

**ASSOCIATION OF CARIBBEAN STATES
DIRECTORATE TRADE DEVELOPMENT AND EXTERNAL
ECONOMIC RELATIONS**

**RESEARCH ON SMALL AND MEDIUM ENTERPRISES IN THE
GREATER CARIBBEAN**

Introduction

Small and medium-sized enterprises (SMEs) are seen as the engine of economic growth and employment creation throughout the world. These enterprises are at the nucleus of economic activity throughout the Greater Caribbean, they represent the central pillars for Caribbean success. Though there has been no clear decision on a common definition of what constitutes a small and medium enterprise, SMEs remain at the core of sustained growth throughout the Region.

Caribbean Region SMEs account for the majority of existing jobs, and are the generators of most new ones. In Latin America SMEs represent 95% of the establishments created in the manufacturing, trade and services sectors. In the Caribbean, 45% of the companies established are also classified in this category (SME.)

The promotion of Small and Medium Enterprises (SMEs) can be viewed as a viable approach to sustainable development. This sector mobilizes scarce resources and often provides a balance for domestic markets and economies in less developed countries (LDCs). For this reason, SMEs have continued to be one of the most important sectors for most Caribbean countries. SMEs represent one of the most realistic vehicles for confronting the challenge of unemployment and poverty in many countries, because they create the link that forms the full circle between productive enterprises and sectors, and offer increased potential for locally relevant product and service innovation.

It therefore necessitates that the relevant research and support to be given to properly harness and enhance the latent possibilities existing in SMEs throughout the Greater Caribbean, with a notion that this thrust will see the redounding of benefits to all partners. In order to support the growth and potential of micro and small enterprises in the Greater Caribbean, improved knowledge on their functioning in different settings and the constraints they face is needed. We also need to draw conclusions from the existing constraints and develop new ideas

for improved policy, regulatory and supporting frameworks. In order to achieve this, it requires the undertaking of appropriate analysis of the sector in a cross section of Caribbean countries and to propose solutions for addressing some of the limitations of the systems.

This preliminary research offers a springboard upon which further actions can be taken towards the advancing the development of the SMEs' sector in the Region.

Definition of small or medium enterprise

The definition of Small and Medium Enterprises (SME's) is an ongoing debate since in some cases it differs significantly from region to region. Some international organisations, governments and private entities have been charged with the task of seeking a common definition, a few of which are presented below. In general, there are three factors that help define the concept, these include: number of employees, annual sales and capital investment.

The Organisation for Economic Co-operation and Development (OECD) defines establishments with a maximum of 19 employees as "very small" and those with a maximum of 99 as "small". Establishments with 100 to 499 employees are defined as "medium", while those with more than 500 employees are defined as "large". The disadvantage of this definition lies in the fact that in many developing countries, a company with 100 to 499 employees is classified as "large", therefore the definition varies from country to country.¹

In Guyana, for example, the Institute of Private Enterprise Development (IPED) defines small enterprise as a business that is run by the owner with less than 10 employees. It does not define limits in terms of quantity of investment or profits. However, the government has proposed that a micro-enterprise is a business recording less than US\$103,000 in annual sales. In Jamaica, the government defines small enterprise as a business with less than US\$100,000 in capital investment and investment related to manufacturing, services and distribution. In Trinidad and Tobago, the Small Business Development Company defines small enterprises as businesses that are run by the owner or which have an employed director with less than 25 employees and less than US\$250,000 invested in machinery and equipment, excluding real estate. It is necessary to have less than US\$125,000 in annual sales.²

In Cuba, SME's are defined as those businesses with less than 250 employees, among which those with less than 50 employees are classified as "small".³ On the other hand, in Colombia, it is defined as any business venture, undertaken by individuals or legal

¹ Tewarie, B. et al. (1997). Small and Medium Sized Enterprises in the Caribbean. UWI.

² Tewarie, B. et al. (1997). Small and Medium Sized Enterprises in the Caribbean. UWI.

³ Gayoso, A. (1999). Cuba in Transition. [Electronic Resource].

entities, in business, agricultural and livestock, industrial, trade or service activities, whether in rural or urban areas.⁴

The following is a comparative table outlining some of the countries belonging to the Greater Caribbean that have a definition of the concept of SME's that is based on number of employees.

