



THE BAHAMAS

SELECTED ISSUES

February 2026

This Selected Issues paper on The Bahamas was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on January 20, 2026.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>

International Monetary Fund
Washington, D.C.



THE BAHAMAS

SELECTED ISSUES

January 20, 2026

Approved By
**Western Hemisphere
Department**

Prepared By: María Alexandra Castellanos under the supervision and guidance of Jorge Salas and assistance of Pablo Tillan (all WHD).

CONTENTS

LABOR MARKET CHALLENGES IN THE BAHAMAS: ASSESSING SOURCES OF

VULNERABLE AND INFORMAL EMPLOYMENT _____ 2

A. Background _____ 2

B. Overview of The Bahamas' Labor Market _____ 5

C. Self-Employment and Informal Work Arrangements _____ 6

D. Analyzing Labor Income Gaps _____ 10

E. Conclusion _____ 13

BOXES

1. Data and Terminology _____ 4

2. Vulnerable and Informal Employment from a Cross-Country Perspective _____ 9

3. Methodology _____ 11

FIGURES

1. Labor Market Indicators _____ 6

2. Self-Employment _____ 7

3. Self-Employment and Working Time _____ 9

4. Earnings Differentials between Self-Employed and Private Employees _____ 10

TABLE

1. Oaxaca-Blinder Decomposition of Annual Labor Income _____ 12

APPENDICES

I. Job Instability, Informality and Access to Credit _____ 14

II. Supplementary Tables _____ 15

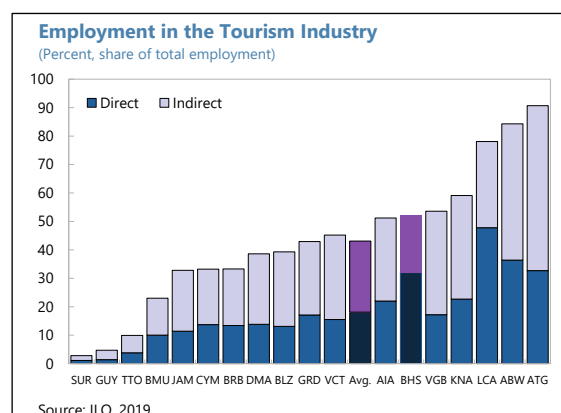
References _____ 16

LABOR MARKET CHALLENGES IN THE BAHAMAS: ASSESSING SOURCES OF VULNERABLE AND INFORMAL EMPLOYMENT¹

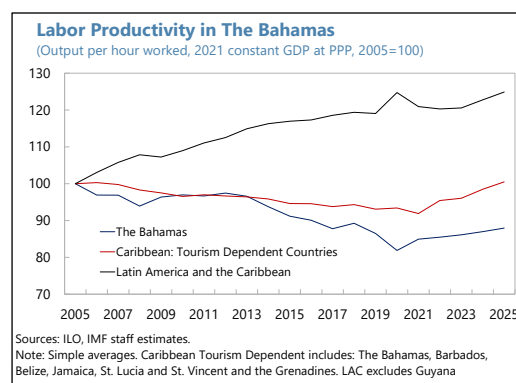
The Bahamas' heavy reliance on the service sector, often characterized by high labor intensity, seasonality, and the need for work beyond standard hours, creates conditions for non-standard and relatively unstable jobs. Self-employment accounts for nearly one-fifth of private-sector employment and has become widespread in services and construction. The analysis documents that while the self-employed are especially exposed to vulnerability and informality, informal work arrangements also affect many dependent private workers. A decomposition exercise shows that the negative earnings gap of self-employed with respect to private dependent employees is not fully explained by observable characteristics, suggesting a role for differential returns to skills and other structural barriers.

A. Background

1. The Bahamas' economy relies on services, with jobs that can be relatively unstable. More than 50 percent of employment in The Bahamas is directly or indirectly linked to tourism. This and other services are often characterized by relatively high labor intensity, seasonal work, outsourcing practices, and the need for work beyond standard hours, all of which creates conditions for the use of flexible labor arrangements. Meanwhile, self-employment has become widespread in the construction sector, through intensive project-based hiring. While flexibility can be a natural response to the seasonal and fluctuating demand of tourism-related industries, short-term or temporary job contracts may lead to income instability and limited career mobility. Similar consequences could be associated with self-employment and informal jobs.



2. Non-standard work arrangements can undermine productivity growth. The international literature finds that firms that rely heavily on non-standard work, such as temporary or flexible contracts, tend to underinvest in employee training, innovation,



¹ Prepared by Maria Alexandra Castellanos under the supervision and guidance of Jorge Salas and assistance of Pablo Tillan (all WHD). We would like to thank the Bahamas National Statistical Institute for their collaboration and data access, and the Bahamian authorities for fruitful discussions and comments.

and productivity-enhancing technologies.² International evidence also shows that firms using higher proportions of flexible labor, experience lower productivity growth (Kleinknecht et al. (2006)). Understanding employment-related challenges is relevant for The Bahamas, where labor productivity has generally underperformed regional peers over the past two decades and has recovered slowly after the pandemic.

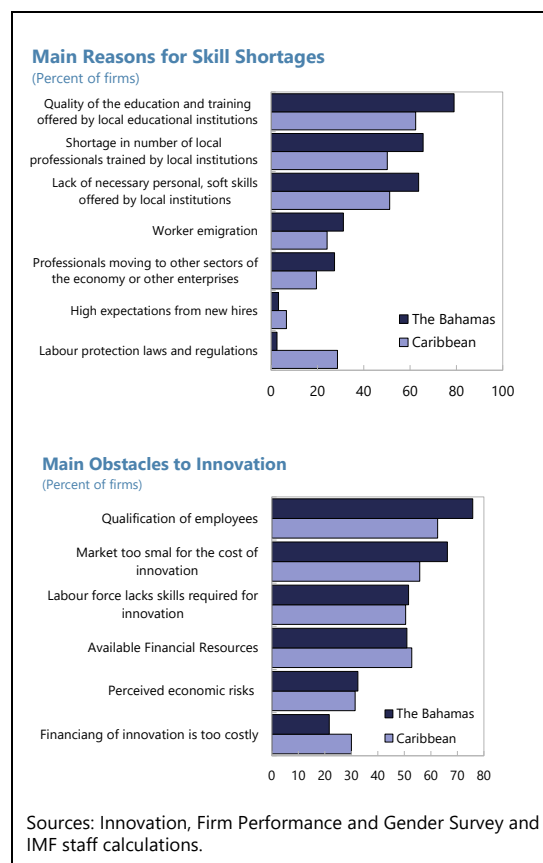
3. Human capital shortcomings are a key obstacle for businesses in The Bahamas.

