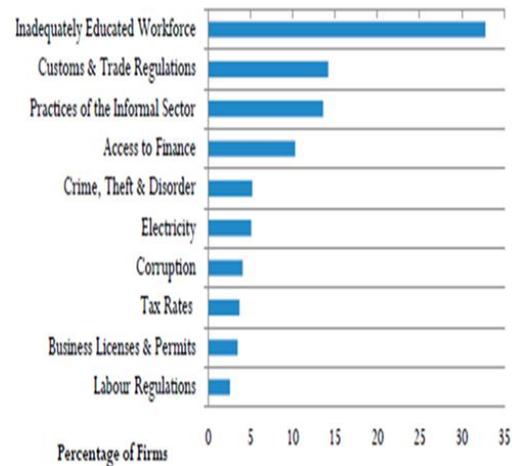
Compete Caribbean PROTEqIN survey results among various types of Caribbean firms for 2014 and 2010 show similar concerns expressed by the private sector. Across the Caribbean, Bahamian firms complained about four (4) major bottlenecks: the current low level of skill of the workforce, limited access to and rising cost of finance, crime and related expenses to businesses, and the existing macroeconomic conditions and governance environment in the islands.

Figure 4: Concerns of Caribbean vs. Bahamian Firms (2014)



Source: Compete Caribbean PROTEqIN Database

Figure 5: Concerns of Bahamian Firms (2010)



Bottlenecks to Doing Business

Regardless of the indicator used, the results show that the issues of greatest concern were an inadequately trained workforce or low employable human skills, the socioeconomic impact of rising crime, theft, and disorder on the activity of firms, difficulty of accessing finance and related costs and governance environment.

These concerns of the private sector will be presented and mitigation measures examined as well as other efforts that could be taken to reduce these micro risks.

Low employable human skill

Currently, The Bahamas spends approximately 13 percent of its total budget on education, producing adequately trained instructors who meet the standard requirements of the education board, throughout the public and private school system. The school system has over 250 schools, including the renamed College of the Bahamas, now upgraded to university status.

Despite the level of spending on education, recently just 50 percent of students received a graduation certificate. The Vision2040 report, which outlines the national development plan, indicated that large portions of the workforce remain unskilled, lacking basic literacy, numeracy, and soft skills to contribute to national development. It is small wonder that almost 32 percent of firms complain that an inadequately trained labour force is one of the central issues they face, with roughly 37 percent of firms offering formal training to their recruited staff (see Annex 1).

The GoBH, through the Ministry of Education has used the INSPIRE¹ programme, aimed at improving educational quality at the early, secondary and special assistance levels. The results have been encouraging, and complement current reforms to strengthen training of the workforce by the establishment of vocational programmes through the newly formed National Training Agency. These programmes have started to make some significant strides towards correcting the problem of an inadequately trained workforce in the medium and long term. However, some labour mobility laws may need to be reformed, allowing skilled workers from within and outside the region to join the workforce within the short term.

Socioeconomic impact of rising crime, theft, and disorder on the activity of firms

At least 40 percent of firms within The Bahamas reported being victims of crime and disorder, with losses to annual sales estimated at 5 percent. These results seem to mirror the experiences of firms in Guyana, which also reported losses in sales of approximately 6 percent,

¹ Investing in Students and Programmes for the Innovative Reform of Education

slightly ahead of Jamaica and The Bahamas. The recently launched Citizen Security and Justice programme and the longer-running Urban Renewal programme aim to address several issues, from inner-city crime and hopelessness to youth unemployment, conflict resolution, and criminal justice reform, with the long-term hope for gradual reductions in disorder, theft, and crime impacting enterprises and citizens within the archipelago.

Figure 6: Percentage of Firms Reporting being Victims of a Crime in the Last 12 Months by Country

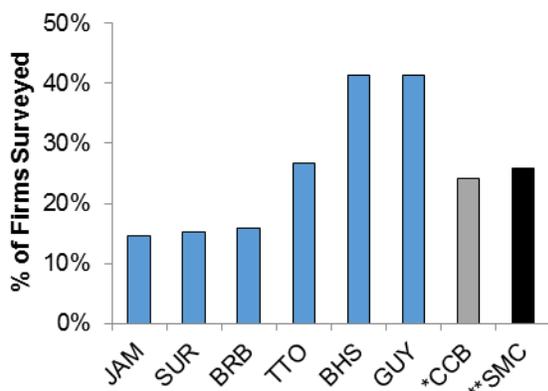
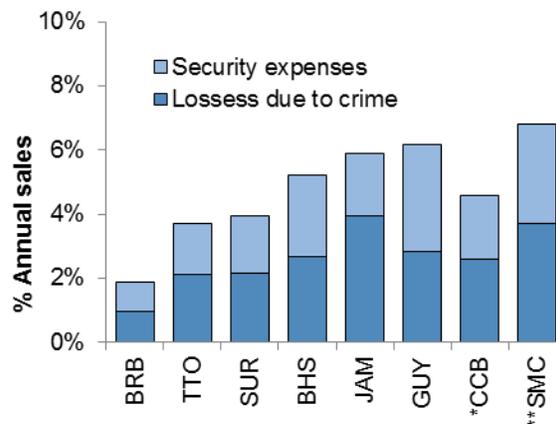


