MICRO-SMALL-MEDIUM ENTERPRISE DEVELOPMENT IN THE CARIBBEAN: **TOWARDS A NEW FRONTIER**

© Caribbean Development Bank, 2016

ISBN: 978-976-95695-1-5

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electric or mechanical, including photocopyiing, recording or otherwise without the permission of the publisher.

Published by: Caribbean Development Bank

The views expressed in this book, as well as any errors of commission, or omission, are the sole responsibility of the authors, and do not necessarily reflect the opinion of the Caribbean Development Bank.

CARIBBEAN DEVELOPMENT BANK

PURPOSE

"The purpose of the Bank shall be to contribute to the harmonious economic growth and development of the member countries of the Caribbean (hereinafter called the Region) and to promote economic cooperation and integration among them, having special and urgent regard to the less developed members of the Region".

Article 1 - Agreement establishing the Caribbean Development Bank

MISSION STATEMENT

CDB's Mission is to be the leading catalyst in the reduction of poverty through the inclusive and sustainable development of our BMCs' by mobilising development resources in an efficient, responsive and collaborative manner with accountability, integrity and excellence.

CONTENTS

4 List of Figures and Tables

6 Foreword

7 Acknowledgements

8 Acronyms

13 Executive Summary

Background 13
Synopsis of the Study 13
Main Findings 13
Recommendations 14

17 Introduction

Approach 17
Definition and Data Challenges 17

CONTENTS

19

1. Regional MSME Sector Profile

1.1 Global Economic Trends and Effects on Caribbean Countries 21
1.2 MSMEs and Macro Economic Development 23
1.3 The Regional MSME Sector 26
1.4 Review of MSME Sector Challenges 28
1.5 The Competitiveness Challenge 30
1.6 Optimal Development Path for the Regional MSME Sector 31

32

2. MSME Access to Finance

2.1 SME Access to Finance Globally 33
2.2 Life Cycle System 37
2.3 MSME Access to Finance in the Caribbean 42
2.4 Financing Challenges Facing the MSME sector 50
2.5 Financial Literacy of SMEs 55
2.6 Regional Collaboration to Improve Financing Options 61

63

3. Regional Policy and Regulatory Frameworks

3.1 Gap Analysis of the Adequacy of the Enabling Framework 65
3.2 Review of Regional Best Practice Policy and Regulatory Frameworks 67
3.3 Further Enhancing MSME Frameworks in the Caribbean 74

80

4. Adequacy of the Institutional Support Framework

4.1 Public Sector Institutional Framework 81
4.2 Recommendations 86
4.3 Institutional Capacity - Private Sector Business Support Organisations 87
4.4 Examples of Private Sector BSOs 88
4.5 Recommendations 91

CONTENTS

95

5. Nurturing Innovation in the MSME Sector

5.1 What is Innovation? 96
5.2 Best Practices in MSME Innovation 98
5.3 The MSME Innovation Landscape in the Caribbean 100
5.4 Missing Links in the Approach to MSME Innovation 110

108

6. Synthesis of Major Findings and Recommendations

6.1 Overview 121
6.2 Optional Development Paths for the MSME Sector 121
6.3 Findings and Recommendations 121

116

Appendix

1. Bibliography 117
2. a. Template - Information Requests Interview Questions 120
   b. Financial Information Request 123
3. List of Persons Consulted/ Interviewed 125
4. Analysis of SME Access to Finance in Eight BMCs 130
5. Country & Donor Definitions of MSMES by Parameters 142

Dollars ($) throughout refer to United States dollars (USD) unless otherwise specified.

LIST OF FIGURES & TABLES

Figures

Figure 1.1:	Average Real GDP Growth, 2007-2014	9
Figure 1.2:	Total Public Debt, 2011	10
Figure 1.3:	MSME Density	12
Figure 1.4:	MSME Density by Region	13
Figure 1.5:	MSME Growth Rates Regionally	13
Figure 1.6:	MSME Growth by Income Groups	13
Figure 1.7:	Six Most Commonly Cited Obstacles by Firms in 98 Countries	14
Figure 1.8:	Indicators Used Among International, Regional and Local Sources	15
Figure 1.9:	Pyramid Distribution of Private Sector Businesses	16
Figure 1.10:	2016 Ease of Doing Business Rankings: BMCs vs. Top Five Countries	19
Figure 2.1:	Ratio of Domestic Credit to GDP Globally	21
Figure 2.2:	Formal SMEs in GDP	22
Figure 2.3:	Informal SMEs in GDP	22
Figure 2.4:	Finance Coverage over SME Life Cycle	25
Figure 2.5:	Interest Rates in Eight BMCs, 1974 - 2014	35
Figure 2.6:	Value of Collateral as a Percentage of Loan Values	36
Figure 2.7:	Loan Analysis Procedures Used by Banks and % of Bank Usage	45
Figure 5.1:	Guidelines for Adopting Innovative Processes at Organisational Level	85
Figure 5.2:	Methodology Used to Establish Rankings on the GII	86
Figure 5.3:	Technological Readiness	91
Figure 5.4:	Caribbean Firm Capacity for Innovation in Six Countries	98

LIST OF FIGURES & TABLES

Tables

Table 2.1:	Policy Measures to Improve SME Access to Credit in OECS Countries	23
Table 2.2:	MSME Life Cycle Financing in Eight Caribbean Countries	28
Table 2.3:	Micro Entrepreneur Profiles from a Survey of 656 Enterprises in Four Countries	30
Table 2.4:	Institutions' Usage by Borrowers and Savers	32
Table 2.5:	Estimates of the Market for Micro Credit Loans	32
Table 2.6:	Average GDP Growth and Average L&A Growth in Eight BMCs	33
Table 2.7:	Gaps in Policy Measures to Improve MSME Access to Credit – OECD vs. BMCs	38
Table 3.1:	The Policy, Legislative and Regulatory Framework for MSMEs and Supporting Lead Institutions in Eight CDB Borrowing Member Countries	53
Table 3.2:	Policy and Regulatory Framework - Belize	58
Table 3.3	Strategic Initiatives - Belize	59
Table 3.4	Jamaica MSME Policy Objectives and Strategic Actions	61
Table 4.1:	Eight CDB BMCs – MSME Enabling Policy and Institutions Matrix	72
Table 5.1:	Ranking of Selective Caribbean Countries on World Innovation Index, 2015	87
Table 5.2:	Comparative Innovation and Technology Status for Guyana	94
Table 5.3:	Options for Framework for Service Innovation Policies	103
Table 5.4:	Five Examples of Service Innovation Policies	105

FOREWORD

The Micro, Small and Medium Enterprises (MSME) sector is a substantial contributor to economic and social development in the Caribbean, accounting for more than 50% of regional enterprises, and over 50% of Gross Domestic Product. Despite these significant contributions, MSMEs face a number of major constraints, including inadequate access to financial resources for investment and working capital; gaps in training in business skills; high cost of infrastructure services; inadequate physical infrastructure support (for example, warehousing, factory and commercial space, industrial parks, etc.); low levels of technology usage to improve productivity and; and lack of competitiveness.

Given the important role of the sector, the major challenge facing policy-makers today is to ensure that MSMEs receive adequate support needed to enhance competitiveness; maximise growth potential; and generate employment while contributing to gender equality, and poverty reduction.

Towards this end, the thematic study on MSMEs in the Caribbean adds significant value to the body of research on the sector; and will expand knowledge and understanding of MSMEs in our Region. The study tables a number of innovations, including the adoption of a more holistic three-tiered approach to sector development based on its successful implementation in Singapore, Korea, Western Europe, and Costa Rica over the past two decades. These proposals, I hope, will open the door for healthy debates among policy-makers, academics, and students and provide the platform for the long-term transformation and sustainable development of the MSME sector.

W^{m} Warren Smith, Ph.D
President
Caribbean Development Bank

ACKNOWLEDGEMENTS

This publication was commissioned by the Economics Department of the Caribbean Development Bank (CDB) and prepared by two consultants, Michael Julien and Melvin Edwards. CDB acknowledges with gratitude the work done by the consultants and all those in the selected countries, that were the focus of the study, who assisted in any way in making its completion possible.

An internal team comprising Dr. Patrick Kendall, Dr. Justin Ram, Ian Durant, Lisa Harding, Kari Grenade and Jason Cotton, was responsible for the technical supervision of the process. The team acknowledges with deep appreciation the useful comments and insights offered by many CDB staff.

Alana Goodman and Linda Cordeaux provided the legal services required of the project; Andria Murrell saw to the end to end Administrative support while Klao Bell-Lewis oversaw the design and finish of the publication.

It is our hope that policymakers and other stakeholders will find much value in this study in charting the development of the regional MSME sector.

Dr. Justin Ram
Director, Economics Department
Caribbean Development Bank

ACRONYMS

ABIA	Antigua and Barbuda Investment Agency
ACCA	Association of Chartered Certified Accountants
ADB	Asian Development Bank
ADE	Agency for the Development of Enterprises
AFI	Approved Financial Institution
BDS	Business Development Services
BELTRAIDE	Belize Trade, Investment and Development Agency
BEST	Belize Enterprise for Sustainable Technology
BMC	Borrowing Member Country
BNTF	Basic Needs Trust Fund
BSA	Business Support Agency
BSE	Barbados Stock Exchange
BSO	Business Support Organisation
B2B	Business to Business
BUSOS	Business Support Services, Suriname
CAIC	Caribbean Association of Industry and Commerce
CAIPO	Companies and Intellectual Property Office
CARDI	The Caribbean Agricultural Research and Development Institute
CARIB-CAP	Caribbean Micro Finance Capacity Building Project
CARIRI	The Caribbean Industrial Research Institute
CCI	Culture and Creative Industries
CCMF	Caribbean Centre for Money and Finance
CDB	Caribbean Development Bank
CDF	Caribbean Development Fund
COSTAATT	The College of Science, Technology and Applied Arts of Trinidad and Tobago
CPEC	Caribbean Programme for Economic Competitiveness
DFC	Development Finance Corporation

ACRONYMS

ECA	Export Credit Agency
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECGS	Enhanced Credit Guarantee Scheme
ECSE	Eastern Caribbean Securities Exchange
EDU	Enterprise Development Unit
EIB	European Investment Bank
ERMFP	Enterprise Risk Management and Financing Programme
EXIM Bank	Export Import Bank
FAO	Food and Agriculture Organisation of the United Nations
FG	Forward Guidance
FIT	Foundation for International Training (Toronto)
GARDC	Gilbert's Agriculture and Rural Development Centre
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GIZ	German Foundation for International Development
GOB	Government of Barbados
GNI	Gross National Income
GOTT	Government of Trinidad and Tobago
IADB	Inter-American Development Bank
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IICA	Inter-American Institute for Cooperation on Agriculture
ILO	International Labour Organisation
IMA	The Institute of Marine Affairs
IMF	International Monetary Fund

ACRONYMS

IPO	Initial Public Offering
ISMEA	Israel Small and Medium Enterprises Authority
JAMPRO	Jamaica Promotions Corporation
JBDC	Jamaica Business Development Corporation
JDB	Jamaica Development Bank
JEA	Jamaica Exporters' Association
JNSBLA	Jamaica National Small Business Loan Association
JSE	Jamaica Stock Exchange
KAB	Know About Business
KKF	Chamber of Commerce and Industry, Suriname
KIBS	Knowledge-Intensive Business Services
KPI	Key Performance Indicator
LAC	Latin America and the Caribbean
MGI	McKinsey Global Institute
MFIs	Microfinance Institutions
MIDA	Micro Enterprise Development Agency
MIIC	Ministry of Industry, Investment and Commerce
MoE	Ministry of Education
MORI	Mona Office for Research and Innovation
MSE	Micro and Small Enterprise
MSME	Micro, Small and Medium Enterprise
MSTEM	Ministry of Science, Technology, Energy and Mining
MSTTE	Ministry of Science, Technology and Tertiary Education
MGS	Mutual Guarantee Schemes
NCB-J	National Commercial Bank Jamaica
NCST	National Commission on Science and Technology
NCC	National Competitiveness Committee

ACRONYMS

NCDs	Non-communicable Diseases
NDR	Negative Deposit Rates
NDP	National Development Plan
NEDCO	National Enterprise Development Corporation
NGO	Non-Governmental Organisations
NIF/CF/SME	National Insurance Fund Credit Facility for SMEs
NIHERST	National Institute of Higher Education, Research, Science and Technology
NIS	National Insurance Scheme
NIS	National Innovation System
NPL	Non-performing Loan
NPRF	National Pension Reserve Fund
NTMA	National Treasury Management Agency
OECD	Organisation for Economic Co-operation and Development
OGDS	OECS Growth and Development Strategy
PADF	Pan American Development Foundation
P2P	Peer-to-Peer
PSAR	Private Sector Assessment Report
PPP	Public-Private Partnership
PPP	Purchasing Power Parity
PVO	Private Voluntary Organisation
QE	Quantitative Easing
ROCIP	Registry of Companies and Intellectual Property
ROSCA	Rotating Savings and Credit Association
SBAJ	Small Business Association of Jamaica
SBDC	Small Business Development Corporation
SEDU	Small Enterprise Development Unit
SFD	Sector Framework Document

ACRONYMS

SGSRE	School of Graduate Studies, Research and Entrepreneurship
SIYB	Start and Improve Your Business
SLISBA	St. Lucia Industrial and Small Business Association
SMEs	Small and Medium Enterprises
SRC	Science Research Council
KKF	Koop van Koophandel en Fabrikatie (Suriname Chamber of Commerce & Industry)
TEPA	Trade and Exports Agency
TOC	Table of Contents
TRLF	Trade Receivables Liquidity Facility
TTBS	Trinidad and Tobago Bureau of Standards
TTSE	Trinidad and Tobago Stock Exchange
TVET	Technical and Vocational Education and Training
TOR	Terms of Reference
UFXInt	Unsterilised FX Intervention
UK	United Kingdom
USA	United States of America
USD	United States Dollar
USAID	United States Agency for International Development
UTech	University of Technology
UTT	The University of Trinidad and Tobago
UWI	University of the West Indies
WEF	World Economic Forum
WEO	World Economic Outlook
WIPO	World Intellectual Property Organisation
ZIRP	Zero-interest-rate Policy

EXECUTIVE SUMMARY

BACKGROUND

The Micro, Small and Medium Enterprise sector (MSME) accounts for the majority of private enterprises in the Caribbean, and contributes more than 50% to Gross Domestic Product and employment. The sector also contributes significantly to female employment, poverty reduction and social stability. Nevertheless it remains a sector that is largely under-supported.

SYNOPSIS OF THE STUDY

The purpose of the thematic study on Micro, Small and Medium Enterprises in the Caribbean is two-fold: 1) to assess the status of the MSME sector based on a review of the sector in eight borrowing member countries (BMCs) of the Caribbean Development Bank (CDB): (Antigua and Barbuda, Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago, St. Lucia and Suriname); and 2) to highlight critical MSME development challenges and propose a structured approach to addressing those challenges. The study adopts a holistic approach which is detailed in the three tier approach to sector development presented in Chapter 1. The study also advocates, where possible, joint Caribbean approaches to MSME sector development.

MAIN FINDINGS

Weaknesses in the Regional Life Cycle System of Financing

The study points to significant weaknesses in the regional Life Cycle System (LCS) of financing which has nurtured MSME growth in member countries of the Organisation for Economic Co-operation and Development. While Jamaica and Trinidad and Tobago are further advanced in terms of the development of the LCS, the system is significantly weak in most of the other BMCs.

Substantial Gaps in the Policy and Regulatory Frameworks

The Study points to substantial gaps in the policy and regulatory frameworks. Many countries have outdated policies. In some cases, policies have not been reviewed in more than ten years. In addition, there are often important policy gaps, including voluntary rather than compulsory registration of enterprises; lack of fiscal incentives for MSMEs; no time bound development plans and targets for the sector; and lack of key progress indicators. Product quality enforcement is often weak or non-existent.

Weak Technical Support

The provision of technical support to MSMEs, whether by public or private sector institutions, is generally weak and inadequate. In part, this is due to weaknesses in the institutions themselves because of the lack of financial and human resources. As a result, the extent of the outreach by these institutions is often very limited, with services provided to a very small percentage of MSMEs.

Weaknesses in Regional Innovation Systems

Regional innovation systems are often in the embryonic stage of development and characterised by a scattering of independent research institutions. With significant budgetary and human resource limitations, there is limited scope for support to MSMEs to help them to become competitive and to grow through productivity enhancing innovation.

RECOMMENDATIONS

Below is a synopsis of the main recommendations generated by the study.

Chapter 1: Optimal Development Path for the MSME sector.

1.1 The three-tier approach to MSME development;

1.2 Adoption of a standard definition and classification for MSMEs across the Caribbean;

1.3 Extension of the information gathered by business registries from MSMEs;

1.4 Engagement in more in-depth MSME research and development;

1.5 Analysis of expenditure by MSMEs, and contribution to employment and exports;

1.6 Definition of a new policy direction;

1.7 Exploration of avenues to strengthen Business Service Organisations' (BSO) delivery capacity;

1.8 Increased focus on innovation and enhanced productivity (First Floor Issues), especially in the services sector and those subsectors with good export prospects, such as creative industries, offshore education, and health tourism.

Chapter 2: Improving MSME Access to Finance

2.1 Develop training programmes aimed at improving the financial management capacity of MSMEs;

2.2. Expand the range of financial products available to MSMEs;

2.3 Introduce tax reforms that allow formal MSMEs to retain a larger share of their profits and cash flows;

2.4 Increase the adoption of tax reforms that shift the burden of taxation away from direct taxes to indirect taxes;

2.5 Introduce labour reforms that allow MSMEs to be more flexible in terms of hiring and firing labour;

2.6 Create stronger tax incentives to increase financial intermediation and encourage MSMEs to seek out alternative forms of investment funds;

2.7 Improve the enabling environment for access to credit;

2.8 Overcome the limitations of domestic markets by: a) promoting and fiscally favouring export growth of MSMEs; and b) increasing the use of ICT "information access" mechanisms to facilitate greater business intelligence with respect to external markets;

2.9 Introduce regulatory reforms that would allow Accredited Financial Institutions (AFIs) and Microfinance Institutions (MFIs) to take deposits, and offer an expanded range of financial products to their MSME clients;

2.10 Increase the inclusiveness of credit unions in terms of affording them access to SME financial programmes as development finance institutions (DFI) recipients - including funding, credit guarantees and technical assistance in risk management;

2.11 Put in place legislation that would encourage the adoption of Mobile Banking solutions;

2.12 Examine the feasibility of establishing Mutual Guarantee Schemes in the larger Caribbean countries; and

2.13 Create incentives to encourage the informal sector to formalise their businesses.

Chapter 3: Regional Policy and Regulatory Frameworks

3.1 Refocus the regulatory and policy frameworks towards increased efficiency and effectiveness in facilitating expansion of a strengthened and more sustainable, productive and competitive MSME sector.

3.2 Pursue the establishment of a business-friendly environment as a top priority;

3.3 Focus on private sector funding of innovation initiatives;

3.4 Improve worker productivity;

3.5 Increase Information and Communication Technology (ICT) usage by MSMEs;

3.6 Grow entrepreneurship culture through education reform;

3.7 Improve trade facilitation;

3.8 Develop a model MSME policy as a guide for the Region; and

3.9 Articulate an MSME development strategy.

Chapter 4: Strengthening Institutional Support Frameworks

4.1 Promote technical cooperation among Caribbean Registries;

4.2 Disseminate information with respect to policy, legislative and regulatory frameworks within the Region;

4.3 More effective promotion of CDB services to MSMEs;

4.4 Improve private, public sector collaboration and enhance institutional strengthening for capacity development:

4.5 The creation/establishment of a public-private partnership network should be explored between selected microfinance institutions, Business Development Agencies

(BDAs) and Business Service Organisations (BSOs) to facilitate a larger flow of domestic resources into MSME growth and expansion; and

4.6 Develop online training programmes for MSME development.

Chapter 5: Nurturing Innovation in the MSME sector

5.1 Countries committed to innovation should complete the establishment of national innovation systems (NISs);

5.2 The Caribbean should re-think its innovation orientations from an R&D manufacturing industry focus to one that is primarily driven by or linked to services;

5.3 Operational frameworks for supporting innovation should articulate clearer support for MSME investment in the export sectors that offer strong opportunities for innovation in the Caribbean; and

5.4. A roadmap to support the development of an innovation eco-system should be developed.

INTRODUCTION

APPROACH

The approach consisted of the following key actions:

1. Development of two questionnaires – one for interviews with the MSME stakeholders in the CDB member countries and the other for gathering statistical data from specialty financial institutions serving MSMEs. These instruments, attached as Appendices 2a and 2b, were:

    a. pilot tested and refined into a standardized set of questions for use as the uniform Interview Guide for in-country visits;
    b. used to gather specific product information and performance statistics from selected financial institutions serving MSMEs in six countries; and
    c. contributed to improved data gathering and report-writing efficiency;

2. Development of a list of key institutions and persons to interview in each of the eight CDB-targeted member countries.

    Interviewed were Ministers and Permanent Secretaries responsible for Trade, Industry and Commerce as well as senior personnel in other Ministries and in the Development Banks, Departments of Statistics and Company Registries in all eight countries.

    Executives in business support organisations, financial institutions, as well as national, regional and international development agencies, were also interviewed. The list of persons interviewed from 96 organisations is presented at Appendix 3.

DEFINITION AND DATA CHALLENGES

1. **MSME sector definition and size:** One of the most elusive challenges in assessing MSME development is the categorising of this business group into uniformly acknowledged "size" categories.

    In addition to the fact that some countries are at different stages of development and therefore maintain independent classifications of the sector, much of the research that has preceded this study – mostly by the World Bank, the International Development Bank (IDB) and the International Labour Organization (ILO) – has used different criteria to those informally adopted by some BMCs in their local research or classification metrics.

    The consultants offered their own categorisation of MSMEs to each interviewee in order to facilitate region-wide tracking and comparability, but noted that there is considerable inconsistency in the country-level classifications of MSMEs. They also drew attention to the fact that, by global standards, almost all formal businesses in the Caribbean would be classified as medium, small and micro enterprises (MSMEs) – with possibly 1% being categorised as "large".

2. **Multi-dimensional data limitations:** Overall, enterprise data is not classified in national statistics in terms of business size. Information is usually available on a sector basis e.g. manufacturing or services.

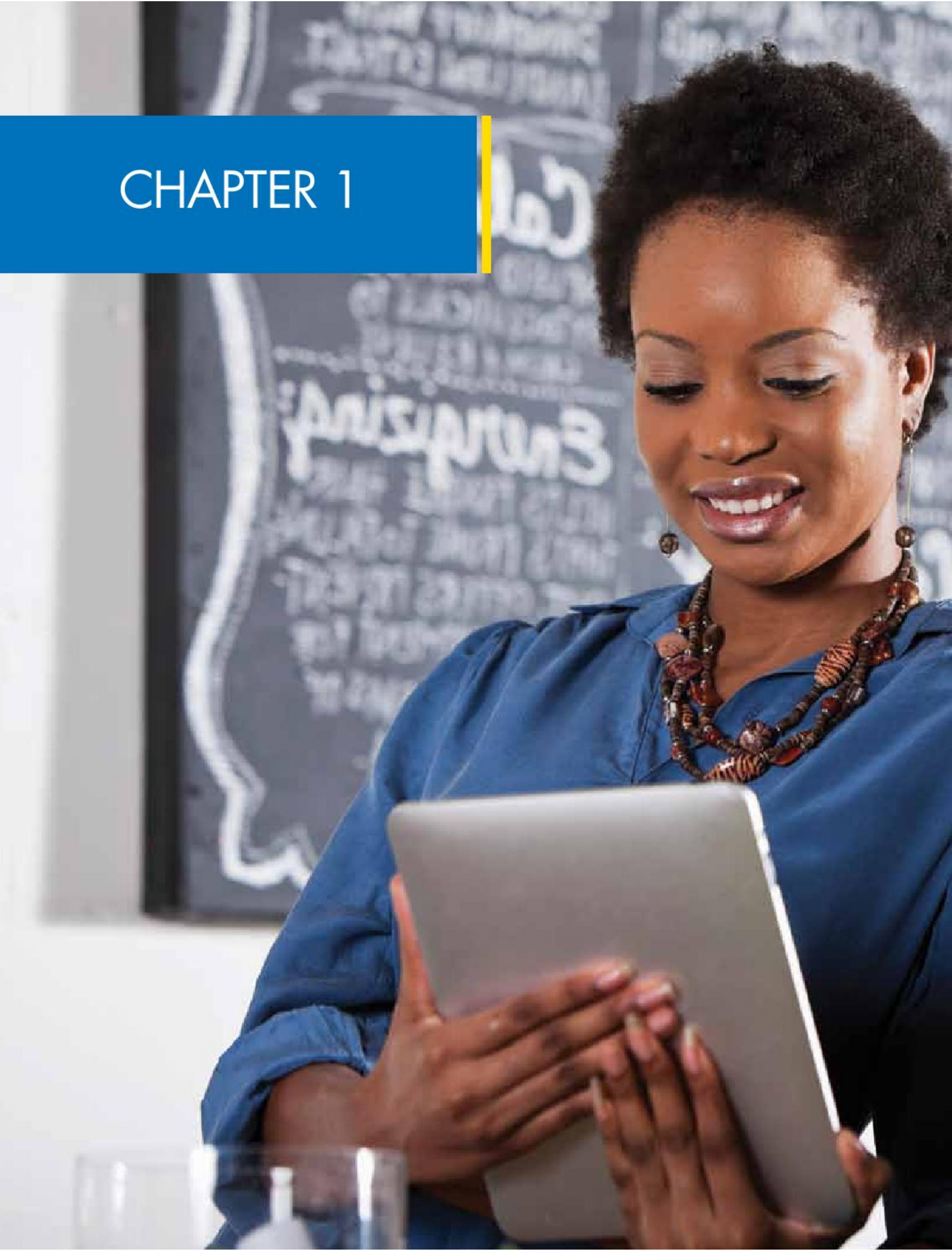
    But, apart from inferences that can be made from national business registration office data, there is limited access to actual MSME data, besides the data generated via special surveys or selective one-off studies.

Also, there is limited up-to-date information on the relative scale of support provided via technical assistance programmes although snapshots can be obtained on a periodic basis. Similarly, export data is not stratified according to business size, and the contribution of SMEs to economic development is not well documented across the Bank's borrowing member countries (BMCs). In some countries there is selective data on gender and largely anecdotal, evidence-based information on levels or types of innovation, as variously defined. Business viability information is lacking, especially data on the failure rates of business at the lower end of the MSME spectrum.

Because of these limitations, there was reliance on business registration information and selective banking and technical assistance delivery data as provided by the institutions interviewed. That information was reinforced with the findings generated by international donor agency studies on the Caribbean MSME sector.

3. **MSME Development and Poverty:** Notwithstanding, the growth of the MSME sector in the region, high poverty levels have persisted throughout the Caribbean – and unemployment has been elevated to levels exceeding 10 - 20% of the workforce in recent years, Trinidad and Tobago being the exception at 3.2% according to its Central Bank's yearend 2015 results. Interviews with knowledgeable stakeholders and several studies confirm that MSMEs, like remittances, constitute a major source of escape from indigence and abject poverty for thousands of citizens. However, the challenge with monitoring MSME impacts on poverty lies in the absence of data combined with the deliberate reluctance of the informal and micro enterprise sectors to provide economic information on their activities.

CHAPTER 1



REGIONAL
MSME SECTOR PROFILE

CHAPTER 1: REGIONAL MSME SECTOR PROFILE

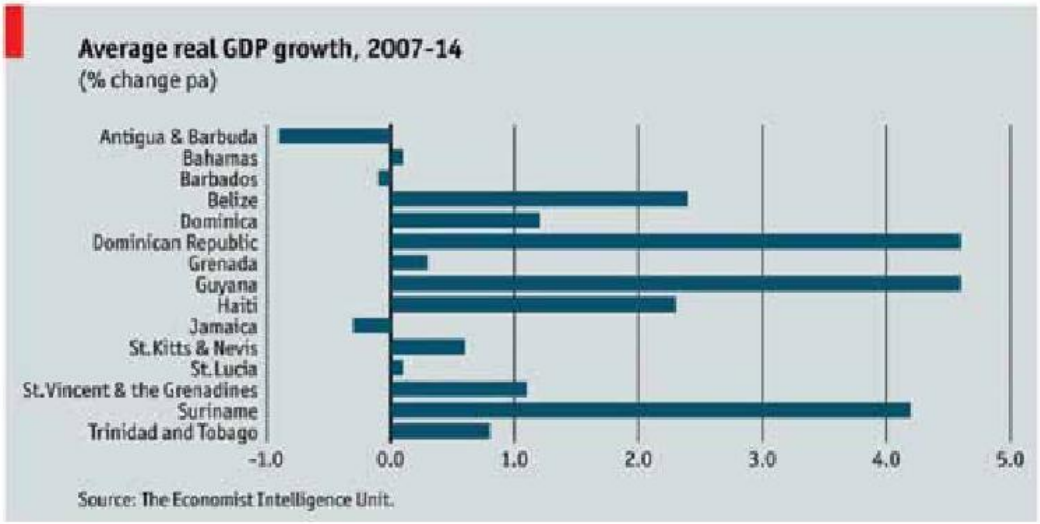
1.1 GLOBAL ECONOMIC TRENDS & EFFECTS ON CARIBBEAN COUNTRIES

Global economic trends have always influenced the direction and pace of economic and social development in Caribbean countries. In particular, the consequences of the 2008 global financial crisis have had pronounced effects on the Region's MSMEs. It is estimated that MSMEs constitute between 70% and 85% of the number of enterprises, contribute between 60% and 70% of GDP and account for approximately 50% of employment in the Caribbean. Notwithstanding the absence of firm data, indications are that the MSME sector is a significant contributor to income generation and poverty reduction[1].

1.1.1 Anaemic Economic Performance

Figure 1.1 (below) provides a snapshot of the prolonged impact of the Global Financial Crisis on the Caribbean's GDP growth between 2007 and 2014. Notably, the tourism-based economies in this study (Antigua and Barbuda, Barbados, Jamaica and St. Lucia) grew, on average, by less than one-tenth of 1% annually. In contrast, the resource-based economies (Belize, Guyana, Trinidad and Tobago, and Suriname) grew, on average, by more than 2% annually[2].

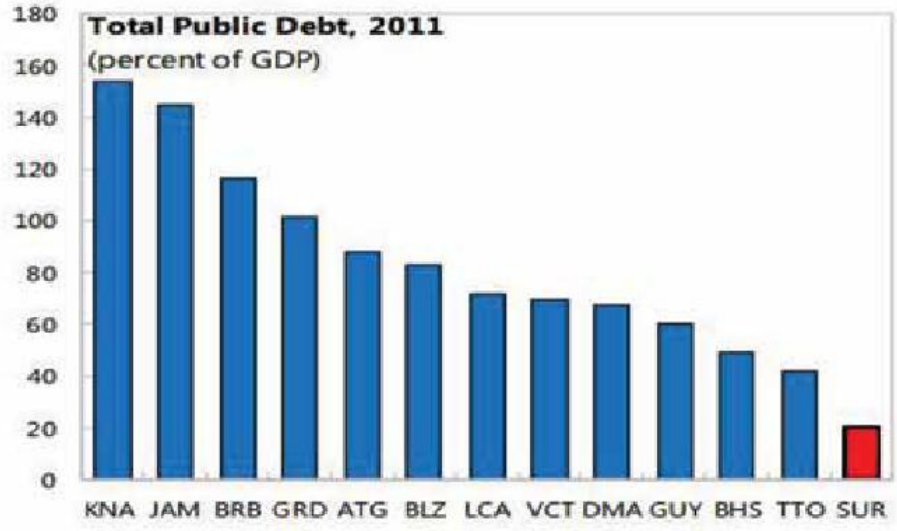
Figure 1.1: Average Real GDP Growth (2007–2014)



[1] The International Labour Organisation (ILO), Small Enterprise Development in the Caribbean, 2000, p.3-5. According to ILO, MSMEs account for over 90% of enterprises globally. (ILO, MSMEs and the Global Economic Crisis, 2009, p.10.) |
[2] The exception is that Trinidad and Tobago grew, on average, by 0.8% annually.

Moreover, with the exception of Trinidad and Tobago and Suriname, the other six countries reviewed in this study are all burdened with high Debt to GDP ratios as depicted in Figure 1.2 (below). Of the 13 countries listed, only Trinidad and Tobago and Suriname had debt to GDP ratios less than 50%. Consequently, six of the eight countries that are part of this study have had to implement home-grown or IMF-supervised structural adjustment programmes, partly because of the anaemic growth of the global economy since 2008. By March 2016, Suriname was about to embark on an IMF programme for financial support, as a result of the combined fallout from the global decline in oil prices, a lacklustre international market for its minerals exports (i.e. gold, bauxite), and weak fiscal management. The net effect of these structural realignment programmes has been reduced purchasing power of both businesses and consumers in most of these economies – a factor that has adversely affected the viability and survival of MSMEs.