Definitions of enterprises⁵

	Criteria	Micro- enterprise	Small enterprise	Medium enterprise	Large enterprise
Colombia ⁶	Employment	Up to 10	Up to 50	Up to 200	More than 200
Costa Rica ⁷	Employment	Up to 10	Up to 30	Up to 100	More than 100
El Salvador ⁸	Employment	Up to 4	Up to 49	Up to 99	More than 99
Guatemala ⁹	Employment	Up to 10	Up to 25	Up to 60	More than 60
Mexico ¹⁰	Employment	Up to 30	Up to 100	Up to 500	More than 500
Panama ¹¹	Profits	Up to 150,000	Up to one million	Up to 2.5 million	More than 2.5 million
Venezuela ¹²	Employment	Up to 10	Up to 50	Up to 100	More than 100

Source: Programme to Improve the Conditions of the Business Environment, Foundation for International Economic and Social Development (FUNDES)

Characteristics of SME's

The following characteristics have been drawn from regional reports and surveys that describe the common aspects of the SME's present in Latin America and the Caribbean, as specified below.¹³

1. A large majority of employees can be found in small scale enterprises, particularly in the cotton and cottage industries. SME's have a significant input in

⁴ Ramírez Castro, M. (2006). Special trends of small and medium enterprise in Bogotá 1990-2000. Universidad Nacional de Colombia, p. 30

⁵ Zevallos, E. (2003). Micro, small and medium enterprises in Latin America. ECLAC.

⁶ There are two definitions: by employment and by assets.

⁷ There are other definitions by investment and by annual sales.

⁸ The official definitions are by employment and by assets (National Micro and Small Enterprise Commission -CONAMYPE).

⁹ Definition of the National Statistics Institute. There are two others, that of the Chamber of Commerce and that of Promicro (all of these are based on employment).

¹⁰ Definition for the manufacturing industry. There are also others for trade and services, which are also based on employment.

¹¹ In balboas or dollars (one to one).

¹² Definition only for the manufacturing industry. There are no definitions for trade or services.

¹³ Teware, B. et al. (1997). Small and Medium Sized Enterprises in the Caribbean. UWI.

- the total national contribution of the manufacturing industry, although to a lesser extent than their input in total employment in the manufacturing industry.
2. Most SME's can be found in rural areas, where handicraft and the cotton industry are significant sources of employment.
 3. A large portion of the end products of SME's corresponds with their basic needs, such as food, clothing and housing.
 4. SME's use relatively fewer imported materials and equipment while the large enterprises are more dependent on imports.
 5. SME's are generally the largest source of new products and innovations.
 6. A considerable percentage of small and micro-enterprises belongs to and is run by women, between 35 and 50%.¹⁴

How many and what are the sectors in which there are small and medium enterprises

In Latin America, SME's represent 95% of the establishments created, in the manufacturing, trade and services sectors. Additionally, SME's are responsible for the creation of approximately 70% of employment in national economies. With respect to the Caribbean, 45% of the jobs created are located in businesses of this size.¹⁵

At a more specific level, it has been discovered that in the case of Colombia, SME's are involved in business, agricultural and livestock, industrial, trade or service activities.¹⁶

In the Caribbean, small and medium enterprises can be found in the following sectors, listed from the highest to the lowest:¹⁷

1. Services
2. Distribution
3. Food processing
4. Hospitality
5. Building material and machinery and manufacturing
6. Agro-industry and fishing
7. Accounting, information technology and financial services
8. Printing, advertising, packaging and labelling
9. Wood and metal fabrication
10. Shipping and storage

¹⁴ International Labour Organisation. (2000). Small enterprise development in the Caribbean. Consulted February 17, 2011 en

<http://www.ilocarib.org.tt/portal/images/stories/contenido/pdf/SmallEnterpriseDev/SEDCaribbean.pdf>

¹⁵ Tewarie, B. et al. (1997). Small and Medium Sized Enterprises in the Caribbean. UWI.

¹⁶ Ramírez Castro, M. (2006). Special trends in small and medium enterprise in Bogotá 1990-2000. Universidad Nacional de Colombia, p. 30

¹⁷ Brewster, E. (2006). Finance for small and medium-sized enterprises in the Caribbean. Commonwealth Secretariat, p. 5.

11. Pottery, jewellery and handicraft
12. Textiles

Problems that hinder the development of small and medium enterprise in the Greater Caribbean

The following are some of the problems that hinder the development of SME's:

