

Leave Us a Loan

Understanding the financing needs of small and medium sized enterprises in the BES Islands post COVID19.

Researchers

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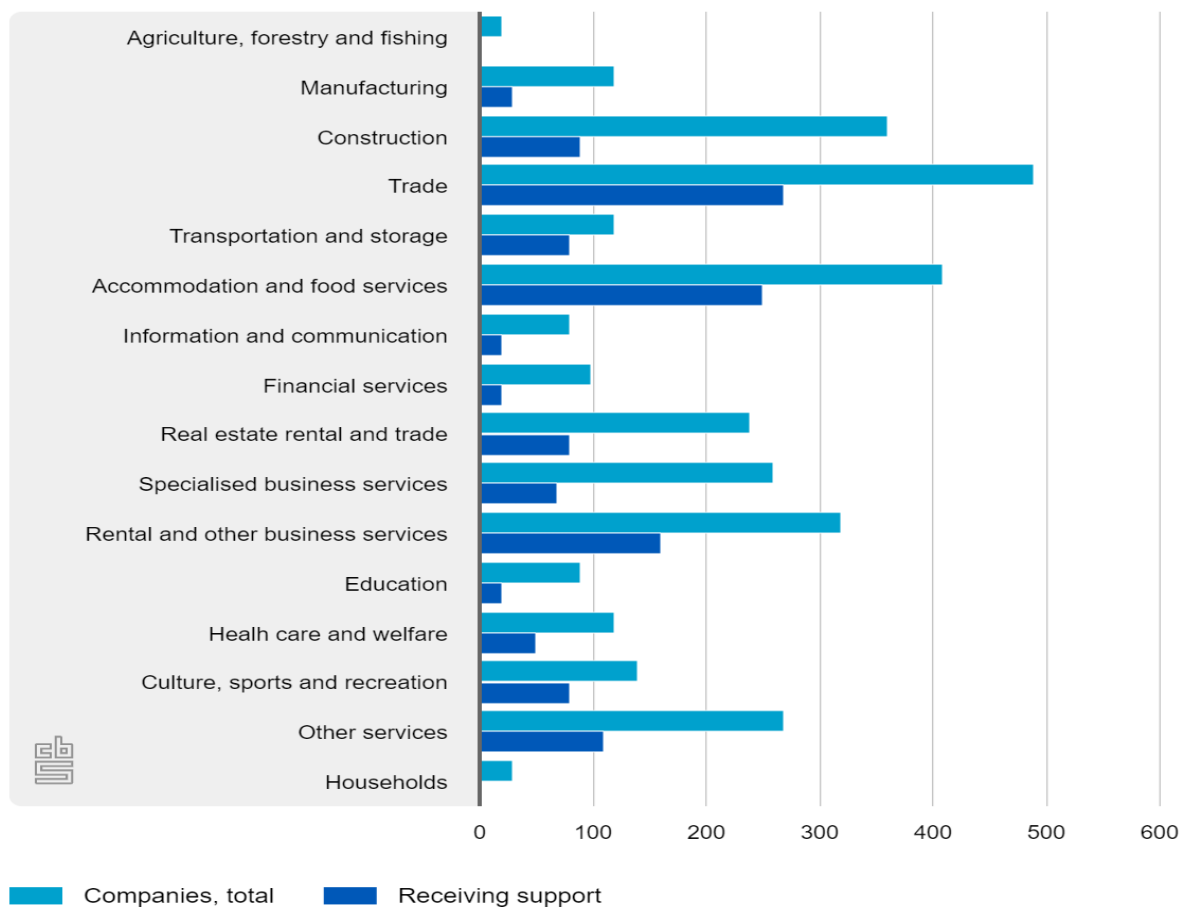
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Background

During the height of the COVID19 pandemic in 2020, “the share of companies in the Caribbean Netherlands claiming government support for their wage costs and or fixed overhead ranged from 45 percent on Bonaire to 55 percent on Saba and 47 percent on St Eustatius” (CBS, 2021). In 2020 the island economies of Bonaire, St Eustatius and Saba shrank by 8.4 percent, 25.9 percent and 6.3 percent respectively (CBS, 2022). This is according to information provided by the Netherlands Central Bureau of Statistics (i.e. CBS). Since 2020, the Netherlands government has stopped providing Covid19 support to businesses operating in both the Caribbean and European Netherlands.

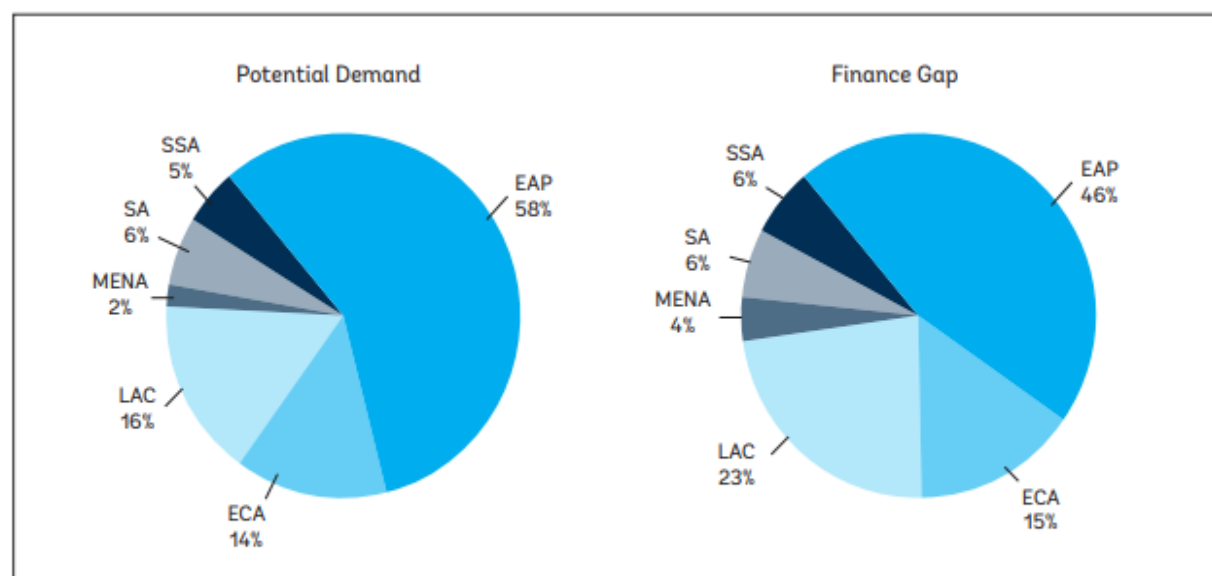
Companies receiving financial support in the Caribbean Netherlands by sector, since March 2020



Source (CBS, 2021)

One of my working hypotheses is that “post Covid19” there exists a strong need of financing amongst BES Island SMEs that is largely being unfulfilled. According to a study by the International Finance Corporation (i.e. IFC), there is a total of \$8.9 trillion in potential demand in financing by micro, small and medium sized enterprises (i.e. MSMEs) globally. However, only \$3.7 trillion in financing is supplied leaving a financing gap of \$5.2 trillion (IFC, 2017). Furthermore, the study finds that the “finance gap in Latin America and Caribbean (i.e. LAC) is the second largest after the East Asia region” (IFC, 2017).

Figure 9. Regional Distribution of MSME Potential Demand and Finance Gap (%)



Source: IFC data and analysis.

Note: EAP = East Asia and the Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SA = South Asia; SSA = Sub-Saharan Africa.

Source (IFC, 2017)

Finally, my background research for this study revealed that “SMEs are less likely to be able to obtain bank loans than large firms’ (World Bank, 2022). There are several reasons for this. In St Maarten for example, Qredits (the de facto micro financing lender) rejects 32 percent of loan application due to lack of financial documentation (i.e. interim reports, annual statements), poor financial results (i.e. zero or little profitability, negative cash flow), lack of quality market research and a lack of entrepreneurial experience (SEO, 2021).

Understand the finance needs and preparedness of SMEs located in the BES Islands post Covid19

Focus

With the background context in mind, I have chosen to carry out a data visualization-led study with the aim of identifying the financing needs and preparedness of small and medium-sized businesses (i.e. SMEs) operating within the BES Islands post Covid19. This region consists of three islands within the Caribbean that have direct governing ties to the Netherlands namely, Bonaire, Sint Eustatius and Saba.

Objectives

Key research objectives include 1) identifying the types of entities seeking financing 2) their financing readiness and 3) their financing needs

Questions

The above research objectives were translated into research questions such as “What level of access do businesses have to quality financial and market information?”. Research questions were then specified as survey questions such as “How often does your business produce financial reports”.

Research Aim

Methodology

The data collection process for this research was conducted in the form of a mini survey in early 2023. A total of 35 businesses from the BES Islands completed the survey. The data was analyzed and visualized using software tools such Jupyter Notebooks, Python 3 and libraries such as matplotlib.