Figure 1.2: Total Public Debt (2011)



Source: Suriname Central Bank Presentation "The Economy in Suriname 2011-2012," May 2012 and IMF Report No.12/281, May 2012

1.1.2 The New Normal?

In its 2014 Annual Report, the CDB stated that, "preliminary estimates indicate that the economic recovery in the Region continued in 2014, with 16 of CDB's 19 BMCs reporting growth during the year, driven mainly by tourism and construction services. With continued increases in income in major source markets, improved airlift capacity, a shift in cruise itineraries from the Mediterranean to the Caribbean and intensified marketing by BMCs, the resurgence in regional tourism gained momentum, and most destinations recorded increased visitor arrivals. There was similar improvement in the construction sector, driven mainly by tourism-related foreign direct investments. Some BMCs noted an upturn in commercial and residential building, as well. Increased activity in the construction industry was also stimulated by public sector capital investment in several BMCs. In some cases, this was boosted by unanticipated reconstruction work following weather-related challenges and/or pre-election spending. Conversely, further declines in international commodity prices in 2014 adversely affected mining and quarrying output among the main regional producers of gold, bauxite and petroleum; the latter were also constrained by supply-side issues. Outturns in respect of manufacturing and agriculture were mixed".

Going forward, the economic headwinds may be more formidable than anticipated. For example, Barbados, which experienced very strong tourism performance in 2014–2015, saw its GDP grow by less than 1% in 2015. Likewise, Jamaica experienced GDP growth of only 0.5% over the same period despite a relatively robust tourism season. The International Monetary Fund's World Economic Outlook (WEO) of January 2016 entitled "Subdued Demand/Diminished Prospects", suggests that the robustness of future global economic growth continues to be uncertain.

Three key transitions continue to influence the global outlook: 1) the gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services; 2) lower prices for energy and other commodities; and 3) the prospect of a gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery, even as several other major advanced economy central banks continue to ease monetary policy.

Overall growth in China is evolving broadly as envisaged, but with a faster-than-expected slowdown in imports and exports, in part reflecting weaker investment and manufacturing activity. These developments, together with market concerns about the future performance of the Chinese economy, are having spillovers to other economies through trade channels and weaker commodity prices, as well as through diminishing confidence and increasing volatility in financial markets. The IMF's relatively cautious expectations are already being echoed in the United States, where stock markets in early 2016 began to display signs of volatility with small but progressive contractions in the major indices – reflecting US concerns that the global economy may be again weakening.

Should economic growth in the global economy continue to be skittish, this will have renewed negative knock-on effects on the Caribbean – and on the prospects and fortunes of the region's MSME sector.

1.2 MSMEs AND MACROECONOMIC DEVELOPMENT

1.2.1 Size and Growth of the Global MSME Sector

The International Finance Corporation (IFC) and the McKinsey Global Institute (MGI) estimated that there are 420 to 510 million MSMEs worldwide, of which 9% are formal SMEs (typically registered businesses with 5-250 employees) and 80-95% are in emerging markets[3]. A 2010 study of 132 countries carried out by the IFC, entitled "Micro, Small, and Medium Enterprises Around the World: How Many Are There, and What Affects the Count?", highlights the following characteristics of the sector in those countries:

1. There are 125 million formal MSMEs in this set of economies, including 89 million in emerging markets;
2. Formal MSMEs are more common in high-income economies, but in low and middle-income economies, MSME density (number of MSMEs per 1000 persons) is rising at a faster pace;
3. There is significant variance in the countries' definitions of MSMEs. Around a third of the countries covered define MSMEs as having up to 250 employees;
4. Formal MSMEs employ more than one-third of the world's labour force, but the percentage drops significantly with income level;

[3] MSMEs included in the IFC-McKinsey database do not include farmers or sole proprietorships.

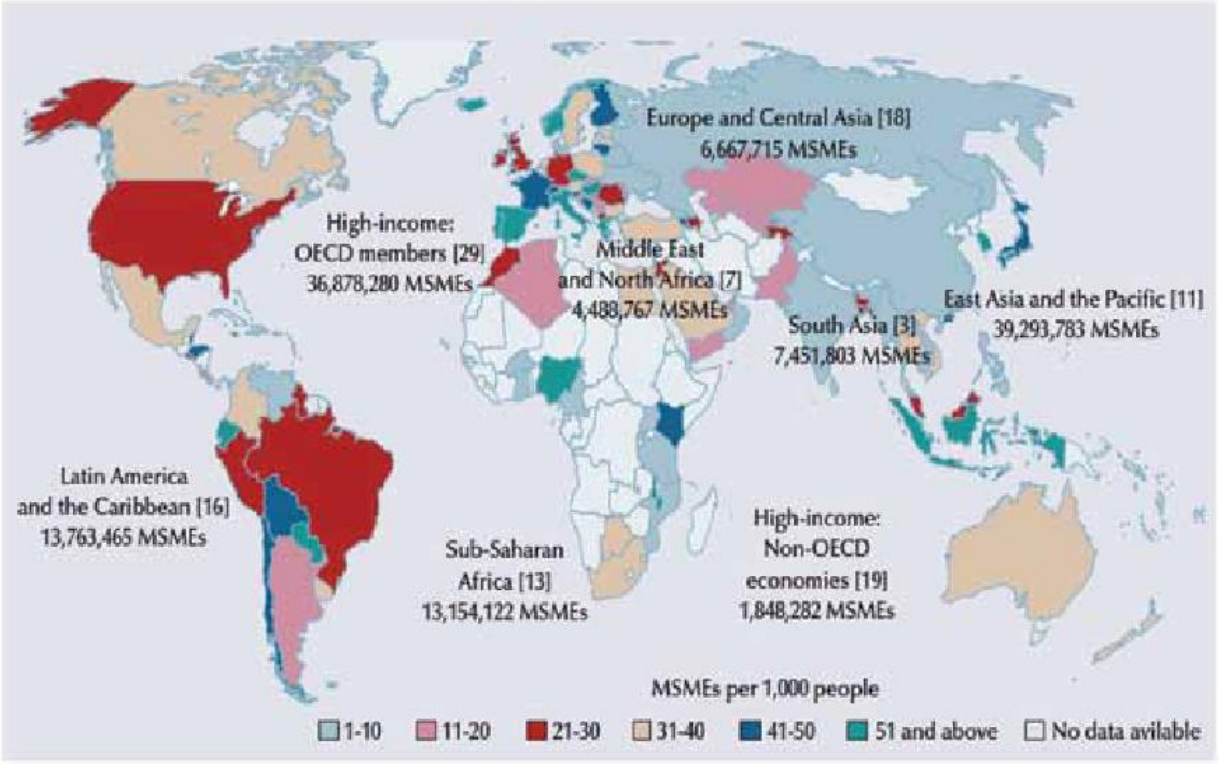
5. MSMEs are more likely than large firms to identify access to finance as their biggest obstacle;
6. In economies with a higher percentage of firms with no formal credit, MSME density is lower;
7. A larger informal sector is associated with lower formal MSME density;
8. Measures of barriers to firm entry and exit, such as the minimum capital requirement and the recovery rate in case of bankruptcy, are also associated with lower formal MSME density.

Figure 1.3 (below) provides a visual summary of MSME density in 116 developed and developing countries in major economic zones across the globe.

According to the IFC report, on average, there are 31 MSMEs per 1,000 people, across the economies covered. The countries with the highest formal MSME density are as follows: Brunei Darussalam (122 per 1,000 people), Indonesia (100), Paraguay (95), the Czech Republic (85), and Ecuador (84). Overall, economies with higher income per capita tend to have more formal MSMEs per 1,000 people.

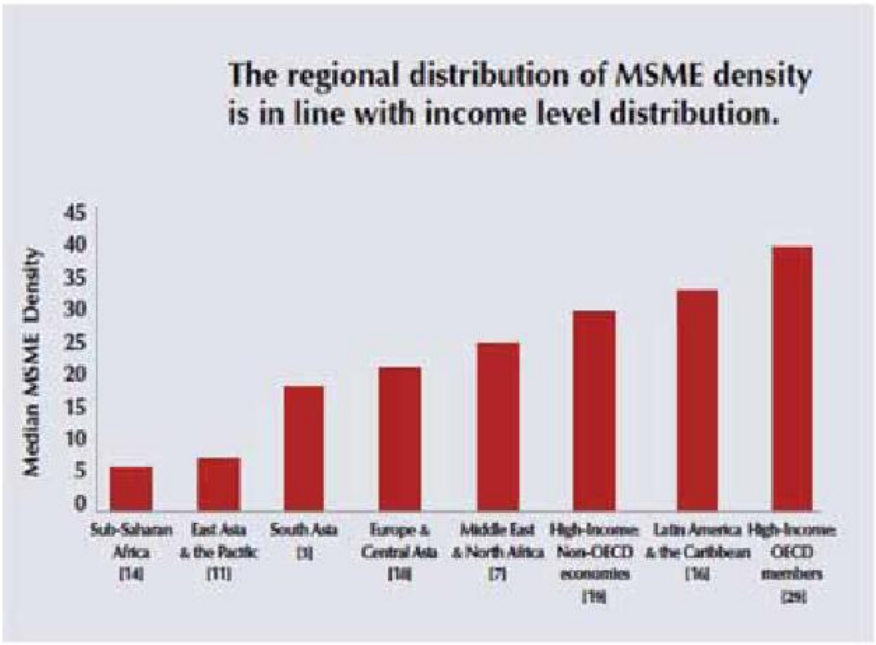
However, on a regional basis, Latin America has the second highest level of MSME density in the world although the Caribbean region has a relatively low level of MSME density (see Figure 1.4 below).

Figure 1.3: MSME Density



Source: International Finance Corporation, Micro, Small, and Medium Enterprises Around the World, 2010.

Figure 1.4: MSME Density by Region



Source: IFC, Micro, Small and Medium Enterprises Around the World: How Many Are There, and What Affects the Count? 2010

Figure 1.5 Growth Rates Regionally

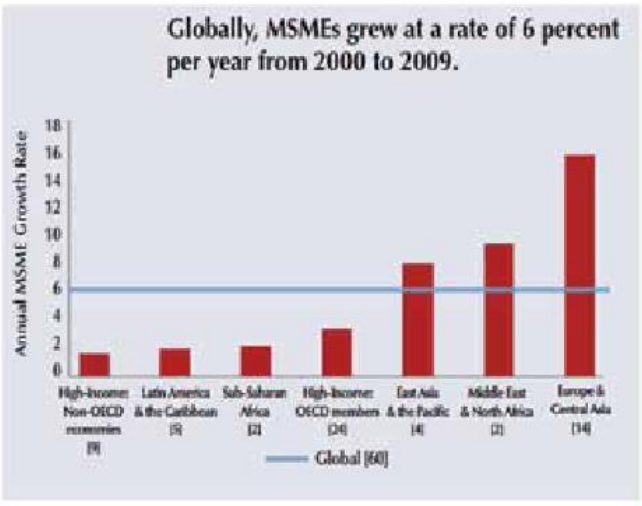
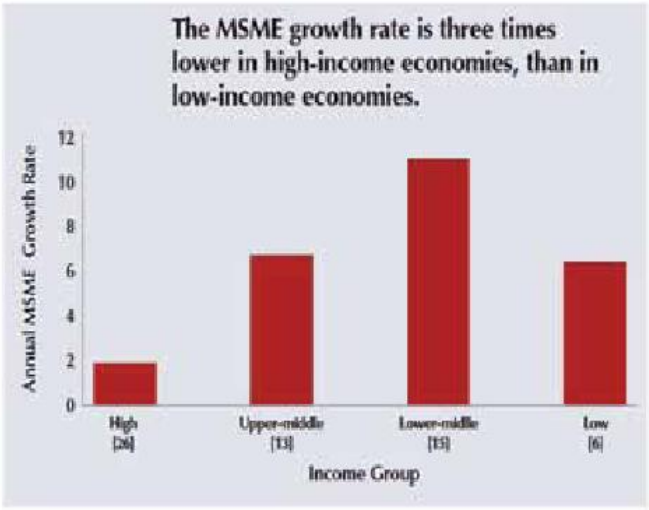


Figure 1.6 MSME Growth Rates by Income Groups



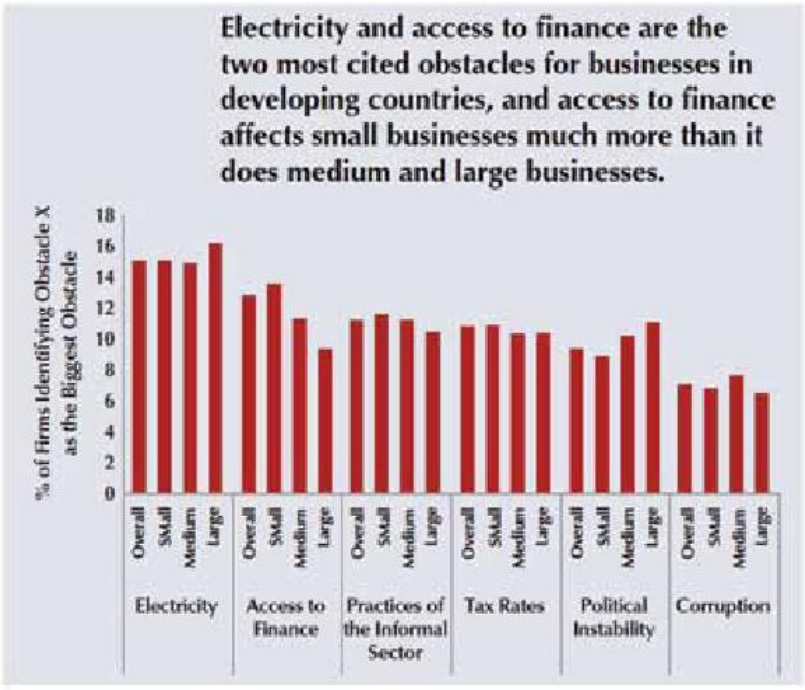
Source: IFC, Micro, Small and Medium Enterprises Around the World: How Many Are There, and What Affects the Count? 2010

1.2.2 MSME Challenges

When presented with a list of 15 possible obstacles, electricity and access to finance were the two most cited by businesses in developing countries (See Figure 1.7). It is important to emphasise that firms of different sizes rank obstacles differently.

Access to electricity is a significant constraint overall and affects small, medium, and large enterprises alike. However, more small and micro businesses list access to finance as their biggest obstacle than do medium enterprises. Fewer large firms see it as their biggest obstacle.

Figure 1.7: Six Most Commonly Cited Obstacles by Firms in 98 Countries



Source: IFC, Micro, Small and Medium Enterprises Around the World: How Many Are There, and What Affects the Count? 2010

1.3 THE REGIONAL MSME SECTOR

Regional governments and development organisations have been formally engaged in small business development since 1983. These early efforts gained traction after major donors such as United States Agency for International Development (USAID), Canadian International Development Agency (CIDA) and German Foundation for International Development (GIZ) initiated multi-country enterprise development programmes in partnership with executing agencies (for example, the Pan American Development Foundation (PADF), Foundation for International Training (FIT) and the CDB), culminating in the declaration by the CARICOM Heads of 1988 as "The Year of Small Business".

During the past three decades, national governments, multilateral and bilateral development institutions, NGOs and PVOs have been supporting SME development with a varied menu of grants and concessional loans administered in-country in the form of special credit lines and loan guarantees, firm-level business development training, business plans development, counselling and on-site technical assistance, and fiscal incentives such as tax holidays for early-stage companies. This section highlights some of the major trends noted in the regional performance of the MSME sector and efforts made to improve performance, with emphasis on the eight targeted CDB BMCs. However, it is necessary to begin this discussion with a regional definition of MSMEs.

1.3.1 Regional definition and classification of MSMEs

Examination of numerous international publications revealed that over 60 classifications for small and medium-sized enterprises are in use worldwide. Definitions of what constitutes an MSME vary quite widely from country to country and even within a single country.

Much depends on the character of the respective host country and the peculiarities of its own corporate sector, from which a relative measure of an MSME is made, sometimes on a rather arbitrary basis. Some countries distinguish between a micro and a small enterprise, while others subsume microenterprises under their SME umbrella definition; yet others refer to micro and small enterprises as MSEs.

In most cases, the definitions provided pertain to formally registered businesses, and exclude small-scale, informal family enterprises.

Figure 1.8: Indicators used among International, Regional and Local Sources

Indicator	International	Regional	Local
Number of employees	✓✓✓	✓✓✓✓✓✓	✓✓✓✓✓
Annual sales	✓✓		✓✓✓✓
Registered capital		✓	✓
Total assets	✓✓		✓✓
Total credit facilities			✓✓✓✓✓
Qualitative indicators	✓		✓

Source: USAID 2007

In Figure 1.8 above, USAID illustrates 6 indicators applied by various agencies in 2007 to classify MSMEs. The number of employees was the indicator most cited. In Appendix 5 there are 35 definitions and categorisations identified in 23 Caribbean territories and 9 used by nine multilateral development organisations. This illustrates the extensive diversity, divergence and conflicts in the definitions and classifications attributed to MSMEs among Caribbean jurisdictions and international agencies serving the region.

Following are the three (3) measurements most consistently used in selecting MSME beneficiaries in the Caribbean region:

1. **Assets:** MSMEs rarely have a precise estimate of the value of their fixed assets, and generally minimize them in environments where substantial asset taxes are imposed. Some government agencies evaluate fixed assets and land, while others use only fixed assets, thereby complicating cross-country comparisons.
2. **Employment:** Defining an MSME by the number of employees provides key data on the scale of its operations. This does not mean, however, that the larger an enterprise the more employees it will have.
3. **Turnover:** In general, the volume of turnover of a business is a more appropriate measure of its relative size than the number of employees or the value of assets. In Caribbean MSMEs, where profits, assets deployed and employees are often blurred by tax considerations, it is argued that annual sales constitute the single best measurement of business size. The pattern and rates of turnover also reflect functional and behavioural attributes. Only the most superficial of business services would not require an understanding of an entity's sales in order to be effective.

Mindful of the mediocre experience over the past 30 years with implementing development and credit programmes and with gathering empirical data for policy-related research, it was concluded that saving and creating sustainable jobs constitutes the single most important result desired from future

investments by donors and governments in MSME development. **Therefore, for data collection and comparability across the CARICOM Single Market and Economy (CSME), employment was accepted as the most workable basis for a uniform definition and classification of MSMEs.** At issue is whether this information is systematically collected by governments.

After considerable discussion with stakeholders across the Region, the following simplified MSME typology was recommended for regional adoption:

- Micro: 1-5 employees;
- Small: 6-15 employees;
- Medium: 16-50 employees.

1.4 REVIEW OF MSME SECTOR CHALLENGES

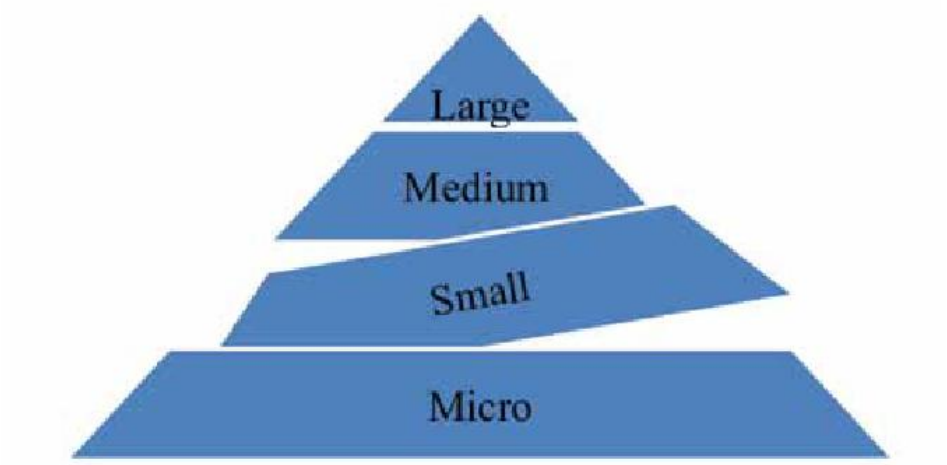
1.4.1 Sector size

A major continuing problem is poor coordination between the Registries of Companies and Intellectual Property (ROCIP); the Social Security/ National Insurance Boards; and the Departments of Statistics in collecting, generating, analysing and disseminating reliable data on MSMEs. Empirical data gathered from these State agencies suggest that as at December 2015, some 200,000 registered and at least 550,000 informal MSMEs were operating in the eight countries studied, and that a region-wide surge in business formation occurred during the triennium ending 2015.

This surge seems to have been occasioned by:

- the quest for self-employment opportunities among unemployed youths and women;
- anticipation of securing petty and other short-term government contracts; and
- growing interest among employed persons to earn a second income.

Figure 1.9: Pyramid Distribution of Private Sector Businesses



1.4.2 MSME Sector Informality and Challenge

Much has been written on the inherent and imposed challenges facing small businesses; very little has been published on the successes they have achieved, with minimal support from the formal sector. Yet, this sector continues to create and expand employment opportunities; develop entrepreneurship skills; utilise local materials; and enhance market opportunities. It is the desire for economic survival and upward social mobility that fuels the largely unmet demands from the MSME

sector throughout the Region, for information, financing and business development assistance. Whereas this is by far the largest and fastest growing component of the Private Sector - from Belize in Central America through the archipelago to Guyana and Suriname in South America - it is disparate, fragmented and disorganised; known for deficiencies in the quality, consistency and range of its products and services; and for weaknesses in packaging, costing and pricing, technology usage, and management/worker know-how. Micro and small entrepreneurs (MSEs) display high levels of individualism; clustering while encouraged, is still at a nascent stage. Additionally, unlike larger businesses, they do not have a common, unified voice in any of the BMCs.

Their sheer numbers make it difficult for service provider organisations to cope with the demands for assistance. Registered or not, they remain largely underserved and "informal", hence generally perceived as not part of the private sector by the established business community.

1.4.3 Policy response

While the importance of MSMEs has been lauded in official speeches, in budget presentations and in political party manifestos, a clear and comprehensive policy statement on the Government's working agenda for the development, modernisation, expansion or regulation of this sector was found in only three of the eight countries visited. The Ministers of Trade, Industry and Commerce in Antigua and Barbuda, Barbados and St. Lucia indicated that no policy was in place to guide government's agenda for and interface with the MSME sector. Only Belize, Jamaica and Trinidad and Tobago had Cabinet-approved MSME policies in place. The Barbados Minister indicated that a Draft Small Business Policy had been developed to "an advanced state of readiness for imminent Cabinet discussion". Because of its inadequacies, the regional policy framework generally does not contribute significantly to the fostering of a culture of competitiveness and growth among MSMEs.

Nor does it give equity or parity in the provisions for indigenous business when compared to the concessions awarded to foreign-owned businesses. Only Trinidad and Tobago [Enterprise Development Policy, September 2014], Belize [Act - Cap 282, 2000], Antigua and Barbuda [Small Business Act No. 24 of 2007] and Guyana [No. 2 of 2004], among the eight BMCs, have sought to legislate fiscal, monetary and developmental benefits specifically for this sector during the past ten years.

Clearly MSME Entrepreneurial development is not a major regional policy focus. Registration is voluntary, militating against credible data capture and effective sectoral planning by assigned agencies; successful outreach by supporting state agencies; and growth and sustainability of the membership-based BSOs. Furthermore, in the current policy and regulatory vacuum, very few alternative directions or developmental initiatives have been identified or adopted by the established private sector to improve competitiveness among MSMEs, in spite of the avowed recognition by some corporate leaders, of the significance of MSMEs as vital service providers and consumers of their goods and services.

1.4.4 Institutional Infrastructure

Despite the deficiencies noted above, the activities of central government ministries and departments, state boards and public sector corporations impact, to a varying albeit not significant degree, growth in the MSME sector. In each of the 8 BMCs, the government and various international donor agencies have provided some resources for MSME development, with contrasting and varying levels of enthusiasm and support from the established private sector in the countries under review. The allocation of resources to improve productivity in MSMEs through state and non-state intermediaries over the past 2 decades has reached less than 10% of MSMEs. Additionally, governments have forged partnerships with private BSOs, development banks and commercial banks in support of MSMEs.

However, overlapping mandates, competition for government financing and donor resources continue to characterise both state agencies and the private BSOs responsible for MSME business development. In Barbados, fifteen BSOs were identified as unable to become self-sustaining or independent without persistent government and donor funding. Additionally, with few exceptions, the BSOs are fiercely individualistic and resist efforts at closer synergies through consolidation. Therefore, the reach, sufficiency and quality of their business development services remain limited, and their capacity to become effective advocates for the MSME sector is compromised by their financial dependence on the political directorate. As a result, no recognised national forum is in place that provides an opportunity for MSMEs to exercise leadership and to participate meaningfully in the national decision-making process, even though they constitute the largest component of the private sector.

Moreover, the "one stop shop" promise of 1988 - The Year of Small Business remains undelivered. Unfriendly procedures, archaic forms and processes, nuisance fees, multiple stops, long delays for routine decisions, and insensitive customer care render the average citizen's experience with public sector offices a costly waste of productive time. The failure by successive governments to remove these bureaucratic bottlenecks in the public service continues to frustrate the ease of pursuing business opportunities, and force smaller enterprises to operate informally and sub-optimally.

The institutional framework for effective planning, implementation, co-ordination and evaluation of activities in the MSME sector is therefore in need of bold but purposive modernisation and strengthening.

1.4.5 Inadequate access to financial resources

An underdeveloped financial services industry, dominated by commercial banks, restricts the overall scope for MSMEs to grow and expand. The commercial banking sector, dominated by overseas banks, regards MSMEs as high risk; does not finance start-up enterprises (that is, enterprises up to 3 years in operation); and typically requires the payment of high interest rates and more than 100% encashable security for loans.

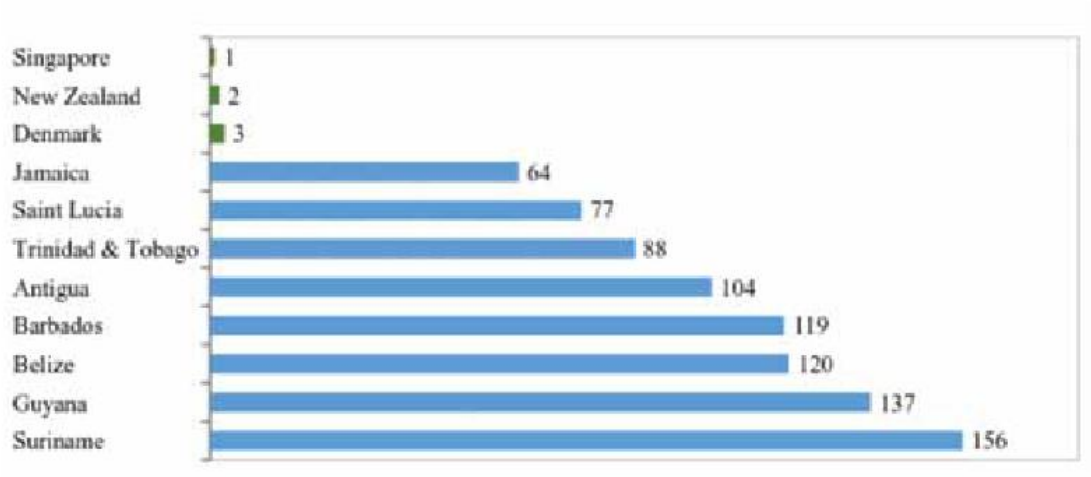
1.5 THE COMPETITIVENESS CHALLENGE

1.5.1 Global Competitiveness Rankings

The Global Competitiveness Report produced by the World Economic Forum is the most comprehensive assessment of national competitiveness worldwide. It assesses the competitiveness of 144 economies, providing insights into the drivers of their productivity and prosperity. For 2014-2015, Barbados ranks 55th (down from 47), Jamaica 86th (up from 94), Trinidad and Tobago 89th (compared to 92); Suriname and Guyana trail at 110 and 117, respectively. Typical drawbacks affecting the performance of these Caribbean countries include:

1. Tax rates;
2. Weak infrastructure;
3. Bureaucratic red tape;
4. An inadequately educated workforce;
5. Inadequate access to finance;
6. Weak capacity for innovation; and
7. Corruption.

Figure 1.10: 2016 Ease of Doing Business Rankings: BMCs vs Top 5 Countries



Interestingly, economies that rank well on the 2016 "Ease of Doing Business Report" published by the World Bank, also score well on the "Global Competitiveness Index", as illustrated by Figure 1.8 above. Making sound choices for building economic competitiveness of MSMEs is critical to economic growth, employment generation and poverty reduction. Based on the foregoing analysis, it is clear that the CDB's BMCs face significant challenges in improving the competitive position of the business community and raising the standard and quality of life of their citizens.

1.6 OPTIMAL DEVELOPMENT PATH FOR THE REGIONAL MSME SECTOR

1.6.1 Three-Tiered Approach

Based on the foregoing analysis, it is recommended, for reasons of adequacy and comprehensiveness, that regional MSME development strategies adopt the three-tiered approach effectively implemented in Singapore, Korea, Western Europe, Costa Rica and other successful countries during the past two decades:

a) First Floor: support at the first floor, focusing on productivity and product quality enhancements among MSMEs, will strengthen competitiveness, job creation and GDP growth.

b) Second Floor: strengthen the efficiency and effectiveness of organisations and other intermediary structures providing developmental and other services to the sector.

c) Third Floor: formulate enabling policies, legislation and strategies thereby improving the business friendly environment for MSMEs.

While not adhering strictly to the order of priorities listed above, the study adheres substantially to the structure of the approach proposed above. Chapter 2 focuses on the issue of access to financing, a Second Floor issue and one considered a primary issue among regional MSMEs.

Chapter 3 focuses on the quality of the policy and regulatory framework (Third Floor), while Chapter 4 discusses strengthening the efficiency and effectiveness of organisations providing developmental and other resources to the sector (Second Floor). Chapter 5 discusses the issue of innovation and productivity enhancement (First Floor).

CHAPTER 2:

MSME ACCESS TO FINANCE

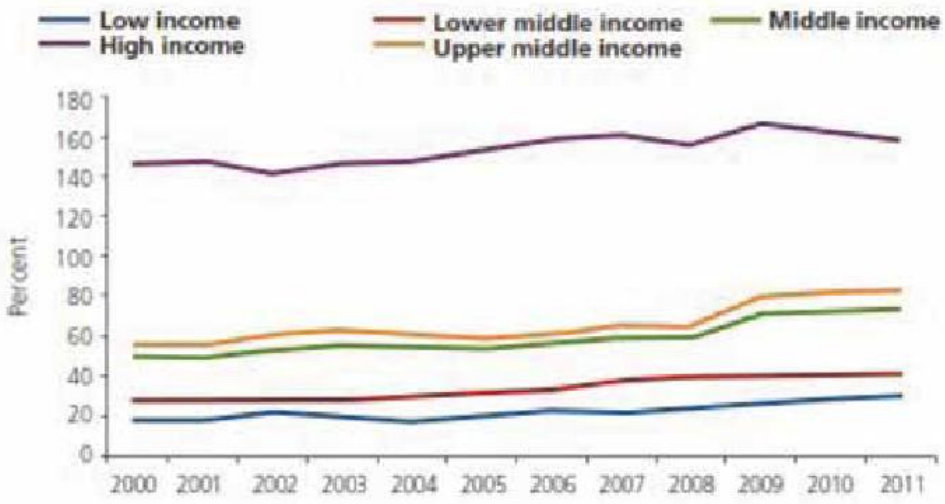
CHAPTER 2: MSME ACCESS TO FINANCE

2.1 SME ACCESS TO FINANCE GLOBALLY

The private sector's access to finance, measured as a proportion of GDP, is often used as an indicator of financial sector efficiency[4].

Figure 2.1 shows that the ratio of private sector domestic credit to GDP globally has been increasing in all country income levels, but it is still very low in developing countries when compared with high-income countries.

Figure 2.1: Ratio of Domestic Credit to GDP Globally



Source: World Bank Group

Much of the divergence between developing and developed countries, in terms of access to finance can be attributed to the contributions of formal and informal MSMEs to GDP in developed vs. developing countries. SMEs contribute a sizable share to formal GDP — 49% on average in high-income countries and 29% on average in low-income countries (Figure 2.2 below).

The contribution of SMEs to employment and GDP in developing countries seems comparatively modest, but estimates suggest that the informal sector, which consists essentially of very small businesses, accounts on average for 48% of the total labour force and 37% of GDP in developing countries. The corresponding percentages for developed countries are much lower, at 25% of the total labour force and 16% of the GDP (Figure 2.3).