According to the 2020 Innovation, Firm Performance and Gender Survey, 76 percent of firms in The Bahamas perceive the qualification of employees as a main barrier to innovation, above the Caribbean average. When asked about the reasons for skill shortages, firms report quality of the education and training systems as the main explanation. The lack of training opportunities in non-standard jobs and in the service sector likely amplifies these problems.³

4. Unstable jobs and informal work arrangements also pose challenges for financial inclusion and access to credit.

The authorities have identified employment-related issues as a constraint to access credit. Bank lending surveys, compiled by the Central Bank of The Bahamas, report that credit denials are not only linked to insufficient income, but also to inability to verify income, underemployment conditions, and insufficient time on a job (Appendix I). Informal work arrangements can be especially problematic in this regard, as cross-country evidence shows that household access to financial services tends to be lower in countries with higher informality (Ohnsorge and Yu (2022)).

5. Using new microdata for The Bahamas, this *Selected Issues Paper* documents several findings. The analysis largely relies on recently made available confidential microdata from the 2019 and 2023 labor force surveys (Box 1). Self-employment accounts for nearly one-fifth of private-sector employment in The Bahamas, and workers under such arrangements, particularly the youth, face heightened vulnerability and exposure to informality. Importantly, informal work arrangements



² Nielen (2016); Hirsch and Mueller (2012); Lucidi and Kleinknecht (2010); Cabrales, Dolado, and Mora (2017), ILO (2016).

³ According to BNSI data, by 2024 more than half of workers in hotels and restaurants and nearly 70 percent of workers in wholesale and retail were not trained for the area. In the case of construction, the share was close to 56 percent. The authorities are assessing new and existent training and upskilling initiatives such as Employability Workshops, the National Apprenticeship Program (NAP), National Training Agency (NTA), *Upskill Bahamas*.

also affect many dependent private employees, with about one-third of them working under verbal agreements only. The analysis also shows that the lower earnings associated with self-employment potentially reflect differential returns to skills and other structural barriers.

6. The rest of the document is organized as follows. Section B provides an overview of The Bahamas' labor market. Section C examines self-employment trends and sources of labor market informality in the country. Section D provides empirical estimates of labor income gaps. Section E concludes.

Box 1. Data and Terminology

Labor Force Survey Microdata. The analysis mainly relies on the Labor Force Surveys (LFS) conducted by the Bahamas National Statistical Institute (BNSI). To prepare this document, the BNSI facilitated access to microdata from two cross-section waves: May 2019 and May 2023, which are traditionally not public. Both datasets contain information on demographics, employment status, occupation and industry characteristics, as well as job search activity. The 2019 LFS contains a richer set of questions related to working conditions and to the formality of employment relations (e.g., whether employers have a business license or not, whether workers have written or verbal contracts). While the 2023 LFS is more limited in scope than the 2019 survey (i.e. does not allow to identify the formal status of workers), it has a significantly higher response rate for annual earnings, which justifies its choice as the preferred dataset for the empirical analysis on labor income gaps between workers under different employment status. Wages and hours of work are not available in the 2023 survey. Unless otherwise stated, the analysis focuses on each person's *main job* reported in the surveys.

Terminology. This document uses several technical terms to categorize different types of employment status. Some definitions are presented below, following the International Labor Organization.

- *Non-Standard Work.* Includes temporary employment; part-time and on-call work; temporary agency work and other multiparty employment relationships; as well as disguised employment and dependent self-employment.
- *Self-Employment.* Includes employers, own-account workers, contributing family workers and members of producers' cooperatives.
- *Own-Account Workers.* Workers who, working on their own account or with one or more partners, hold the type of jobs defined as "self-employment jobs", and have not engaged on a continuous basis any employees to work for them.
- *Contributing Family Workers.* Workers who hold "self-employment jobs" as own-account workers in a market-oriented establishment operated by a related person living in the same household.
- *Vulnerable Employment.* Comprises own-account and contributing family workers. Both categories have a lower likelihood of having formal work arrangements, and are therefore more likely to lack elements associated with decent employment, such as adequate social security and a voice at work.
- *Informal Employment.* Informal employment comprises persons who in their main or secondary jobs were own-account workers, employers and members of producers' cooperatives employed in their own informal sector enterprises; own-account workers engaged in the production of goods exclusively for own final use by their household; contributing family workers, irrespective of whether they work in formal or informal sector enterprise; employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households. Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labor legislation, income taxation, social protection or entitlement to certain employment benefits (paid annual or sick leave, etc.).

B. Overview of The Bahamas' Labor Market

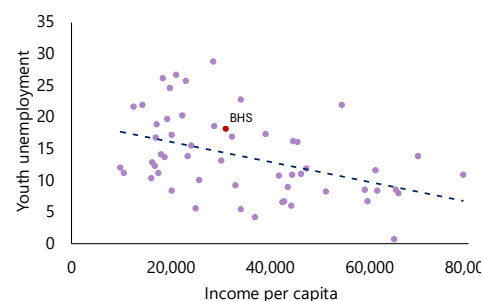
7. Employment in The Bahamas is dominated by dependent private employees and highly concentrated in the services sector. Around 60 percent of workers are dependent private employees. Public employment (in government and public corporations) is relatively elevated and accounts for nearly 20 percent of the workforce. Self-employment represents 16 percent of total employment (and 22 percent of private-sector employment). At the industry level, 75 percent of workers are concentrated in the services sector, 12 percent in wholesale and retail trade, 8 percent in construction, and the remaining 6 percent in manufacturing and primary industries. Within the services sector, community, social, and personal services dominate, partly reflecting the weight of public employment.⁴ Hotels and restaurants employ nearly 17 percent of workers, and financial services account for about 12 percent.

8. Most of the labor force have completed secondary education. By 2023, around 54 percent of the employed population had completed secondary education, followed by a 38 percent with tertiary education.⁵ Employed women are relatively more educated than men (42 vs. 31 percent with tertiary education).

9. Youth unemployment is above 20 percent. The 15–24 age group faces the highest unemployment rates. Between 2015–2023 the average unemployment rate for this group was 23.2 percent, more than doubling the average for older cohorts and therefore above the overall unemployment rate (10.4 percent). This disparity is consistent across men and women. The youth unemployment rate is elevated relative to The Bahamas' GDP per capita, especially when compared to other high-income peers.