Figure 7: Crime-Related Costs as a Percentage of Annual Sales

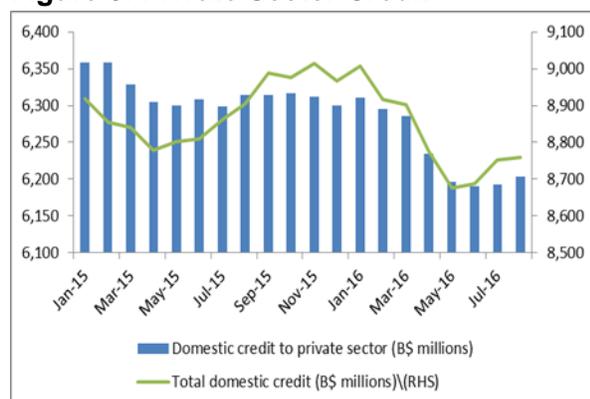


Source: WB/IFC Enterprise Survey data. Note: *CCB is an average of the CCB countries: Jamaica (JAM), Suriname (SUR), Barbados (BRB), Trinidad and Tobago (TTO), The Bahamas (BHS) and Guyana (GUY). **SMC is an average of 34 small countries with populations of less than 3 million.

The accessing finance and related costs

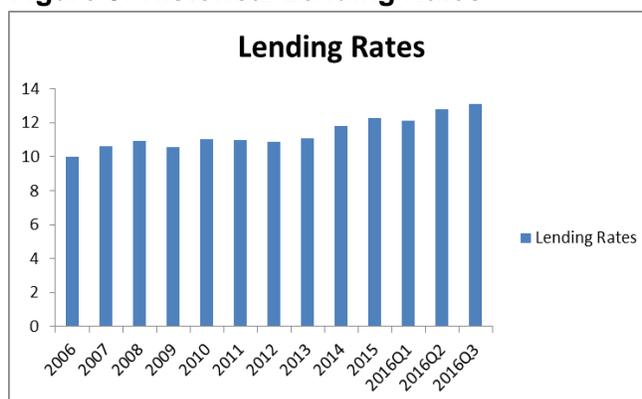
The financial sector remains well-capitalised and liquid with no evidence of a shortfall in available funds. However, rising lending rates from the beginning of 2016 above the average rate of 11.2 percent from 1998 to the end of 2015, have contributed to the decline in credit to the private sector. This, juxtaposed with weakening domestic consumption and investment levels driven by double-digit unemployment rates, and relatively high levels of non-performing loans (NPLs) within the sector, have all added to the current state of private sector credit. Recently, the government announced the sale of the Baha Mar Casino and Hotel to Chow Tai Fook Enterprises Limited (CTFE) and the re-start of construction; this is expected to aid overall economic growth and private sector engagement within the economy. The GoBH must take effective measures to reduce the cost and increase access to credit by the private sector, probably through wider outreach of the Bahamas Development Bank (BDB) or encouraged through other programmes such as the Bahamas Entrepreneurial Venture Fund (BEVFL), if varied scale investment projects are to be undertaken to boost growth, productivity, and competitiveness.

Figure 8: Private Sector Credit



Source: Central Bank of The Bahamas

Figure 9: Historical Lending Rates



Source: Central Bank of The Bahamas

Governance environment and inefficient electricity generation and distribution

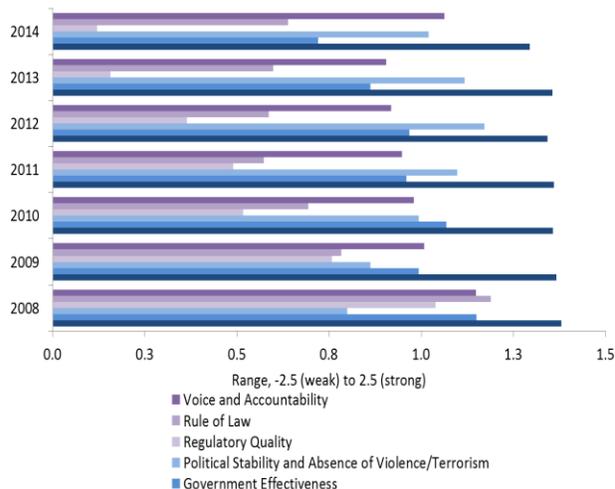
Measured and efficient regulatory guidance, and a cost-effective electricity generation and distribution system are attributed to effective governance within most societies.