[4] In this chapter, SMEs are businesses with less than 250 employees: with "micro" being less than 10 employees, "small" being 10–49 employees, "medium being 50–249 employees and "large" more than 250 employees.

Figure 2.2: Formal SMEs in GDP

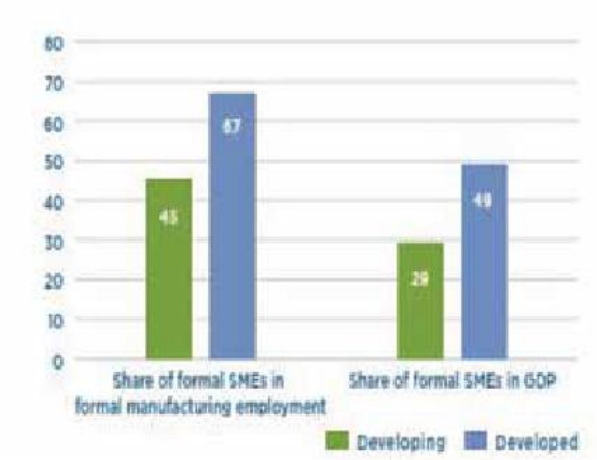
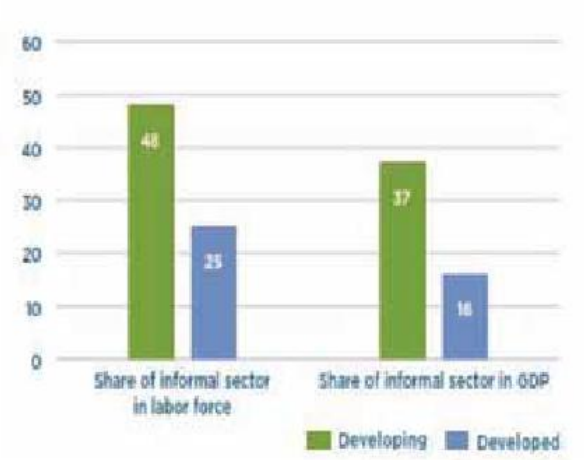


Figure 2.3: Informal SMEs in GDP



Source: IFC, Scaling Up SME Access to Financial Services in the Developing World, October 2010

Arguably, one of the differences in the relative contribution to GDP by the formal sector lies in the differences in access to credit. The reasons include SME life cycle investment accommodation by the financial system. Stronger financial management, less information asymmetry, higher levels of banking and financial sector competitiveness, stronger adherence to operating and product standards, and better supply chain management all lead to more predictable operational cash flows.

But a primary reason often overlooked in developing countries is that government policy to support SME access to credit is much more comprehensive and more deliberate in developed markets.

Table 2.1 (below) shows the degree of comprehensiveness of credit coverage adopted by 19 Organisation for Economic Co-operation and Development (OECD) governments with respect to policies to: 1) improve bank credit intermediation via direct interaction with commercial lenders; 2) improve bank credit intermediation via central banks; and 3) promote alternative sources of credit by governments.

As the table shows:

- Germany and Spain have activated 9 of 11 possible options;
- All 19 countries have loan guarantee schemes;
- 18 of the 19 countries also offer export finance support to the private sector;
- 14 of the 19 are engaged in direct lending with private sector support; and
- 13 of the 19 provide direct loans to SMEs.

The information is significant for two reasons: first, it is often mistakenly assumed that many of these schemes are interventionist and therefore reminiscent of older and now "broken" models of economic development; second, it is also assumed that developed countries do not intervene in credit markets as deliberately as these options suggest. However, globally some instruments are more extensively used than others. In 2003, there were more than 2,250 guarantee schemes in over 100 countries. Moreover, credit guarantees can amount to a significant portion of national GDP as is the case in Italy and Portugal. But it is in Asia that the volume of outstanding guarantees amount to the highest share of GDP: 3.6% in Chinese Taipei, 6.2% in Korea and 7.3% in Japan.

It should be noted that not all of the instruments in Table 2.1 have equal or substantial impact on SME access to credit. But collectively, they have been noticeably effective in alleviating SME financing constraints, especially in severe credit contraction periods as experienced when the global financial crisis occurred in 2008.

Table 2.1: Policy Measures to Improve SME Access to Credit in OECD Countries

	Policies to improve bank credit intermediation - Government					Policies to improve bank credit intermediation - Central Banks		Policies to promote alternative sources of credit - Government			
	Loan Guarantee schemes	Lending targets	Export Finance Support	Credit Mediation / Code of Conduct	Credit Registry	Bank funding schemes	Securitization Support	Direct lending 100%	Direct Lending with private sector involvement	Peer-to-Peer Support	Retail Bond Markets
Canada	✓		✓					✓	✓		
Chile	✓				✓			✓			
Czech Republic	✓		✓		✓				✓		
Denmark	✓		✓					✓	✓	✓	
Finland	✓		✓					✓			
France	✓		✓	✓	✓			✓	✓	✓	
Germany	✓		✓	✓	✓		✓	✓	✓	✓	✓
Ireland	✓	✓		✓				✓	✓		
Italy	✓		✓		✓			✓	✓		✓
Japan	✓		✓			✓	✓	✓	✓		
New Zealand	✓		✓	✓							
Portugal	✓		✓		✓				✓		
Serbia	✓		✓					✓			
Spain	✓		✓	✓	✓		✓	✓	✓	✓	✓
Sweden	✓		✓					✓	✓	✓	
Switzerland	✓		✓								
The Netherlands	✓		✓						✓	✓	✓
UK	✓		✓	✓		✓			✓	✓	✓
United States	✓		✓					✓	✓	✓	

Source: Central Bank of Ireland, Policy Measures to Improve SME Access to Credit: A Survey, 2015

Some of the financing mechanisms being used in OECD countries are illustrated in the following examples:

1. **Credit Guarantee Schemes.** The Irish SME Credit Guarantee Scheme (CGS) offers a government guarantee on 75% of losses incurred by lenders. The guarantees are limited to SMEs in specifically targeted categories. It is intended to address market failure affecting commercially viable businesses in two specific situations – namely, where businesses have insufficient collateral, and where businesses operate in sectors with which the banks are not familiar. Borrowers using the scheme must pay a 2% premium above the interest rate to the Department of Jobs, Enterprise and Innovation. The scheme can cover a maximum of EUR150 million (mn) annually over a three-year horizon.

Japan has one of the strongest CGS systems globally. The first Japanese Credit Guarantee Corporation (CGC) was founded in 1937 in Tokyo by the local government, commercial and industrial associations, and financial institutions. By 2008, there were 52 CGSs, distributed in the 47 prefectures and 5 metropolitan cities across the country.

The size threshold of eligibility to guarantees varies by industry. In manufacturing, SMEs are eligible for guarantees if they have less than 300 employees, whereas for the retail sector the size upper threshold is set at 50. An additional criterion for eligibility exists. This relates to the maximum capitalisation allowed for the SME of 1 mn yen (EUR 9,410) per employee. More than one third of Japanese SMEs are supported by CGCs.

2. **Mutual Guarantee Schemes (MGS).** These schemes are essentially private sector owned and managed versions of the predecessor (public sector) ones. Italian mutual guarantee schemes (Confidi) are among the most important schemes in Europe.

   Almost 1 million Italian SMEs are members of a MGS. Guarantees granted by Italian MGSs account for 41% of all guarantees issued by European CGSs and 1.4% of Italian GDP. The coverage ratio typically amounts to 50% of the loan volume. The first Italian mutual guarantee scheme was created spontaneously by entrepreneurs in the late 1950s to increase their bargaining power vis-a-vis banks and to improve their access to finance. Despite numerous reorganisations and mergers over the last 50 years, Confidi have maintained their mutuality character, i.e., entrepreneurs are both members and shareholders of the institutions and are often heavily involved in their management. The mutuality character is codified into law as at least 20% of the MGS' capital endowment must come from affiliated firms. In contrast, Spanish Mutual Guarantee Societies are a special type of limited liability society that has two types of shareholders: 'participatory members', who subscribe some shares against the guarantee service (about 86,000 SMEs in 2011) and 'protective members', who include local authorities, banks, chambers of commerce and other relevant entities. Typically, guarantees by MGSs in Spain cover 100% of the bank loan.

3. **Direct Government lending of Public-Private Funds.** In Ireland, combined public-private funding for the SME sector has been in existence since 2013 through three funds – one which provides credit and two that provide equity. These funds were conceived by the National Treasury Management Agency (NTMA) with the National Pension Reserve Fund (NPRF) acting as cornerstone investor: 1) the SME equity fund of EUR 300–350 mn of which EUR 125 mn is provided by the NPRF; 2) the SME credit fund of EUR 450 mn into which the NPRF has injected EUR 200 mn; and 3) the SME turnaround fund of EUR 100 mn of which EUR 50 mn comes from the NPRF which invests close to the point of insolvency – with potential for successful restructuring[5].

4. **Export Credit.** The composition and emphasis placed on various components of export credit varies from country to country. The EXIM Bank of the United States favours extending export credit insurance to SMEs (USD 3.2 billion and 83 per cent of authorizations to SMEs in 2012) over loan guarantees (USD 2.1 billion) and direct loans (USD800 mn). In contrast, in 2012-13, UK Export Finance supported exports and investments overseas through loan guarantees to banks with an aggregate value of GBP 2.2 billion versus GBP 1.6 billion in credit insurance. Meanwhile, KfW IPEX bank in Germany, in cooperation with a private financial institution, Northstar Europe S.A., favours direct lending to SMEs of EUR 500,000–EUR 5 mn, tied to deliveries and granted to the exporter. In all these cases, the Export Credit Agency (ECA) charges interest on a loan or a commission on intermediation[6].

[5] It is not known whether the NPRF is insured | [6] Central Bank of Ireland, "Policy Measures to Improve SME Access to Credit: A survey."

5. **Peer to Peer (P2P) lending.** The matching of retail investors with borrowers on internet-based platforms, i.e., P2P lending, is a nascent but growing channel of non-bank funding for SMEs. P2P grew in prominence in the middle of the past decade in the United States.

   The dominant market participants are Lending Club and Prosper, which have lent USD 2 billion and USD 550 mn respectively since their inception. Both focus mainly on unsecured consumer lending. Platforms in the UK such as Funding Circle and Zopa have lent GBP 135 mn and GBP 355 mn respectively, with the former focusing on SMEs and the latter on consumer lending. However, these markets are extremely small when viewed relative to SME lending markets of USD 606 billion and GBP 170 billion respectively.

   In smaller markets like Ireland, the P2P lending market remains minuscule, with Linked Finance being the only platform, and currently having facilitated only EUR 400,000 in funding to SMEs as of June 2013.

Overall, each of these mechanisms has associated risks, which need to be carefully managed to assure their integrity and sustainability over time. For this reason, it would be prudent for those Caribbean countries that lack such schemes to first identify best practice principles before embarking on similar policies and/or specialty financing programmes in the Region.

2.2 LIFE CYCLE SYSTEM

It is axiomatic that the life cycle system of financing MSMEs "from cradle to large-scale growth" is more efficiently and effectively aligned in developed countries than in developing countries. The primary reasons are that: 1) the OECD financial sector operates at high levels of integration and competitiveness; 2) the system is supported by appropriate enabling legislation; and 3) government policies are more strongly supportive of the sector's development, and therefore more sensitive to eliminating financing bottlenecks that may occur from time to time. Figure 2.4 provides a visual overview of the life cycle system of financing for SMEs as they evolve from nascent businesses to small, medium-sized and larger entities.

Figure 2.4: Finance Coverage over SME Life Cycle

Source: IFC, Scaling Up SME Access to Financial Services in the Developing World, International Finance Corporation, October 2010

The financing life cycle for SMEs often begins with a combination of micro-finance and personal funding provided by the entrepreneur from savings or resources obtained from family and/or friends. As the business expands, the SME obtains modest levels of new financing to support growth – usually through personal loans obtained from a bank, credit union or SME loan facility. As the SME matures into a well-established medium-sized firm, further growth is increasingly funded by medium-term bank loans and by specialised financing instruments such as loan guarantee schemes; factoring (discounting of receivables); lease financing; and export credit.

If the SME evolves into a large business, it may opt to meet the regulatory requirements for issuing an Initial Public Offering (IPO) on a publicly traded capital market and/or raise additional investment capital via venture capital (equity investment) mechanisms. As the large firm grows, stock market investments replace almost all debt previously incurred. Thereafter, the firm could opt to offer independently traded credit instruments such as bonds – moving away almost entirely from the banking system and essentially becoming its own "self-financier".

As this process evolves, innovation, governance, transparency and company performance become the driving forces behind the firm's sustainability as a business. But increasingly, the firm's value is also exposed to external vulnerabilities such as variations in national and global economic growth, commodity shocks, political instability in strategic regions of the world, and swings in general investor confidence. The preceding life cycle processes do not always apply to all firms on a linear basis. In some instances, risky and unconventional product ideas are funded with highly specialised private equity funds or venture capital at nascent stages of an SME's development. In some sectors, young firms are launched with government research grants, especially in the USA and in Israel. In other cases, some large firms choose not to "go public", and remain closely held, highly profitable private concerns. Also, because of the nature of the business, some firms seek out loan guarantees, export credit and trade financing at much earlier stages in the operational life cycles.

Other companies (e.g., Apple, Facebook, Google, and Uber) leapfrog the incremental SME life cycle system, and have adopted accelerated strategies aimed at securing substantial amounts of equity to help establish and ensure rapid dominance of their industry sectors.

2.2.1 How supportive is the financial life cycle system of Caribbean MSMEs?

Table 2.2 (below) presents the regional availability of the various financial instruments and mechanisms identified in Figure 4, Financial Coverage in the SME Life Cycle. The table provides a snapshot of the most significant mechanisms in the finance market in each of the eight countries. The consolidated findings from this analysis are as follows:

1. Integration of the SME financial life cycle is greatest in Jamaica and Trinidad and Tobago. But even in these countries, life cycle coverage is still not as complete as it could be – especially for SMEs that would want to transition from medium to larger businesses. This is because access to factoring, lease financing, credit guarantees, mutual guarantee funds, and equity financing and capital markets is variable. For instance, lease financing is available in Trinidad and Tobago on a (firm-by-firm) selective basis but not prevalent in Jamaica. However, generally, larger companies have better access to financing – from commercial banks and via equity financing on the two respective stock exchanges in both countries.

2. The logic of the stock exchange is that bank depositors would have an alternative vehicle for their savings, and that growing businesses

would be able to access funds at costs that are lower than bank lending rates. However, in the Caribbean, stock market development and growth is mixed. The Barbados Stock Exchange (BSE) is the third largest stock exchange in the Caribbean and its market capitalisation is around USD 2.75 billion. Only twenty companies are listed on the market, and many are only traded a few times a year. For example, shares in The West Indian Biscuit Company Limited have not traded since August 2014. There are also many days when no trading takes place. The securities listed on the BSE are a composite of government bonds, corporate debentures and shares in businesses that mainly operate in the consumer goods and financial services industry.

A few of those firms are cross-listed on other regional and international exchanges. Sagicor Financial Corporation, which trades on the London Stock Exchange, and Trinidad and Tobago Cement Limited, which trades on the Trinidad and Tobago Stock Exchange (TTSE), are examples of such companies. In Jamaica, more than 45 companies that operate in the finance, communications, manufacturing, retail, real estate and tourism industries are listed on the Jamaica Stock Exchange (JSE), making it one of the Caribbean's largest, most liquid and sector-diverse stock exchanges. Shares on the JSE trade for only three and half hours each day. The JSE, which dates back to 1968, has played a critical role in the development and growth of Jamaica's private sector. To date, the market capitalisation of the JSE is just over USD 3.3 billion. Also, there are 23 companies listed on Jamaica's Junior Stock Exchange.

The Trinidad and Tobago Stock Exchange (TTSE) has 45 equities and 32 bonds listed, and is the largest exchange in the Region. The market capitalisation of the exchange is more than USD 17 billion. The total value of the TTSE has been growing in recent years. Also, a junior stock exchange for SMEs was recently launched by TTSE, but there are no listings or market capitalisation as yet. In Guyana, there are 4 firms that trade, but only one (Trinidad and Tobago Cement Limited) is actively traded. Also, only 12 companies are listed on the Eastern Caribbean Securities Exchange (ECSE).

Overall growth has been mixed. In 2015, the JSE grew by 97.4% (against the backdrop of Jamaica's improved economic climate in 2015 which boosted investor confidence); the BSE by 10.5%; and the TTSE by 1%[7]. Overall, there is a clear need for regional (capital) market integration to achieve greater depth and greater dynamism in these markets. For instance, to date, only the Trinidad and Tobago and Jamaica markets are being strengthened to facilitate SME growth via introduction of junior stock exchanges and the size of some markets (e.g. the OECS and Guyana) is too small to expect stronger activity over time[8].

Life cycle options are deficient in the smaller countries where key aspects of an evolutionary financial system are still missing. For instance, there are no factoring, lease financing, credit guarantee, venture capital, or vibrant capital markets in the OECS market.

[7] Source: Sagicor Mutual Funds, Investment Commentary, December 2015. | [8] Jamaica had already introduced a Junior Stock Exchange, and Access Financial Services Ltd. is registered on that exchange. But the number of registered companies is less than 25 and the exchange's buoyancy is mainly a factor of the tax-free status afforded to companies that trade on the exchange.

Barbados does benefit from donor-funded mezzanine financing instruments managed by the Central Bank of Barbados (CBB), but uptake and overall impact are modest at best.

3. However, all eight countries provide support to the MSME sector. Jamaica's is perhaps more inclusive and comprehensive than the others. In Jamaica, the MSME "assistance" portfolio includes: the Development Bank of Jamaica (DBJ), with direct lending to SMEs and wholesale lending to Approved Financial Institutions (AFIs), including Micro Finance Institutions (MFIs); specialty call-for-proposal projects such as Start Up Jamaica and Ignite; angel investor funds; direct incubator and support services offered by the Jamaica Business Development Cooperation (JBDC); the Micro Enterprise Development Agency (MIDA); the National Insurance Fund Credit Facility for SMEs (NIF/CF/SME); and loans to SMEs by the Jamaica National Small Business Loans Company (JNSBLC). Only three of the eight countries have Credit Bureaus (Guyana, Jamaica and Trinidad and Tobago) and only one (Jamaica) has an electronic registry for moveable collateral.

Also, Jamaica has updated its insolvency laws and is actively working on improving both its Doing Business Rankings and its rankings on the Global Competitiveness Index (GCI) via a National Competitiveness Council (NCC).

4. Feedback from institutions in countries where credit bureaus exist suggests that it is too early to determine the degree to which that mechanism is influencing MSME access to finance. All of the credit unions and commercial banks interviewed confirm that credit histories are helping to alert lending institutions to the financial discipline and integrity of loan applicants. This improves the risk analysis of lenders, but bureau information is not the only assessment criterion that is used to approve/reject projects.

5. In addition to the inconsistency in country provision of life cycle financing options, some countries lack supportive legislation to facilitate the offering of a broader range of financial services to borrowers. For instance, in some countries, (for example, Jamaica), mobile banking could be constrained by the absence of requisite laws and regulations.

Table 2.2: MSME Life Cycle Financing in Eight Caribbean Countries

COUNTRY	Specialty Micro & SME Financiers	Banks offering ST Loans	Trade Finance	Lease Finance	Equity Finance	Capital Markets	Comments
ANTIGUA	Fast Cash, NDF, Community First & St. John's CUs. Development Bank	7 banks: ACB, RBC, Scotiabank, CUB, ECAB, CIBC, RBTT, RBC. No credit bureau or deposit Insurance	Done by banks for selected clients. ECCB offers ECGS	Not available	Not available	Not available but there is an OECS Eastern Caribbean Securities Exchange; 12 companies	Incomplete SME life cycle finance system. MFIs less than 10% of market. Banks very liquid.
BARBADOS	CUs: Publ-Workers, COB, BWU; Fund Access, Enterprise Growth Fund Ltd (EGFL)	5 banks: Scotiabank, CIBC First Caribbean, Republic, RBC, Bank of Butterfield. No credit bureau.	Provided selectively by banks. Central Bank offers ECGS.	Provided by some banks e.g. Republic Finance and Trust (RFTC)	Available for BIDC under the BIF. Also from BGFL.	BSE is small market (20 firms) with infrequent trading.	Incomplete integration of SME life cycle system. Deposit Insurance in place for banks only.
BELIZE	B.E.S.T. + 14 CUs: Most dominant: St. John's, La Immaculada LICU) St. Xavier, Toledo Teachers CU, Holy Redeemer CU	6 banks: Belize Bank, Belize Bank Int; Scotiabank; Atlantic Bank. Heritage, FCB. "Credit Masters" Credit bureau DFC in Central/North Belize	Done by banks for medium to large clients only	Not available	Not available	Not available. Utility companies are the only listable entities.	Incomplete SME life cycle finance. MFI funds reach less than 10% of market. Banks very liquid.

Table 2.2: MSME Life Cycle Financing in Eight Caribbean Countries cont'd.

COUNTRY	Specialty Micro & SME Financiers	Banks offering ST Loans	Trade Finance	Lease Finance	Equity Finance	Capital Markets	Comments
JAMAICA	JNSBLC JBDC Access Financial Services Ltd., Ignite, Start Up MIDA, DBJ 33 Credit Unions	6 banks: Scotiabank, NCB, Citibank, FCIB, First Global, RBC. 33 JCCULL credit union members 2 Credit Bureaus. Collateral Registry	Available from DBJ. Selective factoring. EX-IM Bank Small Business Discount Facility	Not readily available	5 VC funds launched by DBJ. Angel investor funds	JSE has 45 listed companies. Junior Exchange has 23 listed companies and offers tax incentives for SMEs to grow	Relatively integrated system but specialty funds reach less than 10% of SME market. Depositor Insurance in place for all CUs.
GUYANA	SBB: small loan guarantee fund + grants. SBDFT microloans Credit Unions	6 banks: GBTI, Baroda, Scotiabank, Republic, Citizens, Demerara; 2 with SME units. 28 CUs. 1 Credit	Available from commercial banks but no export finance	Not available	Not available	GASCI has 13 listings on the exchange but with only one active company (TCL)	Low integration and incomplete SME life cycle finance system. Average loan rates at 15% approximately.
TRINIDAD & TOBAGO	NEDCO, FUNDAID, 10+ Credit Unions e.g. Eastern, COPOS, Neal & Massy, TATECO, Venture.	6 banks: Scotiabank, First Citizens, Republic, RBC Royal, Baroda, IBL Bank DFC. 1 Credit Bureau serves banks, FIs, MFIs.	Available from banks. EXIM Bank leads Export Financing.	Limited availability at some banks.	VC industry existed prior to 2008 but VC is almost non-existent in Trinidad and Tobago today.	TTSE has about 45 listed companies and a market cap of $17 billion – highest in the region. Junior exchange for SMEs designed but not yet fully operational	Integrated system with strong export orientation. But MFI funds reach less than 10% of the MSME market. Depositor Insurance in place for all banks and (private) for some CUs.
ST. LUCIA	Development Bank. Fast Cash. Laborie, Choiseul & Mon Repos CUs, AXCEL Finance.	5 banks: Scotiabank, RBC, FNB, Bank of St. Lucia, FCIB. No credit bureau or deposit Insurance in place	Available from banks, Laborie CU and CU League.	Not available	Not available	Not available but there is an OECS Eastern Caribbean Securities Exchange; 12 companies listed.	Low integration and incomplete SME life cycle finance system. MFI funds reach less than 10% of market. Banks very liquid.
SURINAME	Suriname National Development Bank (NOB) with 1) Credit Guarantee Fund to local banks, 2) Micro Credit Fund and 3) Agricultural Credit Fund. 5 micro finance lending institutions including Stichting Seva Micro Finance Institute; SuriTrust, De Schakel Credit Union, GODO Cooperative Bank, Trust Bank. Apex funds from Micro Kredieten Programme. Credit available from Hire Purchase retailers: Combemarkt, Savers Paradise, and Ebro	9 Banks: De Surinaamsche Bank (DSB), RBC, Hakrinbank, Surinaamse Volkscredietbank, Landbouwbank, Surinaamse Postspaarbank, Finabank, Surichange Bank and Cooperatieve Spaar- en Kredietbank Godo G.A., 28 savings and credit unions. Draft legislation prepared in 2012 by Central Bank to establish a Credit Bureau but not established by end of 2015	Trade Guarantees for SMEs via DSB funded under the Trade Finance Facilitation Programme Agreement (TTFP) between DSB and IADB.	Some financial leasing available from commercial banks – but on a selective basis. Also available from private firms for equipment leasing.	Not available formally but may be available privately due to dominance of natural resource industries (e.g. gold mining)	The SSE is sporadic: open for trading twice a month it uses a manual trading system. Although only 10 companies are listed, total market cap has growth from SRD$145 million to SRD$1.29 billion between 2003 and 2011. The SSE functions without a Securities Exchange Act.	Life cycle MSME finance system not well integrated. Selective specialty financing offered by some players in the banking system. However, access to finance is better than otherwise thought.

NOTES:

This is a life cycle table showing the evolutionary availability of finance as SMEs grow. Column 1 refers to the provision of/ access to micro finance and SME credit - both of which are provided by specialty institutions such as micro finance entities and others. Column 2 "ST" means, "Short Term".

MFI/AFI lending accounts for less than 10% of total loans, advances and overdrafts made in most countries, because the MFIs a) are specialised lending organisations, b) do not have a deposit base, and c) are therefore dependent on reflows and externally-sourced funding to lend to borrowers.

2.3 MSME ACCESS TO FINANCE IN THE CARIBBEAN

MSME access to finance in the Caribbean can be split into two categories: 1) access to finance for micro enterprises, and 2) access to finance for SMEs.

2.3.1 Micro Entrepreneur Access to Finance

While commercial banks and credit unions offer personal loans to individuals, in recent years micro finance institutions (MFIs) have been targeting and channelling specialised micro loans to this sector throughout the Caribbean. Nonetheless, it was difficult to determine the degree of loan coverage of the micro enterprise sector on a national basis. One reason is that there is no central source of information on the sector nationally or regionally and none of the countries interviewed could provide empirical data on the size of the sector.

As an indicator of the scale of MSME lending operations, as of 30th April 2014, the Caribbean Micro Finance Alliance (CMFA) had 24 participating lending institutions as members in nine Caribbean countries including: Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, Suriname and Trinidad and Tobago. The combined CMFA member portfolio indicated that there were 447,352 active clients and that the gross loan portfolio was USD 295 mn with an estimated 27,000 clients. The active gross microcredit loan portfolio as at the end of April 2014 was USD 26.4 mn. However, it is important to note that two credit institutions – JN Small Business Loan Company in Jamaica with 14,000 loans annually, and IPED in Guyana with 4,500 loans annually, accounted for 18,500 or 68% of the total Caribbean loan portfolio.

A May 2014 IDB Multilateral Investment Fund (MIF) study, by EA Consultants Inc., of four of the eight countries researched i.e. Belize, Guyana, Jamaica and Suriname, revealed the following profile of the sector:

Table 2.3: Micro Entrepreneur Profiles from a Survey of 656 Enterprises in Four Countries

	AVERAGE	STD. DEVIATION
Average years in business	8.8	0.57
Average monthly business sales (USD)	989	386
Net margin of "good" performers (% net revenue over sales)	48%	6%
% Services	33%	7%
% Commerce	48%	9%
% Manufacturing	23%	6%

Source: IDB/MIF, "Building Up Business: Micro Enterprise Demand for Credit in the Caribbean," May 2014

The report revealed new facts about the micro finance market in the Caribbean region[9]:

1. **Savings orientation.** Nearly all micro entrepreneurs surveyed saved. Business needs were the most common reason for saving. A majority saved in formal accounts, while Rotating Savings and Credit Associations (ROSCAs), i.e. sou sou or "throwing hands", were used to varying degrees in each country. Saving and borrowing are not mutually exclusive and most borrowers also saved. This strong savings culture may actually create less incentive for seeking loans for business investment. The practice contrasts strongly with many Latin American countries, where low-income members of the population typically save at low rates (and mostly informally) and often borrow instead to finance their needs.

2. **Preference for low-cost, flexible financing in every country.** Low costs and flexibility were respondents' top priorities for financing. They want low interest and fees, repayment schedules that match their cash flows, and some lenience for late payments. Respondents' borrowing and saving methods reflected these preferences. Perceptions about which providers matched these preferences varied, though informal financing methods usually ranked higher than formal institutions on important dimensions.

3. **Risk aversion.** Many micro entrepreneurs were cautious or pessimistic about business prospects, and have experienced slow sales since the global economic crisis of 2008, particularly in Jamaica. Even where economic growth has been more buoyant, micro entrepreneurs were cautious, perhaps due to their lack of enterprise skills. This attitude bolstered reliance on savings and discouraged borrowing for fear of difficulty with repayment, even among respondents who could benefit from a micro loan.

4. **Information asymmetries.** Many micro entrepreneurs were unfamiliar with microcredit products or providers, or did not even know what microcredit was. Others held mistaken beliefs and generalisations about products and providers that prevented them from seeking accurate information. There is therefore a need to explain and promote micro finance more clearly to the micro entrepreneur community.

5. **Supply-side constraints.** While micro entrepreneurs' preferences and perceptions are important factors in uptake, major supply-side constraints also hinder outreach. The cost per loan is high – often at interest rates that exceed 25% per annum compared with bank loans at 12% - 17% per annum. Also, populations are dispersed, and some institutions are unwilling to risk capital on expansion and outreach. But generally, MFI collateral requirements are lower than commercial banks' levels and are often limited to re-saleable or marketable assets owned by the borrower.

The institutional usage by borrowers and savers of the 656 entrepreneurs surveyed by EA Consultants was even more revealing (see Table 2.4 below). Firstly, commercial banks–not Micro Finance Institutions (MFIs)–were the dominant lenders to micro entrepreneurs. Secondly, banks are the main savings mechanisms for that group. Thirdly, micro entrepreneurs are much more innovative in accessing finance than would have been thought. They not only access funds from banks and MFIs but from friends, suppliers, use of credit cards and from ROSCA schemes. Fourthly, most MFIs are not offering savings products although: 1) the JN Small Business Loans Company encourages its borrowers to open savings accounts with its parent company, Jamaica National Building Society (JNBS); and 2) the credit union system which is non-collateralised, requires borrowers to be savers before they can be eligible for small (personal) loans[10].

[9] From "Building Up Business: Micro Enterprise Demand for Credit in the Caribbean", May 2014 | [10] Credit Unions use the savings and investment accounts of depositors as collateral for loans.

Finally, the proportion of borrowers who are also savers in the banking system is extraordinarily high (63%). These savings are almost always used as collateral for working capital or term loans by the banks.

Table 2.4: Institutions Usage by Borrowers and Savers

INSTITUTION TYPE	% OF TOTAL BUSINESS BORROWERS	% OF TOTAL HOUSEHOLD BORROWERS	% OF TOTAL SAVERS
FORMAL			
Bank	35	34	63
Cooperative/credit union	11	11	15
MFI	13	2	-
Credit card	3	2	-
INFORMAL			
Friends/family	19	21	2
ROSCA	4	3	29
Moneylender	4	2	-
Supplier credit	24	33	-
Pawnshop	1	2	-
Home	-	-	37

Source: IDB/MIF, "Building Up Business: Micro Enterprise Demand for Credit in the Caribbean," May 2014

These findings suggest that the MFIs are falling short of addressing market challenges in significant ways: most MFIs offer singular products when opportunities exist for multiple product offerings (e.g. saving accounts, debit cards, special ROSCA-type saving products, online services, etc.). Therefore, one policy recommendation is that MFIs should be allowed by the central banks (that regulate the overall financial system) to offer savings products to their borrowers. The inference that market coverage by MFIs is less than ideal is substantiated by the data in Table 2.5 (below). The EA Consultants estimated total market size for micro loans in the four countries surveyed is as follows:

Table 2.5: Estimates of the Market for Micro Credit Loans

	% OF ALL INFORMAL WORKERS	RANGE (# OF PEOPLE)
Belize	42%	7,408 - 10,733
Guyana	27%	18,842 – 28,929
Jamaica	17%	54,667 – 95,307
Suriname	19%	10,602 - 15,707
TOTAL	**25%**	**91,518 – 150,676**

IDB/MIF: "Building Up Business: Micro Enterprise Demand for Credit in the Caribbean," May 2014

If the total amount of loans provided by the 24 MFI members of the Caribbean Micro Finance Alliance (CMFA) is 27,000, this is approximately 17.9% to 29.5% of the total market size of 91,518–150,676 persons in Belize, Guyana, Jamaica and Suriname, i.e., of those persons actually needing a loan[11]. Therefore, if the number of potential borrowers in other Caribbean countries is added to the market size of these four countries then the 27,000 active loans provided by the CMFA is likely to be less than the 17.9% metric computed above since the total number of persons needing loans would be greater than the 91,518–150,676 range for the four countries in Table 2.5.