**The best research
you can do is
actually talking to
people**

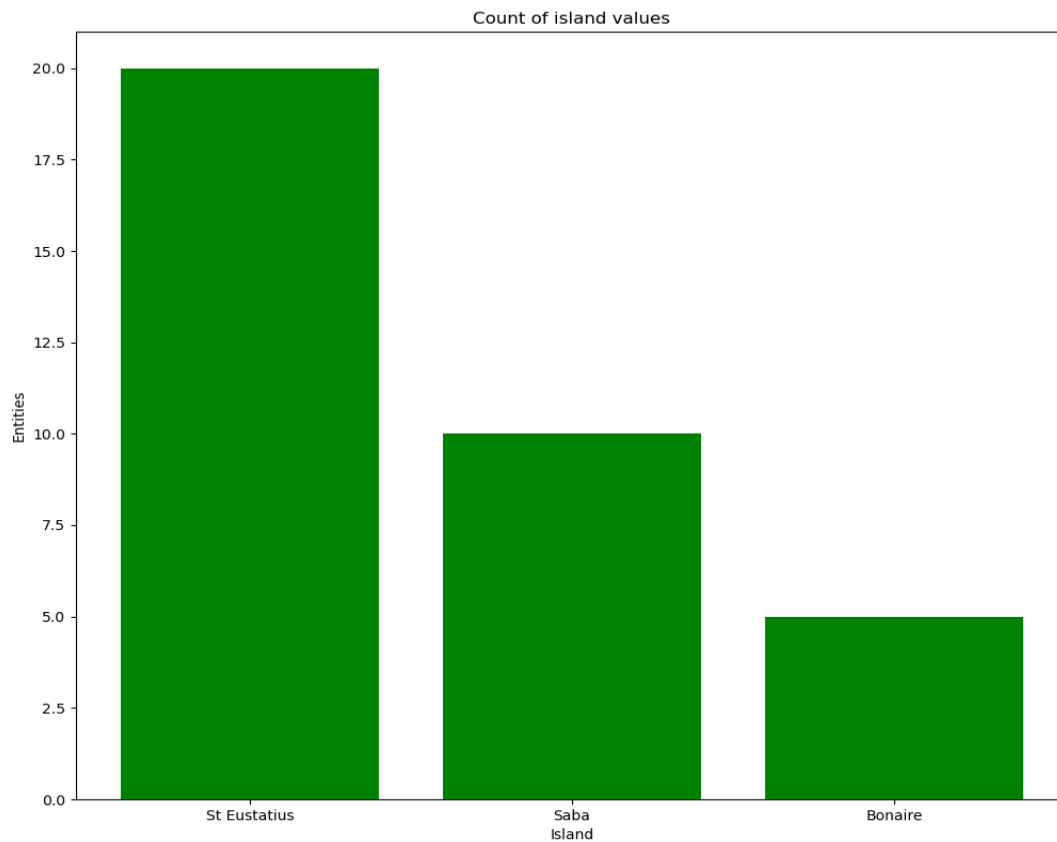
- Terry Pratchett

Key Results

Business Profile

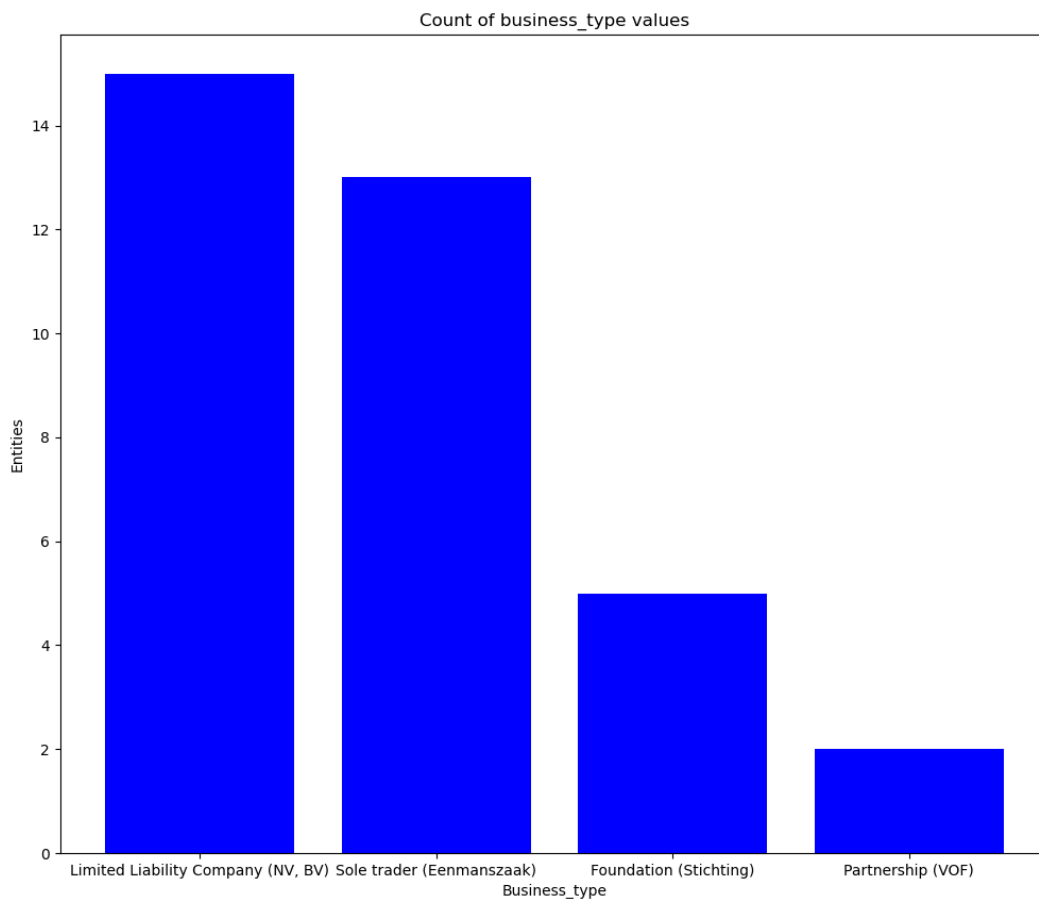
Location

Starting with the island location of businesses participating in the survey, we can see that 20 businesses participating in the survey were from St Eustatius. There were also 10 businesses located on Saba and 5 businesses located on Bonaire that participated in the survey.



