

The Role of SMEs in the Caribbean

by Pamela Coke-Hamilton*

There is no denying the important role that the private sector plays in the Caribbean region. According to statistics from the CARICOM Secretariat, the regional private sector creates at least 70% of jobs. Apart from large mineral companies (e.g. bauxite and petrochemicals), the majority of Caribbean firms can be considered SMEs and they operate in a variety of sectors including the agricultural, manufacturing, tourism and services sectors. There is no fixed definition of an SME across the region even though efforts are underway to develop a Regional Micro, Small and Medium Enterprise Policy that will standardize such definitions. For example, in Jamaica a small enterprise is defined as one with 4-10 employees and with assets of US\$ 100,000 or less whereas in Trinidad and Tobago, a small enterprise must have between 6-25 workers with assets of US\$40,000 - \$240,000.¹

According to the CARICOM Secretariat, SMEs contribute about 40% to the Region's GDP. Given their importance, the Revised Treaty of Chaguaramas establishing the Caribbean Community including the CARICOM Single Market and Economy has deliberately focused on establishing an environment capable of supporting the development and viability of SMEs. For the purpose of this article, we will examine the role that SMEs play in the economic, social and environmental development of the Caribbean.

Economic Role

While SMEs are the backbone of Caribbean economies and a notable source of employment, inadequate statistics on their contribution to economic development limits the degree to which one can effectively assess the economic role they play. A similar situation exists when attempting to quantify export earnings generated by SMEs. However at the wider regional level; that is at the level of Latin America and the Caribbean, SMEs constitute over 95% of companies in the region, but only 13% of these export. In addition, the Caribbean SMEs that do export tend to export a limited number of products to a small number of markets².

Caribbean Export has been working to enhance regional exports through a number of initiatives such as market study tours, the CARIFORUM-EU Business Forum, sector specific trade missions, the Direct Assistance Grants Scheme and Export

¹ Hendrickson, 2009. SME Competitiveness in the Caribbean: Challenges and Opportunities- ECLAC

² IDB INTAL publication, #37, Vol 17, July-December 2013

Marketing training among others. One initiative worth highlighting is a collaborative effort between the Jamaica Promotions Corporation (JAMPRO), Caribbean Export, and other stakeholders, to assist companies which are already exporting or which are export-ready to increase their export sales through a number of capacity building initiatives. This effort dubbed the Export Max Development pilot initiative, has assisted small exporters in generating roughly JMD \$1.4 billion, among 15 local producers.

The SME sector is also becoming an important source of tax generation, given its significant contribution to creating employment in the region. The challenge remains the high informality of SMEs in the Caribbean with the World Bank and IDB estimating this to be about 40%. Other ways in which SMEs contribute to the Caribbean economy include workforce skills upgrading and innovation and technology changes.

Social Role

Beyond generating economic benefits, regional SMEs also provide solutions to social and development problems such as food security. SMEs in the agricultural and agro-processing sectors, from honey production in Guyana, shrimp farming in Belize and coffee production in Jamaica, have traditionally played a vital role by converting indigenous raw materials into food and beverage products. However, this is a continuous challenge for CARICOM member states which generally suffer from a high food import bill. One initiative embarked on by the Trinidad and Tobago government entitled the Food Security Facility could open up additional opportunities for firms interested in meeting the region's food needs. Through this initiative, farmers in Trinidad will have access to land in Guyana to produce a range of food crops.

SMEs have also provided services in health care and education which have helped to ease the burden of the state in meeting these needs. Such involvement of SMEs in the provision of what can be considered public goods is expected to continue in the future as companies become more aware of their corporate social responsibility. In 2013, the Jamaican National Building Society Foundation partnered with the United States Agency for International Development (USAID) to develop and implement a three year programme called the Social Enterprise Boost Initiative (SEBI) to strengthen social businesses throughout the country. Moreover, some of Caribbean Export's clients have already incorporated a social mandate into their business models. For example, one Grenadian firm in the health and wellness sector has set up its production facilities in Haiti after training rural women to manufacture natural oils which are then purchased as business inputs. As the region continues to

experience economic difficulties, there will be a growing need for SMEs to impact social development.

Entrepreneurship has also served as a social safety net for women and youth. According to studies conducted by the Global Entrepreneurship Monitor, particularly in lesser-developed countries women are more prone to start or maintain businesses out of 'necessity.' Caribbean Export has witnessed an increase in the number of female participants across several of its programmes delivered under the 10th European Development Fund (EDF). For example, 776 females participated in Agency initiatives in 2012. However this increased by 5% to 817 in 2013. It is expected that SMEs will continue to offer women and youth the opportunity to earn a livelihood and empower them to be active participants in their respective economies.

Environmental Role

Caribbean SMEs are also beginning to play an increasingly important role in contributing to the growth of a green economy in the region. With rising oil prices globally, small island developing states are in search of alternative energy sources. In some countries such as Barbados, SMEs have been making a difference in reducing the dependence on imported fossil fuels. This is critical given that the country produces a mere 15 percent of the total energy required domestically.³ As a result of SMEs which provide solar water heating services, in 2002 Barbados, was able to save 15,000 metric tons of carbon emission and achieved US\$100 million in energy savings from the 35,000 solar hot water systems that had been installed at the time.⁴

SMEs have also launched into other types of business activities which further reduce the carbon foot print in the region. For example, one Barbadian SME is now offering energy efficient LED lighting as an alternative to the traditional incandescent and fluorescent lamps. Moreover, in 2013, Caribbean Export facilitated the introduction of the first electric vehicles in the island and the creation of the first solar powered electric vehicle charging station. SMEs in other Caribbean countries like Antigua and Barbuda and Jamaica are also playing a similar role as evidenced by the increase in hotels and guest houses that have installed solar panels thereby reducing their dependence on electricity. Caribbean Export's support to firms in this regard has been mainly through the provision of funding through the Agency's Direct Assistance Grant Scheme. The continued investment into companies in the renewable energy sector has the potential to assist the region in overcoming one of the greatest impediments to private sector competitiveness; high energy costs.

³ <http://blogs.iadb.org/caribbean-dev-trends/2013/11/22/barbados-energy-market/>

⁴ <http://www.unep.org/greeneconomy/SuccessStories/SolarEnergyinBarbados/tabid/29891/Default.aspx>

It is evident that Caribbean SMEs are supporting the region's economies and societies in a plethora of ways; however, there are still some challenges or barriers that must be overcome if they are to continue to play such an integral role. Some of these include difficulty in accessing credit, lack of business and market intelligence, inadequate transportation and bureaucratic procedures. Regional agencies and governments must therefore continuously seek ways to improve the enabling environment for SMEs. Caribbean Export is contributing in this regard through facilitating SME access to finance, research and market intelligence services, advocacy efforts on key issues affecting the private sector and the provision of export development and promotion services.

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This document is a contribution to the June 2014 edition of the newsletter of the EU-LAC Foundation dedicated to SMEs.