2.3.2 SME Access to Finance in the Caribbean

It is difficult to pin down the degree of SME access to finance in the Caribbean primarily because loans to this group are not formally recorded in the statistical records of any of the eight countries surveyed i.e. by the Central Bank, by the commercial banks and credit unions or by the national statistics departments. Instead, they are subsumed by the Central Banks' classification of "Loans and Advances" (L&A). That data include loans to foreign investors and loans to larger businesses in each country. Also, while credit union lending is growing, on average, at a rate of at least 10% a year (in the Eastern Caribbean) those metrics are not reflected in Central Bank data. Nonetheless the L&A data provide a reasonable indicator of loan trends to SMEs, since small and medium businesses account for a significant proportion of both GDP and the overall number of loans in each country. A detailed analysis of access to finance in each of the eight BMCs is provided in Appendix 4: SME Access to Finance in eight BMCs. The findings for this analysis are highlighted in Table 2.6 below. It is important to emphasise that the Table reflects Loans and Advances to the Private Sector as defined by the Central Banks of the eight BMCs. There is some degree of overlapping of the databases since L&A data personal loans and loans for (personal) mortgages. However, it is impossible to separate the data primarily because both categories of loans influence directly the level of business carried out by the private sector, i.e. personal loans lead to purchases from MSMEs, and mortgages lead to the contracting of MSMEs for various aspects of the construction process (e.g. land clearing, block-making, electrical, plumbing, etc., by MSMEs).

Table 2.6: Average GDP Growth and Average L&A Growth in Eight BMCs

Country	Average GDP growth	Total L&A Growth 2009-2015	Average L&A Growth	Rating
Guyana	4.5%	119%	20%	**Excellent**
Suriname	4.2%	72%	18%	**Excellent**
Trinidad	0.8%	19%	4%	Average
St. Lucia	0.2%	13%	2.5%	Average
Belize	2.4%	7%	2%	Poor
Barbados	-0.2%	4%	<1%	Poor
Jamaica	-0.4%	-3%	Negative	V. Poor
Antigua	-0.8%	-8%	Negative	V. Poor

Source: The Economist Intelligence Unit (Average GDP growth) and Central Banks in 8 BMCs

[11] These estimates exclude the loans already being provided by alternative financiers such as commercial banks and credit unions. It is assumed that the total loan book of 27,000 loans is reflective of very short term loans to the micro enterprise sector and that the demand for loans estimated by EA consultants are also of a short term nature.

The Table shows that there has been considerable variability in Access to Finance in the eight BMCs: Access has been exceptional in Guyana and Suriname, notwithstanding those countries' relatively poor rankings under Getting Credit in the most recent (2016) Doing Business Rankings. The Table also reveals that access to credit improved modestly in Trinidad and Tobago - although that country was the first BMC to introduce a credit bureau. Access was poor to very poor in four of the eight BMCs – Belize, Barbados, Jamaica (despite Jamaica's gains on Getting Credit under the Doing Business Rankings) and Antigua.

What is driving these divergences? The answer is the average economic growth rate of each BMC. Again, the table reveals that GDP growth was strongest in Guyana and Suriname and weakest in Barbados, Jamaica and Antigua. As revealed in Appendix 4, Jamaica experienced contractions of as much as 24% in its L&A in 2010 and 17% in 2012 – mainly as a result of the severe economic challenges which that country encountered during those years.

The lesson learned is relatively obvious - MSMEs in countries that experience robust economic growth will have more favourable access to credit than in countries where economic performance is poor or lacklustre – even in those countries (e.g. Trinidad and Tobago and Jamaica) where Doing Business reforms such as credit bureaus and electronic moveable collateral registries have been established to improve MSME access to finance. Also, constraining factors such as levels of collateral requirements and interest rates are not as significant in explaining performance as economic growth - Guyana's collateral requirements, at approximately 200% are among the highest in the region, but the growth in its L&A still out-performed the other seven BMCs. In contrast, the collateral requirements in Barbados were the lowest of the BMCs (see Table 2.6 below), but that country still performed poorly in terms of the average growth in its L&A between 2009 and 2015. A second lesson learnt is that Doing Business Rankings do not always correlate with an improved business environment – in this case access to finance. Nonetheless, the findings should not be interpreted to mean that MSMEs, generally, do not have difficulties accessing financing in BMCs – but only, that in countries with above average rates of economic growth, access to finance would appear to be more readily available to MSMEs, than it is in countries that are experiencing sustained economic contraction.

2.3.3 Bank liquidity and SME demand

The findings indicate that the demand-supply equation is more complex than the micro-level analysis of the financial sector would suggest. A December 2014 newsletter of the Caribbean Centre for Money and Finance noted that, with an inordinate amount of unutilized lending capacity in banks, excess liquidity had reached troubling levels. For instance, on March 31, 2014, total liquid assets of Jamaican commercial banks were USD754 mn, of which USD181 mn were in excess of the legal (minimum) liquidity requirement. Such large amounts of unused lending capacity in the Caribbean is explained by several factors. One factor is weak demand for credit by potential customers deemed to be creditworthy by the banks. The insufficiency of credit demand is itself the result of protracted anaemic economic growth, business closures, higher than usual levels of unemployment, and job redundancies in many Caribbean economies.

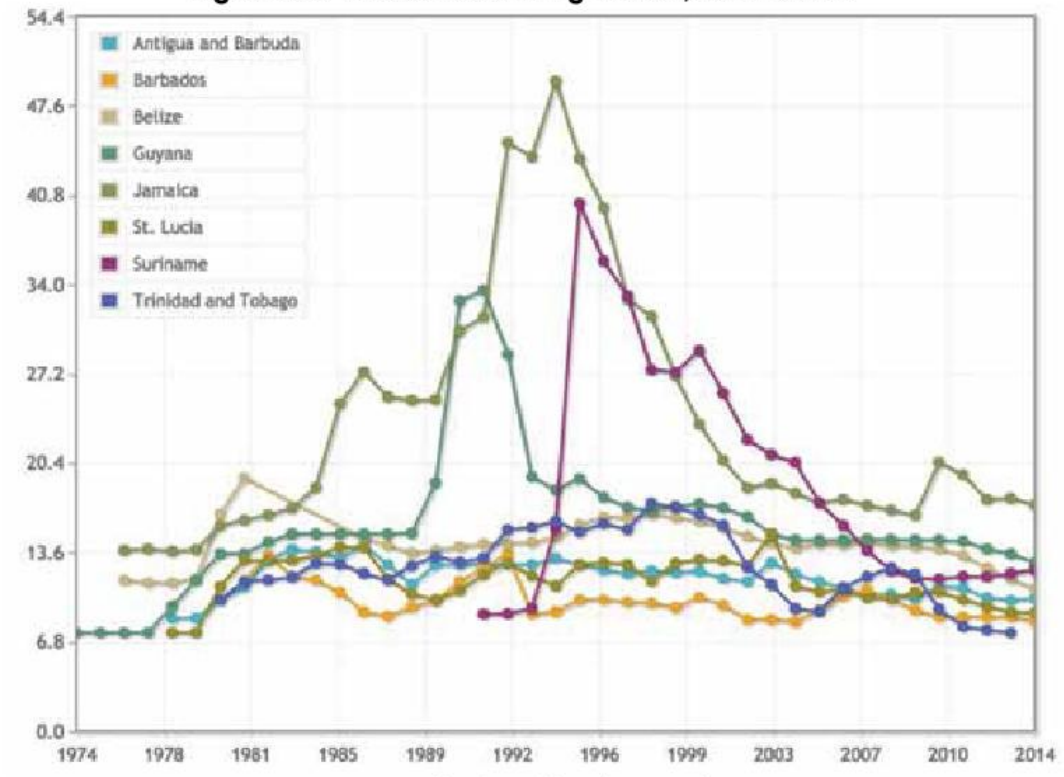
Another factor is an increase in loan delinquencies, mainly as a result of the initial impact of the global economic crisis and its lingering effects on Caribbean tourism and other service exports, real estate markets, and household capacity to service personal debt. Some commercial banks estimate that non-performing loan (NPL) levels exceed 15% in the Eastern Caribbean and 9% in Guyana. Faced with substantial increases in the proportion of delinquent loans, commercial banks have raised their credit assessment standards and have become more risk averse. The result is that bank loans have either declined or have expanded incrementally.

In contrast, bank deposits have increased quite substantially in many Caribbean countries since 2011. The exceptions are the ECCU members and the Bahamas, where collectively bank deposits decreased, but at a slower rate than bank loans. In effect, loan supply capacity measured by bank deposits is growing faster than loan absorptive capacity[12]. For instance, in Guyana, the commercial banks are lending as much as G$110 billion of total deposits of G$248 billion, or about 44% of their deposit base to Government, via investments in Treasury Bills that generated interest at 2.67%–3.78%, substantially lower than the 9%–15% loan rates charged to consumers and SMEs[13]. On the demand side, the underserved SME sector is incapable of accessing those funds because of: 1) information asymmetries, i.e., missing borrower creditworthiness information, linked to the absence of credit bureaus; and 2) limited capacity of the sector to put together projects that meet bank-lending criteria (i.e. financial statements, asset quality, borrowers' financial integrity from credit bureau information, cash flow statements, collateral requirements, etc.). Such constraints are compounded by limited growth in consumption spending – and, with the exception of Trinidad and Tobago and Guyana, low levels of exports by SMEs generally. Consequently, SMEs are caught in a revenue trap –with limited upside potential in domestic markets. Access is also made more difficult by the relatively high levels of collateral required by banks, at a time when the secondary markets for liquidated assets are especially weak and bankruptcy laws are mostly outdated.

2.3.4 The Cost of Capital Issue

Figure 2.5 (below) highlights interest rate trends in the 8 BMCs between 1974 and 2014:

Figure 2.5: Interest Rates in Eight BMCs,1974 - 2014.



Source: World Bank, World Development Indicators.

[12] The Caribbean Centre for Money and Finance, The Liquidity Problem in Caribbean Commercial Banks, 2014 | [13] See: http://www.chrisram.net/?tag=guyana-stock-exchange.

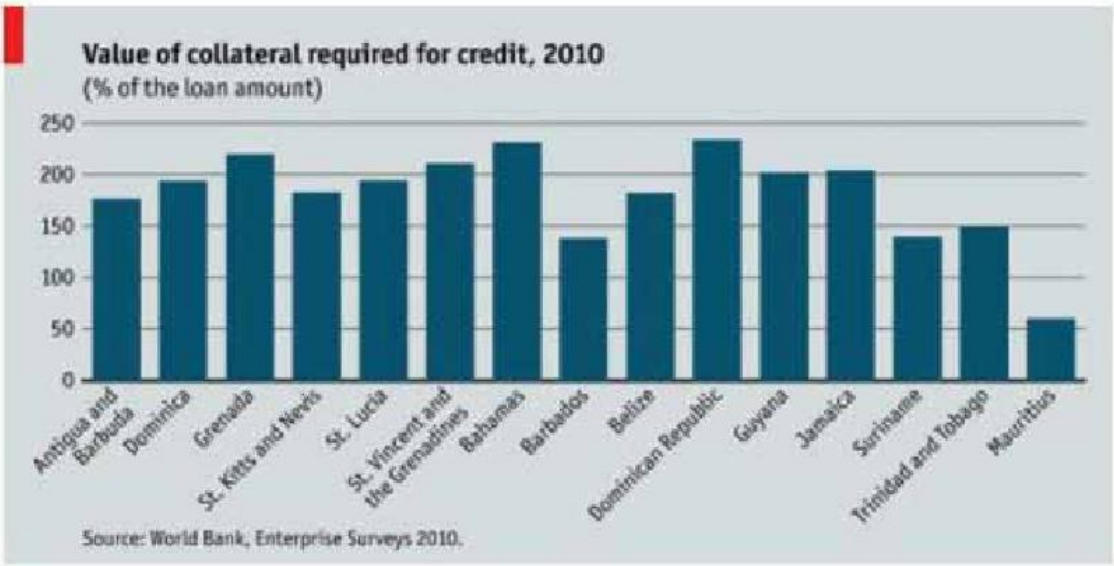
As Figure 2.5 clearly shows, lending rates in the Caribbean have been trending downwards in some countries since 1999. Only Suriname's have trended upwards since 2007. But on average, they are still very high when compared with loan rates in more developed countries. In 2014, average lending rates varied from a low of 7% in Trinidad and Tobago to a high of approximately 17% in Jamaica – although Jamaica's lending rates have been on the decline in 2015. Also interest rates in the OECS and Barbados have seen recent declines, partly as a result of Central Bank policies aimed at increasing the intermediation of commercial banks in weak domestic markets. The Eastern Caribbean Central Bank reduced its minimum deposit rate from 3% to 2% and the Central Bank of Barbados has eliminated minimum deposit rates altogether. Lower interest rates should help MSMEs. They also make commercial bank lending more attractive to MSME borrowers when compared with the lending rates of MFIs – which usually exceed 15% throughout the region. In addition, it should be noted that lower interest rates reduce bank profitability–a concern that has led to a recent increase in fees being charged on depositor accounts by commercial banks.

2.3.5 The Collateral Issue

It is well known that the capacity to meet commercial banks' collateral requirements is a key deciding factor in MSME access to finance. Figure 2.6 (below) provides a snapshot of collateral requirements in most Caribbean countries. One reason for such high requirements is the absence of a robust secondary market for fixed assets. Therefore, banks over-compensate and demand high levels of collateral.

Another reason is that, in some Caribbean countries, banks are not allowed to auction off collateralised property at values that are lower than the minimum levels stipulated by law (e.g. in Barbados and in Grenada). This restricts the liquidation of collateral in cases where offers made by bidders are below the minimum levels (e.g. below 67% of the market value of the assets). A third reason is that Central Bank prudential regulations stipulate that banks must secure adequate cover (i.e. collateral) for their loans.

Figure 2.6: Value of Collateral as a Percentage of Loan Values



Source: World Bank, World Development Indicators.

The collateral issue also reflects the absence of adequate (alternative) financial intermediation. A presentation on "Moving Beyond Collateralised Financing" by Ram Ramesh at the 1st Caribbean Competitiveness Forum in Trinidad and Tobago noted that there was limited intermediation for venture capital; angel funding; IPO funding; and government subsidies i.e. the alternatives to collaterised finance[14].

Logically most banks would prefer to engage in lending activities that maximise their interest income and return on (loan) assets employed. However, overall 1) the economic outlook is mixed but not yet buoyant enough to engender stronger confidence in the near term future; 2) many MSMEs are not bankable enough to encourage an expansion of bank lending – despite the deliberate development of Small Business departments or service units introduced within many banks; and 3) the MSMEs' own business prospects are equally dampened by insignificant growth in consumer demand within the region.

2.3.6 The MSME productivity challenge in the Caribbean

In terms of access to finance, the issue of MSME productivity is important because low levels of productivity result in lower cash flows. This impedes the capacity of MSME borrowers to repay and to access new loans from the financial system. For instance, the purchase of new equipment tends to improve productivity since it increases output per hour worked. But low MSME productivity (and consequent reduced cash flow) limits capacity to upgrade equipment through loans. The challenge is to break the vicious cycle of low productivity, low revenue flows and the inability to access funding. There are four inter-connected approaches to addressing the MSME productivity challenge in the Caribbean:

1. **Adoption of international standards:** The adoption of quality assurance standards by the MSME sector will improve operational efficiency and therefore productivity. The CARICOM Regional Organisation for Standards and Quality (CROSQ) has published a regional standard entitled "Requirements for Good Management Practices for Micro, Small and Medium Enterprises" which was approved by the Council for Trade and Economic Development (COTED) on February 9, 2010. Guyana's National Bureau of Standards, attempting to introduce the Standard to Guyana's MSMEs without fiscal incentive support, is finding that MSMEs are reluctant to adopt such practices.

2. **Deliberate promotion of export sector development:** This will incentivise increased levels of productivity in local businesses. Exporting is associated with the reallocation of resources from less efficient to more efficient plants. In the aggregate, these reallocation effects are quite large, making up over 40% of total factor productivity growth in the manufacturing sector in the United States. The positive contribution of exporters even shows up in import-competing industries and non-tradable sectors. The overall contribution of exporters to manufacturing productivity growth far exceeds their shares of employment and output[15].

3. **Establishing supply chain linkages between large businesses and MSMEs:** The development of value chains that integrate backwards into the MSME sector will force smaller firms to improve their productivity – so that they may become and remain viable suppliers to larger firms. It is important to recognise that the development of MSMEs – in a region of mostly inward-looking private sector activity, is also dependent on the linkages established between larger firms in-country and

[14] See Ramesh, R.,"Moving Beyond Collateralized Financing: Alternative Models based on Case Studies for the Regional Private Financial Sector". Undated | [15] Bernard, A. and Jensen, J., "Exporting and Productivity", National Bureau of Economic Research paper No 7135

the MSME sector. Such linkages increase the productivity of MSMEs, because larger firms have refined their operations to be productivity and output-driven. Examples of such firms include Sandals in the tourism sector, and Massey Stores in the retail sector. Both groups of firms have established clear performance standards which local suppliers (mostly MSMEs) have to meet. As a result, MSMEs have had to increase and align their levels of productivity with international norms.

4. **Increasing productivity in infrastructure and in the services sector:** Cutting the time frames for doing business will enhance enterprise productivity, because improved logistics will save MSMEs both time and money. The IDB report, "The Age of Productivity:

Transforming Economies from the Bottom Up", emphasised two related points: 1) that too many resources were under the control of MSMEs in most of the LAC region, i.e. relative to larger firms; and 2) that infrastructure development/ expansion was key to returning to more sustainable productivity levels in the foreseeable future.

However, the report also observes that productivity gaps between the USA and developing countries are the highest in services. Since services account for more than 60% of employment in developing countries, that sector is increasingly dragging down aggregate productivity. The study emphasised that increasing productivity in the services sector is key to boosting economic growth and reducing poverty in the LAC region.

2.4 FINANCING CHALLENGES FACING THE MSME SECTOR

2.4.1 Policy Measures to improve Access to Credit

The financing challenges facing the MSME sector can be partly explained by the gaps between policy measures to improve access to credit in the OECD countries and the BMCs. Table 2.7 (below) provides a synopsis of policy measures in 19 OECD countries compared with the policies in the 8 BMCs analysed in this study.

Table 2.7: Gaps in Policy Measures to Improve MSME Access to Credit – OECD vs. BMCs

Mechanism	OECD	BMCs	Comment
1. Loan Guarentee Schemes	**100%**	**50%**	**OECD very strong**
2. Lending targets	0%	0%	Not applicable
3. Export Finance support	89%	63%	Selective in BMCs
4. Credit: code of conduct	32%	0%	Not usd in BMCs
5. Credit Registry	37%	37%	Recent in 3 BMCs
6. Central Bank scheme	10%	25%	Barbados and OECS
7. Securitization support	16%	0%	Not used in BMCs
8. Govt. direct lending schemes	53%	100%	Initiated in all BMCs
9. Direct lending +private sector	68%	0%	Not in BMCs
10. Peer to Peer Support	42%	0%	Not yet in BMCs
11. Retail Bond Markets	26%	0%	Very small in BMCs

Source: Central Bank of Ireland, Measures to Improve Access to Credit, 2015 and Consultants' Estimates.

As the Table shows, the main differences between the OECD countries and the BMCs are that: 1) all of the OECD countries ensure that they offer loan guarantee schemes to MSMEs; 2) the OECD countries tend to combine or bundle public and private sector loan programmes; and 3) there is a higher level of government initiated direct lending in the BMCs. These differences strongly suggest that the BMCs should focus on introducing and/or expanding their loan guarantee schemes on a national basis as a top priority. However, these are not the only policy measures that need to be addressed (see also 2.5 Improving MSME Access to Finance in the Caribbean).

2.4.2 Addressing Informality

The prevailing view of the informal sector is that it stimulates enterprise development, and makes invaluable contributions to social stability. While most developing countries view business informality positively, the McKinsey Global Institute (MGI) data on research conducted in Brazil (2006) and Mexico (2014), and the IDB "Age of Productivity" report suggest that the growth of informality can: 1) adversely affect the viability of the SME sector; 2) fragment the sectoral structure of business; 3) infuse excessive levels of imports and price competition; and 4) significantly impede the attainment of reasonable productivity gains and consequently, GDP growth rates of emerging and developing countries[16]. The challenge facing the Caribbean is two-fold: how to foster the development of enterprises, but also reduce business informality, i.e. the exponential growth of the informal sector, simultaneously.

Formalisation should be a priority from a public policy and private sector perspective. It can lead to higher tax revenues; better quality jobs; access to new markets, suppliers, and clients; more reliable supply chains; and higher rates of productivity, to name a few examples.

Registered firms have better access to technology and human capital. By complying with the law, the firm has better business predictability and may avoid situations where paying fines or bribes is the norm to stay in business. Formal firms may also access the judicial system for any contract enforcement procedures. Furthermore, formal firms have better access to credit, especially in some countries where a tax identification (ID) or registration certificate is needed to open a bank account. This is the case in most Caribbean countries.

There are two well-known approaches to addressing informality:

1. **Improving the enabling environment:** Making it easier for the informal sector to register businesses, to pay taxes, and to comply with regulations will improve the prospects for formalising the sector. Evidence shows that reducing corporate tax rates and simplifying the paperwork for registration and tax compliance help to increase the formal organisation and consequently, the efficiency of SMEs. One-stop shop services for registration and tax payments, and offering business support services to newly registered entrepreneurs have also been found to be highly effective. In 2011, in Brazil, a total of 1.9 mn micro-entrepreneurs had formalised via an online portal one year after it was launched[17].

2. **Incentives to formalise the informal sector:** The options include free training incentives, simplified tax structure, labour market reforms, and access to government procurement business. For example, Jamaica uses an Employer Tax Credit– which lowers the effective tax rate from 25% to 17% for SMEs to encourage SMEs to operate in the formal sector and generate employment as well.

[16] See MGI, "How Brazil can grow"and "A Tale of Two Cities." | [17] See "Formalising the informal sector", https://www.innovationpolicyplatform.org/content/formalising-informal-sector

> Asian countries that have joined the ranks of the wealthy nations or dramatically narrowed the gap with them have not had a serious informality problem. Japan, Singapore, South Korea and Taiwan all benefited from relatively small tax and regulatory burdens as well as from strong legal and law-enforcement systems; so did Western countries in the early stages of their development. The corporate tax rate was only 4% of GDP in the United States in 1913, for example, when it had reached Brazil's current stage of economic development. Brazil's corporate tax burden is now nearly 25% of GDP[18].

According to an International Finance Corporation (IFC) report, converting informal businesses into formal SMEs is a complex and difficult challenge[19]. Based on 15 informal sector surveys by World Bank Enterprise Surveys (WBES), the main reasons that firms are not registering their business are: 1) lack of information on how to register an enterprise; 2) time taken to complete the registration process; 3) taxes that must be paid by registered businesses; and 4) the lack of perceived benefits from formalisation. Studies have also indicated that high entry costs; strict labour regulations; lack of access to resources such as land, and credit; as well as complicated registration procedures are also important factors that contribute to low rates of formalisation.

Experiments and interventions in Bangladesh, Bolivia, Peru and Sri Lanka show that simplifying business registration channels, reducing registration costs, and providing greater information on the benefits of registering a business have proven to have little effect on increasing the formalisation of firms.

Nevertheless, some firms found formalisation to be advantageous because it permitted the enterprise to sell goods and services to the government and/or other registered businesses – a strategy that is now being adopted by the Guyana Government in its 2016 budget and exists in Jamaica under the MSME policy adopted by the Ministry of Industry, Investment and Commerce (MIIC).

Other measures that could be more effective are centred on co-opting larger private sector businesses into formality solutions. Some examples include:

1. **A micro distribution and retail model:** A number of corporate clients in the manufacturing, service, and wholesale sectors—such as Coca Cola in East Africa, Grupo Martins and Tribanco in Brazil, and Mi Tienda in Mexico—are working with small and informal firms using a micro distribution and retail model. The business model relies on co-opting smaller businesses into the distribution system. Because small retail outlets have financial and managerial capacity constraints, large corporations have also included a set of training and coaching initiatives to better educate business entrepreneurs. In addition, some have created specialised financial solutions such as inventory purchases on credit to ease the access to finance constraints that small and informal firms face to operate and finance their working capital needs. Imperceptibly, these processes integrate informal MSMEs into formal SME practices and behaviour.

2. **Mobile Banking and e-transaction platform:** A second model includes the use of mobile and e-transaction platforms to reduce the transaction costs that financial intermediaries face when trying to reach small and informal businesses. Examples include FINO PayTech (FINO) in India, which deploys field agents to enrol consumers in rural and semi-urban regions of India and conducts low-cost electronic transactions.

[18] See Joe Capp, Heinz-Peter Elstrodt, and William B. Jones Jr., "Reigning-in Brazil's Informal Economy" by The McKinsey Quarterly, Web exclusive, January 2005 | [19] IFC, "Closing the Credit Gap for Formal and Informal Micro, Small and Medium Enterprises," 2013

Its service model relies on the provision of biometric smart cards used for saving accounts and transferring funds, point of sale terminals, and accounting and management information systems. FINO has a client base of 27 banks, 15 government entities, and four insurance agencies. Other examples include YellowPepper, which is a leading mobile financial network in Latin America and the Caribbean, and which has over 3.6 mn monthly users in nine countries, conducting 18 mn financial and informational transactions per month. The YellowPepper business model has relied on mobile banking solutions, enabling banks to deliver financial services via mobile phones,m-wallet solutions obtained via a pre-paid account accessed using the mobile device, and business to business (B2B) products which facilitate mobile payments and collections between large corporate clients such as Coca Cola and SABMiller and their suppliers, distributors, and retailers.

Such strategies are still underdeveloped in the Caribbean. However, there are positive signs that mobile banking and e-transaction platforms are about to be expanded in the region. In February 2016, Transcel Limited in Jamaica announced that the government-backed mobile money product under development for the micro sector will hit the market in July 2016. Transcel indicated that it has raised USD 2 mn for the roll-out and the technology company's expansion into other Caribbean markets, possibly with JMMB Group and/or Republic Bank of Trinidad and Tobago. The Mobile Money for Microfinance or M3 initiative is a project of the Development Bank of Jamaica, which has taken on Transcel and National Commercial Bank, Jamaica (NCB) as partners[20].

3. **Small business banking solutions:** The most common challenges that financial intermediaries face when servicing small and informal firms include poor customer knowledge, lack of skills and literacy of MSME owners, low profitability, lack of collateral, assets, credit history, and land registry certificates, among others. However, financial intermediaries in various developing countries have been able to overcome these barriers through creative means including cash flow based lending, introducing psychometric tests to identify higher ability entrepreneurs, and leveraging leasing solutions when the firms do not have any collateral or assets to pledge in exchange for investment financing. Other banks, such as Türk Ekonomi Bankasi, Standard Chartered Bank and ICICI Bank, are using nonfinancial advisory services, such as financial literacy and business operations training, face-to-face or web seminars, web portals and e-learning courses. They also offer specialised small business consulting services to increase the capacity of the firm, strengthen the client/bank relationship, and determine which firms and what sectors are lower lending risks.

Offering such non-financial services is increasingly becoming an interesting opportunity for banks looking to strengthen the long-term bank-client relationship, while greatly benefiting and strengthening the capacity of the SMEs receiving these services.

In this regard, the Caribbean is not far behind. Republic Bank in Guyana hosts business seminars in poorer communities. It also hosts a five-week Commercial Customer Business Programme in collaboration with the Arthur Lok Jack School of Business in Trinidad and Tobago. The programme takes commercial customers through various training modules on finance, human resources, marketing and innovation.

[20] Given the viral nature of new ICT "convenience services", the opportunity should not be lost to include a formalisation incentive package offered by Government that is institutionalised within the M3 project.

The bank promotes the use of the IFC Business Toolkit as an online business guideline service for MSME customers. Republic Bank is a partner with the Small Business Bureau Credit Guarantee Programme in Guyana, which offers a 40% credit guarantee and caps the interest loan rate at 6% to eligible SMEs. The bank also lends to the Small Business Development Finance Trust which on-lends those funds to micro entrepreneurs in various sectors of the economy.

4. **The supply chain model:** Finally, supply and value chains can be used as a private sector model to provide market opportunities for informal firms. (Note: This has already been highlighted as an MSME productivity solution under section 2.3.6 above). Large corporations, notably in the extractive industries, power, tourism and hospitality, agribusiness and forestry and telecommunication sectors, want reliable and standardised supply chains for the production and distribution of their products and services. Several multinational companies have prerequisites for companies that become part of their value chains that involve, among others, having a registered business. This presents a great opportunity for MSMEs to participate in larger value chains.

   Currently, a supply chain model is being implemented in Jamaica under the World Bank-funded Foundations for Competitiveness and Growth Project, which includes a component aimed at supporting MSME capability via provision of funding to SMEs to support supply chain learning through commercial interactions with larger Jamaican firms.

These four examples of strategies aimed at advancing the formalisation of very small firms are useful ideas for further consideration by Caribbean countries. However, the findings from the EA Consultants study for the IDB would suggest that a first logical step would be for MFIs to: 1) increase the range of financial services and products that they offer to micro entrepreneurs; and 2) strengthen their capacity to deliver such services including ways to collaborate with larger financial institutions. In that regard, the approach used by the Jamaica Small Business Loans Company of encouraging their micro borrowers to establish banking relationships with the Jamaica National Building Society (JNBS) is highly commendable. With regard to broadening the range of financial services and capacity building, the MFIs would have to continue to strengthen their own institutional/product delivery capacity via such programmes as the Caribbean Micro-Finance Capacity Building Project (CARIB-CAP), the IDB-funded project aimed at enabling Caribbean MFIs to improve financial performance and outreach.

Finally, deliberate information dissemination on the benefits of business registration should not be overlooked as a strategy to increase formalisation and access to finance. Many small businesses are actually unaware of the advantages of formalising their commercial activities and need to be sensitised about the pros and cons of formal registration. Such benefits could include access to: 1) government contracts, 2) grants, and 3) government-funded loan guarantees schemes. Other initiatives could include improvement in land/property registries, lower taxes, and reforms to labour laws that make it easier to hire and lay off workers, given that the latter two factors (i.e. high taxes and cumbersome labour laws) have spurred exponential growth in informality in the recent past.

2.4.3 Addressing SME financial literacy weaknesses

Of all the factors that impact SME access to finance in the Caribbean, perhaps the most important one to address is the acute deficiency of SMEs in providing lenders that dominate financial intermediation in the Caribbean, i.e. commercial banks, with adequate evidence that their businesses are being well managed and that their ideas for growth and credit have been especially well thought through. The evidence that supports this prioritisation is especially strong.

First, the findings of an IDB study on "Access to Finance for Productive Development in Jamaica" in April 2015 clearly points to the dearth of SME capacity as the primary reason why SMEs are having difficulties accessing finance from the system – whether from banks, credit unions or micro finance institutions.

Second, interviewees in this study in all of the eight countries surveyed – commercial banks, credit unions, micro finance institutions, development banks, and government and private sector-funded business support organisations –all point to SME business management deficiency as the primary reason why investment finance is difficult to come by. Consequently, there is a need to strengthen the capacity of lending institutions to guide potential clients in the development of stronger financing management systems in their businesses.

Third, the financial system, including micro finance institutions, is now more acutely aware of the benefits of financing bankable projects because successful MSMEs can become profitable long-term clients. Consequently, the signals (or criteria) that those institutions look for, focus on the capacity of the potential borrower to manage successfully his/her business affairs.

Fourth, the problem is not availability of capital. Most financial institutions have considerable excess liquidity and are aware that they are facing extended periods of excess liquidity in the future. Therefore, they are genuinely keen to lend funds to SMEs, notwithstanding ultra-conservative screening processes and collateral requirements. Moreover, banks are already "on board". As noted elsewhere in this report, the study found that most of the larger banks have or plan to establish special SME departments or units to strengthen their own capacity to process SME financing requests and manage such loans more effectively.

Finally, expanding Government-funded loan capital for lending to MSMEs will be difficult. Most Caribbean governments are increasingly cash-strapped, primarily because of their excessive debt burdens and low economic growth. Therefore, at least over the short to medium term, they are unlikely to be in a position to increase either: 1) public sector procurement; or 2) their contributions to specialty loan funds sufficient to influence the SME finance market substantially. However, some countries, like Trinidad and Tobago and Jamaica, have increased the level of resources to special financial mechanisms like the National Enterprise Development Company (NEDCO), the Development Bank of Jamaica and the Small Business Development Corporation[21].