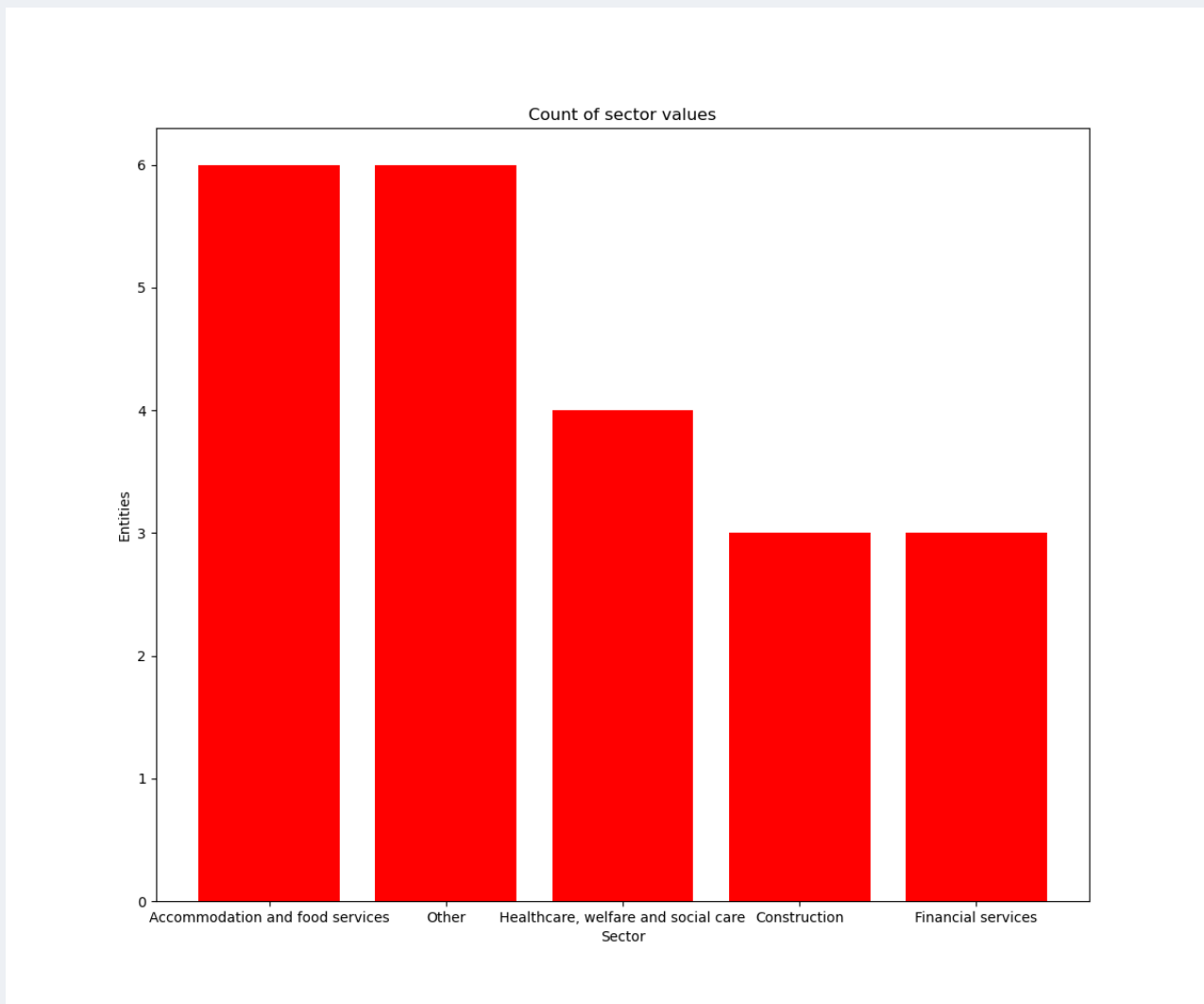
Business Type

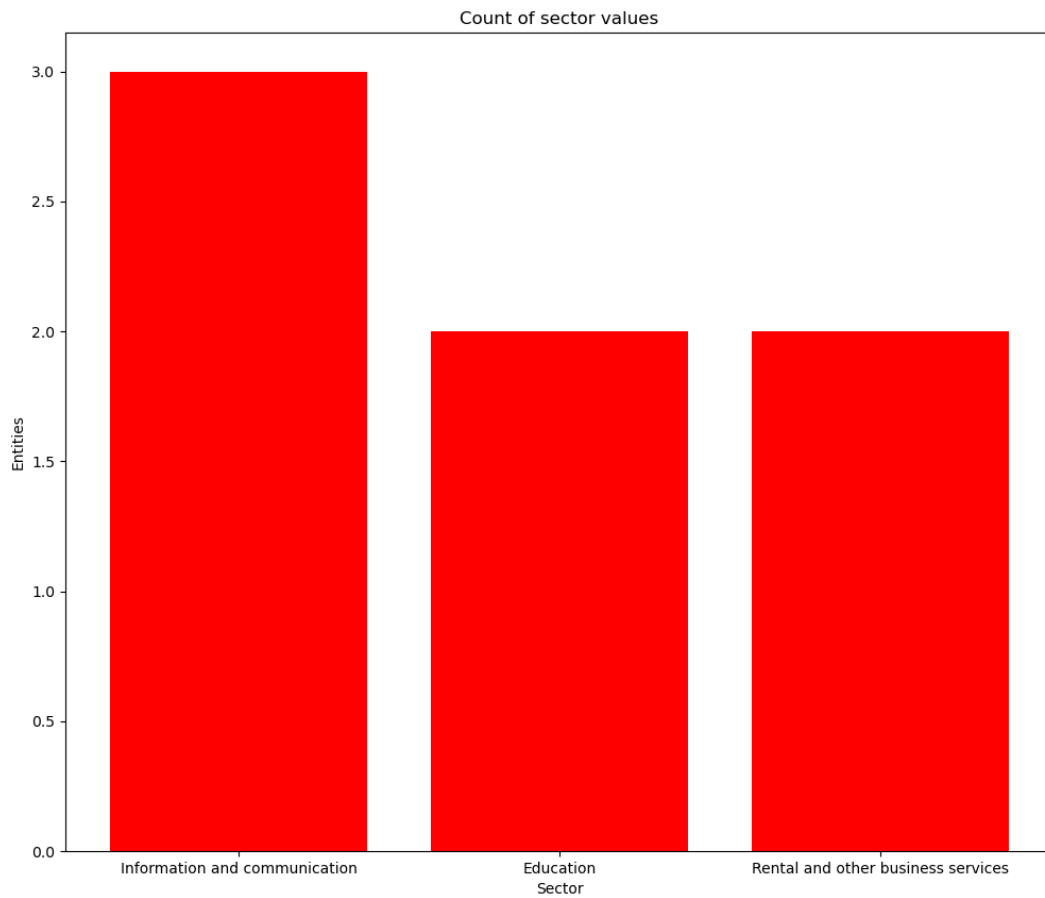
The majority of businesses who participated in the survey were limited liability companies at a total of 15. However, there were 13 sole trader businesses, 5 foundations and 2 partnerships that also participated in the survey. These varied results are representative of the types of businesses and entities that I deal with working in the field of accounting and finance within the BES Islands.



Sectors

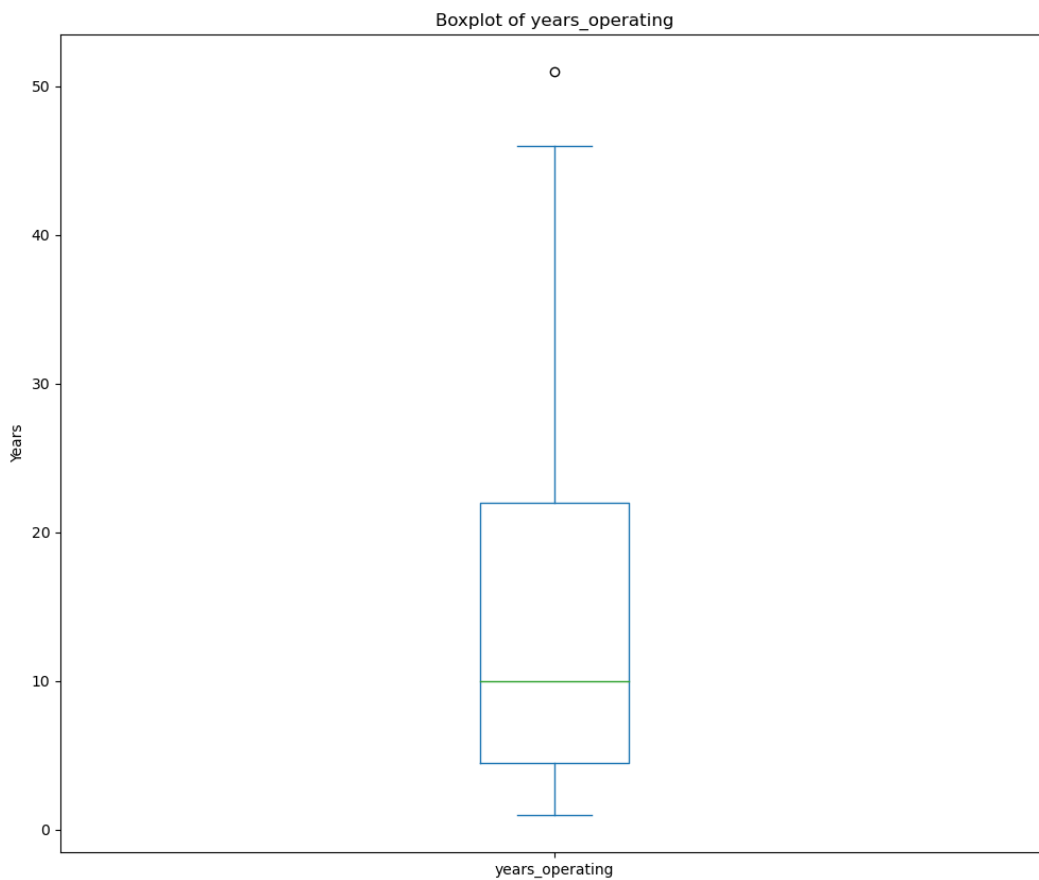
From the below bar chart, we see the top 5 sectors by number of survey responses included accommodation and food, healthcare, welfare and social care, Construction, Financial services and Other. The next top 3 sectors were information and communication, Education and Rental and business services.





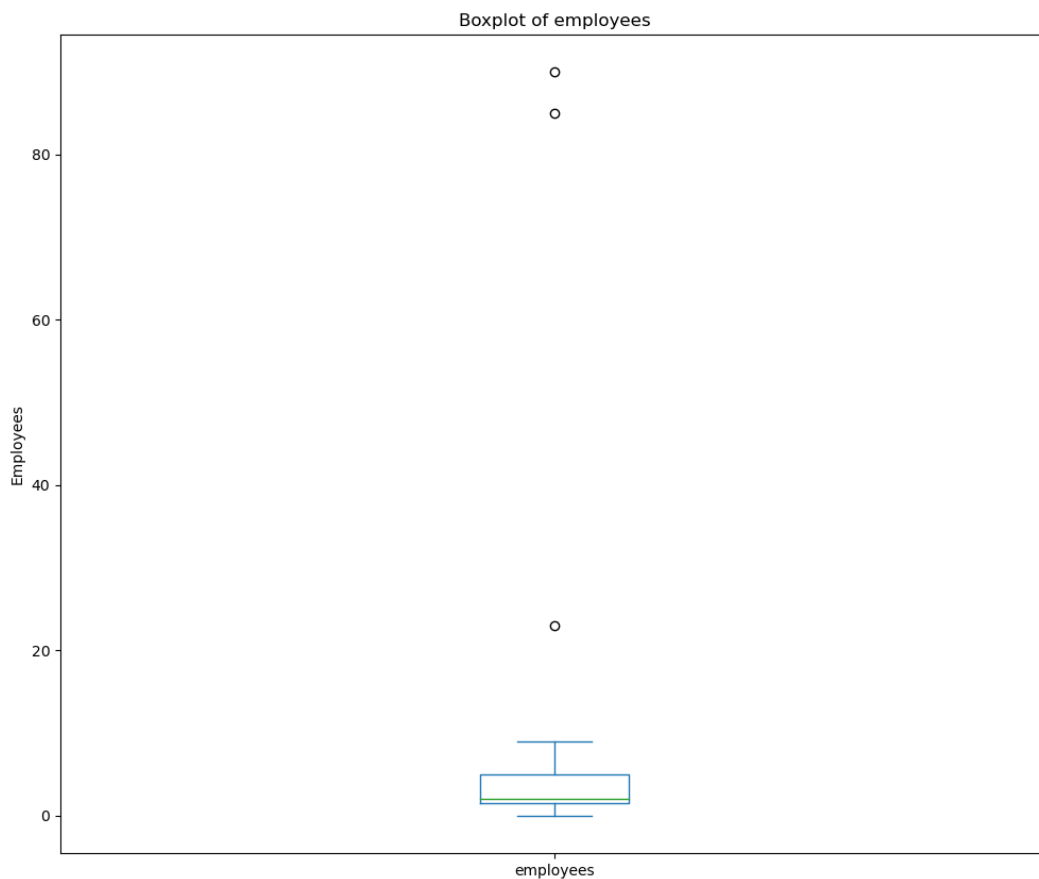
Years Operating

We can also consider the number of operating years of business respondents. Below we see that operating years of businesses range from 1 to 50 years. The business that has been operating for 50 years is represented as an outlier (i.e. black circle). Finally, looking at the box in the box plot, we get the sense that most businesses have been operating for between 4 to 22 years, with a median value of 10 (i.e. green line).



Number of Employees

Most businesses participating in the study only have about 1 - 5 employees with a median value of 2 employees (i.e. green line). As such, the businesses with 23, 85 and 90 employees respectively are identified as outliers (i.e. black circles).