1. The policies applied in Latin America and the Caribbean have placed little emphasis on the development of SME's.¹⁸
2. The absence of a specific legislative framework for SME's, inadequate legislation, the lack of structures to efficiently support national policies on SME's, particularly in Guyana and Belize, and the failure to implement vital actions to stimulate the sector.
3. Inadequate protection for trademarks and patents, environmental requirements, complexity in establishing companies, contradictory and arbitrary regulations, as well as too many general operating procedures.¹⁹
4. Limited access to investment capital, restricted by:
 - a. Low capitalisation
 - b. Lack of collateral
 - c. Dislike for traditional financial intermediaries
 - d. High cost of loan financing
 - e. Some lending agencies, particularly Non-Governmental Organisations (NGO's) do not have loan funds
 - f. Disincentives to capital financing
 - g. Absence of a definition for credit subjects, excessive requirements and procedures, high rates and limited timeframes and restrictive formalities²⁰
5. Initiatives undertaken by the government, NGO's, the private sector and international donors are often fragmented and uncoordinated. This is due mainly to a lack of communication, which results in the development and implementation of a policy that is based on misinformation or inadequate information.
6. Weak management, marketing and accounting in SME's, lack of resources and unwillingness to improve these skills.
7. Technology, research and documentation are quite limited and are generally inaccessible to the sector.
8. Inadequate technological infrastructure.²¹

¹⁸ Tewarie, B. et al. (1997). Small and Medium Enterprises in the Caribbean. UWI.

¹⁹ Zevallos, E. (2003). Micro, small and medium enterprises in Latin America. ECLAC.

²⁰ Zevallos, E. (2003). Micro, small and medium enterprises in Latin America. ECLAC.

²¹ Idem

9. Training programmes seem to be inadequate in terms of their obligation to provide trained staff for the sector.
10. Weak consulting services.²²
11. Women, youth and farmers are the most vulnerable and require special support programmes.²³
12. Ineffective export promotion, too much bureaucracy in foreign trade procedures, contraband, restricted access to foreign markets.²⁴
13. Lack of a business culture.²⁵
14. Lack of qualified staff, social security contributions, etc.²⁶
15. High cost of public services.²⁷

Function of small and medium enterprise in light of the current high unemployment rates

Small and medium enterprises (SME's) have been identified as the driving force behind economic and social development, especially in developing countries. In addition to their potential to create and increase job opportunities and to alleviate unemployment, SME's facilitate the development of skills in the business venture, ensure the expansion of market opportunities, use local raw material promote labour intensive companies, promote exports as well as import substitution. Thus, the development of SME's is a comprehensive economic development strategy that guarantees equitable short and medium term growth.²⁸

In some Greater Caribbean countries, like Belize for example, SME's play a crucial role in the national economy, since they employ 32% of the work force. In Latin America, small enterprises represent more than 95% of all manufacturing, trade and service establishments, in addition to which, they contract more than 75% of employees. In the Caribbean, the CARICOM Secretariat has estimated that small enterprises account for approximately 45% of jobs created.²⁹ One important statistic is that more than 70% of agricultural exports comes from SME's.³⁰

²² Idem

²³ Tewarie, B. et al. (1997). Small and Medium Enterprises in the Caribbean. UWI.

²⁴ Zevallos, E. (2003). Micro, small and medium enterprises in Latin America. ECLAC.

²⁵ Idem

²⁶ Idem

²⁷ Idem

²⁸ Tewarie, B. et al. (1997). Small and Medium Enterprises in the Caribbean. UWI.

²⁹ Idem.

³⁰ International Labour Organisation. (2000). Small enterprise development in the Caribbean. Consulted on February 17, 2011 at

<http://www.ilocarib.org.tt/portal/images/stories/contenido/pdf/SmallEnterpriseDev/SEDCaribbean.pdf>

According to Antonio Gayoso, there are three fundamental reasons why SME's receive so much interest in economies in transition: first of all and as previously mentioned, SME's are labour intensive employers; secondly, when operated by their owner, they have proven to be extremely efficient and lastly, they are highly effective tools for privatisation by creating thousands of entrepreneurs from among the population.³¹

What are the alternatives that must be analysed when establishing a company?

The following are the points to be considered when opening a company:³²

1. The regulations imposed by provincial governments and the federal government. Among others, the regulations that must be observed include the acquisition of federal and provincial licences; local safety and health regulations; regulations on environmental protection; employee deductions and labour standards.
2. Financing: among the financial concerns that must be addressed are the individuals who lent funds to start the company. They can be relatives, friends, bankers, but what is important is that regardless of who they are, they will be interested in the efficacy with which the company is being managed.
3. The competition: your competitors will be the most important since their policies and competition will have an impact on the way you operate your business, your work schedule, your prices, your profits and other aspects.

³¹ Gayoso, A. (1999). Cuba in Transition. [Electronic Article]

³² Canada Business Ontario. (NA). Points that must be considered when opening your own company. [Electronic Article]. Consulted on February 17, 2011 at http://www.cbo-eco.ca/en/pdf/ml/spanish/Spanish-points_to_consider_when_starting_your_own_business.pdf