Commercial banks control at least 67% of the loans market and, from a risk management perspective, are acquiring the expertise to help MSMEs upscale their businesses as they grow. Consequently, a modest increase in loan volume from commercial banks is likely to have a much larger impact on access to finance than from other financial intermediary mechanisms, such as development banks, because the latter group is operating with a much smaller client base and with significantly fewer loan resources.

2.5 FINANCIAL LITERACY OF SMEs

2.5.1 Approaches and Strategies to Improve Financial Literacy of Caribbean SMEs

Various public and private sector institutions are already serving the SME capacity building market. These include specialty programmes offered by development banks such as the Development Bank of Jamaica (DBJ); investment promotion agencies, such

[21] It should be noted that, in the case of Jamaica, most of the increase in funding for lending and/or for technical assistance support has come from international donor agencies like the IDB, World Bank and the European Union.

as the Grenada Industrial Development Corporation (GIDC); donor-funded projects, for example, Caribbean Export and Compete Caribbean; government-funded agencies, such as JBDC; private sector business development services, for example, Action Coach, and established educational institutions. Accordingly, the first step in approaching the capacity building challenge is to "map" the existing resources that are being deployed to help SMEs and to identify niche areas that are not being served by such programmes. Any proposed solutions should also take into consideration: 1) the lessons learned from prior related initiatives, and 2) opportunities to leverage existing capacity-building efforts that are currently producing above average results.

Therefore, the approach should be one of additionality rather than of (risking) a possible duplication of effort that may complicate rather than streamline existing capacity building efforts. The perspective of the IDB study on "Access to Finance for Productive Development in Jamaica" is that "to solve the (capacity) problem, a well-designed, well-funded, properly-marketed and effectively-executed training and capacity building programme for businesses is required. It should be designed in a manner that affords struggling, necessity-driven entrepreneurs the opportunity to participate, and at the same time attracts opportunity-driven entrepreneurs by virtue of the benefits to be gained from the offerings".

The IDB study postulates that "an Open University concept could be utilised, wherein trained educators, communicators and business facilitators could be hired to create online teaching modules in critical areas such as accounting/record-keeping, corporate governance, human resource management, etc. These modules could utilise video lessons, along with step-by-step learning aids that are designed in a manner that shows entrepreneurs in a practical way what is to be done and how it will benefit their firms. Although a few short face-to-face sessions would be useful, the pedagogy should rely heavily on self-learning and asynchronous delivery techniques, to allow entrepreneurs to learn at their own pace in the available time. The added benefit is that these materials would continue to be open to business even after the programme is finished". The study adds that a variety of approaches could be used to incentivise participation, including the provision of recognised certificates upon completion of the programme. However, there is some ambivalence about the "completion of certificate" requirement because such an approach implies complexity and possibly failure – two factors that could diminish the attractiveness of the programme to the smallest SMEs, some of which will obviously struggle to complete the programme successfully. Such an approach could give the programme a "bad" or daunting reputation.

For example, attempts by the Guyana Bureau of Standards to introduce CARICOM SME certification standards to the private sector have met with considerable resistance by the sector itself, partly because of "fear of failure".

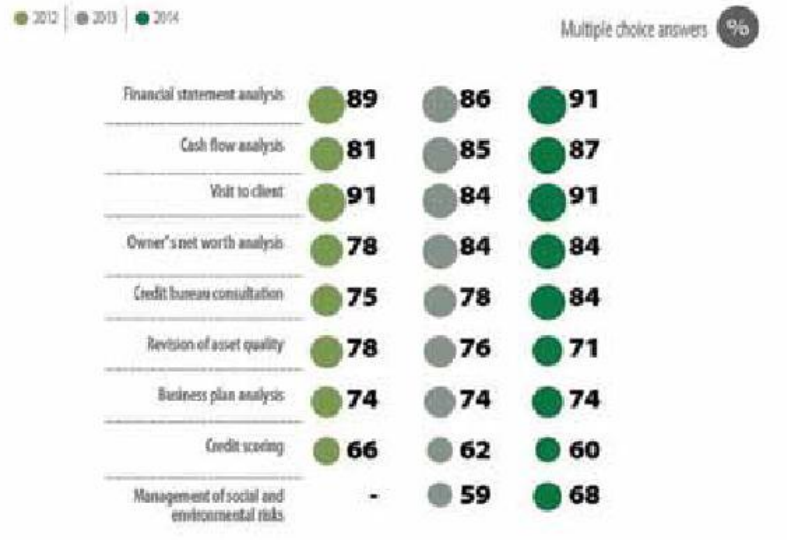
The programme could be promoted as capacity building that would make SME projects bankable and/or investable to the financial system i.e. where suitable forms of financing could be accessed. To that end, it should be delivered as part of a partnership with private financiers (both credit and equity), with a proviso that all participants would be guaranteed an opportunity to make funding pitches to groups of well-placed financiers. Also, there would be related opportunities for synergies to be created between the programme and established institutional initiatives. For instance, Republic Bank in Guyana and the Jamaica National Small Business Loan Company are moving toward a system of online loan application. It is possible that such (loan) systems may be integrated into the training (business plan) modules of the capacity building programme. Also, if the opportunity to borrow is linked to a minimum certification standard, such a prerequisite would encourage MSMEs to take the related training seriously. Furthermore, opportunities could also be explored to fuse the programme with the M3 (mobile money for microfinance) project, which is scheduled for launch in mid-2016.

Marketing and the degree of institutionalisation of such a programme within an integrated fabric of registration, business start-up and access to finance would have to be carefully addressed. Innovative mass media advertising using successful local and regional business people would help. An emphasis on app usage and text messaging to capitalise on widespread mobile phone usage could be established. To be more revolutionary, all registered companies and business name owners could be given free introductory course materials as an incentive to access the training programmes, and the courses could be provided as a fee app as one of the incentives to informal businesses to register. For effective leveraging, such a venture would best be delivered through partnership with a number of public and private agencies, including but not limited to development banks, credit unions, business support service organisations and donor-funded projects in each country. Based on capacities developed and successes to date, one of the leading business support entities – with appropriate capacity – could be appointed as executing agency for such a project.

Obviously, technical assistance would be required for the design of all areas of such a programme, including online learning resources, delivery methods, marketing, IT infrastructure, and capacity building for the executing agency. Consequently, financial assistance would be required for the design phase. However, the project's operating budget should be self-financing in that the main beneficiaries (i.e. the lending institutions and governments) should be prepared to contribute to the operating costs of such an agency since they would be the primary beneficiaries[22].

To be relevant, the proposed capacity building programme should focus on developing SME training modules that address the nine priorities listed below (i.e. financial statement analysis, cash flow analysis, physical business organisation/visit to client, owner's net worth articulation, credit bureau registration, articulation of asset quality, business plan analysis, and management of social and environmental risks). Consequently, banks and other financial institutions would have to be actively involved in designing curricula.

Figure 2.7: Loan Analysis Procedures used by Banks and % of Bank Usage



Source: IDB Group, "Banks and the Missing Middle": 7th Regional Survey 2014

[22] The CDB consultants acknowledge the contribution of the IDB consultant who developed the ideas for the Small Business Open University highlighted in this section of the Study.

There are also other options worthy of consideration. Not all SMEs will need a mandatory or fixed number of business development training modules. Therefore, Government could consider using "sweetener" tax incentives that allow SMEs tax write offs of 150% of expenditures made on business management capacity training that meet the curricula requirements of the financial system.

While this is a direct SME subsidy, the upside is that the financial system will make more loans to the sector, increase its profitability, and pay more taxes to government on interest income earned from the SME loans, partially or completely offsetting the tax subsidy inducement offered to MSMEs.

Additionally, this should boost the delivery of training services by the private sector itself. Governments can promote more strongly the inclusion of business management training into donor-funded projects aimed at the sector by donors such as the World Bank and the IDB. To ensure that the programme is deliberately relevant to the needs of financiers it should address priorities articulated by commercial banks[23].

2.5.2 Improving MSME Access to Finance in the Caribbean

The preceding review of MSME access to finance has led to the following conclusions, in summary:

1. **Questionable growth prospects and now additional non-economic challenges to be addressed:** At the macroeconomic level, the Caribbean is still facing strong headwinds over the short to medium term. The global economy, after more than five years of highly creative policy measures to boost growth, is still in a relatively fragile state.
2. **Inward focusing private sector:** The Caribbean private sector is struggling to cope with a number of commercial challenges, primarily in markets and in the rapidly evolving structure of the tourism sector. Notwithstanding the recent return to strong tourism growth, the sector itself has lost its competitive edge on a global scale and returns on investment (in tourism) are not nearly as robust as they used to be.
3. **Absence of critical business enabling environment/access to finance support measures:** In the Region, only Guyana, Jamaica and Trinidad and Tobago have introduced reforms aimed at improving the Doing Business "Getting Credit" indicators – namely the establishment of credit bureaus – and in the case of Jamaica, an electronic registry for moveable collateral.
4. **Formal financial sector dominance and control:** The Caribbean's retail financial sector has adopted increasingly stringent screening processes for private sector and consumer access to bank credit – even when faced with above average levels of excess liquidity in the system. The commercial banks still have, by far, the largest market share of the financial market. Therefore, strategies aimed at unlocking those resources have to be a top priority if the Caribbean is to advance SME growth beyond the incremental level. Such strategies, e.g. Credit Guarantee Schemes and MSME training in financial literacy, are highlighted under the specific recommendations below.
5. **Less than optimal MSME policies and strategies:** In recognition of the access to finance challenges which SMEs face, some but not all governments have developed SME policies to lay out a clearer strategy to strengthening the

[23] See: Multilateral Investment Fund, IDB, "Banks and the Missing Middle," 7th Regional Survey 2014. The loan analysis procedures in Figure 2.7 above are based on a survey of 110 small, medium and large banks conducted in 19 different LAC countries, including Jamaica, in 2014 by the Multilateral Investment Fund (MIF).

sector's contribution to economic development. The Region faces two challenges: 1) the general lack of comprehensive policy frameworks; and 2) in terms of additionality –and relative to the overall size of the private sector at country levels– all of the national MSME support programmes are operating at incremental impact levels primarily because most countries have categorised their MSME development initiatives as "projects". This means that such interventions are not actually being assimilated into the larger institutional support framework for MSMEs. Overall, countries concentrate on establishing and using special delivery mechanisms or projects.

In contrast, however, their policy design and implementation framework (credit bureau legislation, national credit guarantee legislation and programmes, tax policies and training policies and incentives, etc.), could be much more effective at unlocking MSME access to credit. However, these are not being developed by the relevant government entities.

6. **Yet, there are still promising signs on the MSME horizon.** These include the increase in training services being utilised by MSMEs, the formal alignment of commercial banks with the sector via establishment of MSME Units and Departments, the introduction of credit bureaus in some countries, the increased access to technology that MSMEs now have, and the more direct access to foreign markets afforded by the World Wide Web.

The preceding findings and conclusions establish the rationale or platform upon which the ensuing recommendations to enhance MSME access to finance are based.

If the Caribbean chooses to address MSME access to finance constraints, then it must focus on the ones that would unleash SME development "across the board" by identifying a limited number of issues to be worked on now, leaving the longer-term issues to be addressed at a later time. Such an approach avoids over-planning the development of all of the possible institutional solutions.

The specific recommendations are as follows:

2. **Develop training programmes aimed at improving the capacity of MSMEs** to address financial management of their operations in line with financiers' information needs. This is the main challenge that MSMEs face – the capacity to demonstrate that management of their businesses and resources are "information based" and that they have institutionalised such approaches to running their operations on a day-to-day basis.

2. **Expand the range of financial products available to MSMEs.** Governments should expand the range of financial products offered to MSMEs along similar lines to those offered to MSMEs by OECD countries[24]. This can be achieved by accessing and re-deploying previously under-tapped institutional funds such as the NIS and the proposed Dormant Account Scheme in Jamaica. The most important mechanism to create/expand is Credit Guarantee Schemes. The reason is, that apart from MSME financial management literacy, MSMEs have limited collateral capacity, and that limitation is one of the main reasons why they experience difficulty in accessing loans from the financial system.

[24] The Small Business Bureau (SBB) in Guyana, supported by IDB funding, is an example of how a credit guarantee system can work for very small MSMEs in that country.

Also, given the limited scope for domestic market expansion in most countries, export support programmes similar to those managed by the Trinidad and Tobago EXIM Bank (factoring, export insurance etc.) are the second most important financing mechanism to develop in all Caribbean countries.

3. **Introduce tax reforms that allow formal MSMEs to retain a much larger share of their profits and cash flows.** Increased cash flows will improve MSME attractiveness to local financiers. Admittedly, such reforms may be more difficult in some countries than in others, partly because of the stringent fiscal circumstances in many Caribbean countries.

4. **Increase the adoption of tax reforms that shift the burden of taxation away from direct taxes to indirect taxes** and deliberately lower the tax rates for MSMEs. This would improve MSME "formality" and reduce administrative inefficiency of the tax system generally.

5. **Introduce labour reforms that allow MSMEs to be more flexible in terms of hiring and firing.** Apart from taxation, this is the second most important reason why informality thrives in the Caribbean private sector.

6. **Create stronger tax incentives to increase financial intermediation and encourage MSMEs to seek out alternative forms of investment funds** (other than bank loans) via such mechanisms as the Junior Stock Exchange in Jamaica. This would strengthen the Finance Life Cycle for MSMEs.

7. **Improve the enabling environment for access to credit** by: 1) introducing Credit Bureaus in countries that still do not have them; 2) opening up credit bureau information access to foreign financiers so that alternative funding sources such as crowdsourcing, angel investments and P2P investments can become more available to Caribbean MSMEs; and 3) upgrading bankruptcy laws to allow insolvent companies to return to the financial systems more quickly than is currently allowed under outdated bankruptcy laws. All three initiatives will improve the bankability of MSME project proposals in the region.

8. **Overcome the limitations of domestic markets by promoting and fiscally favouring export growth of MSMEs and by increasing the use of ICT "information access" mechanisms.** An excellent example of information access is T&T's "Made-in-TnT" portal, which promotes more than 400 products in 19 product categories online. Overall, both measures will increase the growth and income generating prospects for MSMEs that would be operating in an expanded global market place. This should improve the bankability of MSME projects to local financiers.

9. **Introduce regulatory reforms that would allow AFIs and MFIs to take deposits and offer an expanded range of financial products to their MSME clients.** This would strengthen the AFIs and MFIs and allow them to be more creative on the supply side of the Access to Finance equation.

10. **Increase the inclusiveness of Credit Unions in terms of affording them access to SME financial programmes as DFI recipients,** including funding, credit guarantees and technical assistance in risk management.

11. **Put in place legislation that would allow each Caribbean country to adopt Mobile Banking** solutions at every level within those societies. Like MPESA in Kenya, this should contribute substantially to MSME productivity.

12. **Examine the feasibility of establishing Mutual Guarantee Schemes** in the larger Caribbean countries. As noted earlier in this study, such schemes have worked reasonably well in European countries that have a high proportion of formal SMEs (e.g. Spain and Italy). Accordingly, their potential viability should be examined in the Caribbean region.

13. **Create deliberate incentives to encourage the informal sector to formalise their businesses.** One very clear conclusion arising from the preceding analysis is the need to change the incentive structure/ policy in favour of formality, increase training, and increase access to financing. Attractive incentives through very good, well thought out policy can make a significant difference. These include low cost and readily available ICT-designed or app-based training programmes and fiscal incentives to training providers to develop more relevant courses aimed at MSMEs.

The preceding recommendations are mostly policy-based. The reason is that such an approach would enable more comprehensive coverage in addressing the "access to finance" challenge in the Caribbean. The first two recommendations (i.e. improving MSME financial literacy and expanding Credit Guarantee Schemes) are the ones that are likely to have the greater impact on improving Access to Finance.

2.6 REGIONAL COLLABORATION TO IMPROVE FINANCING OPTIONS

The challenge with attempting to establish regional collaboration to improve financing options for MSMEs is that each BMC's financial system is legally, and therefore operationally, independent of the others.

Therefore, there is limited scope for adopting financing initiatives on a regional basis, e.g. a regional credit bureau, or a regional credit guarantee scheme. Also, when recent experiences of larger institutions like CLICO are considered, the history of regional financial integration has been questionable, mainly because of the absence of standardised regulatory requirements for such institutions that are legislated at country level. This is not to conclude that financial sector integration is not possible, since this has been achieved by the ECCB in the OECS sub-region. But as regional experience has demonstrated, Caribbean-wide regional integration is a much more complex challenge and is proceeding too slowly to warrant inclusion of a similar recommendation in this study.

Nevertheless, there is considerable scope for copying over initiatives that have been tried and tested in one or other BMCs. In that regard, the collaboration challenge is relatively simple. How can the region establish an information-sharing mechanism whose primary objective and purpose would be to increase the knowledge of policy makers with regard to the development of financing options across the Region? Perhaps the most effective way to encourage regional collaboration on improving access to finance is to establish a benchmarking system that allows the various countries to:

1. Compare their suite of financial products offered to MSMEs;

2. Highlight institutional initiatives and strategies being undertaken in each country to improve MSME access to finance;

3. Publish the Doing Business Rankings and Global Competitiveness Index ratings along with steps being taken to address key "access to finance" reforms and the competitiveness challenge;

4. Highlight special programmes that have been introduced in some countries to address the MSME financing challenge (e.g. Ignite and Start Up Jamaica);

5. Provide examples of donor-funded programmes that have supported supply side improvements such as the MIF-funded Enterprise Risk Management and Financing Programme (ERMFP) aimed at adjusting Scotiabank's SME loan appraisal processes in Jamaica;

6. Provide examples of legislative reforms used to introduce new enabling environment mechanisms aimed at improving MSME access to finance in the region.

Examples include: a) Jamaica and Trinidad and Tobago MSME Policies; b) the consolidation of the business registration system into a "Superform" in Jamaica; c) the regulatory guidelines governing the establishment of Junior Stock Exchanges in Jamaica and Trinidad and Tobago; and d) the legislation used to establish credit bureaus in both countries – along with reforms aimed at upgrading the status of insolvent firms in Jamaica and St. Kitts-Nevis.

Such an approach would allow countries in the Region to:

1. Identify and propagate "good practices" already being used in the Region by some countries;

2. Establish a benchmarking system on "Access to Finance" for all countries that is updated at least once annually;

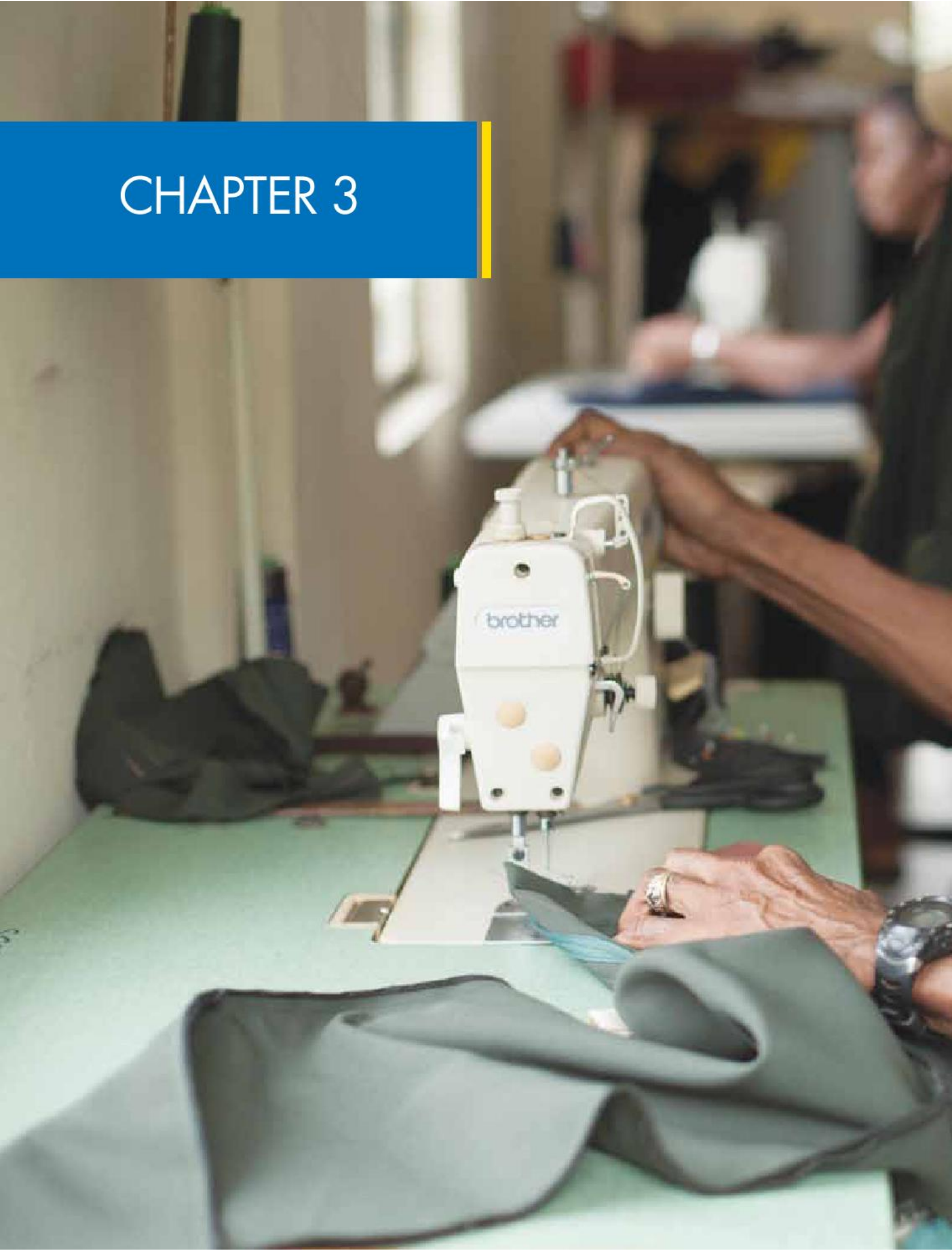
3. Copy over solutions already used by some countries to improving their Competitiveness and access to finance;

4. Replicate donor agency policies that have been effective in supporting reforms in the MSME and financial sector (e.g. IDB and IMF reform-inducing policies in Jamaica)

A benchmarking project would require the support of country governments, leading private sector agencies at country and regional levels (e.g. MSME and MFI Alliances, CAIC, the Caribbean Business Council, etc.), and the main development agencies involved in providing country-specific support in the areas of competitiveness and MSME development.

Such a project would have to be designed by co-opting the BMCs to contribute to its objectives, purpose and scope, and to articulate its operating agenda and performance targets. Most importantly, it would establish the basis for information-sharing and regional collaboration on many MSME-related development issues.

CHAPTER 3



REGIONAL
POLICY AND REGULATORY FRAMEWORKS

CHAPTER 3: REGIONAL POLICY AND REGULATORY FRAMEWORKS

3.1 GAP ANALYSIS OF THE ADEQUACY OF THE ENABLING FRAMEWORK

While successive governments have repeatedly acknowledged the significant contribution of MSMEs to social and economic development over the past decades, MSME policy and regulatory frameworks and implementation remain unimpressive.

3.1.1 MSME Policy Framework inadequacies

The study indicates several gaps and mismatches between best practice and the prevailing status quo. Some of these are highlighted below in Table 3.1. For example:

- Only Belize, Jamaica and Trinidad and Tobago have in place dedicated MSME policy and regulatory frameworks and strategies;
- Whereas 4 of the 8 countries have MSME-specific legislation in force, only Antigua's was less than 10 years old;
- Jamaica's Business Names Act dates back to 1934 and St. Lucia's Act was passed in 1998;

It should be noted that even where policies and strategies, acts and regulations exist, concerted implementation –so necessary for realising the enabling climate for a viable MSME sector – has generally not been pursued. Lack of sustained political will; frequent changes in political administrations; and, above all, limited programmatic resources voted in the national budgets, account for this inertia.

Belize appears to have been the exception to this practice, as successive governments since 2000 have sought to address the 'productivity dilemma' through sustained investments in MSME financing and technical assistance.

Table 3.1: The Policy, Legislative & Regulatory Framework for MSMEs and Supporting Lead Institutions in 8 CDB Borrowing Member Countries

COUNTRY	POLICY	STRATEGY	SECTOR ACT	Lead TA AGENCY & FI
ANTIGUA & BARBUDA	None	None	Small Business Development Act, No. 24 of 2007. Small Business Regulations, 2007; Investment Authority Act, No. 15 of 2006.	Enterprise Development Unit/ Antigua and Barbuda Investment Agency (ABIA). Finance: Development Bank
BARBADOS	None [January 2016 Draft]	None	Small Business Development Act, CAP 318C 2002 Fiscal Incentives Act (Amendments), Sep. 1998.	Barbados Industrial Development Corporation (BIDC). Finance: Fund Access, Barbados Central Bank

Table 3.1: The Policy, Legislative & Regulatory Framework for MSMEs and Supporting Lead Institutions in 8 CDB Borrowing Member Countries cont'd.

COUNTRY	POLICY	STRATEGY	SECTOR ACT	Lead TA AGENCY & FI
BELIZE	MSME Policy and Strategy, (March 2012 Report)	Entrepreneurship Strategy, July 2014	Belize Trade and Investment Development (BELTRAIDE) Services Act - Cap 282, 2000. [Draft MSME Development Act, March 2012].	BELTRAIDE/SBDC Finance: DFC, BEST.
GUYANA	None	None	Small Business Act, No. 2 of 2004	Small Business Bureau, Ministry of Business Finance: Development Bank
JAMAICA	MSME & Entrepreneur-ship Policy, February 2013 [14th Draft]	MSME & Entrepreneurship Policy, February 2013	Business Names Act (1934)	Jamaica Business Development Corporation (JBDC) & HEART Trust / NTA. Finance: Development Bank of Jamaica (DBJ).
ST. LUCIA	None Industrial Policy January 30, 2001: focus onmanufacturing	None	Trade and Export Promotion Act (TEPA) Act, No 16 of 2013. Micro and Small Scale Business Enterprises (Amendment) Act No. 6 of 2009. Micro and Small Scale Business Enterprises Act, Cap. 13.19 (1998).	Small Business Development Centre (former SEDU) launched 2014: MSEs. Commerce & Industry Department: Medium size. TEPA: Export-oriented. Finance: Development Bank (SLDB)
SURINAME	None A Private Sector Policy only	None	None	Suriname Business Centre (SBC) and KKF: MSMEs. Microenterprise Finance: Suri-Trust
TRINIDAD & TOBAGO	Enterprise Development Policy, September 2014.	Ministry of Labour & Small Microenterprise Strategic Plan 2011-2015.	None	NEDCO: MSME development. EXIM Bank finances Exports, ADB supports Agri-finance, NEDCO for Microfinance.

3.1.2 Gaps in the Policy Framework

The following gaps have been identified:

1. The Companies Acts are largely silent on the needs of MSMEs for developmental support.

2. Registration and de-registration of businesses (names and companies) are deemed voluntary, at the discretion of the entrepreneur, in contrast to the French and Dutch-Speaking Caribbean, e.g. Suriname, Martinique, Guadeloupe, Sint Maarten, Aruba or Curacao, where formal registration is compulsory and membership of the Chamber of Commerce is automatic.

3. The Fiscal Incentives and Hotel Aid Ordinances provide substantial incentives and concessions to businesses; however, micro and small enterprises (MSEs) are generally ineligible, because they either do not satisfy the value-added criteria or lack the resources to present satisfactory investment plans.

4. Customs laws provide for the conditional exemption of duties. However, whereas farmers and Fisher folk generally enjoy such relief on imported inputs, benefits to MSEs –particularly in the manufacturing and services sectors– are usually extended on a discretionary and ad-hoc basis, with Cabinet approval given only after long delays and complicated procedures.

One notable exception is the Antigua and Barbuda Investment Authority (ABIA) whose performance has been rated 'exceptional' by local stakeholders, thanks to regulations entrenched in the ABIA Act.

5. While the removal of tax rebates on credit union shares has been accepted in Trinidad and Tobago, Barbados and St. Lucia, taxation on their assets (via sunset legislation in Barbados) and on surpluses (hinted by the Government of Grenada) should also be rescinded, if credit unions are to invest significant financial and technological resources as partners with the State – alongside the Development Banks/DFCs – in increasing access to serviceable credit by a larger number of viable MSMEs.

6. The enactments for the various Bureaus of Standards in the eight countries and their attendant policies, still advocate voluntary standards, a major drawback to economic competitiveness. Adherence to quality standards is not enforceable in most industries. The absence of legislation that obliges the producer, processor and purveyor of tradable goods and services to be liable for any defects or deficiencies has been explained away by firstly, the notion of allowing market forces (including consumer choice) to dictate, and secondly, the prohibitive costs of policing the entities concerned.

7. Existing laws in all countries directly and/or inadequately impact the development of MSMEs. Yet, there is a marked absence of enabling legislation deliberately crafted to facilitate the expanded provision of technical assistance, training, advocacy and other sources of institutional support clearly necessary for small and micro businesses to survive and grow.

8. With the exception of Antigua and Barbuda and St. Kitts-Nevis, no CDB BMC has legislated fiscal and monetary benefits specifically for the MSME sector during the past 10 years. Attempts are being made in Barbados and Jamaica to update their legislation.

9. In Belize, one of the more progressive jurisdictions, the Policy and Strategy Report (2012) observed that "there are eight (8) major legislative measures providing fiscal and operational benefits to companies. There is none specific to MSMEs." The Belize Companies Act, Chap 250 (Revised 2000) makes hardly any reference to the peculiarities of small businesses. The BELTRAIDE Services Act, Cap 282, 2000 is vocal on trade, investment and export development functions, but mentions "small business" only once, in respect of the composition of the Board of the Council (Section 5).

Therefore, it is evident that current policy and regulatory frameworks do not encourage a culture of inclusion for all businesses, irrespective of size, sophistication or scope; nor do they recognise or provide adequately for the special needs and value-added potential of MSMEs. **Achieving completeness in the design of the national policy and regulatory frameworks is therefore a major issue to be resolved.**

3.2 REVIEW OF REGIONAL BEST PRACTICE POLICY AND REGULATORY FRAMEWORKS

3.2.1 Guyana Small Business Act, No. 2 of 2004

The Act defines the sector, and provides for the establishment and administration of a Small Business Council; a Small Business Bureau; and a Small Business Fund. It commits government "to use its best endeavours to ensure" that MSMEs procure at

least 20% of goods and services required annually by Government, similar to the 25% set aside by the Antigua and Barbuda Act. The Council is required to prepare and submit each year to the Minister a Small Business Procurement Programme. However, this benefit has only been recently highlighted by the new Guyana Government.

The Act requires that 4 of the 11 members of the Council be representatives of the small business sector and owners of enterprises in their own right [Section 3(1)]. This augurs well for inclusiveness. The mandate and responsibilities of the Council are set out in Section 5. They include:

1. Bringing issues that affect MSMEs to the attention of government planners and policy makers;
2. Quarterly reporting to the Council on the uptake of procurements and fiscal incentives by approved MSMEs;
3. Provision of current statistics on small businesses; and
4. A register of all small businesses approved by the Minister for funding, fiscal incentives and/or technical assistance.

While the latter two provisions speak to improving data collection, a major challenge and requirement for improved policy making, in order to improve the quality and flow of available MSME data to all, there is a need for greater clarity in respect of the functional interface between the Small Business Bureau, the Registry of Companies and all other service provider organisations in Guyana.

The accountability requirements for resources provided are extensive, when compared to the Barbados, Antigua and St. Lucia Acts. For example:

- The Minister must receive the audited accounts of the Development Fund; the performance report of the Small Business Bureau and the Fund; and updates on any other project within five months after the end of the financial year;
- The Council must also submit at the end of each financial year a Small Business Policy and Administrative Reform Agenda to the Minister, who must present it to the National Assembly within 60 days of receipt [Section 4].

Apart from covering the expenses of the Small Business Bureau, the resources of the Fund may be used for supporting access to finance by MSMEs –"non-financial services and assistance to help small businesses improve their productivity and competitiveness," and provide subsidies to BSOs, NGOs and other organisations supporting the sector [Section 7(1)]. Section 12 assures that "a small business shall be eligible for every applicable fiscal incentive under the law". Adherence to the spirit and provisions of the Act and its attendant Regulations would certainly impact favourably on the performance of the Small Business Bureau and other organisations providing services to the MSME sector.

3.2.2 Belize Enabling Policy (2012) and Strategy (2014)

The Belize agenda seeks to improve the response capability and the capacity for institutional strengthening of MSMEs by:

1. Enhancing the entrepreneurship support ecosystem;
2. Promoting collaboration between the public and private actors in the national entrepreneurship ecosystem;
3. Promoting entrepreneurial financial support through diverse non-refundable, promotion, warranty, fiscal and credit instruments;
4. Encouraging business creation; and
5. Strengthening entrepreneurship training within the education system.