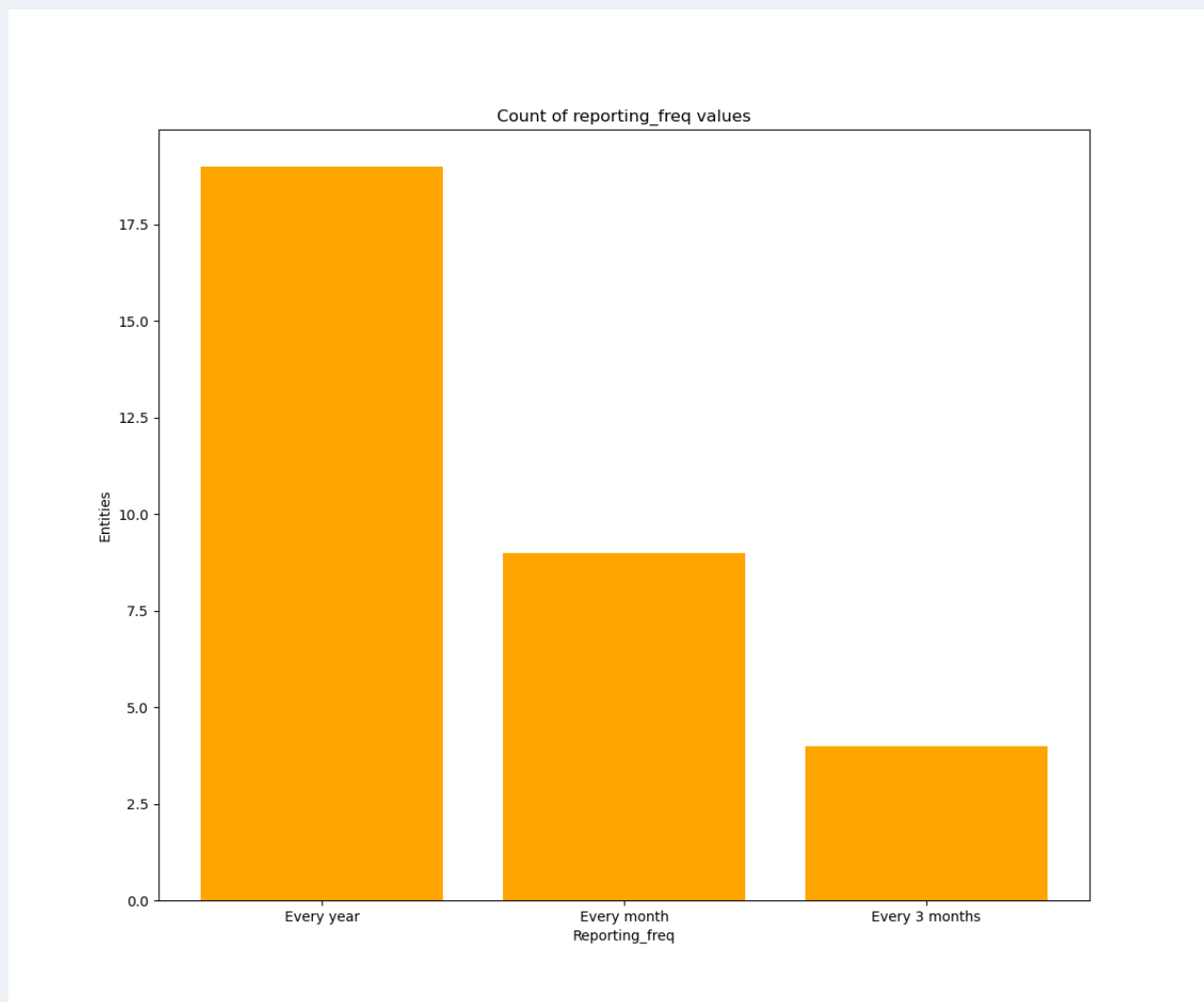
**It is thrifty to
prepare today for the
wants of tomorrow**

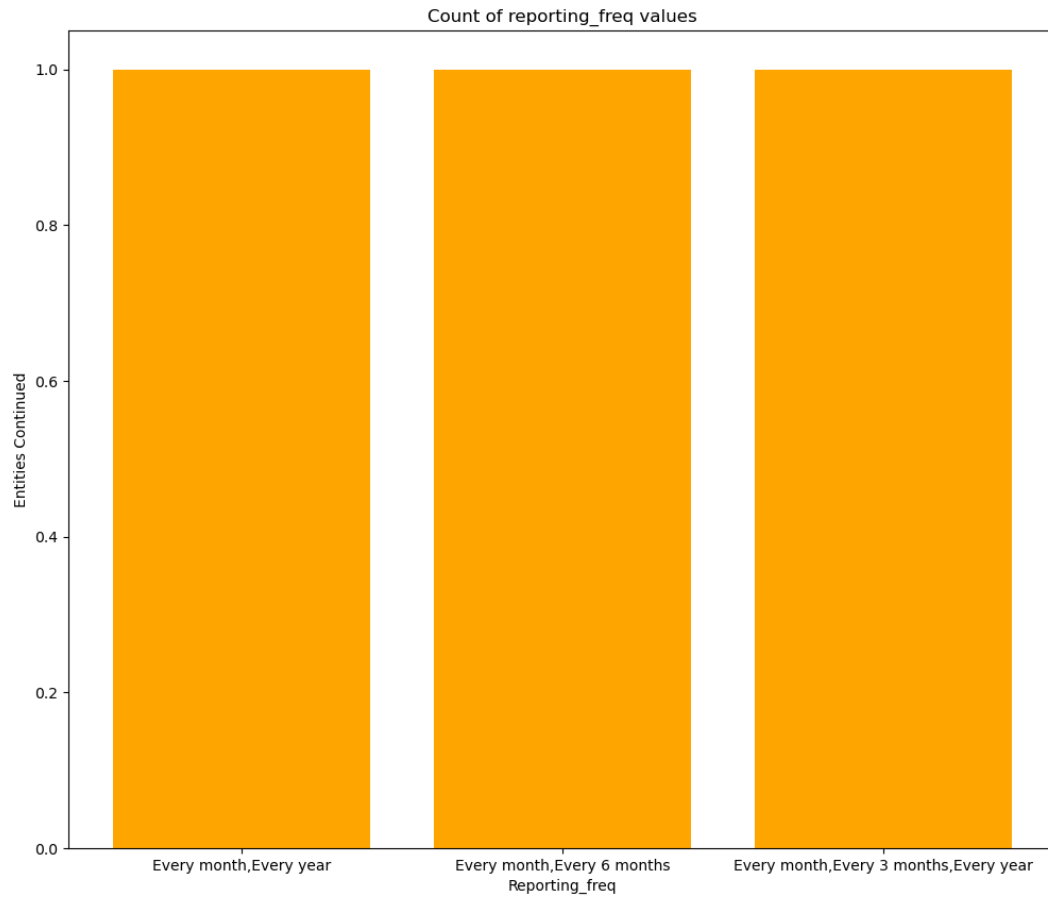
- Aesop (Greek storyteller)

Financial Readiness

Financial Reporting

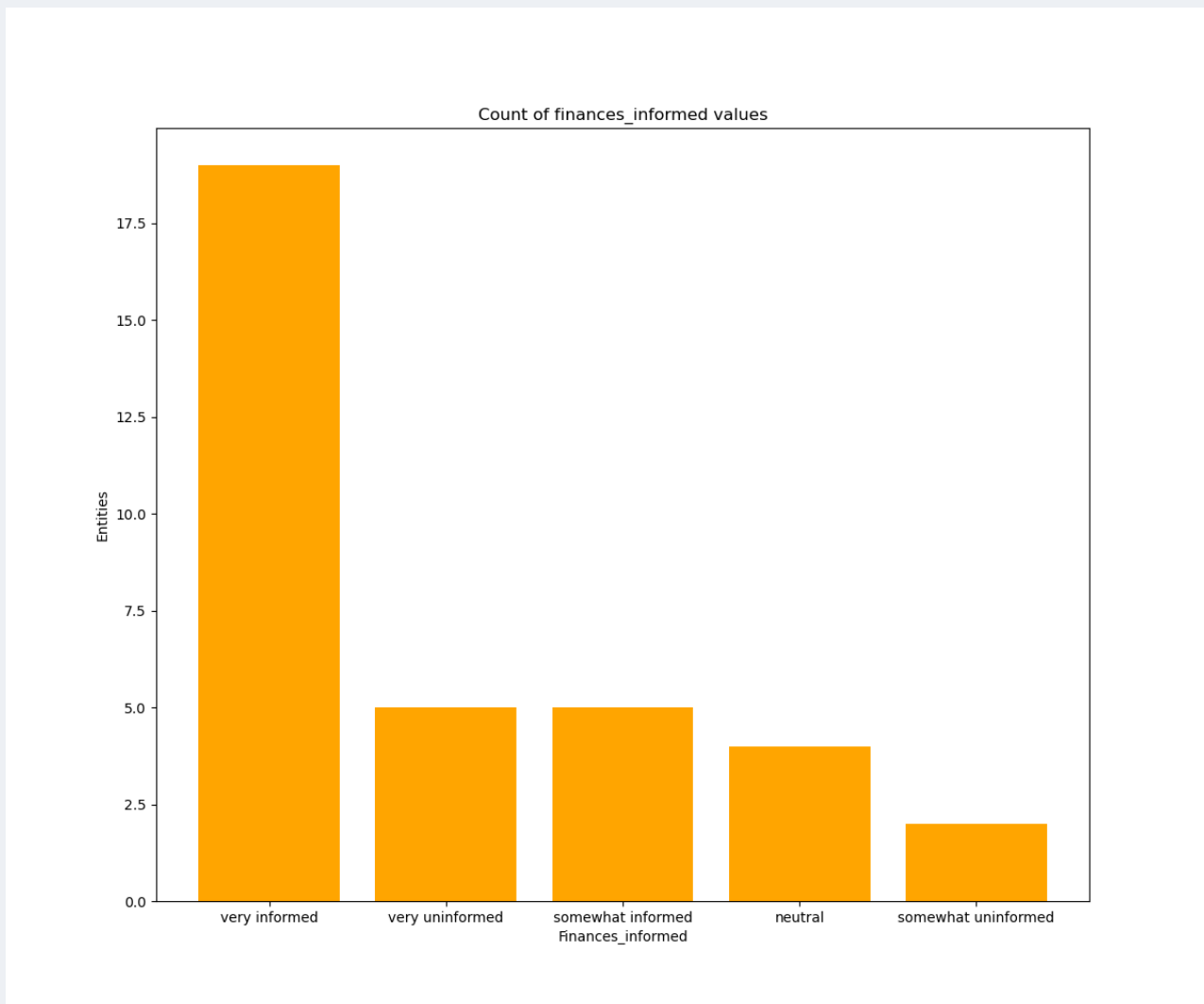
Looking at the reporting frequency, we see that only 12 or 33% of the businesses surveyed produce monthly financial statements. This suggests that the remaining 66% of businesses surveyed are at risk of making decisions with limited access to accurate, reliable and up to date financial information. From the perspective of a lender, knowing that a business has monthly insight into the financial performance of their business adds more credibility in terms of their ability to manage the responsibility of monthly loan repayments.