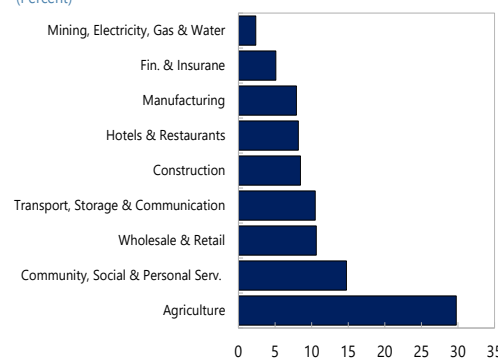
10. In 2019, nearly 16 percent of private workers had a part-time job.⁶ Within industry, part-time work was more common in agriculture (30 percent), the community and social services sector (15 percent) and wholesale and retail (11 percent). By gender, part-time

Youth Unemployment and Income per Capita Across High-Income Countries
(Percent, US\$)



Sources: WDI, 2023 and IMF staff calculations.

Part-time Work Within Industry
(Percent)



Sources: BNSI, LFS 2019 and IMF staff estimates.

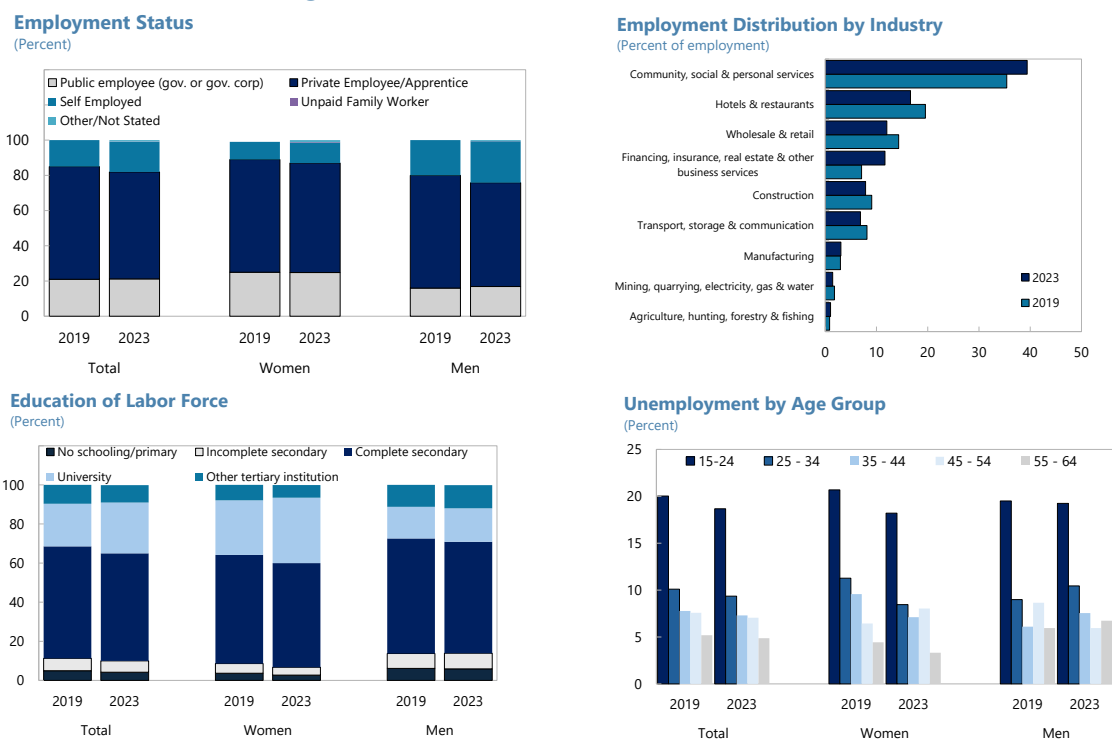
⁴ The community, social, and personal services sector covers public administration; education and health services; cultural, entertainment and recreational services; and beauty services; among others.

⁵ Education in The Bahamas is compulsory and free for people aged 5 – 16 years old (See IMF Country Report No. 18/119).

⁶ Employed individuals that worked less than 35 hours per week.

work among private workers is slightly more common for women (12 percent) than for men (9 percent), with the difference being statistically significant.

Figure 1. The Bahamas: Labor Market Indicators



Sources: BNSI, LFS and IMF staff calculations.

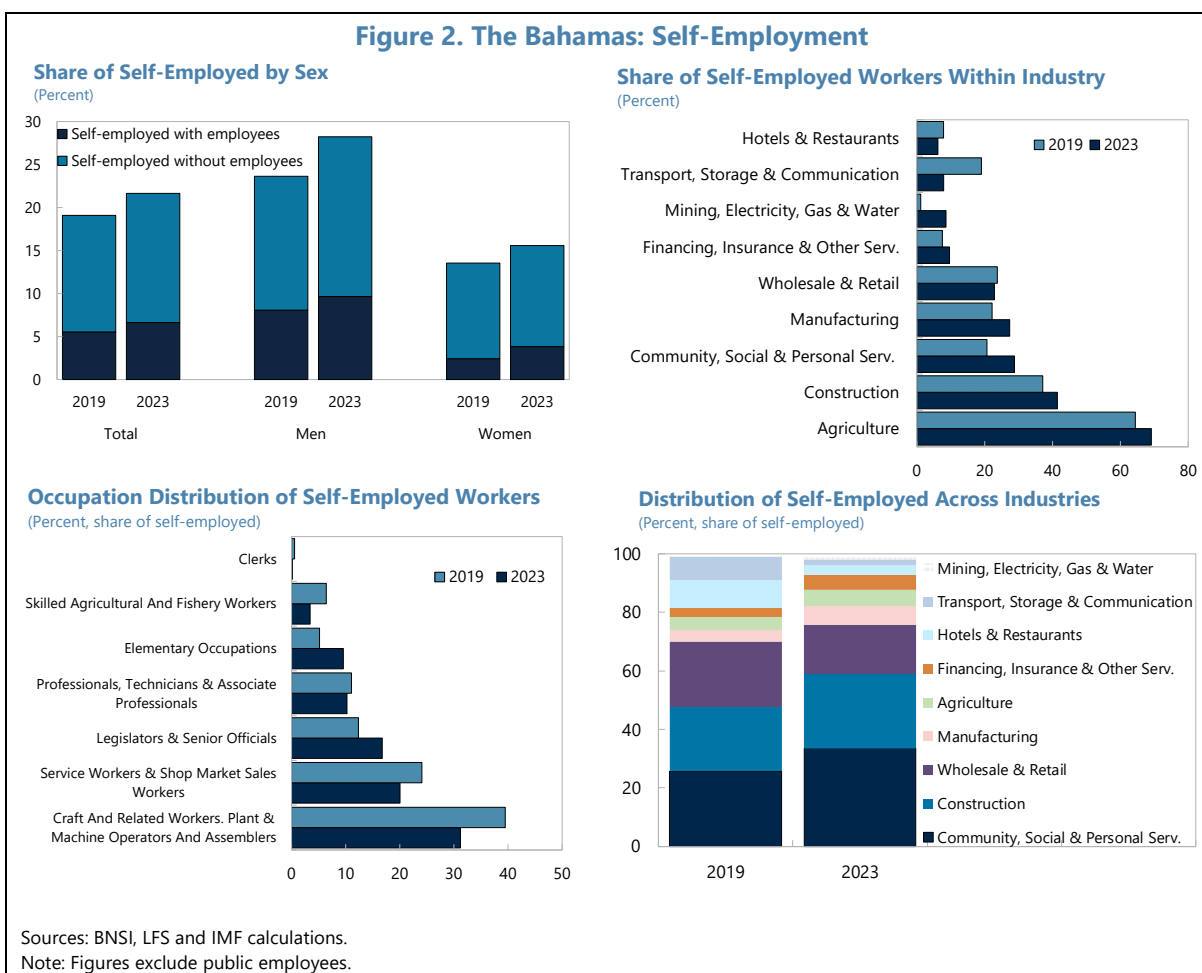
Note: Until May 2023, the labor force survey was conducted twice per year in May and November, respectively. The figures are based on LFS May waves and could be impacted by seasonality (for example, in the tourism industry).