Belize's policy identifies five pillars as vital for developing a strong entrepreneurial culture:

1. Education;
2. Industry Support;
3. Financing Flows;
4. Institutional Infrastructure; and
5. Mentality and Culture.

These are given emphasis in the Strategy, under four headings: legislative and regulatory framework; increased flow of capital; market access and competiveness; and education and training. The matrix below indicates the linkages between these focal points –as key performance indicators (KPIs), and the policy-regulatory framework. The absence of a Small Business Development Act and regulations is the missing link in an otherwise enabling framework.

The major features of the Belize Policy, Strategy and Strategic Plan (Table 3.2) are:

1. It offers customized incentives that can create business opportunities for serial entrepreneurs (multi company); retired entrepreneurs (with vast experience); intra-cluster entrepreneurs; young entrepreneurs (with talent); public employees and officers (retirement plan or extra income generation); and entrepreneurs without experience (vulnerable population, facing extreme poverty).

2. It recognises the need for different approaches in serving micro-enterprises, which operate largely in the informal sector and need extensive education, mentoring and coaching, and SMEs, which tend to be more organised and have a greater need for capital.

3. It requires establishment of an MSME Development Fund supported by an annual allocation of not less than US$0.5 mn by the Government of Belize; donations from local and international institutions or foreign governments; monies accruing to the fund from investment, loan or other income; loans and grants obtained from national, bi-lateral and multilateral sources; and any other contributions.

   A Grant Scheme is to be established to issue grants to support investments in ICT; alternative energy; and certification to approved technical standards. Financing must be accompanied by mentoring, hand-holding and counselling programmes delivered by BSOs, and networking among micro enterprises.

4. A portion of the MSME Development Fund is to be set aside annually for equity and loan financing of approved MSME projects, based on rules determined by the Council. Loans shall be made to enterprises operating in the following sectors:

   a. Agriculture, including fishing;
   b. Agro-processing;
   c. Manufacturing, including forestry;
   d. Tourism and related services;
   e. Repair and maintenance;
   f. Information and Communication Technology (ICT); and
   g. Crafts and Cottage industries.

Table 3.2: Policy and Regulatory Framework – Belize

COUNTRY / COMPONENT	BELIZE		
	STRATEGIC PLAN	LEGISLATION	POLICY
LABOUR		Labour Act, August 1st 1960	
MSME	National MSME Policy and Strategy		National MSME Policy and Strategy
ST&I	Strategic Plan 2012-2017: "Integrating energy, science and technology into national development planning and decision making to catalyze sustainable development"		
FISCAL		• Fiscal transparency and responsibility regulation, 2010 • Income and business tax act, 2000	
FORMALIZATION		Business name act Chapter 247, December 31st 2000	
ENTREPRENEURSHIP			
COMMERCIAL SOCIETIES			
COMPETITIVENESS	National Export Strategy		
MICROCREDITS	National MSME Policy and Strategy		
ACCESS TO CREDIT	National MSME Policy and Strategy	Bank and financial institution act, December 31st 2000	

Green: There is an entrepreneurship fostering policy, legislation or strategic plan approved.

Yellow: Entrepreneurship fostering policies, strategic plans or legislations are in the approval process.

Red: There is no entrepreneurship fostering policy, legislation or strategic plan approved.

5. A matching legislative framework, driven by an MSME Development Act, that will stimulate and sustain the sector by:
   a. Defining an MSME and establishing guidelines for development and regulation of the sector;
   b. Creating an MSME Policy and Strategy implementation organ to be called the "Belize Agency for the Development of Enterprise (ADE)";
   c. Introducing an MSME category in the national accounts so that data on the sector can be collected and disseminated;
   d. Providing an array of fiscal incentives specifically for MSMEs; and
   e. Reducing the bureaucracy and paperwork in accessing credit so that microcredit applications should not exceed one page. The turnaround time for microfinance approvals should not be more than three days.
6. Business development services are to aid in the improvement of entrepreneurship knowledge, acquisition of business skills and access to technical assistance. Inclusion of entrepreneurship in primary and secondary education and training of university students in business management is intended to improve the relevance of the education curriculum.
7. In addition to increasing information sharing and promoting ICT penetration among MSMEs, successful and innovative entrepreneurs will be showcased in mass and social media as role models.
8. Finally, the proposed ADE –as a statutory or at least a semi-autonomous body under the Ministry of Trade, Commerce and Industry– will play the lead role in implementation of the policy, legislation, strategy and strategic plan. As a vital support institution, it is expected to be adequately resourced by Central Government and would not become self-financing at the expense of the sector.

Table 3.3: Strategic Initiatives – Belize

SUMMARY OF STRATEGIC INITIATIVES: BELIZE			
Name of the Pillar	**Objective**	**Strategy**	**Strategy Description**
Support Industry	To strengthen the entrepreneurial support industry.	Incubation Programs	To create and strengthen institutions that develops business incubation processes.
		Innovation Labs	To promote innovation through supporting spaces that favors the strengthening of innovative entrepreneurship (innovation labs).
Financing	To promote the development of the entrepreneurs financing chain for entrepreneurs with diverse non-refundable, promotion, guarantees, and tax credit instruments.	Seed Capital	To create and strengthen financial vehicles such as seed capital, pre-seed capital, entrepreneurship microcredit.
		Tax Incentives	To create a regulatory framework to ease and promote the creation of financial instruments, guarantees and tax exemptions for entrepreneurs.
Institutional Articulation	To promote spaces for collective action between public and private actors in the national entrepreneurship ecosystem.	Strengthening National Entrepreneurial Networks	Creation and strengthening of an entrepreneurship network through technical committees that design and consolidate the National Entrepreneurship Policy.
		Joint Structure Ecosystem	To develop a platform in the cloud that facilitates the communication between the actors of the ecosystems and the entrepreneurs.
Mentality and Culture	To Encourage entrepreneurial thinking in citizens to stimulate the creation of new firms.	Disseminate entrepreneurial success Stories Nationally	To create spaces and methodologies to inform and inspire the people on successful business stories.
		Media Campaigns	To use the media in order to promote the importance of entrepreneurship.
Education System	To strengthen the entrepreneurship as a cross axis in the education system.	Transfer of Entrepreneurship Model to primary and secondary education	To implement models, methodologies and tools to foster entrepreneurship in primary and secondary education.
		Training for Trainers	To develop training and coaching programs for trainers training.

Source: BELTRAIDE, CENPROMYPE- NEXUS 2014.

Table 3.3 above illustrates how the five pillars are articulated across the policy objectives, strategy and strategic description in the current Belize agenda for MSME development. The Belize approach to regulatory and policy modernisation is particularly outstanding for the importance it attaches to entrepreneurial education both in the primary and secondary school system, and as a key ingredient of the programmes aimed at existing and hopeful business owners and operators. Any policy, strategy or law is only as sound, however, as the capacity of the apparatus put in place for its implementation.

A direct result of Belize's MSME Policy and Strategy has been the emergence of the Small Business Development Centre (SBDC), which has been pivotal in promoting business awareness and providing training and mentorship to entrepreneurs across the country. Deliberate strengthening of the SBDC as a full-fledged quadrant within the BELTRAIDE complex, alongside EXPORTBelize, BelizeINVEST and BTEC, will strengthen Belize's progress to become a best practice jurisdiction for enabling MSME competitiveness and growth.

3.2.3 Jamaica MSME Policy and Strategy (2013)

The Micro, Small and Medium Enterprise and Entrepreneurship Policy, produced in May 2013 by the Ministry of Industry, Investment and Commerce (MIIC) following extensive consultation and research, provides a good example of an attempt to develop a comprehensive legal and policy framework for MSME development. It is presented as "the intervention framework that offers coordinated, coherent and targeted support to the sector in an effort to expand its contribution". Unlike the Belize Policy, it highlights the need to lead the process of internationalizing the sector by strengthening Jamaica's bilateral, regional and international economic and trade relations and the promotion of local and foreign investments in certain areas. It combines a timeless policy statement and a time-bound implementation strategy.

Its goals are very specific and far-reaching:

1. A strong focus on this sector as a key part of Jamaica's vision to go global and become a developed nation;
2. Increasing capacity building and business awareness around available support and resources for MSMEs (e.g. an online database, expanded technical assistance and mentorship);
3. Special focus on creative industries which are less explored but growing and full of potential (e.g. fashion, music, animation);
4. Inclusion of entrepreneurship education in all institutions and at all levels; and
5. Establishing standards for certification and accreditation.

Like Belize's BELTRAIDE, Jamaica's MIIC is seeking to foster a deep-seated Culture of Entrepreneurship and Innovation across Jamaica as a platform for transforming the economy. The introduction of entrepreneurship in the curricula of all primary, secondary and tertiary institutions is a game-changing strategy. Knowledge and skills transfers are contemplated in such subjects as Business Planning, Cash Flow Projections, Management, Bookkeeping, Marketing and Customer Service. The Strategy caters for the creation of an online directory of available technical assistance and training resources - including consulting firms, tertiary institutions and BSOs - on an MSME business news web portal, another vital construct for capacity building. A structured Mentorship Programme seeks to utilise entrepreneurs, senior executives and business professionals with proven track records in their fields, to volunteer as mentors, supported by facilities for online business counselling.

The policy gives special focus to the creative industries (film, music, animation, fashion, etc.) which are seen as possessing strong linkages with various sectors of the economy and having the potential to create wealth for a wide range of MSMEs. Their export potential is also substantial, as acknowledged by respondents from the OECS Commission and Barbados.

The Jamaica Policy also acknowledges the lack of supply of "adequate and serviceable credit" from financial institutions and the limited options available to small businesses. The strategies, similar to those distilled in Table 3.4 below, place emphasis on recognizing non-traditional collaterals such as inventory, accounts receivable and intellectual property.

Table 3.4: Jamaica MSME Policy Objectives and Strategic Actions

MSME POLICY OBJECTIVE	SUBORDINATE STRATEGIC ACTIONS
Encourage business formalization in the MSME sector.	Encourage the formation of business clusters as a means of developing the MSME Sector.
Create an enabling institutional and legislative framework to aid the development of creative enterprises.	Enact new enabling MSME legislation with supportive tax and other incentives and coordinate & strengthen the key public and private sector institutions.
Increase the market share for goods and services produced by MSMEs.	Increase the competitiveness and market access of goods and services produced by MSMEs through standards, certification and accreditation.
Increase the level of technical skills/capacities in the MSME sector.	Implement a structured Mentorship Programme for the sector. Increase the marketing and communication skills of MSMEs. Assist viable MSMEs experiencing losses or insolvency to restructure. Provide on-going informational support to MSMEs.
Build an internationally competitive labour force that will bolster productivity performance.	Implement standards and competency-based training and certification for workers and owners in target industries. Promote greater use of the Internet/ICT and of energy efficient practices among MSMEs.
Foster innovation among MSMEs through greater supply of and demand for ICT products and services.	Foster a culture of innovation through more productive use of science and technology and R&D among MSMEs.

Cross-cutting issues addressed by the Policy include:

1. Collaboration among Governments, associations representing MSMEs, and trade associations, to foster greater social capital among MSMEs through various programmes;
2. Special emphasis on the attainment of equality of opportunity between men and women in the development of all spheres in which MSMEs operate;
3. Youths, rural communities and persons with disabilities are also given special attention through a number of proposed strategies to promote and increase the level of self-employment via entrepreneurial activities;
4. Strategies to protect the environment; and
5. Collection and dissemination of reliable data and information on MSMEs.

For good planning and effective tracking of quantitative and qualitative results, Key Performance Indicators (KPIs) like Critical Success Factors are a very important policy and management tool that should become standard fare in use by MSME development practitioners.

The Jamaica Policy and Strategy document goes beyond the parameters set by the Belize instruments by defining specific measurable outputs to underpin its KPIs; ten of these are as follows:

1. Increase the number of formally registered MSMEs by 10% each year;
2. Improve the technical skills of 100 MSMEs per annum;
3. Reduce the processing time for business registration by 60% by 2015;
4. Increase the number of MSMEs securing loans by 20% by 2020;
5. Increase the number of MSMEs utilizing ICTs by 30% by 2020;
6. Increase the number of MSMEs utilizing R&D in their business operations by 75% by 2025;
7. Introduce Entrepreneurship in the curricula of all primary, secondary and technical institutions by 2020;
8. Ensure Jamaican firms are innovative and competitive by 2030;
9. Promote and secure equity and equality of opportunity which enable women-owned and family-owned businesses to be effective economic actors in the MSME sector; and

10. Promote and secure equality of opportunities among MSMEs.

For completeness, an Evaluation and Monitoring Methodology is built into the planning and implementation processes required by Jamaica's comprehensive roadmap for transforming the enabling eco-system for MSMEs. Delivery of the policy, strategy and planned outputs as summarised above is entrusted to the Jamaica Business Development Corporation (JBDC) which will lead the training of MSMEs, with support from other key entities such as the national training agency (HEART Trust/NTA).

3.3 FURTHER ENHANCING MSME FRAMEWORKS IN THE CARIBBEAN

Based on the foregoing analysis, it is clear that an imaginatively designed, robust and multi-pronged MSME Policy and Regulatory Framework is an urgent necessity if governments are to become more effective in developing and sustaining MSME sector growth. However, in addition to the formulation of the appropriate frameworks to incentivise the establishment and growth of MSMEs, it is very clear that, given the very difficult economic challenges facing Caribbean economies, there is need to enable refocusing of the sector towards greater competitiveness though increased productivity and innovation.

3.3.1 Vision 2025

The consensus vision for a business-friendly environment must be premised on the overriding priority of developing and growing a competitive MSME sector by international standards, so that it can contribute to the creation of quality employment, and improve the quality and range of goods and services available to domestic and overseas markets. The new policy direction must be driven by a collective vision of the future inspired by a **new paradigm and framework for the sustainable growth of globally competitive MSMEs in various industries across the region.** The core objectives of this Common Enabling Policy and Regulatory Agenda for MSMEs in the Caribbean Region are noted below.

3.3.2 Innovation

Policy and financial support for innovation is generally not available to MSMEs. UNESCO notes that agencies dedicated to science, technology and innovation are lacking in Antigua and Barbuda, Belize, Dominica, Grenada, St. Kitts and Nevis, St. Lucia and Suriname: "Given the small size of many Caribbean economies, a regional innovation system could prove an effective solution". The Economist Intelligence Unit observes likewise: "…coordination between business, academia and government is essential, but government funding for innovation policy is generally low in the Caribbean, and thus most innovation and competitiveness strategies are funded by international donors. Ideally funding should come from the private sector which is more efficient in stimulating applicable innovation."[25] Imperatives for Caribbean innovation are detailed in Chapter 5, but they are woven into each of the recommendations below.

3.3.3. Improving Worker Productivity

An enlightened, skilled and motivated workforce is another major theme that should underpin the new Policy and Regulatory framework. Hands-on training and in-factory counselling are vital support

[25] Source: Private Sector Development in the Caribbean - A Regional Overview.

services required by MSMEs, especially those producing for international markets. More detailed recommendations on improving productivity are presented under the ICT and R&D policy recommendations below.

3.3.4 Increasing the use of Information and Communication Technology (ICT) among MSMEs

A critical path to strengthening productivity and extending market access lies in increased ICT penetration.

Priority initiatives are:

1. Provision of ICT training opportunities for MSME workers and owners;
2. Enhancement of the legal and regulatory frameworks for telecommunications sector development;
3. Establishment of an independent and capable oversight entity for ICT sector development to ensure the maintenance of competitiveness in the industry and enhanced consumer access;
4. Provision of adequate ICT infrastructure especially with regard to broadband development;
5. Expansion of ICT education in schools.

The following recommendations were offered by Regional Executives of the Telecommunications industry:

- MSMEs have to take internet access more seriously. Smaller businesses tend to opt for the lower speed/more affordable internet packages, which limit their ability to exploit the available technologies.
- The mobile platform along with business applications (apps) is also widely available but small businesses use their smartphones mainly for calls and messaging as opposed to using them for business operations. Good practice examples include a small recruiting agency in Jamaica that uses an app to capture business card information via the phone that feeds straight into its database. Another medium-sized business is planning to equip its mobile sales team with the capacity to complete application forms on mobile devices instead of using paper; this facilitates automatic information capture and faster processing. Other useful app types include accounting (e.g. QuickBooks), sales tracking (e.g. salesforce).
- Training on how to use these apps is important so that business owners have a chance to learn best practices.
- Through regional public-private partnerships, ICT incubators should be established that encourage the development of 'home-grown' apps made especially for Caribbean businesses.
- The Caribbean should also explore crowd funding/kick starter funding specifically for ICT-enabled innovation.
- Use of card machines can improve growth of MSME sales. However, MSEs may need support from governments, their trade associations and financial institutions in expanding the use of portable point of sale and card machines.
- A Universal Hub is desirable and the technical knowledge, support structure and connectivity to create such a hub. However, there is need for persons to administer the roll out; manage the operations; and commit to supporting it (i.e. trainers, lecturers and sponsors). Training would be a very key part of this offering and online training videos/self-paced learning would be a great option for MSMEs.
- Social media should be exploited and businesses should receive hands-on training on the social media best suited for their business type. Many options exist (e.g. Facebook, Instagram, Pinterest, Reddit and Tumblr). More Caribbean MSMEs should also be exposed to migrating from operating as "bricks and mortar" institutions to online businesses, thereby reducing overheads while broadening their client outreach.

In addition to global successes cited in Chapter 2 (e.g. the EXIM Bank's "Made in TnT' web portal), these recommendations strengthen the case for replicating the policy instruments already initiated

by the Jamaica MSME Policy (discussed in sub-section 3.4.3 above). Establishing the regional online university, technical resource directory and information/news web portal will bring major benefits to traditional MSMEs (e.g. farmers, fishers, retailers and manufacturers) as well as to the non-traditional services and creative industries.

3.3.5 Growing the Entrepreneurship Culture through Education Reform

A new policy directive that inculcates greater ICT usage, financial literacy and entrepreneur knowledge content into the kindergarten, primary and secondary school curricula is overdue.

The ILO has developed a training package to teach entrepreneurship in vocational, secondary and tertiary schools, now used in 56 countries of which 18 have integrated Know About Business (KAB) into their national curricula. This follows the introduction of a new curriculum called startUP&go to more than 60 secondary schools in South Africa, designed to foster entrepreneurial attitudes and competencies. Subsequent assessments show that "learners taking the classes seem to be more interested in starting their own business after graduating from schools (a statistically significant increase of 4% as compared to the control group)"[26].

It is recommended that the new Entrepreneurial Studies syllabus include modules on ICT, Financial Literacy, Marketing, Management, Accounting and Innovation. The shift to Business Management should address the skills gaps in Tourism and Hospitality, Agricultural Science, Financial Services and Co-operatives at the supervisory, technical and managerial levels. Renewed emphasis on attracting more students to the vocational trades is also vital in view of the shortage of these skills.

Closer integration with the national TVET programmes will result in expansion of CVQ awards, in sync with the demand by industries for well-trained, skilled workers. As a result, it is anticipated that the brightest minds will be exposed to the rudiments of business and technology. The design of a public policy for entrepreneurial education integrated into every level of the educational system is a major policy and strategic shift that will boost emergence of a business culture, productivity and competitiveness within the Caribbean.

3.3.6 Trade Policy

Given the openness of Caribbean economies, BMC efforts to grow intra-regional trade must be accompanied by efforts to also expand trade into internationally competitive goods and services markets. Trade policy priorities that will bring value to MSMEs include removal of inefficiencies in the system, building national and regional capacities and establishing harmonised and common regulatory frameworks.

Specific objectives must be:

- Increasing market access by maximising usage of current opportunities such as those in Canada and Europe; by negotiating new arrangements to new markets in emerging economies; and by assessing and addressing the constraints to future trading arrangements.
- Developing mechanisms for facilitating business and trade, including improving transportation. This demands supporting and facilitating achievement of the single economic space through the removal of the physical, technical, administrative and fiscal barriers to the movement of goods; enhancing trade and transport-related infrastructure and services; and other trade enhancing initiatives.
- Building capacity in the productive sectors points to the continuing need to overcome

[26] Ibid.

the significant human resource and technical challenges that limit BMCs' responsiveness and pace of implementation of their obligations under existing trade arrangements such as the CARICOM-EU Economic Partnership Agreement (EPA).

3.3.7 MSME Model Policy

Given the significant gaps in MSME policy and regulatory frameworks noted above, it is useful to at least identify the essential elements of a regional comprehensive policy and regulatory framework. These essential elements, while not necessarily exhaustive, are presented below:

(i) Roles of Key Institutions

1. Definition of MSMEs and the classifications by size, as set by the Policy;

2. Identification of the different public (for example, identification of a Single Ministry as the focal point for MSME development), private, non-state institutions involved in MSME growth and development, and clarification of the roles of each;

3. Provisions to ensure that representatives of the MSME sector are included in the appointments by the Minister to the Board of Directors and Advisory Committees on Enterprise Development, Productivity and Economic Competitiveness;

4. Clear formulation of the role of the Companies Registry, its mandate, functions and essential data requirements; clarification of relationship with the Statistics Department, the National Insurance/Social Security Corporation, and the Research and Development Units of the lead government agencies and of the BSOs;

5. Enforcement of compulsory registration for all businesses operating in any country, irrespective of age, sector or size;

6. Annual report to the Minister responsible for MSME development on the performance of the Sector;

7. Minimising bureaucracy by establishing a division within the central government Ministry to address the specific needs of MSMEs, including use of the Business 'Superform'.

(ii) MSME Capacity Building

1. Enhanced Capacity building by facilitating increased access by more entrepreneurs (especially women and youths) to online, web-based and other entrepreneurship courses and hands-on technical assistance in key subject areas (as listed earlier), but with a greater role being played by private sector expertise and BSOs;

2. Entrepreneurship training should be provided throughout the formal Education System, with ICT- based training maximised to ramp up learning in schools and in adult education/training for MSMEs workers. Amendments or revisions to the Education Act to ensure closer linkages between the goals of academia and the needs of the national and regional labour markets, including MSMEs' labour requirements;

3. Minimum certification/training/capacity building accomplishments should be prerequisites for accessing Government-supported BDS. For example, Action Coach is a small, Barbados-based consulting company that offers short intensive training for small businesses via an Australian franchise;

4. Provision of assistance to more MSMEs to improve the quality of their statements of financial position, cash flow, capital adequacy, proposal writing and managerial training in order to satisfy the objective requirements for commercial bank financing;

5. Quality assurance standards entrenched in the Bureau of Standards legislation making compliance with food safety, manufacturing, etc., obligatory and no longer voluntary.

(iii) Access to Finance

1. Facilitating increased access to credit unions and identified MFIs as affordable but sustainable, indigenous sources of finance, recognising the unsustainability of 30 year-old models e.g. retail lending by government banks, ministries and corporations; low/subsidised interest rates on loans to MSMEs;

2. Enable increased access by MSMEs and MFIs to an improved financial services system, by including an Electronic Registry for Moveable Collateral, a Credit Bureau and a Junior Stock Exchange;

3. Strengthen and activate innovative financing models that can reach at least 25% of all registered MSMEs, grow surpluses and achieve capital adequacy and sustainability;

4. Set out specific guidelines for the disbursement of relief, seed, angel and other grants to enterprises; and

5. Implement mechanisms that minimise the risks to financial institutions that provide credit to MSMEs, by removing the legal and bureaucratic constraints affecting the smooth enforceability of debt contracts.

(iv) Infrastructural Support Services

1. Institutional strengthening of infrastructural support service organisations (e.g. business support centres, incubators & ICT Parks);

2. Institutional strengthening of specific BSOs registered with the Ministry, including consolidation of some entities and revised mandates for others to achieve effective delivery of needed services including business training, research and development at lower per capita costs; and

3. Access to online training.

(v) Fiscal Incentives

1. Establish the objective criteria for accessing Fiscal Incentives e.g. tax holidays, duty free imports, exemptions from the VAT and company tax;

2. Listing of specific export goods and services targeted for expansion such as creative industries; ICT exports; specific agriculture products with clear presentation of the appropriate supporting initiatives and incentives for expansion;

3. Fiscal incentives that support export growth, foreign exchange earnings and increased technology usage by MSMEs;

4. A reduction in taxes to ease working capital constraints for businesses, and stimulate demand among consumers. Many of these measures are applicable to enterprises of all sizes but can be particularly beneficial to MSMEs.

(vi) Monitoring and Evaluation

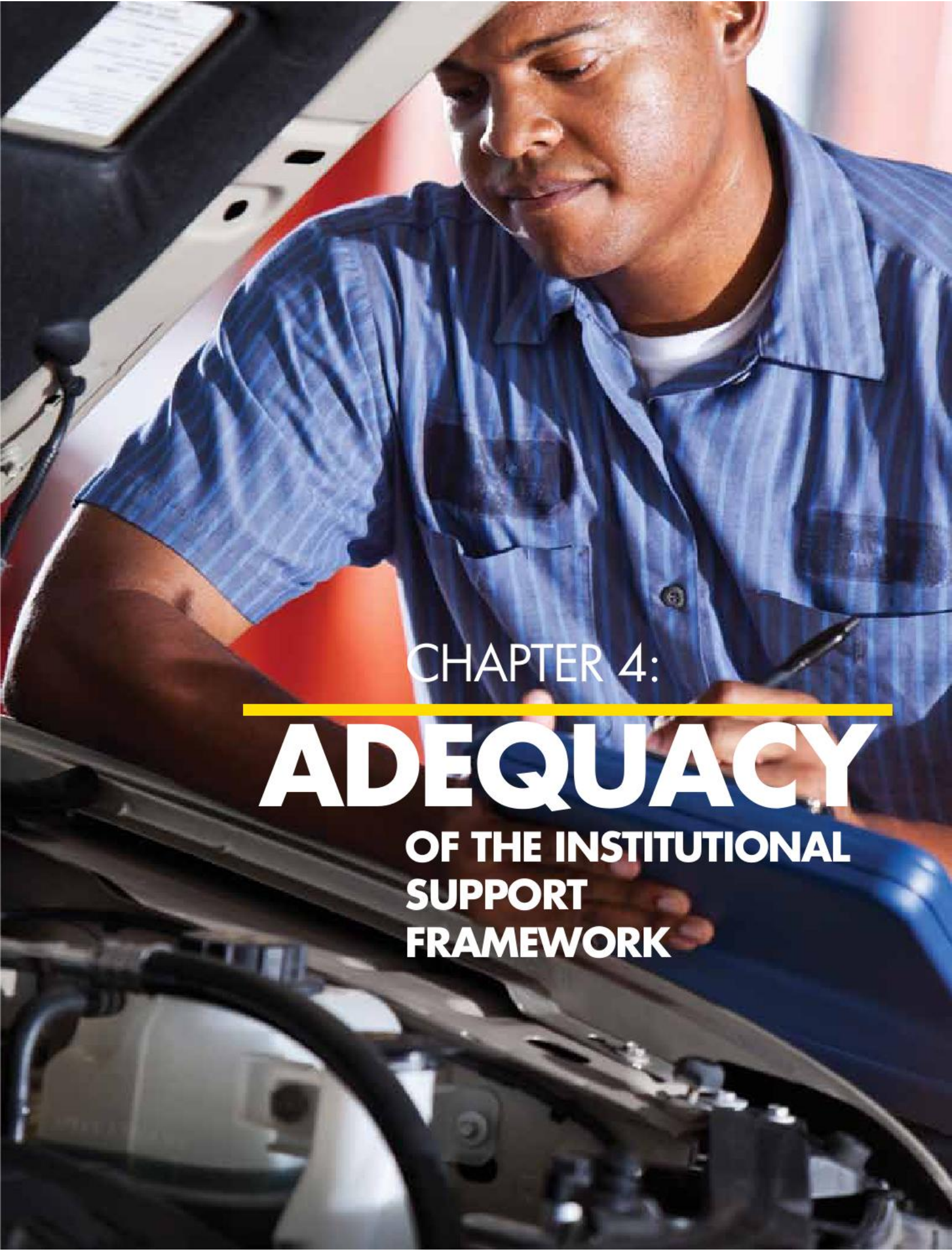
1. Inclusion of a robust KPI based Evaluation and Monitoring System for MSME programmes;

.

2. Reporting to the Minister of the core Ministry on the output/outcome results per the KPIs for MSME development at the three tiers of implementation: (i) productivity and quality enhancements; job creation and contribution to GDP (First Floor); (ii) strengthening the efficiency and effectiveness of intermediary organisations – BSOs, financial intermediaries etc. (Second Floor); and (iii) impact of the policy and regulatory initiatives (Third Floor).

3. Inclusion of risk analysis and management strategies which identify important risks to Policy implementation (e.g. lack of commitment, inadequate skills and knowledge, financial constraints, economic downturn, etc.) and offer mitigation approaches.

Finally, whereas each policy must reflect regional and international best practices, it must also be crafted to be responsive to the needs of the sector and the actual business environment in each country. The new Act and the Regulations should be passed into law early, avoiding the typical lags and delays associated with the legal drafting and review processes.



CHAPTER 4:

ADEQUACY

OF THE INSTITUTIONAL SUPPORT FRAMEWORK

CHAPTER 4: ADEQUACY OF THE INSTITUTIONAL SUPPORT FRAMEWORK

Having outlined the importance of a comprehensive and robust enabling regulatory and policy climate for the growth of MSMEs (i.e. the "Third Floor"), it is necessary to assess the adequacy and scope for modernisation of the state and non-state organisations that service the growth and developmental needs and demands of the MSMEs ("Second Floor").

Overall, there are several agencies per country providing critical support services to the MSME sub-sector, with very limited financial and personnel resources and hence severe capacity constraints. Additionally, there is considerable duplication of roles, replication of programmes, protection of "turf", with evident variances in delivery capability and sustainability. The analysis below focuses on both the public and private institutional support frameworks.

4.1 PUBLIC SECTOR INSTITUTIONAL FRAMEWORK

4.1.1 Governing Ministry

A strong central ministry is a key coordinating factor leading the governance of the MSME eco-system towards competitive growth and expansion. However, only in Barbados and Trinidad and Tobago has the MSME sector been assigned as a distinct portfolio to a Cabinet minister. It is recommended that one Ministry be given the overarching responsibility for the development and expansion of the Private Sector, inclusive of MSMEs. This portfolio should envision a single Ministry, mandated to serve as the focal point and central hub for implementing the national strategy and action plans, thereby increasing MSME productivity, creating jobs and growing incomes. This Ministry should collaborate effectively with all private sector players; become the exemplar for business-friendly service; facilitation and supervision; and stimulate closer co-operation among the various public sector agencies.

4.1.2 State-run BDS providers

Interviews with MSME stakeholders during the in-country visits and their observations of the public sector agencies providing business development services to the sector generated several perspectives on the need for reorganisation and strengthening, as follows:

1. The "one stop agency" promised by most governments since the 1990s has not materialised. Most MSME operatives continue to find it difficult to access user-friendly information; are often unclear as to "whom to approach for what;" and have to contend with time-consuming processes and forms resulting in loss of business hours and productivity. A minority of regular clients, who are accorded priority status within the available resources, or who "know the ropes", benefit from training, coaching, promotion and/or advice offered by different entities.

2. Whereas business owners and prospective entrepreneurs are usually directed to the lead state agency for MSME development assistance, the extent to which the latter is resourced is a function of the national priority accorded to this

sector; ministerial influence in securing annual budgetary support; and the agency's success in mobilising complementary external funding. Across the BMCs under review, variations were noted in their range of service offerings; internal systems; staffing and sphere of operations/ reach:

a. **The National Enterprise Development Corporation (NEDCO), Trinidad and Tobago,** operates a network of 11 entrepreneurship development centres country-wide, including Diego Martin, Arima, San Fernando, Point Fortin and Tobago. It has a fully staffed Corporate Business Unit in St. Augustine that performs Research and Development functions, and also targets business services to students at the University of the West Indies and the University of Trinidad and Tobago. NEDCO has been effective in providing start-ups with coaching sessions, and has been delivering entrepreneur and business management training, counselling and technical assistance to thousands of existing entities by combining in-house coordinators and technical staff with a roster of subject specialists on-call. It also operates a National Integrated Business Incubation System (IBIS). Its small grants and loans (ranging from TT$50,000 to $250,000[27]) facility has been highly subscribed for more than 15 years. With the economic downturn, government funding has been significantly reduced and the corporation has no experience in mobilising or managing donor funds, having been 100% government funded since its inception.

b. **The Jamaica Business Development Corporation (JBDC)** leads MSME development on Government's behalf, and is mandated to articulate and implement the MSME Policy approved by Cabinet and cleared through Parliament. It employs 105–120 Business Development Officers who perform business model appraisals; guide entrepreneurs to formalize their businesses; and help businesses to get through required regulatory processes. Its incubator system accommodates resident and non-resident businesses.