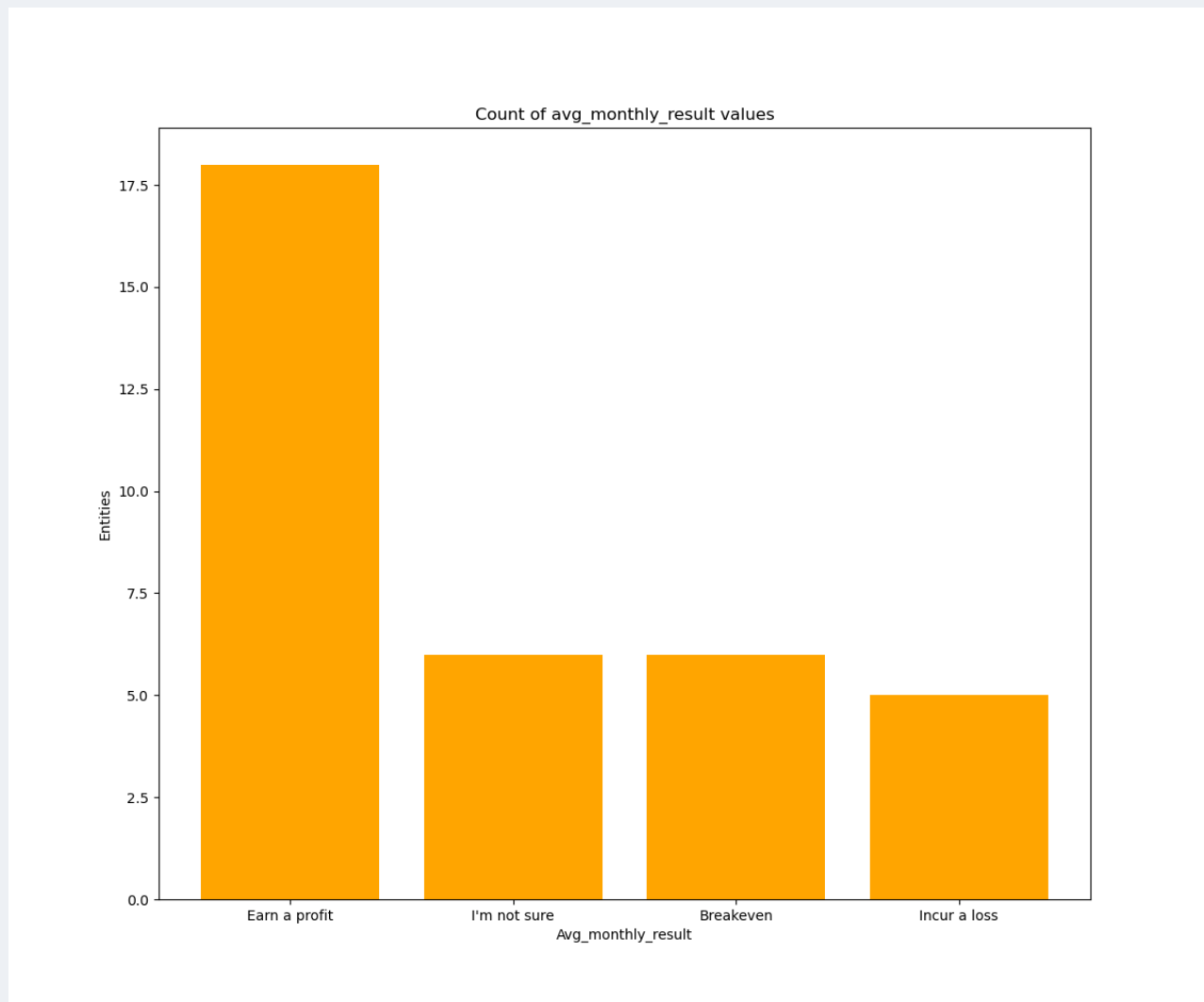
Financial Informed

Based on the above results, I was somewhat surprised to find that 19 or 54% of businesses surveyed felt that they were very informed about the finances of their business. Even though 66% of business don't produce financial reports monthly it's possible that they utilize other sources of information (e.g. bank statements) to inform their financial decision making.



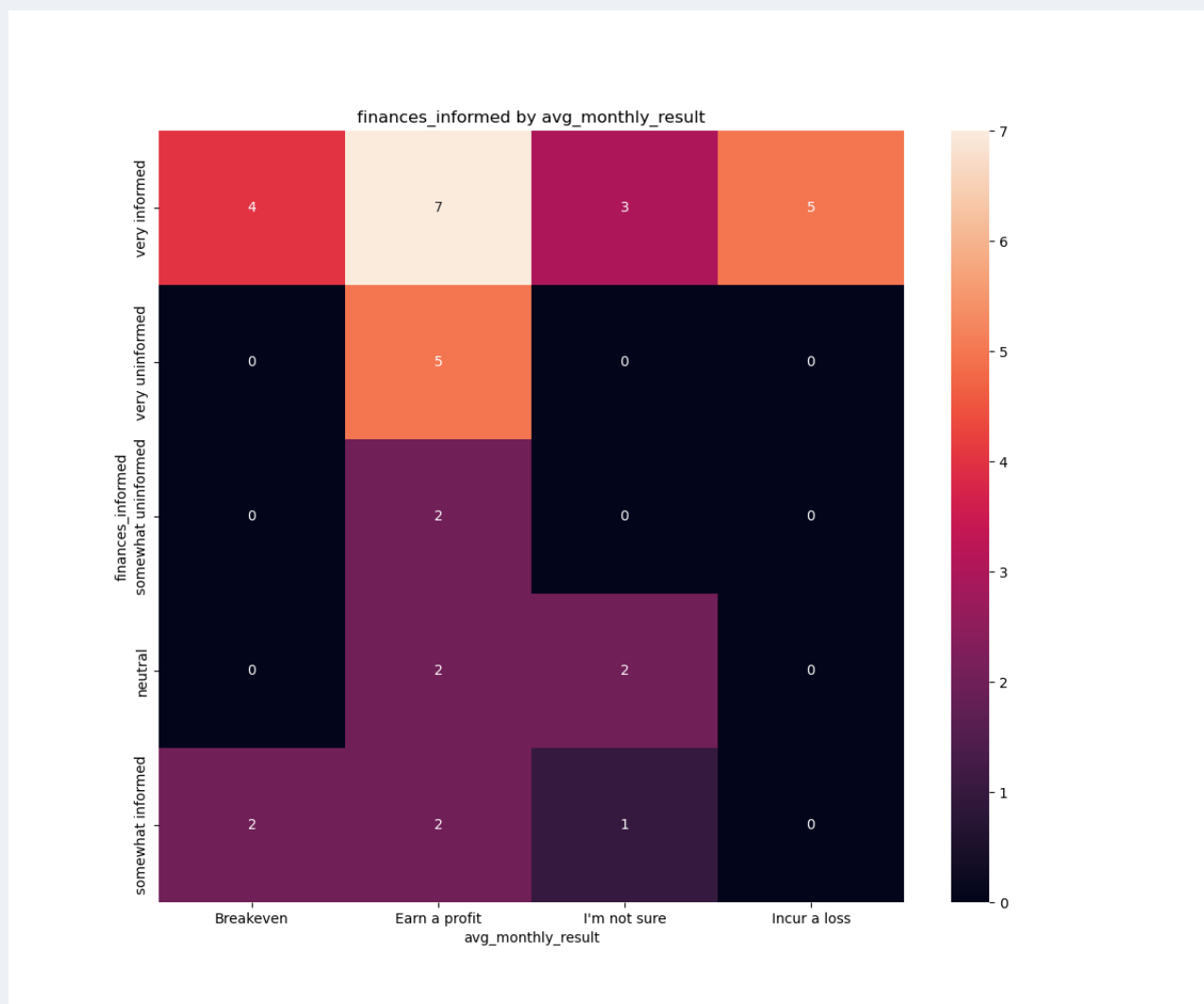
Monthly Financial Results

We now turn our attention to the average monthly financial results of businesses surveyed. 18 or just over 50% of businesses reported earning a monthly profit. The remaining 50% either incurred a loss, are breaking even or are not sure about their monthly financial results. This suggests that there is room for helping BES Island businesses improve their profitability.