C. Self-Employment and Informal Work Arrangements

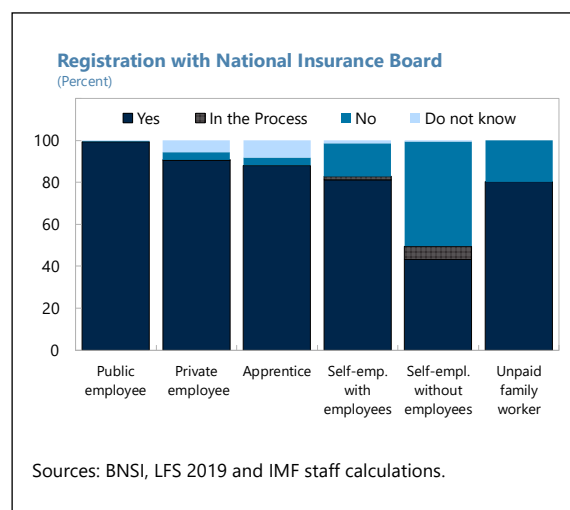
11. This section assesses sources of relatively unstable jobs and informal work arrangements. Exploiting the 2019 survey (see Box 1), the analysis focuses on private employment and workers' main job, unless otherwise stated. It zooms in on self-employment, jobs in non-registered enterprises such as unlicensed businesses or lack of registration in the social security system, and job contracts under verbal agreements.

12. Self-employment is mostly concentrated in services sectors and construction. About 70 percent of self-employed workers do not have employees, acting therefore as "own-account" workers. This category of workers is classified by the International Labor Organization as part of "vulnerable employment" (Box 2). Among non-public employees, more than 28 percent of male workers are self-employed, compared to nearly 16 percent of female workers, with the large share of self-employment in construction helping to explain this gender asymmetry. In terms of the sectoral distribution of self-employed workers, 71 percent are concentrated in three industries: the community and personal services sector (26 percent), wholesale and retail (23 percent) and construction (22 percent). Within the construction sector, more than 4 out of 10 workers were self-

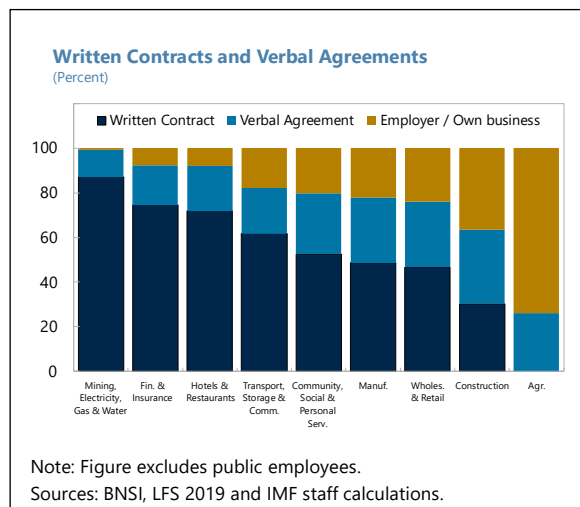
employed in 2023. By occupation, most of the self-employed workers conduct craft and related occupations, and work in service and shop market sales.



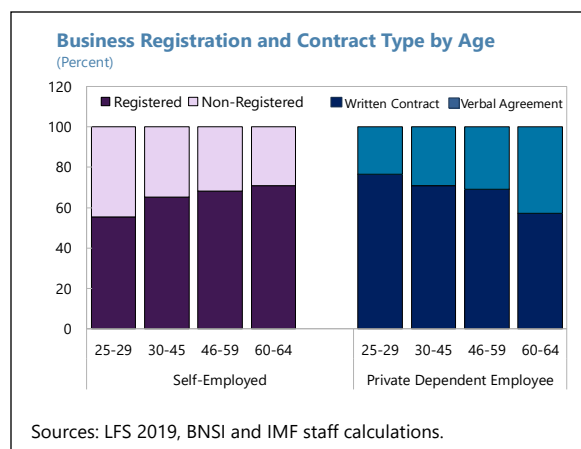
13. The self-employed have relatively high exposure to informal work arrangements. These include working or managing a business that does not have a license or is not registered with the National Insurance Board (the social security system), the police, or any other official entity. The 2019 data show that 35 percent of the self-employed work in a non-registered business. In contrast, only 2 percent of private employees work in a business without any form of registration. Put differently, nearly 80 percent of jobs in non-registered business are accounted for by self-employed workers. Notably, more than half of own-account workers lack social security registration



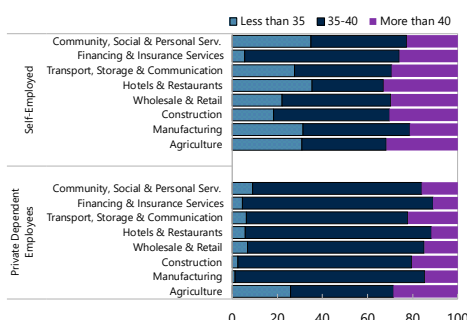
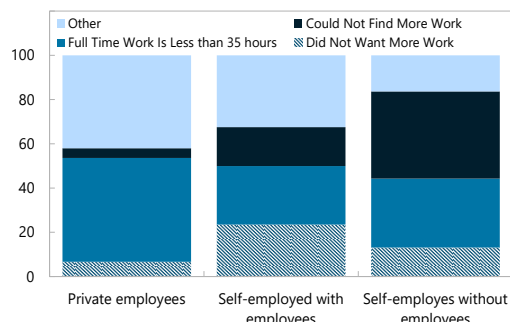
14. Other forms of informal work arrangements also affect dependent private employees. While most of these workers reported working at a registered business, almost one-third of dependent private employees do not have a written contract but only a verbal agreement. Industries where self-employment is more common also tend to be more likely to hire dependent employees under verbal agreements. In particular, two-thirds of dependent private employees who work under a verbal agreement have a job in the community and personal service sector (26 percent), wholesale and retail (21 percent), and hotels and restaurants (19 percent). In addition, among private employees with a written agreement, 12 percent of them report that they are not recipients or entitled to employment insurance benefits.