Comparison of governance indicators with those of other small economies within and outside the region shows that while GoBH scores higher than the area’s average on rule of law, corruption control, political stability, and accountability, effective governance scores were below the area’s average for effectiveness and regulatory quality. The Vision 2040 (2016) report identifies improvement of government effectiveness as a key component of its national development plan. In 2013, the public sector scored 0.9 out of a possible 5 on its ability to efficiently manage, monitor, and evaluate projects, using the IDB PRODEV Evaluation Tool (PET). Recognising the shortcomings in public sector effectiveness, the Public Financial Management and Performance Monitoring Reform programme aims to improve the government’s capacity to generate and distribute evidence-based information for policy makers, reducing the cost of doing business, and the complications within the current environment that are inhibiting private firms within the archipelago.

The National Energy Plan (2013-2033) has set higher energy efficiency targets, as the cost of energy remains prohibitive and frequent disruption of service continues to stymie efforts by firms to increase productivity and reduce costs. At almost US\$0.40 per kWh, The Bahamas has the highest energy cost in the Caribbean, except for Grenada and Dominica (IMF 2016). Bahamian firms experience an average of 2.2 outages per month, just below Jamaica (2.5) but above Barbados (1.1), Suriname (0.7), and Trinidad and Tobago (0.5). The average duration, measured in hours of a typical outage was highest in Jamaica (1.30), Suriname (1.0), The

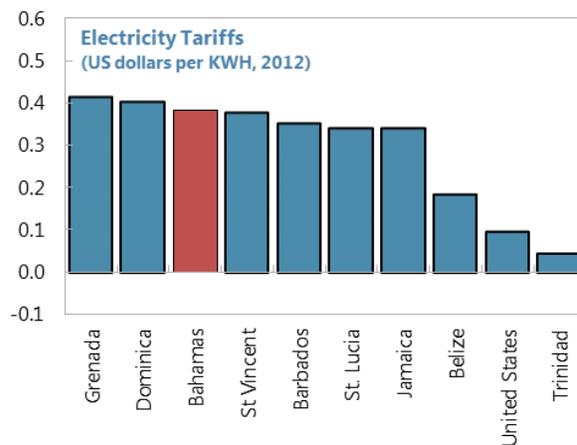
Bahamas (0.9), Barbados (0.6) and Trinidad and Tobago (0.50). Bahamian firms lose approximately 1.5 percent of sales due to outages (WB Enterprise Survey).

Figure 10: Governance Indicators



Source: Worldwide Governance indicators

Figure 11: Electricity Tariffs



Source: IMF and Bahamian authorities

Conclusion

The need for an adequately trained and employable workforce, easier access to finance, and the impact of crime, theft, and disorder on the growth prospects of firms combined with a continuing need to reduce electricity costs and disruptions. Juxtapose with this the need for better guidelines and measures to register property rights, strategies to uncouple trade barriers, and the results of some of the measures that impact the ease of doing business index in The Bahamas. Concerted efforts are being made to assist the private sector in the areas of growth, productivity, and cost competitiveness. Additional efforts could include the re-evaluation of existing labour mobility laws to allow the short-term boosting of the workforce; expansion of current programmes by the Bahamas Development Bank and Bahamas Entrepreneurial Venture Fund to help reduce the cost of financing and increase access to finance; and implementation of the higher energy-efficiency targets in the National Energy Plan to reduce energy costs and disruptions.

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Annex 1: Labour Force Characteristics

Labour Force Characteristics

Economy	Year	Percent of firms offering formal training	Proportion of workers offered formal training (%)*	Years of the top manager's experience working in the firm's sector	Percent of firms identifying an inadequately educated workforce as a major constraint
All Countries		35.2	52.3	16.8	23.7
East Asia & Pacific		44.6	60.3	15.2	21
Eastern Europe & Central Asia		32.8	55.8	16	13.7
High income: nonOECD		38.6	52.1	18.3	31.1
High income: OECD		44.5	57.4	21.7	17
Latin America & Caribbean		44.3	61	18.9	35.9
South Asia		27.9	45.4	15.2	19.9
Sub-Saharan Africa		30.1	44.7	14.5	23.2
OECS		36	...	17.5	33.78
CCB		31.9	42.0	18.2	40.7
Trinidad and Tobago	2010	28	42.1	19.9	40.9
Jamaica	2010	25.9	41.8	16.1	19.9
Antigua and Barbuda	2010	24.9	...	15.2	27.8
Bahamas, The	2010	37.1	...	22.6	34.2
Barbados	2010	35.5	...	16.7	33.1
Dominica	2010	18.9	...	9.5	12.7
Grenada	2010	46.2	...	23	38.8
Guyana	2010	63	...	23.3	50.5
St. Kitts and Nevis	2010	49.5	...	20.3	45.3
St. Lucia	2010	13.7	...	9.6	21.7
St. Vincent and the Grenadines	2010	45.7	...	19.4	35.3
Suriname	2010	2	...	10.6	65.6

Source: World Bank Enterprise Surveys

Source: World Bank Enterprise Survey (2010)

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