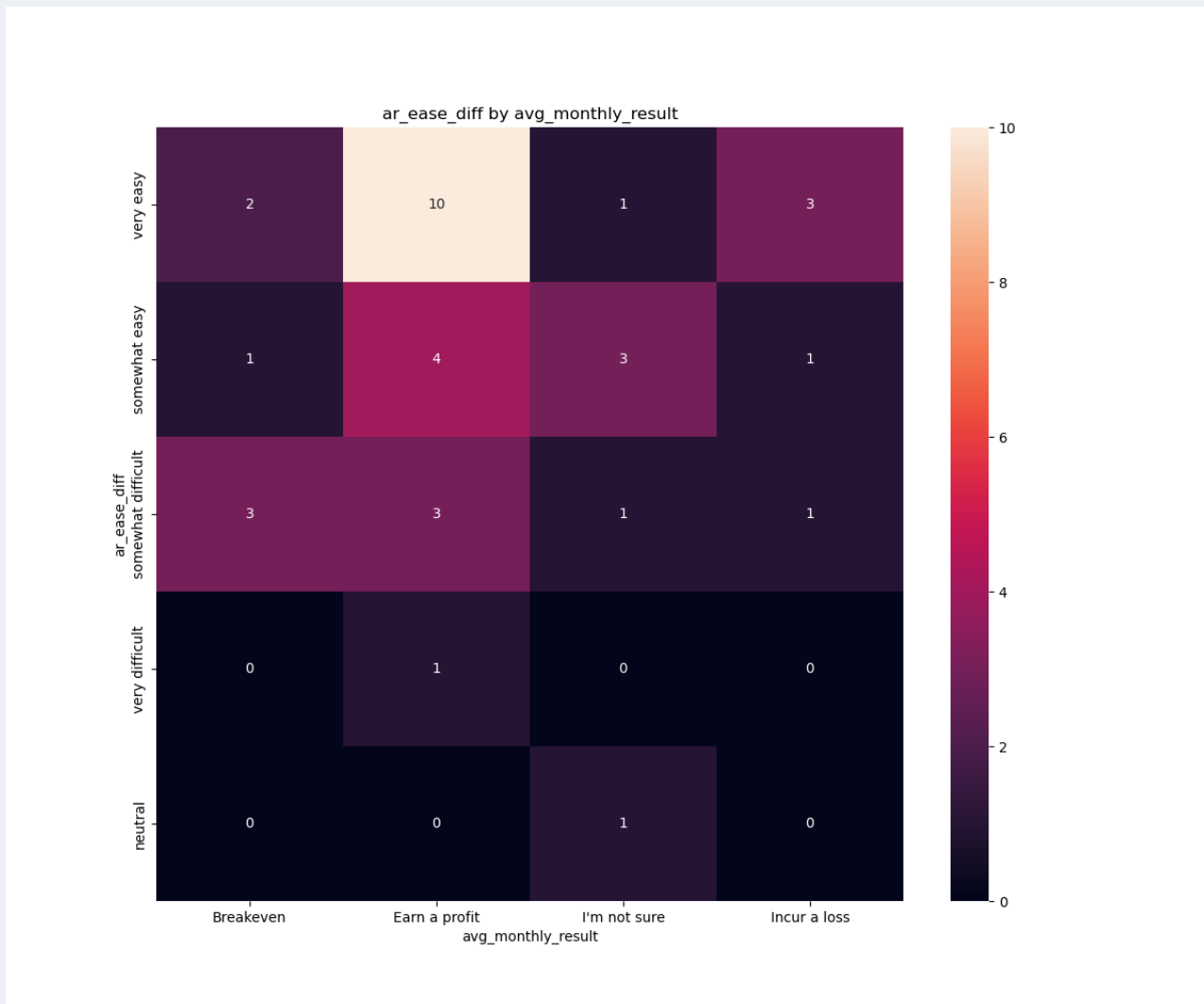
Financial Informed by Financial Results

We can explore the relationship between a business being informed about their finances and their ability to achieve good financial results. The below heatmap visualization show that 18 or 51% of business report earning a profit. 11 out of these 18 businesses (i.e. 61%) claim to be either somewhat informed, neutral or very informed about their finances. These results suggest that profitable businesses tend to be informed about their finances.



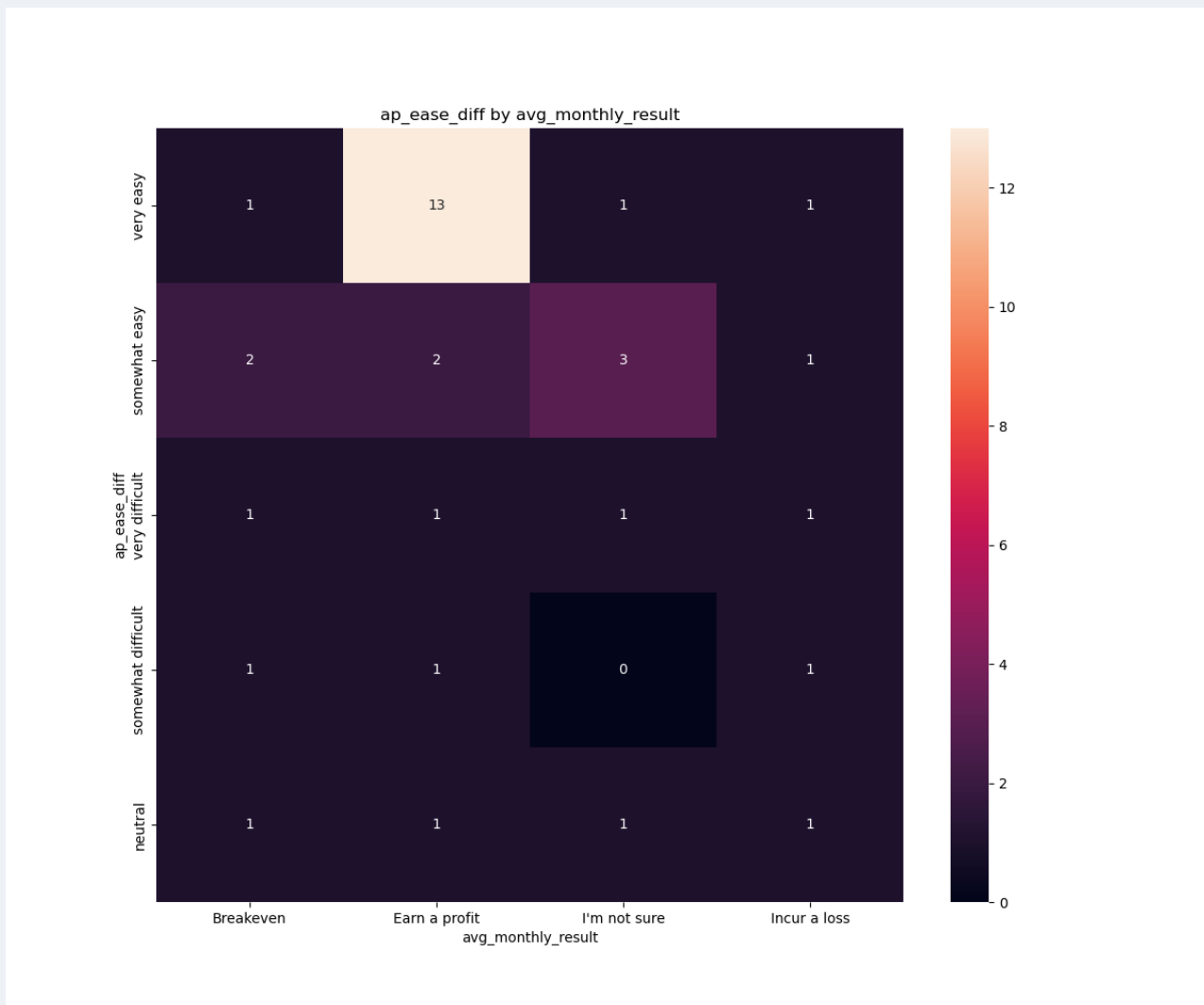
AR Ease or Difficulty by Financial Results

Below we consider the relationship between a businesses' ability to easily receive outstanding payments from its customers (AR or accounts receivables) and its profitability. Again, the heatmap shows that 18 or 51% of businesses surveyed report earning a monthly profit. 14 out of these 18 businesses (i.e. 78%) find it very or somewhat easy to collect payments from their customers.



AP Ease or Difficulty by Financial Results

We also consider the relationship between a businesses' ability to pay outstanding debts to its vendors (AP or accounts payables) and its profitability. Again, the heatmap shows that 18 or 51% of businesses surveyed report earning a monthly profit. 16 out of these 18 business (i.e. 89%) are neutral or find it very or somewhat easy to make payments to their vendors.