JBDC partners with banks and large companies to leverage financial and technical assistance resources, including accessing the Development Bank's (DBJ) "Ignite" Programme which provides grant funding of up to JD4 mn[28] per client on a call for proposals basis by registered businesses under 4 years old and undertaking innovation projects across all sectors. It also teaches business plan development throughout the rural parishes, using a Mobile Clinic; and engages consultants to upgrade business plans; package products; or conduct market surveys. However, by JBDC's analysis, **80% of the businesses in the parishes have never done a business plan and only 14% have business bank accounts, indicating that there is possibly a substantial capacity deficit on the part of JBDC and/or a lack of awareness on the part of potential beneficiaries.** This alarming statistic triggered a Ministerial Task Force which assessed the financing system for MSMEs in Jamaica.

c. **SBDC-BELTRAIDE, Belize** employs five members of staff to service huge demands from over 30,000 registered and informal micro and small enterprises (MSEs) over vast terrain. The Unit is effectively led; proactive in using ICT and social media;

[27] US$1 currently trading at TT$6.30 | [28] US$1 currently trading at J$120

and strong on partnering, networking with financial institutions; proposal writing; and management of donor projects. As in the case of JBDC, there are clearly substantial capacity deficits in serving the needs of the MSME sector. If given additional institutional resources, the SBDC will be able to reach a larger clientele through accelerated implementation of the deliverables in its approved MSME Policy and Strategy.

d. **In St. Lucia,** a somewhat different model is at work as compared with Jamaica and Belize. Three principal agencies serving designated segments of the MSME sector report to the Ministry of Commerce, Business Development, Investment and Consumer Affairs:

- The Trade and Exports Agency (TEPA) provides development support to exporters, export-ready firms and potential exporters. It also administers grants to approved businesses;
- The Commerce and Industry Department assists medium-sized firms especially in the manufacturing and services sectors with on-site advice, facilitation for concessions and other off-site support.
- The SBDC (known as SEDU up to November 2014) is the GOSL's lead agency for business development knowledge and expertise. It offers "a more holistic approach to the development of the Micro and Small Enterprise (MSE) sector in St. Lucia, with the core mission being to help businesses become globally competitive by providing long-term consulting, training, financing and market research solutions that create real economic impact."[29]

However, the latter two agencies experience regular shortfalls in programme funding, while SBDC staffing is admittedly inadequate. A recent consultancy recommended that SBDC should be merged with the more proactive TEPA. However, this in itself would be inadequate to meet the needs of the MSME sector in the absence of adequate human and financial resources.

d. The Enterprise Development Unit (EDU) of Antigua and Barbuda's Investment Authority has been viewed as a model agency for business development in the OECS sub-region. However, since the change of administration in June 2014, the ABIA's role and operations have been lessened, and enterprise development grant funds are being channelled through the Ministry of Finance.

Table 4.3 below indicates that in each of the eight BMCs at least one lead government agency is in place with the mandate to implement the policy direction and related legislation; promote the use of fiscal incentives; disseminate needed information; and extend development services to the MSME sector, including training, coaching and mentoring.

[29] www.commerce.gov.le/

Table 4.1: Eight CDB BMCs - MSME Enabling Policy and Institutions Matrix

Country	Active Ingredients in Enabling Framework											
	National	MSME Policy in Place	Strategic/Annual Plan Produced & in force	Registry of Certified MSMEs Functioning	MSME Support Unit in Government	BDS Support (Info, Training, TA, Counsel)	MSME Advocacy prominent	Access to Credit/ Finance *(State)*	Access to Credit/ Finance *(Non-State)*	Preferential Public Procurement decreed	Trade and Export Promotion	Compliance with Standards enforced
CDB BORROWING MEMBERS												
Antigua and Barbuda	x	√ (2007)	x	x	√	√	x	√ (Low)	√	√	x	x
Barbados	x	√ (2002)	x	√	√	√	√	√ (Low)	x	x	x	x
Belize	√		√	√	√	√	x	√	√	x	√	x
Guyana	x	√ (2004)	x	√	√	√	x	√	x	√	x	x
Jamaica	√	x	√	√	√	√	√	√	√	√	√	√
St Lucia	x	√ (1998)	x	√	√	√	x	√	x	x	√	x
Suriname	x	x	x	√	√	√	√	√	√	x	x	x
T&T	√	x	√	√	√	√	x	√ (Low)	x	√	√	√

As a result of successes in Central and South America, The Organisation of American States is providing technical assistance to Barbados, Jamaica, Guyana and St. Lucia in strengthening harmonised adoption of its Small Business Development Corporation (SBDC) model.

5. Notwithstanding the potential dislocation in institutional arrangements triggered by changes in political administrations, indications are that most governments will continue to work with the MSME sector through one department or corporation designated as the national lead agency for non-financial enterprise development. This has proven to be more efficient in utilising scarce public sector resources than multiple channels serving MSMEs with overlapping interests. However, in most cases, there is clearly a need for significant ramping up of human, financial and technical resources within public sector BSOs in order to accelerate MSME sector growth and development. In other words, there is urgent need for substantial institutional strengthening.

4.1.3 Rwanda State Agencies

The Rwanda Development Board (RDB), the lead BSO, has embarked on a highly transformative process particularly with respect to regional institutional capacity building, enhancing the efficiency and effectiveness of government support institutions in the provision of business services, and is potentially an example of substantial relevance to the Region. In 2011, RDB took a strategic decision to involve private operators in the management of its Business Development Centres (BDC), utilizing a private-public-partnership (PPP) model, whereby Government retains ownership of the BDCs' assets, and the private operator assumes responsibility for all expenditures.

Four private operators entered into contract with the RDB to manage all 30 district BDCs as follows:

- Africa Development Consultants (ADC): Eastern Province and Kigali City;
- Rwanda Telecenter Network (RTN): Northern Province;
- Agence de Fiscalité, Comptabilité et Courtage (AFICCO): Southern Province
- Business Development Fund (BDF): Western Province.

The developmental services provided by the district BDCs include, but are not limited to:

- Entrepreneurial Development – training entrepreneurs to develop essential skills for professional development; this helps participants to identify, develop and implement business ideas.
- Business Registration –encouraging commercial registration for companies to reduce informality and facilitate closer rapport with the business community by start-up businesses. This service is already in place in eight Centres and will be extended to others.
- Skills Training, Business Advice and Counselling form an important part of daily BDC activities. Participants vary from new entrepreneurs with minimum skills needing general assistance to established businesses to skilled operators in need of specialised knowledge or a specific intervention.[30]

Replication of the foregoing business services model and the delivery structure from post-conflict Rwanda potentially can make a positive and significant difference in expanding the capacity and reach of state agencies and BSOs in the Caribbean.

[30] http://www.rdb.rw/departments/export-development-and-business/business-development-centre.html

4.1.4 Decentralised Government Support via P-P-P – ISRAEL

Another example worthy of note is that of The Israel Small and Medium Enterprises Authority (ISMEA), which was created in 1993 as a partnership between Government ministries, economic organisations and the public. Its main objectives and functions are:

- To promote and implement policies that encourage small and medium-sized businesses and to create tools for assisting them;
- To coordinate all of the institutions and bodies engaged in encouraging small and medium-sized businesses;
- To establish local, regional and professional support centres for entrepreneurs and businessmen and to support and guide them in their activities; and
- To promote the establishment of funds and other financial instruments to assist these businesses.

Programmes and initiatives established by Government include:

- 26 Business Development Centres with 10 Branches operating country-wide, created through the SBA;
- The Israel Export Institute which operates a support centre for small and start-up exporters to increase sales volumes in international markets;
- The Nitsos Programme which focuses on creative growth management and operates facilities employing 10–250 workers; and
- The Governmental Loan Guarantee Fund to assist small businesses through the reinvestment of capital and new investments.

In addition to the provision of advice and training through Development Centres, ISMEA provides courses and workshops especially designed for new businesses.

4.2 RECOMMENDATIONS

4.2.1 Recommendations – State Agencies

1. The core role of the Government lead agencies should be to coordinate the work of the various agencies, and establish funds and other financial instruments to assist the MSMEs.

2. Mindful of the size and continuing growth of the informal sector and building on the successes already achieved, it is recommended that the lead agency in each country:
   - strengthen its capacity to plan, coordinate and evaluate implementation of an increased flow of development initiatives to the sector;
   - collect data/information on critical MSME indicators (number of enterprises in each subsector; age of enterprises; number of enterprises leaving and entering a particular sector; Profitability; Cash Flow; Debt; annual revenue; access to business training, access to finance, number of persons employed, markets to which goods and or services sold (domestic and/or external)) etc. Collection of necessary MSME data is an absolute requirement for improved policy, regulatory formulation and the construction of appropriate institutional infrastructure. The provision of such information annually should be tied to incentives (tax incentives, access to government contracts, etc.) in order accelerate formalisation of the sector;
   - establish an automated database and management information system, with at least one competent Research and Development Officer on staff, as at NEDCO and JBDC;

- provide the Minister responsible with timely and measurable quarterly indicators and analysis on progress made versus set targets and goals; and
- target at least 25% of the MSME populations for business development support within five years.

3. It is recommended that governments be dissuaded from continuing or initiating lending activities through government agencies. Issuing small grants to assist or reward innovators and high performers is acceptable, once based on strictly applied, transparent criteria. However, money lending is the specialised business of licensed or registered financial institutions. Not only does lending detract from the Government's primary focus on providing technical services, but government agencies are not designed to conform to good practice processes in loan screening; securing collateral;, disbursing; tracking; and collections.

4. Engagement of competent private sector firms or networks in PPPs, similar to the Rwanda BDCs, can increase the quantum and range of resources invested in growing the sector; reduce Government expenditure; increase its revenue; and enable the lead agency to focus its energies on higher-end policy refinement; strategy and law enforcement; results-based coordination; sector oversight and planning.

The extent to which each participating agency is deemed to have met or exceeded the ILO's EESE reform methodology will be pivotal to its credibility as the competent authority for driving transformation of the MSME sector. Effective implementation of the activities recommended above will demonstrate that better organised, purpose-driven and productive public BSOs can contribute substantially to reducing constraints by:

- strengthening the management depth, business know-how and self-confidence of more MSME owners;
- improving productivity, efficiency and innovation levels within client enterprises;
- enabling more MSME products and services to penetrate competitive markets, through effective application of expertise provided;
- enhanced synergies and merger/consolidation encouraged among existing private and state agencies; and
- significant improvements in the quality of data generated.

4.3 INSTITUTIONAL CAPACITY – PRIVATE SECTOR BUSINESS SUPPORT ORGANISATIONS

Private Sector BSOs through Training and Educational Services seek to improve trainees' theoretical knowledge, technical skills and attitudes. Their impact is generally increasing as business owners appreciate the importance of new knowledge and contacts to growing their businesses. Whereas full cost recovery is not the norm, MSMEs are now more disposed to invest in employee and management training than a decade ago. However, the lack of full cost recovery can pose a challenge to the sustainability of private sector BSOs, especially in the absence of public sector and/or donor funding.

Marketing Assistance has become a critical demand to increase SME visibility and market access. Trade fairs, trade missions, sale of packaging materials, expansion of international contacts and the introduction of certification for marketed produce have become vital services. The ability to access market intelligence is critical to business success in the new liberalised trading environment. Internet usage and smart phones have become crucial resources for business, as increased use of ICT and social media are providing notable efficiency gains and market growth for both progressive entrepreneurs and service providers.

Generally, one-on-one counselling, hands-on technical coaching and on-the-job attachments are more effective in transferring knowledge, skills and behaviour change, but are more time-consuming and costly. The challenge here is to persuade MSME owners to adopt preventive and early detection measures, instead of seeking help when conditions have significantly deteriorated. Advocacy and Representation are also critical BSO services requiring development. Lobbying for the interests of the sector in the public domain, as well as in the corridors of power require excellent communication skills, reliable research capacity and a good network of contacts. Enlightened companies tend to place a high premium on paying for good advocacy services.

4.4 EXAMPLES OF PRIVATE SECTOR BSOs

4.4.1 UPstart Caribbean - Barbados

UPstart Caribbean's mission is to become the regional leader in public education and advocacy campaigns that excite and economically empower citizens - especially youths and women - to become business owners and social entrepreneurs. The use of an online campaign featuring the dramatised adventures of "Betty", a female entrepreneur, won Silver in the 2016 American Advertising Federation (ADDY) Awards. The 30-second series of video business tips chronicle the fictional adventures of Betty as she writes her business plan; expands sales; and formulates a strategy to deal with competition.

In addition to appearing on Facebook, YouTube and www.upstartcaribbean.com, the audio versions of the webisodes were broadcast on 2 popular radio stations.[31] UPstart Caribbean is a novel movement advocating a culture of support for entrepreneurship.

4.4.2 The $20 BEF (FLOW) Challenge - Barbados

The Barbados Entrepreneurship Foundation (BEF) was established in 2010 from a vision to make Barbados the World's #1 Entrepreneurial Hub. The BEF launched the $20 Challenge to inspire and generate high interest among young students, in particular, about the idea of entrepreneurship. The BEF aims to bridge the gap between learning in school and entrepreneurship by providing an opportunity to students for real life business experience, under the guidance of experienced entrepreneurs. The BEF's $20 Challenge is an annual entrepreneurship competition intent on sparking the spirit of entrepreneurship among 4th and 5th form students in secondary schools across Barbados. It operates as follows:

- Students are loaned $20 to start a business;
- Students are coached through the ins and outs of entrepreneurship by a $20 Challenge Ambassador;
- The Contest runs for ten weeks; and
- The students present their businesses to a panel of judges.

The BEF is led by Peter Boos, Chairman Emeritus of Ernst & Young Caribbean, and a group of local and international entrepreneurs called the E-Team. The BEF structure comprises five main pillars: finance, government policy, mentorship, business facilitation, and education and talent. The $20 Challenge is an initiative of the Education and Talent Development Pillar which is co-chaired by Keith Miller and Derek Browne.

Other Projects include:

- Angel Investor Network;
- Classroom to Boardroom;
- Mentorship Mingle;
- Business Mentorship Portal; and
- WiFi Project.[32]

[31] http://www.upstartcaribbean.com/learn/about-upstart/, http://www.upstartcaribbean.com/resources/roadmap-to-success-show/, http://www.loopnewsbarbados.com/content/young-barbadian-entrepreneurs-win-silver-american-awards | [32] http://bef20dollarchallenge.org/, http://www.barbadosentrepreneurshipfoundation.org/20-challenge-winners/

4.4.3 MSME Alliance - Jamaica

Formed in 2000, this is an alliance of MSME Associations intent on improving the e-business environment for MSMEs through timely information sharing and effective advocacy. The Alliance provides member associations and affiliated businesses with knowledge to enhance their businesses and sustainability over time, from information acquired via attendance at key stakeholder meetings with the Ministry of Industry, Investment and Commerce (MIIC); the Partnership for Transformation; and other organisations. Information provided on policies, laws, regulations and upcoming projects is circulated by email to elicit feedback and to make suggestions for change. Initiatives by support institutions (e.g. HEART-NTA, the DBJ and JAMPRO) are also highlighted and shared with its membership.

Current plans include a committee on Access to Finance; a quarterly magazine to feature sector initiatives; and rating the quality of MSME development support provided by prominent State-subsidised agencies.

Fundamental areas of technical support identified by the Alliance for Government and donors' attention are:

- How to prepare contracts;
- How to track your money;
- How to respond professionally to requests for quotations;
- How to deal with insurance (e.g. employers' liability; goods in transit; employees' liability; and general insurance for a business);
- Clustering or "grouping" to get best deals from insurance and other companies; and
- How to pressure larger businesses that take up to and over six months to pay MSMEs who think they have no recourse but to wait patiently.

4.4.4 Public-Private Sector Collaboration for MSME Development – KKF Suriname

In November 2003, supported by a CIDA-CPEC institutional strengthening sub-project (2003-2005), the Suriname Chamber of Commerce and Industry (KKF), a large private sector body comprising membership of both large companies and SMEs, produced its 2004-2007 Development Strategy seeking to "promote a culture of enterprise". The following is a synopsis of KKF's strategic objectives for SME development:

- An environment that promotes the growth and development of all enterprises, particularly small and medium enterprises (SMEs), identified as the most important providers of employment;
- A tax system that stimulates rather than discourages enterprise;
- Increased awareness among entrepreneurs with respect to international trade trends and enhanced capacity to take advantage of trading opportunities;
- Removal of legal and non-legal barriers affecting the business community; and
- Strengthening of KKF's technical and financial capacity, including the establishment of a One Stop Window to facilitate domestic and foreign investors in accessing the required information and completing the required forms for conducting new business in Suriname; establishment of an online Trade Registry; and formation of a KKF subsidiary, Business Development Foundation (BUSOS), to advance business and trade development services on a fee-for-service basis and to mobilise external funding for enterprise development.[33]

It should be noted that unlike the common practice in many Caribbean jurisdictions, as a Chamber of Commerce and Industry uniting both SMEs and large enterprises, KKF plays a very strong advocacy role

[33] Source: Suriname Chamber of Commerce and Industry, Policy 2004-2007.

on behalf of the private sector as a whole, and is a model worthy of emulating across the Region. Such a framework would impart considerable strength to the regional MSME sector which, in the main, is representationally weak. BUSOS was established as a Foundation in 2002 with the mandate to drive the Strategic Plan and strengthen KKF, by delivering value-added business support services in a commercially sound manner. BUSOS has an 11-member Board of Directors and its President sits on the board of the KKF. Project implementation was timely and as a result:

1. Since January 2006, the One Stop Window–an updated comprehensive database as part of the KKF's Information System–has been in place, linked to automated systems in related Government agencies. The time taken for acquiring business licences has been reduced considerably through a simplified KKF-assisted process. Business licences are now being issued by the Ministry of Development and Planning and the (rural) District Commissioners within 30 days. All other licenses are issued within a fortnight by the Chamber.

2. The KKF is the official Registry of all businesses. The Trade Registry captures comprehensive data of all companies in Suriname.

3. BUSOS produces and manages trade fairs and donor projects; develops proposals; and coordinates training activities. It organises activities relating to financial services sector modernisation, including new bank and credit union products.

4. A Small Enterprise Financing programme, co-funded by the IDB and the HAKRIN Bank, has been implemented by KKF-BUSOS.

Key factors which have contributed to the success of BUSOS as a best practice development centre are:

- Operating in a commercially sound manner to ensure long-term financial viability of its operations;
- Delivery of relevant training and technical support programmes to members and non-members;
- Negotiation and delivery of several donor agency-funded and private sector projects that bring value to KKF members and other customers;
- Building effective networks and linkages with organisations throughout the Caribbean and beyond; and
- Continuous management of national trade fairs, exhibitions and missions.

In 2016, BUSOS continues to operate as an efficient, responsive, self-sustaining development organisation that serves the needs of MSME entrepreneurs throughout Suriname. The sustainability of BUSOS is a point worthy of note. This is due to the fact that while it charges fees for its services, these reportedly are not high and hence affordable. Resolution of the issues of financial capacity and sustainability of regional BSOs is one that needs to be urgently addressed if the MSME sector is to grow and thrive.

Other private sector organisations providing business services to MSEs in Suriname are industrial associations, the Suriname Business Forum and Vocational Training Centres. Membership of the business associations comprises both large firms and SMEs, and provide business development services to their membership. This training is often done in collaboration with the donor community, for example, ILO, CARICOM and other organisations. The training focuses on ICT development; research and development; business clustering; certification; human resource management; and market intelligence, for example, with respect to CARICOM and the EU.

The Suriname Business Forum (SBF), established as a PPP to advance public and private sector dialogue in relation to policy, similar to the Jamaica MSME Alliance, is another institutional development worthy of emulation in the Caribbean with respect to advocacy on behalf of MSMEs.

In 2006, the SBF established the Suriname Business Centre (SBC) to provide online business services to its membership. SBF/SBC is sponsored by the EU. IntEnt, a Dutch funded NGO, also provides business service support to newly established enterprises. It provides training and coaching on business plans; marketing studies; and implementation plans. It also monitors the progress of startups.

Suriname notably also has organisations specifically for support to business women, another institutional development worthy of replication in the Caribbean. These are the National Movement for Women; the National Movement for Women Entrepreneurs and the Foundation for Management and Women's Organisations, which provide advice, assistance, training, project development services, and technical assistance to enhance business productivity.

4.5 RECOMMENDATIONS

1. Policy-makers and the heads of lead agencies should include the private sector (firms, trainers, consultants, institutes and trainers) in the design and delivery of all awareness-building; policy and law reform; training and technical assistance programmes to grow entrepreneurship and modernise MSMEs.

2. Public-Private-Partnerships take numerous forms, but they bring knowledge, expertise and vital information while widening the pool of investment resources for developing more MSMEs. The KKF-BUSOS partnership is a Caribbean model for sustainability that other BSOs may emulate and build on.

3. Business development and product marketing approaches that make maximum use of social media and ICT, appeal more to youths, women, immigrants and other demographics, while keeping costs affordable.

4. Advocacy is a crucial strength that BSOs should develop. Rather than seeking to 'be all things to all people' with limited resources, at least one organisation per jurisdiction should be identified to assume that role. KKF-BUSOS is a good example of successful advocacy. The national lobbying capacity of Jamaica's MSME Alliance should be strengthened as a pilot project, for subsequent replication.

4.5.1 Online Training and Development

The case has been extensively presented for making optimal use of high-speed internet facilities to leverage greater business opportunities at regional and global levels.

Internet-based educational material, business training and certification have been in vogue for at least 15 years. Webinars, for example, are a convenient and low cost means of diffusing knowledge, concepts and experiences to interested global audiences. MSME owners, managers and employees should be encouraged, trained and assisted to utilise their computers and hand-held devices to obtain more practice to address business-related issues.

4.5.2 Free Facebook Training

Blueprint currently provides free online training (on a 24-hour basis) to any entrepreneur, in the skills required to move his/her business forward. It has more than 50 eLearning modules:

- MSMEs should master the tools to get the most from Facebook;
- MSMEs can learn at their own pace with free eLearning modules;
- They can learn when and where they want, on or off mobile.[34]

4.5.3 Caribbean Business Portal

The establishment and management of a Business Portal linked to the Regional Hub has also been recommended. This would resolve the longstanding constraint of information asymmetry faced by MSMEs in every BMC, resulting in expanded business contacts and transactions for the entrepreneur.

Additionally, Chambres De Métiers et L'Artisanat (Chambers of Trades and Handicrafts; Martinique and Guadeloupe) can be a very useful source of training and business services. These Chambers of Trades and Handicrafts have been providing information training, technical assistance, marketing and representation to their members for over 40 years; both have achieved ISO 9001 certification. A significant portion of their services delivery is processed via the internet, and is aimed at accompanying artisans in all stages of professional advancement –business creation; training; business development, etc. Both websites provide free translation and enjoy constantly high global traffic.[35]

Now that Martinique has joined the OECS Member States, the opportunities for regional co-operation in business development and trade, utilising information and communications technology-based training modules and consultations, have expanded. Closer collaboration within the Francophone and Anglophone Caribbean will also benefit the budgets of the government agencies and BSOs in the CDB BMCs, by releasing national resources to attend to other crucial business development needs.

[34] https://www.facebook.com/blueprint?_rdr | [35] http://cma-martinique.com/, http://www.cmarguadeloupe.org/

4.5.4 Towards an appropriate regional institutional infrastructure

Further to the recommendations made in section 4.3 above to improve the value-for-money offerings of the current BSOs and state agencies serving at the national level, a complementary structure and approach that can create synergies by tapping into the resources of capable regional organisations and projects seem logical. All initiatives proposed here will have direct outcomes beneficial to the MSMEs themselves:

1. The governance and operations of all support organisations and agencies require supervision. Conducted regionally, and utilising globally accepted criteria, emphasis should be placed on performance monitoring, ranking and disseminating quality information on a predictable frequency in respect of:
   - Ministries and lead agencies in transforming their policy, legislative and regulatory framework;
   - non-financial service providers in delivering training and technical assistance; and
   - financial institutions and related mechanisms in enhancing access to finance.

   The related publication/report will also highlight innovations at all levels of MSME activity. This will keep regional policy makers, legislators and service providers informed and accountable and will motivate them to set positive examples in MSME development.

2. Extensive institutional strengthening is imperative so that Business Support Organisations (BSOs) can benefit from modern business development training and certification. The internal systems of each should be upgraded to meet the growing demands of new entrants. Shared resources and services, amalgamations and mergers, where suitable, with other like-minded but strategic organisations will increase their sustainability.

3. A public-private partnership network should be explored between selected MFIs, Business Development Agencies (BDAs) and BSOs to facilitate a larger flow of domestic resources into MSME growth and expansion, using Barbados and Belize as pilots. A nexus of 3-4 large credit unions and Fund Access in Barbados and likewise a linking of the four largest credit unions in Belize, BEST, DFC and BELTRAIDE, is also envisaged. With competent pre-screening and post loans assistance performed by competent staff in the BSOs and BDAs, the credit unions will be assisted in setting up special desks or units that specialise in MSME loans. The credit unions' savings-driven and value-chain lending methodologies, already practised in Peru, Kenya, Poland and Brazil can be replicated in the Caribbean.

4. The CIDA-CPEC Regional Model (1999-2005)
   The CIDA-CPEC Programme, completed 10 years ago, has been an effective institutional arrangement for enhancing productivity and competitiveness in Caribbean MSMEs, by building technical capacity, financial sustainability and institutional resilience in selected public agencies, private sector firms and their trade associations at regional and national levels.

   The CIDA-financed Caribbean Programme for Economic Competitiveness (CPEC), implemented 62 sub-projects in six key economic sectors across 15 CARICOM countries (including Suriname and Belize). MSMEs as well as the public and private sector agencies serving them, were by far the major beneficiaries of the human resource development; trade expansion; and institutional strengthening outputs of this highly successful programme.

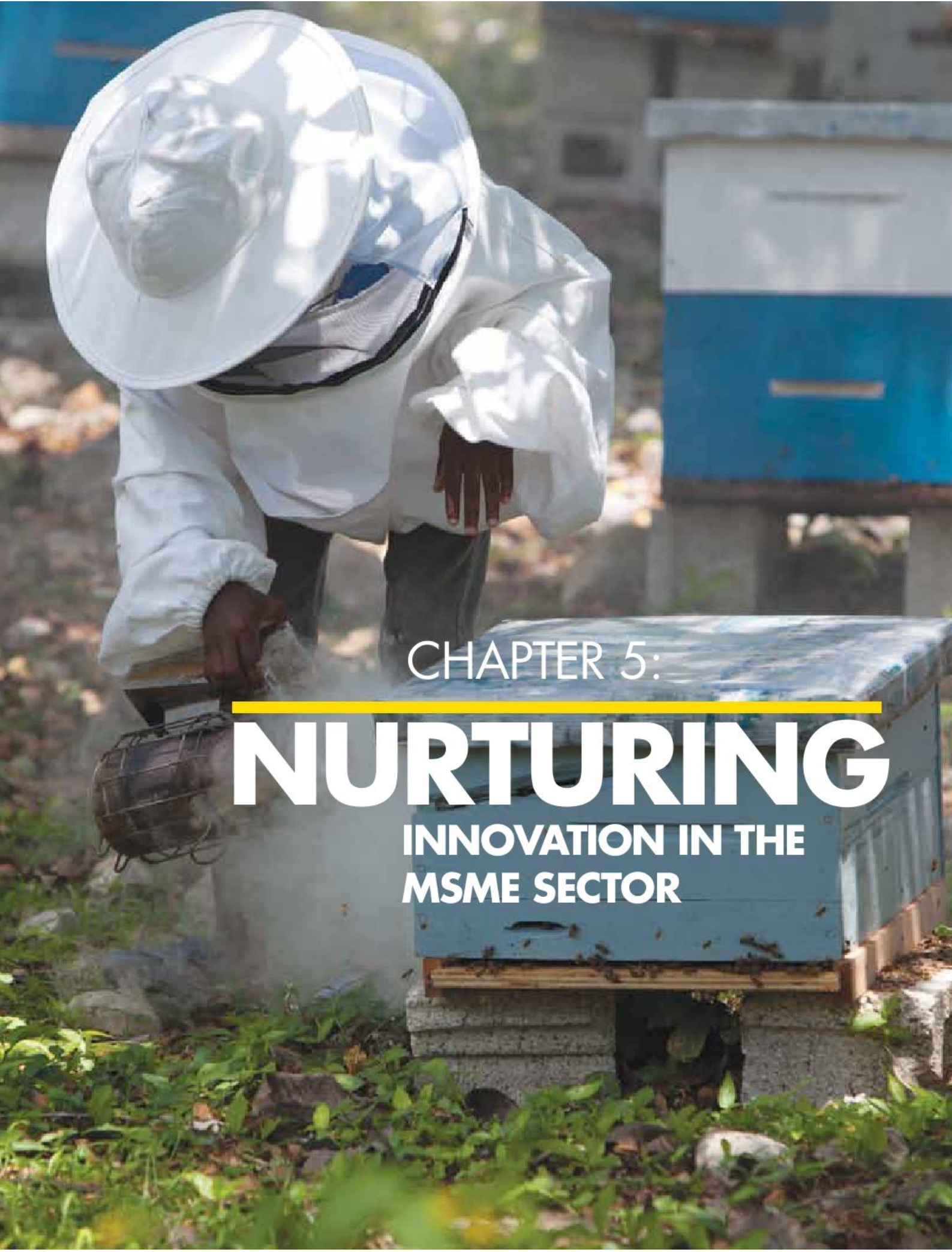
The St. Lucia-based Regional Office of CPEC exceeded all its contractual obligations by strengthening the capacities of:

- 1,900 large, medium and small companies across the six economic sectors of focus: Tourism, Forestry; Financial Services; Agriculture and Agro-industry; Manufacturing; and Construction;
- over 360 Government agencies, academic institutions, private sector associations and civil society networks; and
- 29,151entrepreneurs, regulators, managers, supervisors, technicians and line workers, approximately 51% of whom were females.

Twenty-four pieces of standards-driven legislation drafted by the Project, were also approved by various governments. Fifteen policy statements and sector strategies were produced, utilizing exhaustive stakeholder discussion, and presented for Cabinet approval, including:

- Tourism Development in Guyana, Suriname, Antigua-Barbuda;
- Visitor Safety and Security in Trinidad and Tobago, Jamaica, Barbados, St. Kitts-Nevis and Dominica;
- Strengthening the skills base and product quality in Construction in seven East Caribbean countries;
- Fisheries Development in Jamaica and Guyana; and
- Financial Services Modernisation and Expansion in Dominica.

It is strongly recommended that the Region attempt, at this juncture, to re-instate a similar programme focused particularly on the strengthening of public and private sector BSOs and training in selected MSMEs.



CHAPTER 5:

NURTURING

INNOVATION IN THE MSME SECTOR

CHAPTER 5: NURTURING INNOVATION IN THE MSME SECTOR

5.1 WHAT IS INNOVATION?

5.1.1 Multiple definitions

Wikipedia quotes a definition of innovation as "a new idea, or more-effective device or process", but goes on to say, it can be viewed as "the application of better solutions that meet new requirements, unarticulated needs, or existing market needs. This is accomplished through more-effective products, processes, services, technologies or business models that are readily available to markets, governments and society. The term "innovation" can be defined as something original and more effective and, as a consequence, new, that "breaks into" the market or society".[36]

The World Bank Institute, using a somewhat broader definition in its 2010 report "Innovation Policy for Developing Countries", points out that innovation means technologies or practices that are new to a given society. This means that innovations can be imported and not necessarily created internally. They need not be new in absolute terms. Moreover, management guru, Peter Drucker claimed that "Innovation is the specific function of entrepreneurship, whether in an existing business, a public service institution, or a new venture started by a lone individual in the family kitchen. It is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth."

5.1.2 Sources of Innovation

Peter Drucker in his 1985 book "Innovation and Entrepreneurship" lists seven sources of innovative opportunity. They are referred to as: 1) the unexpected, 2) incongruity, 3) process need, 4) industry and market structure changes, 5) demographics, 6) changes in perception, meaning and mood, and 7) new knowledge. In almost all of the preceding examples, innovation is researched-based. It is driven by inquisitiveness to find unique ways to do things differently – shorten the time frame for a given task; increase the accessibility of decision-making information; create and improve product usage; introduce new services; and improve the packaging and delivery of services. The engine of innovation is therefore a culture of inquisitiveness and inquiry that becomes pervasive in society.

Today, there are four main types of innovation, most of which are ICT-based or influenced:

1. Process Innovation. This involves new and deliberate organisational attempts to change production and service processes. Example: Expedia.com and Trip Advisor.com. (It is important to note that these examples are ICT-based innovation solutions.)
2. Product Innovation. This is the introduction of a good or service that is new or has been significantly improved with respect to its characteristics or intended uses. Product innovation is also a key factor for successful market entry in models of creative destruction and Schumpeterian growth. Example: Apple computers and Kindle.