15. Among the self-employed, young workers are more exposed to informal arrangements. On average, 45 percent of self-employed workers aged 25-29 years work in a non-registered business, compared to 37 percent of workers aged 30-49 years. In contrast, across private dependent employees, younger workers are more likely to have a written contract, with 23 percent working under a verbal agreement compared to 30 percent of workers aged 30-49 years.



16. Self-employed workers display large variability in terms of working time arrangements. On average, private dependent employees across all sectors are more likely to work under a regular full-time schedule of 35–40 hours per week. In contrast, self-employed workers exhibit a more uneven working time distribution. While a standard full-time schedule is more common in the financing and insurance services sector, many self-employed in the rest of industries work outside the full-time schedule range, which includes a large share of jobs that exceed 40 hours per week as well as those below 35 hours. As many as 39 percent of self-employed who work less than 35 hours report doing so involuntarily, citing the inability to find additional work and therefore hinting at time-related underemployment.

Figure 3. The Bahamas: Self-Employment and Working Time**Working Time by Industry**
(Percent)**Reasons for Working Less than 35 Hours^{1/}**
(Percent)

Note: Public employees excluded.

^{1/} Answer based on *actual* hours worked in reference week.

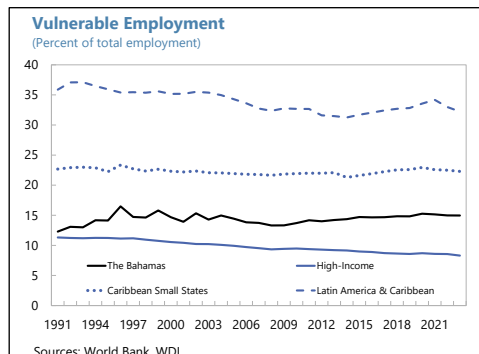
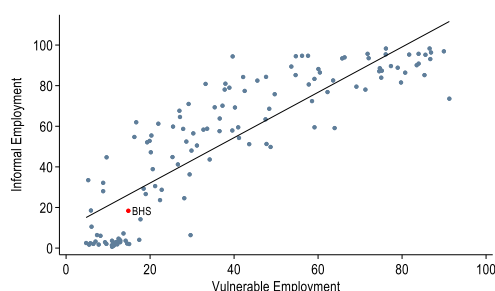
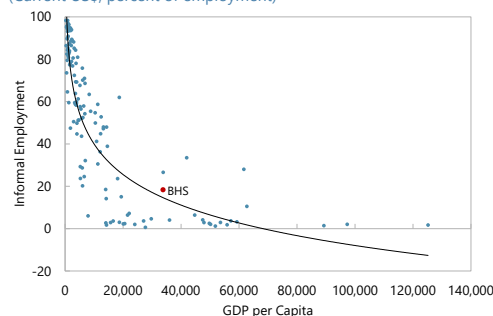
Sources: BNSI, LFS 2019 and IMF staff calculations

Box 2. Vulnerable and Informal Employment from a Cross-Country Perspective

According to the International Labor Organization (ILO), *vulnerable employment* comprises own-account workers and contributing family workers. These groups are assessed as the most vulnerable to fall into poverty given that they are the least likely to have formal work arrangements, social security and protection, as well as safety nets being often unable to generate sufficient savings to offset economic shocks.

Vulnerable employment in The Bahamas comprises around 15 percent of total employment (WDI, 2023) and is almost entirely explained by own-account workers. Cross-country data shows that vulnerable employment in The Bahamas has modestly increased in recent years, with a higher incidence than in other high-income countries but much lower than that in regional peers. While vulnerable employment need not be informal, both variables are highly correlated, reflecting therefore the high exposure to informality among own-account jobs.

The latest available ILO data (2019) shows that *informal employment* in The Bahamas is around 18 percent. While this figure is lower than that in regional peers (41 percent)¹, it is elevated in comparison to other high-income countries.

**Vulnerable and Informal Employment**
(Percent of total employment)**GDP per Capita and Informal Employment**
(Current US\$, percent of employment)

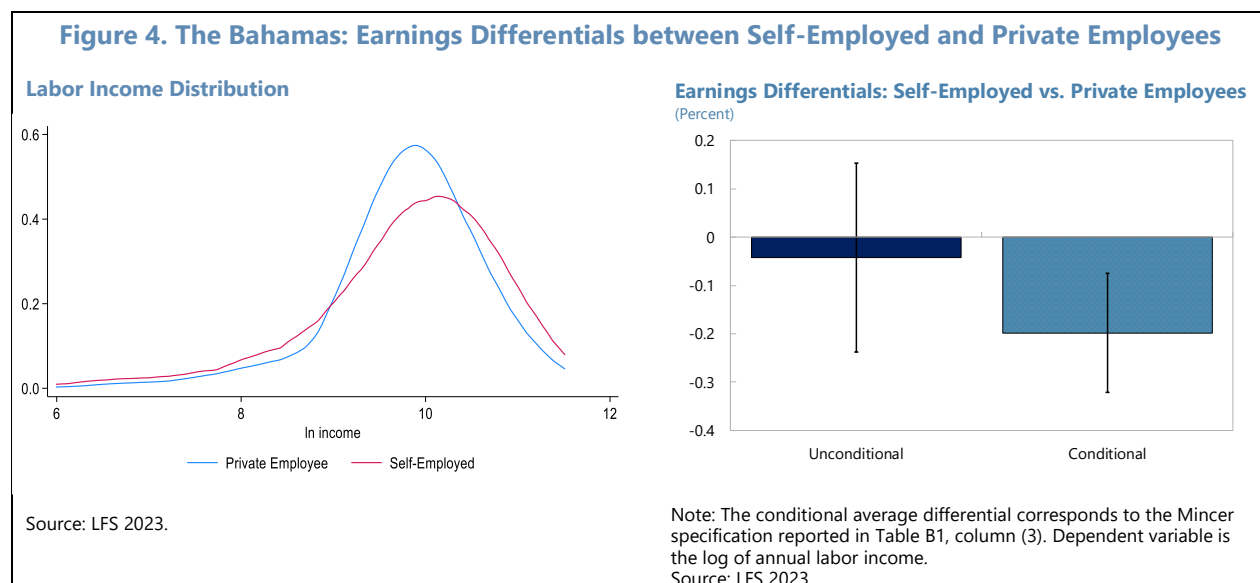
Note: Each dot reflects country data from a worldwide dataset. The red dot corresponds to The Bahamas. For each country the latest available data are between 2014-2019, given that in The Bahamas the latest data corresponds to 2019. In a few cases where information was not available for these years, the dots reflect 2021-2022 data. Sources: World Bank, WDI, ILO.