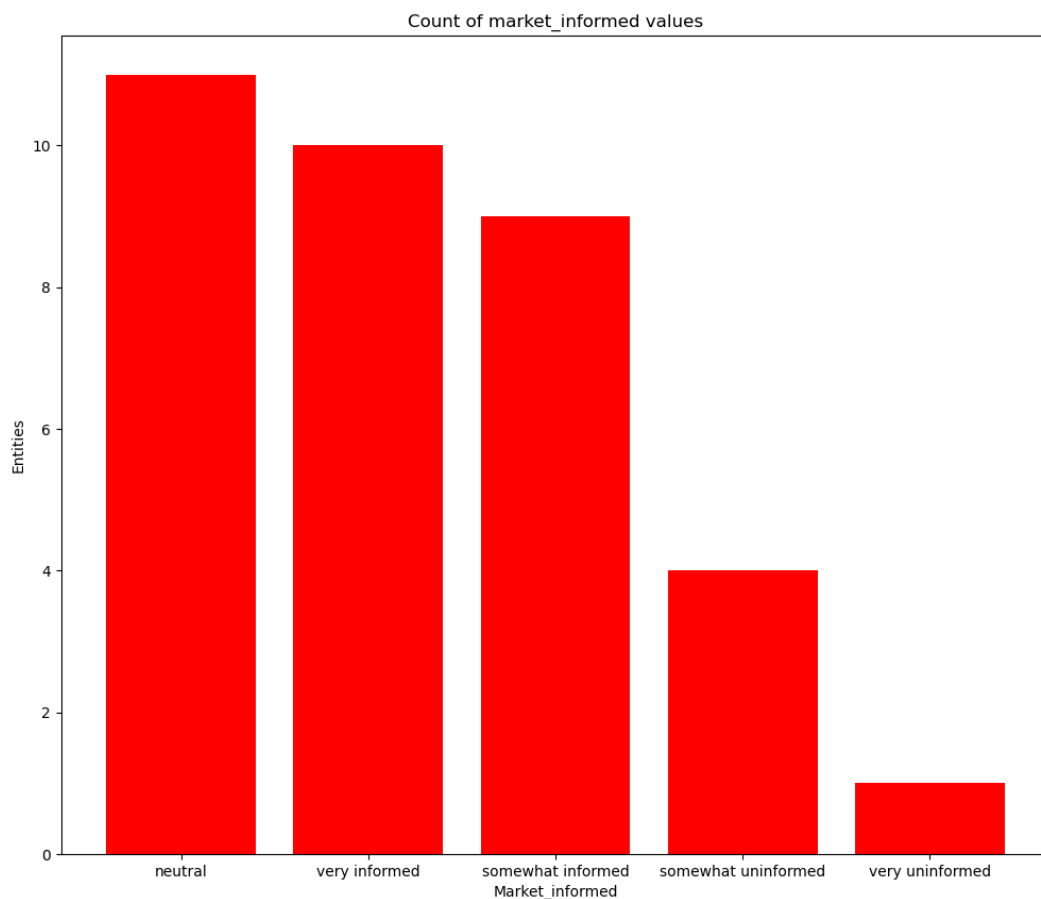
**A dream is only a
dream if work
doesn't follow it.**

- Kendrick Lamar

Market Awareness

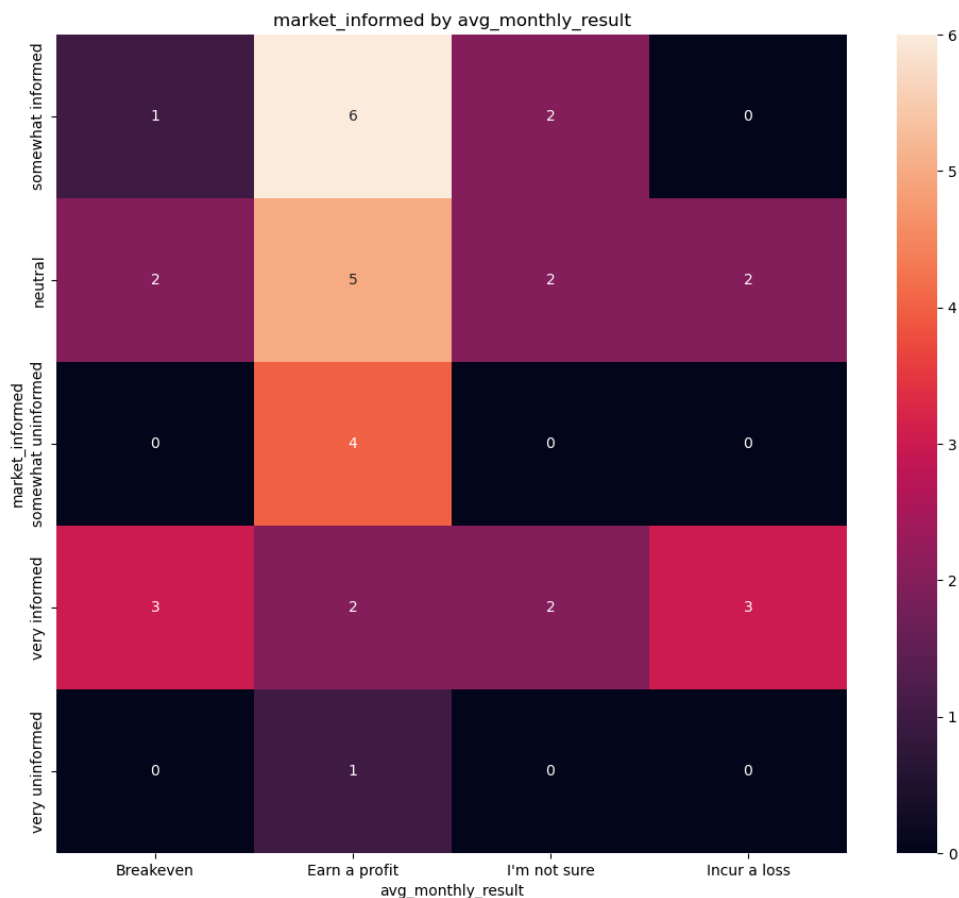
Market Informed

Lack of quality market research was another issue highlighted in our background research which prevented BES Island businesses from accessing financing. 19 or 54% of businesses surveyed claim to be either somewhat or very informed about their market and competitors. This leaves around 46% of businesses either neutral, somewhat or very uninformed about their market. This suggests that there is a room for helping BES Island businesses improve their knowledge about their market and competitors.



Market Informed by Financial Result

We can explore the relationship between a business being informed about their market and their ability to achieve good financial results. From the below heatmap, we see that a total of 18 or 51% of businesses report earning a monthly profit. 13 out of these 18 businesses (i.e. 72%) claim to be either somewhat informed, neutral or very informed about their market. These results suggest that profitable businesses tend to be informed about the market or sector in which they operate.



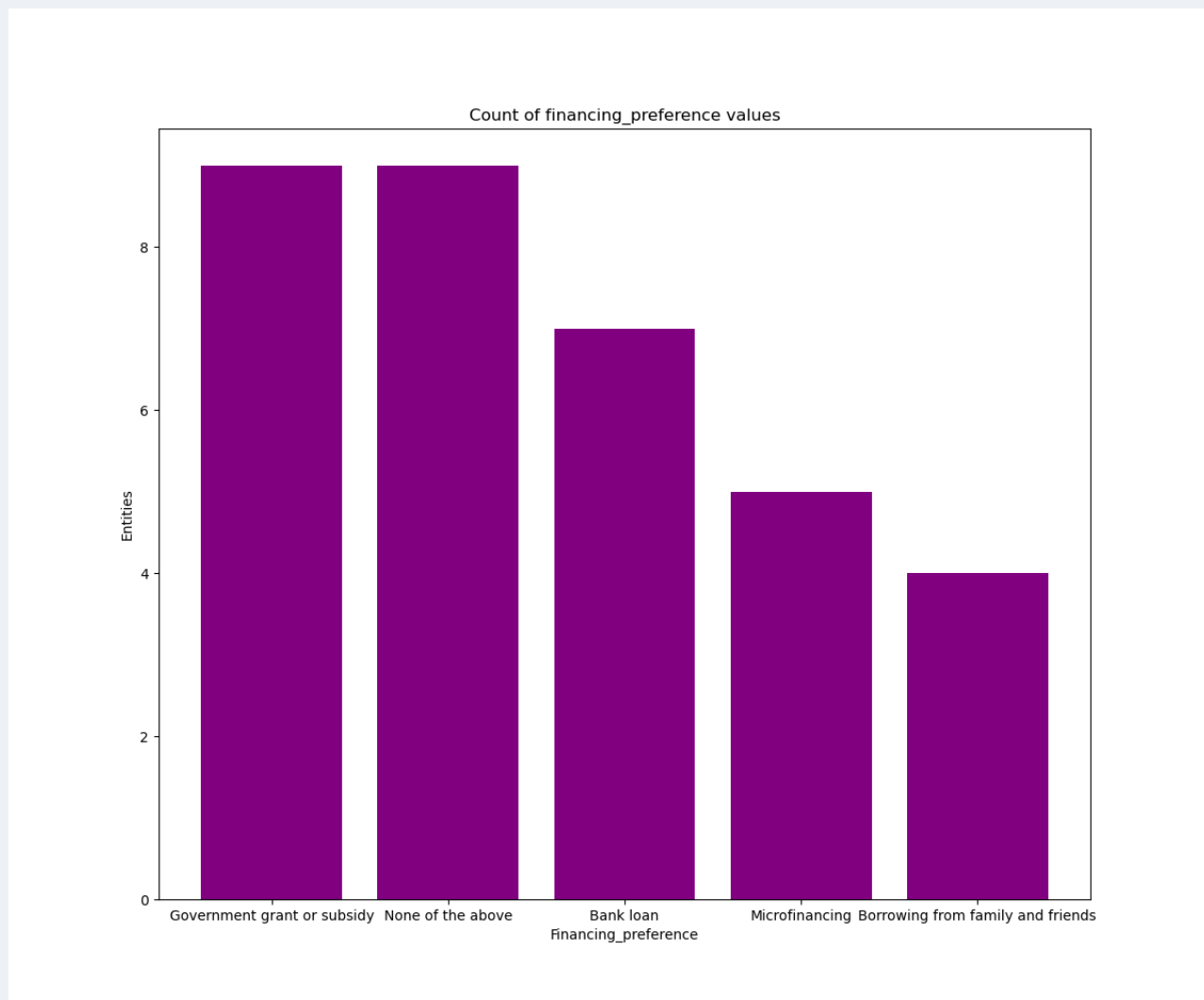
**In investing, what is
comfortable is
rarely profitable.**