^{1/} The regional-peer average includes Grenada, Guayana, Jamaica, St. Lucia (2019), Antigua and Barbuda (2018) and Barbados (2016).

D. Analyzing Labor Income Gaps

17. This section assesses labor income gaps relying on two empirical methods. Considering the stylized facts described in the previous section, and the scope of the data available from the LFS (see Box 1), this section focuses on income differences between dependent private employees and the self-employed. The exercise sheds light on income-related implications for jobs with a higher likelihood of falling into informal work arrangements and vulnerable employment in The Bahamas. The first part of the analysis applies a Mincer earnings regression to measure the difference in annual earnings between self-employed and dependent private employees, conditional on observable characteristics. The second part employs an Oaxaca-Blinder decomposition to evaluate further potential drivers behind earnings differentials (Box 3). Although this decomposition method helps to quantify how potential drivers contribute to changes or differences in outcomes, it does not reveal the underlying behavioral or structural causes for such differences.⁷

18. Being self-employed is associated with lower earnings compared to private dependent employment. While simple descriptive statistics reveal no statistically significant differences in annual earnings between private employees and the self-employed, estimates of a Mincer regression suggest that per year, self-employed earn on average 19 percent less than private employees with the same observable characteristics (Appendix II Table 1).⁸ Noting that the results need not be interpreted as causal, the estimates provide descriptive insights into other earnings determinants. For instance, women earn on average less than men; and as expected, higher level of education, more experience, and longer tenure are associated with higher earnings.



⁷ See Fortin, Lemieux, and Firpo (2011).

⁸ See Box 1 for methodology and definition of the dependent variable. Wages (and hours worked) are not available in the 2023 LFS survey.

Box 3. Methodology

Mincer Earnings Regression

To measure the earnings gap between self-employed and private employees, the first part of the analysis applies the following Mincer earnings regression to a restricted sample of self-employed and private employee workers:

$$y_i = \alpha + \delta S_i + \theta' X_i + e_i$$

where the dependent variable y_i is the log of annual earnings.¹ S_i is an indicator that takes the value of one if an individual i is self-employed and 0 if it's a dependent private employee. X_i is a vector of worker and job characteristics including sex, age, potential experience², and categorical variables for tenure in current job (less than one month, 1-3 months, 6-12 months, 12 months or more), education (primary, secondary, tertiary-technical and tertiary-university), 7 occupation groups, 9 industry groups and 4 geographical regions (New Providence, Grand Bahama, Abaco, Other Family Islands). e_i denotes the error term.³ The estimated coefficient δ captures the difference in annual earnings between private dependent workers and self-employees. A positive coefficient would imply higher earnings for self-employed relative to private dependent employees and a negative coefficient a *penalty* or lower earnings. While the estimation may not deliver a causal interpretation, it provides a descriptive approximation of the observed earnings gap after controlling for observed characteristics.⁴ The sample is restricted to workers between 15-64 years old.

Oaxaca-Blinder Decomposition

The second part of the analysis computes an Oaxaca-Blinder decomposition applied to annual labor income (see box footnote 1) The method decomposes *raw* differences into an *explained* and *unexplained* component. Let $\bar{Y}^p$ and $\bar{Y}^s$ denote the average log earnings of private employees and self-employed workers, respectively and $\bar{X}^p$ and $\bar{X}^s$ the sample mean of a vector of covariates for each type of workers where the subscript p denotes private employees and s self-employed. The Oaxaca-Blinder decomposition expresses the earnings gap as:

$$\bar{Y}^p - \bar{Y}^s = (\bar{X}^p - \bar{X}^s)\hat{\beta}^p + \bar{X}^s(\hat{\beta}^p - \hat{\beta}^s)$$

The first term, **explained component**, captures the part of the earnings gap due to differences in observable characteristics, evaluated at the estimated returns $\hat{\beta}^p$ of private dependent employees (reference group). A positive value means private employees have characteristics that predict higher earnings; a negative value means self-employed workers have characteristics that should predict higher earnings. The second term, **unexplained component**, reflects differences in *returns to characteristics* and *unobserved factors*. A positive unexplained component indicates that private employees earn more than expected given their characteristics, or self-employed earn less than expected. Overall, the decomposition helps identify whether gaps arise from *endowments* or from differences in how the labor market rewards those *endowments*.

1/Wages and hours of work are not available in the 2023 survey which limits the analysis considering that annual earnings reflect both wage rate and hours worked in the year.

2/Potential experience is calculated as age minus estimated years of education based on highest education level reported.

3/Causality would require plausibly exogenous variation in self-employment status to satisfy the exogeneity assumption (unobserved error term being uncorrelated with self-employment status), which is not necessarily guaranteed in this exercise.

4/ Including occupation and industry as *controls* is not straightforward. If these regressors can act as dependent variables themselves (e.g. if self-employment status impacts the occupation or industry), including so-called "*bad controls*" as covariates could induce or amplify existent biases. An alternative approach would be to control for *pre-determined* characteristics only, which are not available in this single cross-section wave. When comparing specifications with and without these controls, the estimated gap (δ) remains robust.

19. The labor income gap between self-employed and private employees cannot be fully explained by workers' observable characteristics. The Oaxaca-Blinder method decomposes earnings into two components: an explained component which captures differences in observable characteristics (such as age, education, experience, among others), and an unexplained component which reflects differences in *returns* to characteristics. The estimates reveal a 4 percent “raw” gap in labor income (between private employees and the self-employed), which widens to 16 percent after accounting for observable characteristics. Specifically, the decomposition suggests a statistically significant explained component of -12 percent and an unexplained component of 16 percent.

Table 1. The Bahamas: Oaxaca-Blinder Decomposition of Annual Labor Income

	Coefficient	SE	z	P>z	[95% conf. interval]	
Private Employee	9.838	0.058	170.35	0.000	9.725	9.952
Self-Employed	9.795	0.013	733.11	0.000	9.769	9.821
Difference	0.04	0.065	0.67	0.501	-0.083	0.170
Explained	-0.12	0.057	-2.08	0.037	-0.228	-0.007
Unexplained	0.16	0.037	4.31	0.000	0.088	0.235
N Private Employee						1407
N Self-Employed						410

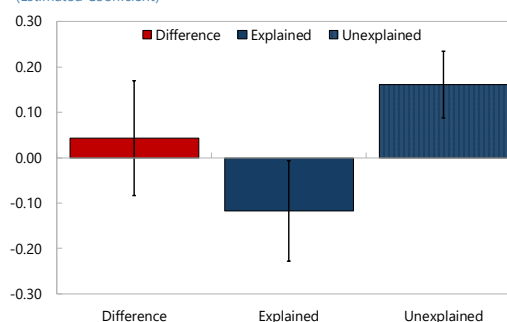
Note: Workers aged 15-64. SE clustered at the island level.
Source: LFS, 2023.