- Robert Arnott

Investment Needs

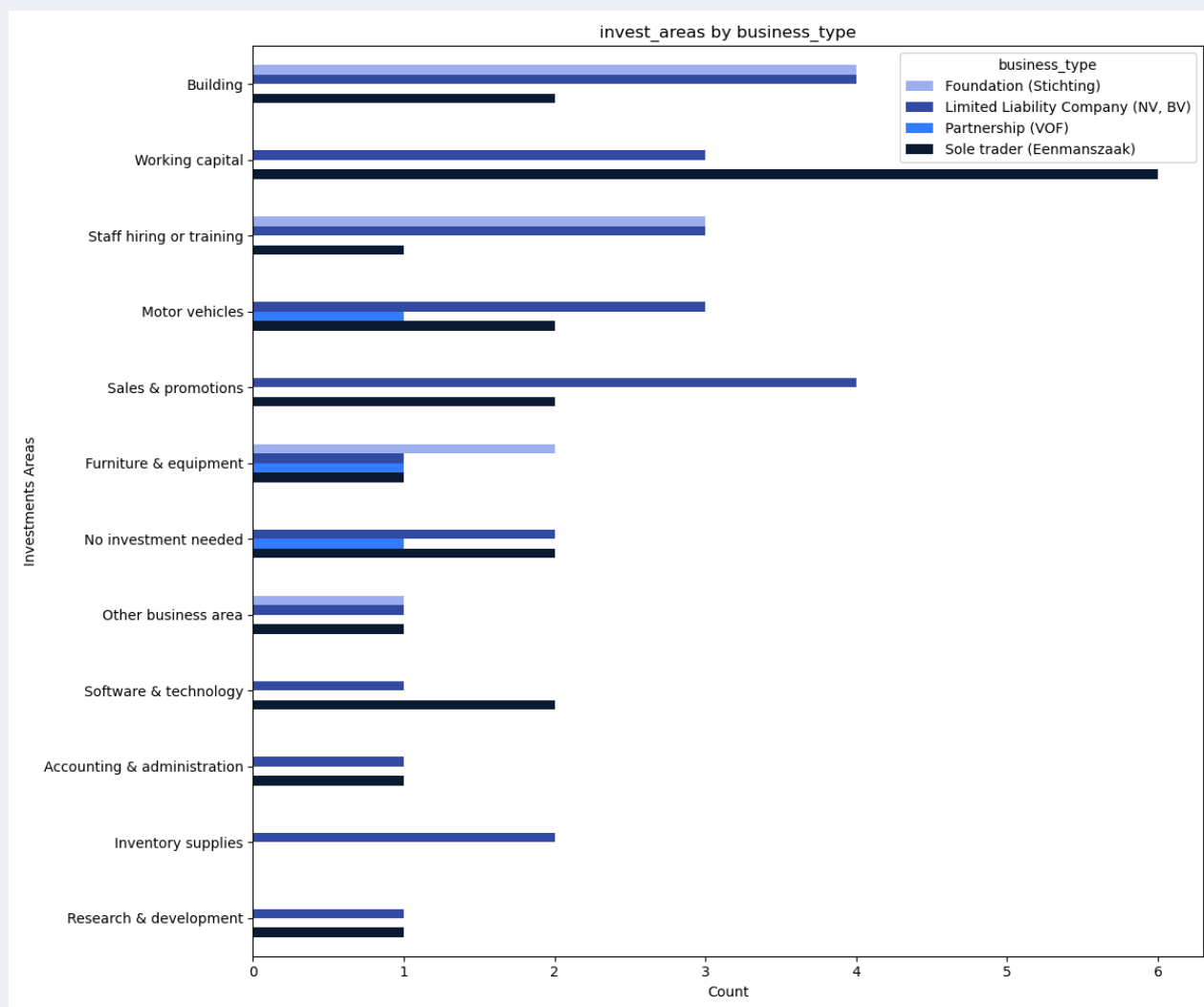
Preferred Source of Finance

To conclude this analysis section, let's consider the investment preferences and needs of businesses participating in the survey. The diagram below shows the preferences of businesses in sourcing financing. When asked "what would be your first choice for obtaining financing" only 20% of businesses survey chose a bank loan.



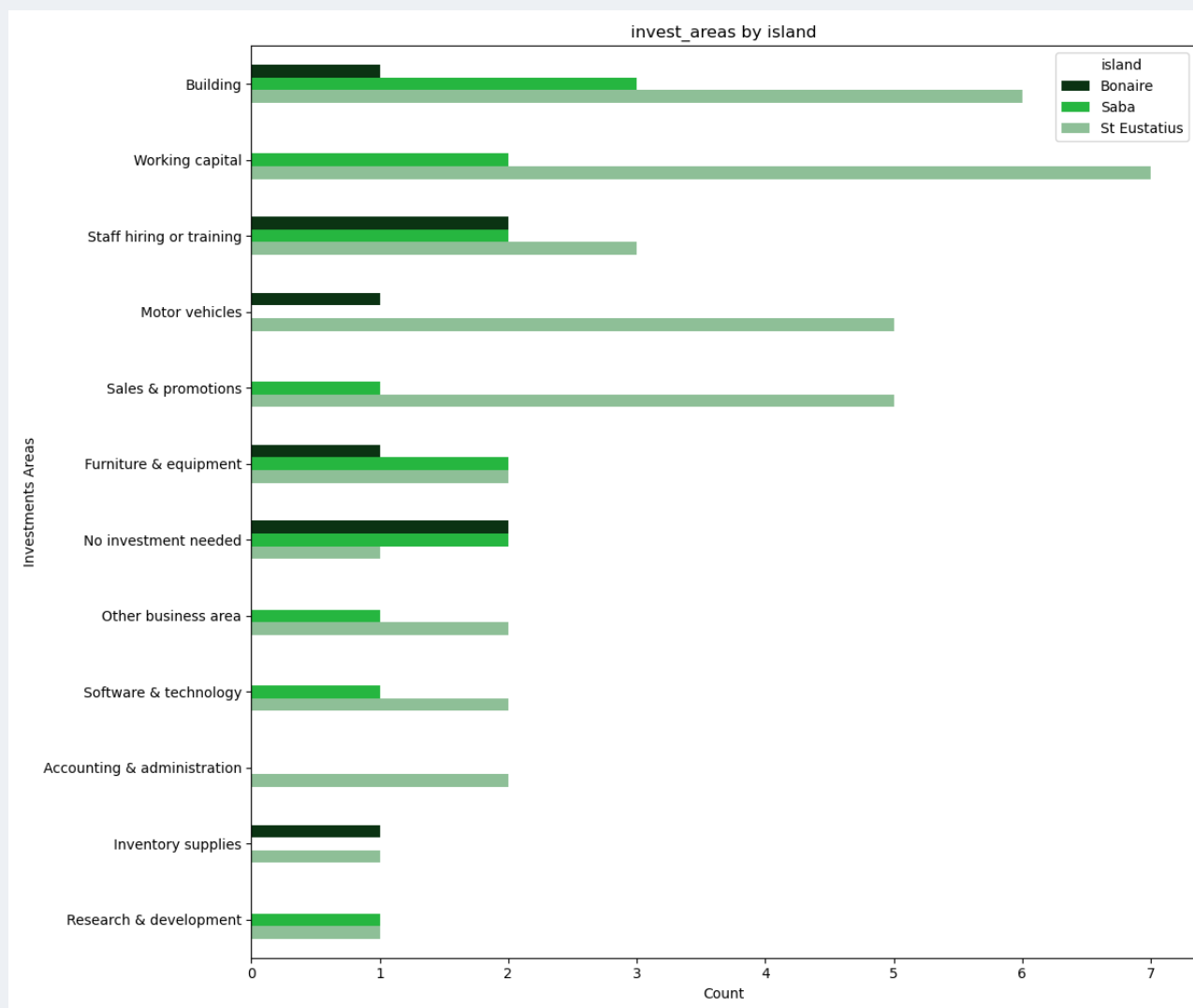
Investment Need by Business Type

Below we visualize the investment area needs of businesses by their legal type using a grouped bar chart. Immediately we can see that working capital is the area of investment with the highest need amongst sole traders. This makes sense as working capital are the funds needed by a business to fund its daily operations. This is something that young and less established businesses like sole traders typically struggle with. The greatest areas of investment amongst limited liability companies is split between sales & promotion and building investments; with working capital, staffing and vehicles representing the second greatest investment categories.



Investment Need by Island

We can also visualize the areas of investment needed by businesses operating on each island. We of course need to remember that 20 out of the 35 responses were for businesses located on St Eustatius. As such, I'm skeptical about comparing one island's results against another. However the below visualization shows that at least for St Eustatius investments in working capital and building facilities were the two most important areas.



Only half of SMEs in the BES Island are profitable, have good cashflow and are informed about their market.

Conclusion

Strong Need for Investment

The results of this survey highlight that there is a strong need for investment in small and medium sized enterprises operating in the BES Islands. Only 5 or 14% of businesses surveyed stated that they did not need any investment.

Room to Improve SME Finances and Market Awareness

The survey results show that just over 50% of businesses in the BES Islands actually earn a profit and are informed about their market. This highlights the need to help more businesses improve their financial performance and market awareness in-order to improve their ability to secure financing.

Alternative Financing Options

Only 7 or 20% of surveyed businesses would choose a bank loan as their preferred financing option. This suggests that there may be room for alternative types of financing such as factoring or cashflow financing, which have less strict or no collateral requirements.

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