20. The negative *explained* component suggests observable characteristics would have predicted *higher earnings* for the self-employed.

The estimated coefficient for the explained component is *negative*, suggesting that if the self-employed had the same *returns* as private employees, given their characteristics their earnings would be higher.

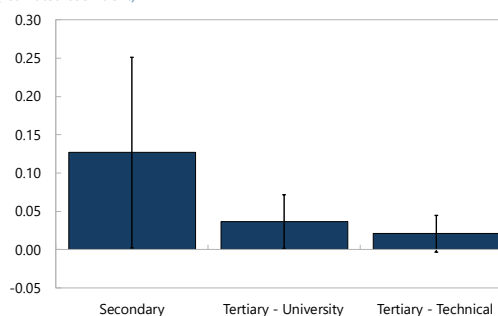
21. The positive *unexplained* component reveals a statistically significant *penalty* after accounting for worker characteristics. Differences in *returns* to skills (such as education or experience) and job characteristics as well as unobservable factors could drive these differences. Overall, these findings point to a potential mismatch between worker-job characteristics and the returns associated with these characteristics. While preference-based selection, such as flexibility and other non-monetary benefits, may influence self-employment decisions, it is also likely that structural barriers prevent these workers from translating their skills into higher earnings (this is plausible, for

Oaxaca-Blinder Decomposition
(Estimated Coefficient)



Note: Vertical lines indicate 95 percent confidence intervals.

Unexplained Income Gaps: Education
(Estimated coefficient)



Note: Vertical lines indicate 90 percent confidence intervals.

example, if one considers the association between self-employment and informal work arrangements, described earlier). Self-employment may therefore be partly reflecting limited market access and relative disadvantages including formal sector wage premiums, job security, and social protection of dependent private employees, rather than a high-return entrepreneurial option.

E. Conclusion

22. Self-employment and the use of informal work arrangements in some private jobs, particularly in services sectors and construction, are key sources of labor market challenges in The Bahamas. While the overall incidence of vulnerable and informal employment is lower than in other regional peers, a relatively elevated share of workers in The Bahamas remains exposed to these jobs. This holds true especially for the self-employed, who represent about a fifth of private employment. Dependent private employees are also exposed to informal work arrangements, with about a third of them working under verbal agreements only. An earnings decomposition exercise reveals that, on average, self-employed workers earn less than private dependent employees after accounting for observable characteristics, potentially reflecting differential returns to skills, job attributes, and other structural barriers.

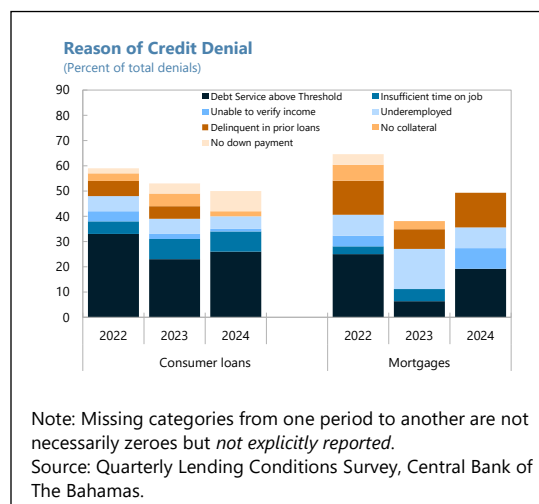
23. Addressing labor market informality in The Bahamas requires easing supply-side constraints, including barriers to business. Informational frictions and other regulatory supply-side constraints seem to be especially relevant for The Bahamas. For instance, difficulties in dealing with bureaucratic and operational procedures can push firms and the self-employed to operate informally. Supporting firms' regulatory compliance by simplifying business registration requirements, enhancing informational outreach to start-ups, and communicating the benefits of formal-sector participation could encourage firms and own-account workers to regularize their activities and help create more formal jobs.

24. Investing in human capital, through the education and training systems, should also be a priority. Limited training opportunities in relatively unstable jobs may create hurdles for workers to fully develop their potential. This adds to the skill shortages' problem perceived by firms in The Bahamas, which often attribute it to shortcomings in the quality of education and training. Strengthening the education system, alongside continued actions to expand vocational training and apprenticeship programs tailored to current labor demand are key. In addition, improving job-matching services and further enhancing upskilling opportunities (including through lifetime learning) would help reduce vulnerable employment and lessen labor informality.

Appendix I. Job Instability, Informality and Access to Credit

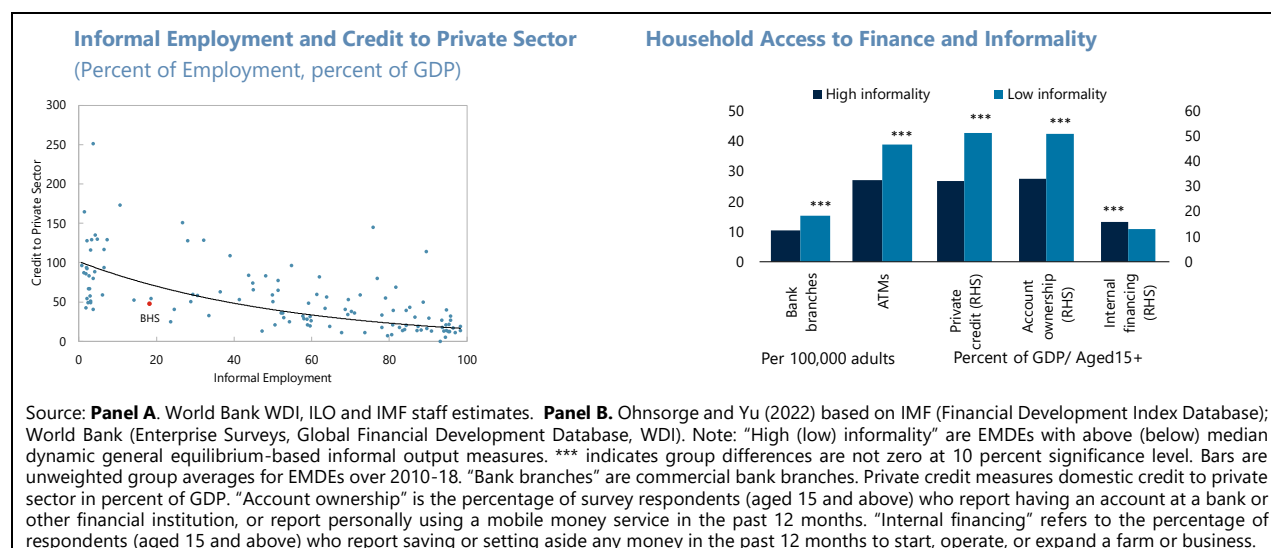
1. Vulnerable employment and informality may not be only associated with lower earnings but also with relatively weak labor market attachment which can constrain credit access.

In The Bahamas, credit denials are linked to insufficient income and unstable employment conditions. The Central Bank's Lending Conditions Survey shows that credit denials often reflect affordability and employment-stability issues. In H2-2024 nearly 26 and 19 percent of consumer and mortgage denials, respectively, were directly linked to insufficient income (i.e. debt service above threshold). In addition, unmet security of employment and informality conditions, including inability to verify income, underemployment, and insufficient time on the job, make up to a nontrivial share of rejections: 14 and 26 percent for consumer and mortgage denials, respectively.



2. International studies show that informality is not only associated with lower output but also hinders firms and workers' access to credit markets and the financial system (La Porta and Shleifer 2014, Ohnsorge and Yu, 2022, Catão et al., 2009, Koukaou 2025, Malkova and Peter 2025).

Cross-country evidence shows that household access to financial services tends to be lower in countries with higher informality. This creates a reinforcing cycle as limited access to public services and external finance can also discourage entrepreneurs and firms from entering the formal sector (Ohnsorge and Yu, 2022). The literature also shows that higher formalization rates are positively associated with financial deepening (Catão et al., 2009) and that reducing financial frictions in the formal sector, where firms face higher regulatory costs but gain access to cheaper credit, significantly lowers informality in developing economies (D'Erasmus & Boedo, 2012; D'Erasmus, 2016; Lopez-Martin, 2019).



Appendix II. Supplementary Tables

Appendix II. Table 1. The Bahamas: Mincer Regression: Estimated Coefficients				
	(1)	(2)	(3)	(4)
Self-Employed	-0.0435 (0.0647)	-0.191** (0.0402)	-0.197** (0.0394)	-0.198** (0.0388)
Tenure				
< 1 month		-1.881** (0.381)	-1.798** (0.404)	-1.768** (0.414)
1 - 3 months		-1.118** (0.219)	-1.078** (0.193)	-1.065** (0.192)
3 - 6 months		-0.887*** (0.100)	-0.858** (0.156)	-0.848** (0.153)
6-12 months		-0.528*** (0.0421)	-0.478*** (0.0399)	-0.480*** (0.0402)
Female		-0.144 (0.0628)	-0.138** (0.0358)	-0.139** (0.0357)
Experience		0.0305*** (0.0028)	0.0275*** (0.0039)	0.0272*** (0.0041)
Experience ²		-0.0005*** (0.0000)	-0.0005** (0.0000)	-0.0005** (0.0001)
Education				
Secondary		0.410*** (0.0202)	0.256** (0.0484)	0.260** (0.0465)
Tertiary-University		0.556** (0.143)	0.382*** (0.0646)	0.388*** (0.0583)
Tertiary-Technical		0.999*** (0.0390)	0.623*** (0.0663)	0.622*** (0.0585)
Constant	9.838*** (0.0578)	9.185*** (0.0557)	9.215*** (0.0598)	9.236*** (0.0786)
Occupation	No	No	Yes	Yes
Industry	No	No	Yes	Yes
Island	No	No	No	Yes
N	1817	1817	1817	1817
R2	0.00	0.301	0.383	0.385
Note: Descriptive estimates need not be interpreted as causal (see Box 3). Sample restricted to workers aged 15-64. Dependent variable is the natural logarithm of annual labor income from main job (own business in the case of self-employed). Base category of tenure is more than 12 months. Base category of education is primary level. Clustered standard errors at the island level in parentheses. *p<0.01, **p<0.05, ***p<0.01. Data source: LFS 2023.				

References

- Cabrales, A., Dolado, J. J., & Mora, R. (2017). Dual employment protection and (lack of) on-the-job training: PIAAC evidence for Spain and other European countries. *SERIEs*, 8(4), 345-371.
- Catão, L., & Rosales, M. R. (2009). Financial dependence, formal credit, and informal jobs: New evidence from Brazilian household data. IDB Working Paper Series; 118
- D'Erasmus, P. N. (2016). Access to credit and the size of the formal sector. *Economía*, 16(2), 143-199.
- D'Erasmus, P. N., & Boedo, H. J. M. (2012). Financial structure, informality and development. *Journal of Monetary Economics*, 59(3), 286-302.
- Fortin, N., Lemieux, T., & Firpo, S. (2011). Decomposition methods in economics. In *Handbook of Labor Economics* (Vol. 4, pp. 1-102). Elsevier.
- Hirsch, B., & Mueller, S. (2012). The productivity effect of temporary agency work: Evidence from German panel data. *The Economic Journal*, 122(562), F216-F235.
- International Labour Organization (2016). Non-standard employment around the world: Understanding challenges, shaping prospects.
- Kleinknecht, A., Oostendorp, R. M., Pradhan, M. P., & Naastepad, C. W. M. (2006). Flexible labour, firm performance and the Dutch job creation miracle. *International Review of Applied Economics*, 20(2), 171-187.
- Kouakou, D. C. (2025). Can past informality impede registered firms' access to credit? *Journal of Comparative Economics*.
- La Porta, R., & Shleifer, A. (2014). Informality and development. *Journal of Economic Perspectives*, 28(3), 109-126.
- Lopez-Martin, B. (2019). Informal sector misallocation. *Macroeconomic Dynamics*, 23(8), 3065-3098.
- Lucidi, F., & Kleinknecht, A. (2010). Little innovation, many jobs: An econometric analysis of the Italian labour productivity crisis. *Cambridge Journal of Economics*, 34(3), 525-546.
- Malkova, A., & Peter, K. (2025). The journey to formality: How credit market access shapes informal workers' choices. *Journal of Comparative Economics*.
- Nielen, S. (2016). Temporary agency work and firm competitiveness: Evidence from German manufacturing firms. In *Trade Credit and Temporary Employment: How Companies Respond to Capital and Labor Market Frictions* (pp. 41-67). Cham: Springer International Publishing.

Ohnsorge, F., & Yu, S. (2022). *The long shadow of informality: Challenges and policies*. World Bank Publications.

Ulyssea, G. (2020). Informality: Causes and consequences for development. *Annual Review of Economics*, 12(1), 525-546.