[36] https://en.wikipedia.org/wiki/Innovation

3. Social Innovation. The creation of innovative activities and services that are motivated by the goal of meeting a social need and are predominantly developed and disseminated through organisations whose primary purposes are social. Example: Kickstarter, Facebook.

4. Management Innovation. The invention and implementation of a management practice, process, structure or technique that is new to the state of the art and is intended to further organisational goals. Example: FedEx, Walmart, Carnival Cruise Lines.

5.1.3 The Structured Approach

In the organisational context, innovation may be linked to positive changes in efficiency, productivity, quality, competitiveness and market share. Recent research findings highlight the complementary role of organisational culture in enabling entities to translate innovative activity into tangible improvements. In addition, organisations can improve profits and performance by providing work groups with the opportunities and resources to foster creativity while performing core tasks. The guidelines for organisational innovation are summarised in Figure 5.1 below:

Figure 5.1: Guidelines for Adopting Innovative Processes at Organisational Level

Source: Innovation Management. Innovation Without Borders: Six Best Practices to Improve Innovation Success Rates.[37]

Innovation by businesses is achieved in many ways, with much attention now given to formal research and development (R&D) for "breakthrough innovations". R&D helps in developing patents and other scientific innovations that lead to productive growth in areas such as industry, medicine, engineering, and government. Yet, innovations can be developed by less formal on-the-job modifications of practice, through exchange and combination of professional experience and by many other routes.

[37] NPD = new product development

However, the more radical and revolutionary innovations tend to emerge from R&D, while more incremental innovations may emerge from practice. However, there are many exceptions to each of these trends.

An important and obvious innovation driver is customers buying products or using services. Increasingly, firms are incorporating users in focus groups (user-centred approach); working closely with so-called lead users (lead user approach); or users might adapt products themselves.

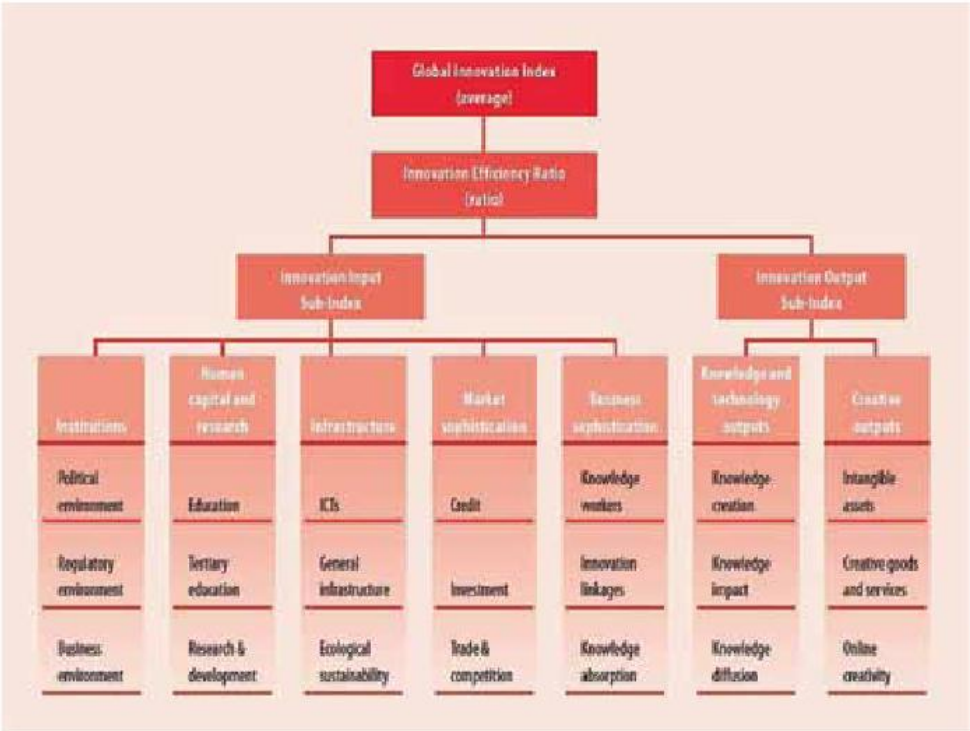
5.2 BEST PRACTICES IN MSME INNOVATION

Best practices in SME innovation are mainly attributed to the models used to support innovation in the USA. However, the country of reference for emerging economies is Israel, but both sets of practices are well advanced, and are therefore difficult to relate to from a developing country perspective.

The Global Innovation Index (GII) is the point of reference for best practices in innovation across the developed and developing world. GII relies on two sub-indices: the Innovation Input Sub-Index and the Innovation Output Sub-Index, each built around pillars. Five input pillars capture elements of the national economy that enable innovative activities: 1) Institutions; 2) Human capital and research; 3) Infrastructure; 4) Market sophistication; and 5) Business sophistication.

Aditionally, two output pillars capture actual evidence of innovation outputs: 6) Knowledge and technology outputs and 7) Creative outputs. Each pillar is divided into sub-pillars and each sub-pillar is composed of individual indicators (79 in total). Sub-pillar scores are calculated as the weighted average of individual indicators; while pillar scores are calculated as the weighted average of sub-pillar scores. The framework is revised every year in a transparent exercise to improve the way innovation is measured. The methodology used is highlighted in Figure 5.2 below.

Figure 5.2: Methodology used to Establish Rankings on the GII



Source: Global Competitiveness Index 2015

There were 141 countries ranked in the 2015 Global Innovation Index (GII). The top five were Switzerland, the United Kingdom, Sweden, the Netherlands and the United States of America (USA) in that order.

Only four of the eight countries surveyed in this study were ranked on the GII. The rankings were as follows:

Table 5.1 Ranking of Selective Caribbean Countries on World Innovation Index 2015

Country	World Ranking	Regional Ranking (LAC)
1. Barbados	37th	1st
2. Trinidad and Tobago	80th	11th
3. Guyana	86th	12th
4. Jamaica	96th	15th

Source: Global Innovation Index Rankings 2015

The other four countries i.e. Antigua, Belize, St. Lucia and Suriname, were not ranked on the index.

Two main policy strands form the core of present innovation policy. On the one hand, there is a need to improve the framework conditions for innovation. These conditions include the business environment, access to finance, competition, and trade openness, as captured in the Innovation Input Sub-Index of the GII model. On the other hand, nations also need dedicated innovation policies, targeting both innovation actors and the linkages among them. Such policies include collaborative research projects, public-private partnerships, and clusters. High-income countries follow a set of dedicated supply and demand-side innovation policies. This entails creating a strong human capital and research base that includes research infrastructures; sophisticated firms and markets; innovation linkages; and knowledge absorption that fosters innovation outputs as captured by the GII.

Under this second strand, direct support for business R&D and innovation is provided in the form of grants, subsidies, or indirect measures such as R&D tax credits. Universities and public research organisations are funded via across-the-board or more competitive funding mechanisms. In addition, there is also renewed interest in demand-side measures.

This interest is evident while using classic instruments such as public procurement, as well as testing out new approaches to promote innovation specific to overcoming key societal challenges in fields such as clean energy and health.

Another new policy development is the focus on creating an "innovation culture" with businesses, students, and society at large. This is meant to spur greater entrepreneurial activity and to achieve a better public appreciation of the role of science and innovation. The design of proper metrics and evaluation strategies of policies is also emphasised. Moreover, formulation and measurement of innovation policies is increasingly treated as a science in its own right. Notwithstanding these developments, finding the right combination between demand and supply measures, and between public and private funding for innovation, remains largely a trial-and-error endeavour.

Although it is tempting to think so, a simple migration of policy mixes developed in high-income countries to developing countries, is unlikely to bear fruit. The reason is mainly that innovation policies and institutions need to be context-specific, reflecting the extensive heterogeneity and varying trajectories of countries.

Accordingly, a number of differences between developed and developing countries need to be emphasised in this report:

First, the framework conditions for innovation are more challenging in developing countries. Beyond macroeconomic challenges, this often manifests itself in poorer infrastructure; weaker product, capital, and labour markets; and weaker education systems. Ineffective regulatory set-ups that do not provide the proper incentives to innovation are often an bstacle.

Second, for sheer budgetary reasons, the capacity to finance, coordinate, and evaluate a large package of innovation policies is constrained in developing countries. While arguably all components of innovation policy dimensions seem important, tough priority setting is needed. This is certainly a significant challenge in the Caribbean. Moreover, in the context of developing countries, the innovation policy coordination between various local, regional, and national levels of government is often even more demanding than it is in developed nation states.

Third, the industrial structure of most low- and middle-income countries is usually different, with a greater reliance on agriculture, the extraction of raw materials (Trinidad, Guyana and Suriname), and too few—mostly low-value-added— manufacturing activities (e.g., food processing, textiles), as well as an increasing reliance on services industries such as creative sectors, tourism, transport, and retail activities. Micro- and small businesses play an above-average role for the broader economy potentially for innovation too. Given the structure of the Caribbean's private sector, this is likely to be the case in this region as well.

Fourth, country- or sector-specific exceptions aside, innovation capabilities in developing countries are typically less advanced than those in developed countries.

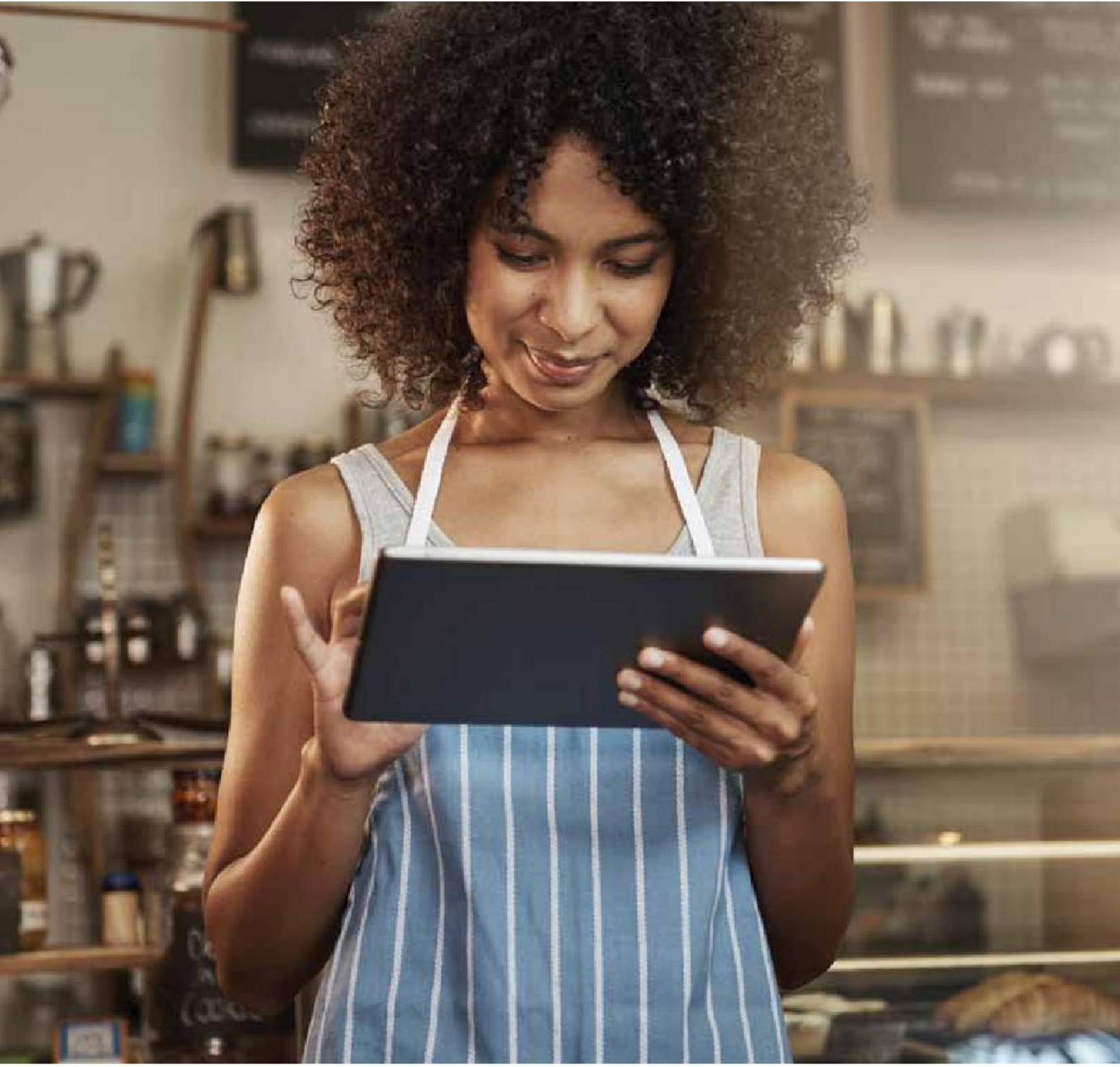
In developing countries, the human resource base remains comparatively weak. In the Caribbean, the brain drain is persistently high; and innovation actors and linkages between them are usually weaker than in developed countries. Furthermore, public research organisations are usually the only actors engaged in research and often operate in an isolated fashion without links to the real economy, while firms tend to have low absorptive capacity. In the formal sector, improvements in maintenance, engineering, and quality control, rather than fresh R&D investment, tend to drive innovation.

Also, sources of learning and innovation frequently result from foreign direct investment (FDI), or more frequently, acquisition of technologies developed abroad. Firms tend to have low absorptive capacity and do not interact with scientific institutions or science more broadly. Therefore, collaborating with external partners in innovation, generally remains an important challenge for companies in developing countries.

5.3 THE MSME INNOVATION LANDSCAPE IN THE CARIBBEAN

5.3.1 Current Status

This section examines the current status of the innovation landscape for MSMEs in the four Caribbean countries that are ranked on the Global Innovation Index: Barbados, Trinidad and Tobago, Guyana and Jamaica. It should be noted that the issue of improving the Access to Finance component has already been addressed in Chapter 2.



In Barbados, the commitment to innovation is embedded in that country's Human Resource Development Strategy 2011–2016 under Chapter 6.0 -Enhancing Research, Innovation and Entrepreneurship. In that regard, the Government of Barbados (GOB) has taken the view that "innovation and entrepreneurship are grounded in the application of scientific research principles to solving, social, economic and development challenges".[38]

[38] Barbados Human Resource Development Strategy, Science, Innovation and Entrepreneurship, 2011-16, Section 6.1, p.62

The GOB has recognised the importance of investments in research, innovation, and entrepreneurship as providing a competitive advantage in an increasingly global economy. This priority is underlined in Goal 2 of the National Information and Communication Technologies Strategic Plan of Barbados (2009-2015). This goal envisions support for innovators, for development and research of technology infrastructure, and the development of technical and entrepreneurial skills.

This relatively definitive position suggests that Barbados, although heavily dependent on Services, has opted to take the educational/ scientific approach to innovation policy, rather than emphasise user-experience innovation as the driving force behind its innovation agenda. The position is reinforced by the Government's statement that "through the HRD Strategy, Government envisages the enhancement of science, technology, and innovation policies to facilitate the fostering of a culture of research and innovation from as early as primary and secondary school, through to tertiary level education. To achieve this, emphasis will be placed on reinvigorating science education at all levels of the education system, as well as building human capacity in science, technology, research, and innovation through a system of education, lifelong learning, professional development and training which will involve the enhancement of the functions of several associated agencies".[39]

The commitment to innovation is supported through the following mechanisms:

1. BDS3 mn committed to the University of the West Indies over three years to support the development of a research programme at the postgraduate level;
2. The intent to create science and technology parks, and the harnessing and exchange of information along with enhancement of knowledge management systems;
3. A focus on innovation in agriculture on the basis that a high level of development can only occur if there is close cooperation and interaction between scientists, extension advisers, growers, and agriculture-related industries;
4. USD $2.5 mn set aside in 2003 for the Innovation Fund, managed by the Enterprise Growth Fund Limited that provides seed capital in the range of USD 12,500 -125,000 to assist entrepreneurs with the implementation of commercially viable project ideas. The fund was also used to coordinate the National Innovation Competition, which encouraged management and other personnel to think outside the box in enhancing the competitiveness of their businesses.
5. Enhanced policies and programmes, which target the SME sector and provide incentives to drive more extensive use of research, development, and innovation. This includes enhancement of the national innovation competition to ensure that more innovative products and services reach the realization stage, and are ready for export and development of a programme for the implementation and marketing of innovative products and services.
6. The leveraging of ICT-related research-oriented activities including the continued development of linkages with the Caribbean Knowledge Learning Network (CKLN), which supports the development of national research and educational networks.

[39] Ibid.

Barbados owes its high ranking to its ranked status Pillars "business sophistication" and "institutions". According to the IDB 2014 country PSAR, Barbados was ranked second in terms of technological readiness within the benchmark group of countries in 2013-14, largely owing to high Internet penetration rates and availability of technologies.

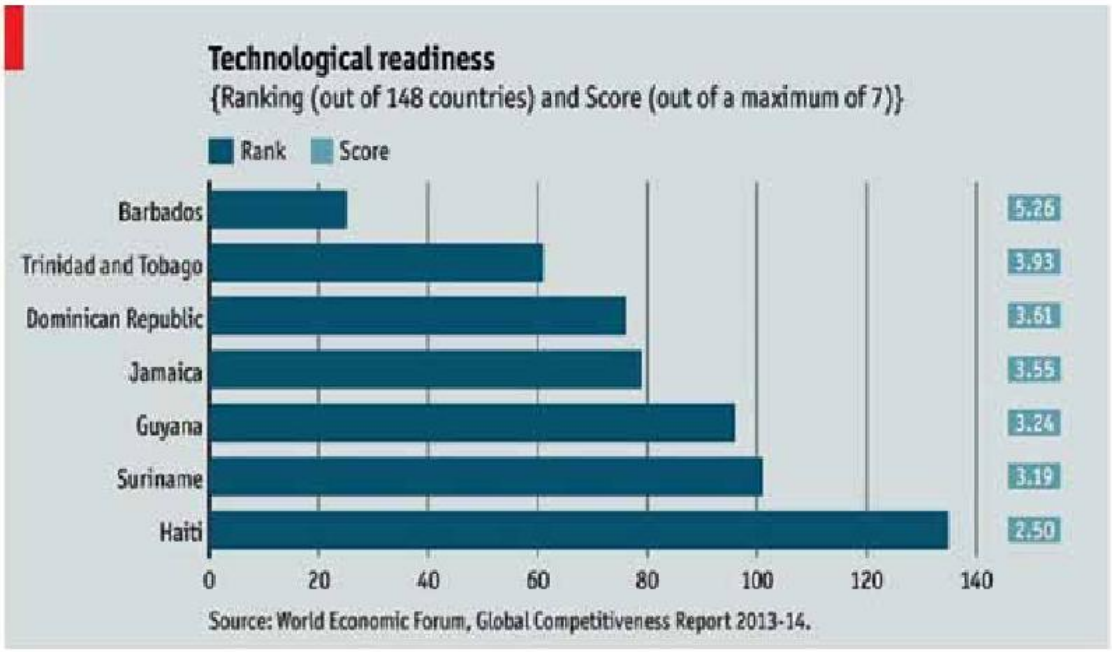
The Technology Readiness Index, compiled by the World Economic Forum (WEF), is based on indicators of the availability of the latest technologies, firm level technology absorption, foreign direct investment and technology transfer, Internet use, broadband Internet subscriptions and Internet bandwidth.

Relative to its benchmark group, Barbados had the largest proportion of firms with their own website.

The only indicator in the index on which Barbados lagged behind its peers was that for the use of technology licensed from foreign companies. This may suggest that there is scope for greater collaboration with overseas firms.

Figure 5.3 below highlights Barbados' technological readiness – relative to that of other Caribbean countries.

Figure 5.3 Technological Readiness



Companies in Barbados have access to technological platforms that can enhance the efficiency of their enterprises. On the downside however, corporate investment in innovation lags significantly behind investment in technology. In terms of company spending on Research and Development (R&D), Barbados was ranked 78th out of 148 countries in this category in the WEF's 2013-2014 Global Competitiveness Report.

It should be noted that the modest level of investment in innovation is not a result of limited availability of appropriately skilled personnel, as Barbados boasts the highest scores for availability of scientists and engineers among its benchmark group of countries. Given the importance of services in the domestic economy, this could suggest that R&D expenditure may not accurately capture the extent to which firms are innovating.

However, the low level of R&D expenditure does reflect the dependence of local firms on the domestic market, and is an area in which further policy support is required.

One of the driving forces behind Barbados' alignment with R&D innovation is the National Council for Science and Technology (NCST), which promotes the assimilation and adoption of science in a lecturing and debating series; dissemination of S&T information; popularization of science; and an annual Caribbean Youth Science Forum (CYSF). NCST publishes "The Monitor" through which Science and Technology (S&T) professionals are given the opportunity to publish articles on similar topics. Also, since 1998, NCST has been hosting biennials of "Sci-Tech Xpos" for students to showcase their research efforts in this field.

Overall, while such initiatives have fuelled the shift toward applied priority technologies such as solar power usage through joint ventures between UWI and foreign private firms, there is no integrated innovation policy or strategy and the impact in Barbados has been modest at best.

In Trinidad and Tobago (T&T) there have been systematic attempts to develop a cohesive approach to Innovation since 2001:

- In 2001, a National Task Force on Science, Technology and Innovation Policy produced a report on the subject of a national innovation policy.
- In 2004, the then Ministry of Science, Technology and Tertiary Education (MSTTE) developed a Draft Policy on Science, Technology and Innovation.
- In 2005, a seminal paper was presented at a conference in Peru[40]. At that time, the Vision 2020 Sub-Committee on Science, Technology and Innovation (STI) had proposed that Trinidad and Tobago develop a National System of Innovation (NIS), with the application of knowledge to production as its focus;
- In 2006, the National Institute of Higher Education, Research, Science and Technology (NIHERST) created a similar report.
- A draft national policy on science andtechnology was developed in 2007 by NIHERST.

Since Independence, Trinidad and Tobago has been steadily building institutional capacity. The number of STI based institutions in the country substantiates this commitment –the University of the West Indies (UWI); the University of Trinidad and Tobago (UTT); the College of Science, Technology and Applied Arts of Trinidad and Tobago (COSTAATT); the Caribbean Industrial Research Institute (CARIRI); Trinidad and Tobago Bureau of Standards (TTBS); the Caribbean Agricultural Research and Development Institute (CARDI); the Institute of Marine Affairs (IMA); NIHERST etc.

But the challenge was that not enough attention was being paid to stimulating the demand side for knowledge in the productive sector, i.e. in local firms and in the productive sectors. In 2005, a National Innovation System (NIS), as a dynamic interconnected system with interaction, learning, linkages and information flows, was seen as central to success. The key pillar of this strategy was intended to be the creation of an independent National Council on Science, Technology and Innovation (NCOSTI) that would be the NIS conductor, bringing the players together (i.e. Institutions, the Firms, Government, NGOs, Policies and other enabling instruments). But even if a relevant institution were actually assigned responsibility for leading and directing innovation research effort, the underlying constraint was that the manufacturing sector had "near zero investment in R&D" and that Government investment in R&D was very low (about 0.13% of GDP).

[40] See: Clement Sankat, "Building a National Innovation System for Trinidad and Tobago - A Vision 2020 Perspective " UWI.

Since then, T&T has made progress towards the development of an Integrated Innovation System, but that progress has been uneven. For instance, in 2008, the Government of Trinidad and Tobago (GOTT) decided to create its own version of Silicon Valley, by investing an estimated USD150 mn in the Caribbean's first Science and Technology Park, i.e. the Tamana InTech Park. This initiative has had mixed results, achieving far less to date than the level of investment would warrant. EtecK, which manages the Park, points out that Phase One of the 1,100-acre park facility is complete, and that spaces are available for ICT/BPO, high value manufacturing, clean technologies and business services.

However, a May 2015 World Intellectual Property Organisation (WIPO) study entitled "Integrating Intellectual Property into Innovation Policy Formulation in Trinidad and Tobago"[41] summarised the current status of the country's innovation system as follows:

- The innovation system of T&T is fragmented with little coordination among actors;
- Strategies tackling innovation are well drafted and ambitious, but have deficiencies in the translation into operative goals and activities;
- Overall innovation and intellectual property (IP) performance is low;
- One of the main reasons for low innovation performance is the "Dutch" disease. Success in gas exploration means that much of the competitive pressure and needs to invest in other sectors have been lifted/neglected;
- There are IP hotspots and positive deviants particularly in the creative sector, as well as in a small number of research institutes and firms;
- The level of integration of IP issues in the innovation system differs across institutions, but is generally rather low;
- There is little overall Intellectual Property Rights (IPR) awareness and also observable differences across industries;
- Business intermediaries seem to have little IP know-how and services;
- There is a lack of clarity as to ownership of research results and that has proven to be a barrier for commercialisation;
- Incentive systems for researchers at universities are based mostly on academic performance (publications), which is a barrier for IP-related commercialisation activities;
- There is no equivalent of the U.S. Bayh-Dole Act in the Caribbean. Enacted in 1980, the Act created a uniform patent policy among federal agencies that fund research, enabling small businesses and non-profit organisations, including universities to retain title to inventions made under federally-funded research programmes;
- There is a lack of trust in institutions, e.g. whether they would honour IP created by others;
- Access to finance and funding sources are an issue; and
- There is a shortage of legal Intellectual Property Rights services and expertise in the country.

While the study had an IP orientation, it implied that the overall system was not well organised; that there was limited knowledge about the use of IP in innovation activities; and that there was a lack of trust between institutions on intellectual property. Overall, then , these findings suggest that Innovation is still at a relatively nascent stage of development in T&T.

In May 2013, the Minister of Finance announced the Government's intention to develop a National Innovation Policy, and added that it would also finalise a new ICT plan for 2012–2016. Yet the challenge of creating an innovation culture remains daunting. Despite the progressive importance noted at senior policy and technical assistance levels, there is limited entrepreneurial exposure and use of innovation in T&T.

[41] Alfred Radauer, "Integrating Intellectual Property into Innovation Policy Formulation in Trinidad and Tobago" Technopolis Group, Austria, for WIPO, 5th May 2015.

A study entitled "Towards Economic Diversification: A National Innovation System for Trinidad and Tobago" published in October 2013, was based on a survey of 100 business enterprises, and concluded that: 1) 86% of total early-stage entrepreneurial activity did not incorporate any new technology; and 2) 87% of enterprises were offering products that were not new to any of their customers, reflects the limited adoption of innovation in T&T.[42] Also, the National Innovation System (NIS) that was proposed in 2005 was still not yet established in 2013.

In 2014, the Inter-American Development Bank, in collaboration with the Government of Trinidad and Tobago (GOTT), established a project entitled "Support for the National Competitiveness and Innovation Agenda". The project has four components: 1) financing support for private sector innovation including support for innovation in existing firms, and assistance for business incubation and acceleration; 2) research and technology support including mission-oriented research carried out by academic institutions and the strengthening of technology transfer offices; 3) sector-specific innovation policies including support for innovation agendas in three priority industry clusters; and 4) institutional development and capacity building including capacity building in innovation policy at MPSLD and NIHERST.[43]

Also in September 2014, the Government announced the introduction of a TTD50 mn Innovation Fund to be utilised as matching grants for the innovation needs of companies. However, the Fund's effectiveness has not yet been assessed within its first year of operations. The Government also confers bi-annual awards, established in 2000, for innovative science and technology projects via NIHERST.

Such awards have included initiatives creating 1) a safe oil and water paint remover; 2) a music CD learning tool for CXC students; 3) a Smartphone Application for finding lost keys; 4) Mobile Osh Inspection App; 5) a biocatalyst for the removal of greenhouse gases; and 6) a drinking straw holder.

Guyana has one of the lowest GDP per capita, but stands out because of its relatively high ranking on the Innovation Index in Latin America and the Caribbean (12th). An early indicator of Guyana's status was its rankings on Innovation and Technology in the 2010 World Bank Enterprise Surveys.

Table 5.2: Comparative Innovation and Technology Status for Guyana

Indicator	Guyana	LAC	All Countries
Percent of firms with an internationally-recognized quality certification	29.5	16.3	18.1
Percent of firms using technology licensed from foreign companies	17.4	14.4	14.6
Percent of firms having their own website	46.1	42.1	45.6
Percent of firms using e-mail to interact with clients/suppliers	92.5	79.9	73.1
Percent of firms with an annual financial statement reviewed by external auditors	90.4	61.7	48.5

Source: World Bank, 2010 Enterprise Surveys (Guyana).

[42] See: Natasha Ramkissoon-Babwah, "Towards Economic Diversification: A National Innovation System for Trinidad and Tobago, page 70. ACRN Journal of Entrepreneurship Perspectives, Oct. 2013. | [43] Various reports have been referenced to support this project including "Assessment of the National Innovation Ecosystem" and "Assessment of the Innovation System in Trinidad and Tobago" but these are deemed to be confidential documents and are therefore not available for reference or circulation.

For each of the five indicators, Guyana ranked higher than all LAC countries and also surpassed the average for all countries: i.e. percentage of firms with internationally-recognised technology quality certification; percentage of firms using technology certified from foreign companies; percentage of firms having their own websites; percentage of firms using email; and percentage of firms with audited financial statements (Table 5.2).

Guyana scored highly on the 2015 GII under the Pillar "business sophistication", in terms of both knowledge workers and firms offering formal training, and in terms of royalty and license fee payments. It also scored highly under the Pillar "creative outputs" in terms of national feature films as a percentage of total population and creative export goods as a proportion of total trade.

According to the 2014 IDB PSAR, Guyana is in the early stages of becoming a hub for the provision of business process outsourcing (BPO) services. Qualfon, the first company to provide such services in Guyana, employs over 1,700 people in a call centre, and plans to expand in the near term. Guyana offers an educated labour force that speaks English as its first language, and has competitive wage rates—factors taken into consideration by investors when deciding where to locate. Successfully expanding BPO services will require complementary investment in information and communications technology, as well as in research and development.

According to the WEF's Global Competitiveness Index (GCI), Guyana needs to invest in mobile broadband technology. The country also needs to take advantage of the opportunity offered by BPO services. This report suggests that an assessment of the specific needs of BPO firms and complementary services, be performed. This would identify gaps in infrastructure and know-how that need to be filled to enable Guyana to take full advantage of investments in BPO. The experience of other countries, e.g. Jamaica, indicates that a concerted effort to facilitate the expansion of the services sector requires the participation of both public and private actors.

Additionally, the information and feedback from innovation stakeholders in Guyana is limited. Lance Hinds, President of the Georgetown Chamber of Commerce and Industry, points out that "technology-driven knowledge management industries could be the cornerstone of [Guyana's] future". Hinds noted that if the ICT plan is to be successful, it must be placed in a priority position in the overall plan for National Development. Therefore, it should be based on two fundamental pillars: 1) the growth of ICT as an independent sector; and 2) its application as a cross cutting component in other sectors. These include education, health, science innovation and creative industry.

Another potential area of innovation lies in Guyana's low carbon development strategy (LCDS), and its orientation towards innovation in agriculture. Local and international investors have given seed funding to establish a loan fund for development of low carbon enterprises, dubbed the Rupununi Innovation Fund. The United Kingdom's Department for International Development (DFID) has also launched a GBP 1.3 mn project to support growth in non-traditional agriculture and aquaculture.

The Science Unit of the Education Ministry, the National Centre for Educational Resources Development (NCERD), in collaboration with the Office of the President, has coordinated the development of a National Science and Technology Policy and Master Plan for the Socio-Economic and Environmental Advancement of Guyana. This was approved by Government in 2014. So far, draft science and technology indicators have been developed. However, Guyana has not yet established a cohesive framework for innovation overall.

Jamaica, was ranked 96th on the 2015 GII and 15th within the LAC region, and is addressing its innovation system from various perspectives. The core strategy and reference point for an innovation framework in Jamaica is the National Development Plan (NDP) – Vision 2030.

The plan addresses innovation in various sections, and includes a number of performance indicators. When the plan was completed in 2009, it included the following observations about innovation in Jamaica:

Low levels of investment in R&D. The country spends less than 1% of GDP on R&D, although it claims to have "path-breaking work" in agricultural research and has expanded the science infrastructure.

Lack of a National Innovation System. Linkages between key players in the innovation process are weak or in some cases non-existent, when compared to innovation processes in the developed world.

Protection of Intellectual Property. Jamaica already has the basic legal framework for protection of IP. However, the framework has a number of weaknesses, including limited capacity of collection agencies and other institutions; high levels of piracy; and low public appreciation of the importance of IP rights.

Limited role of government. The NDP states that the government could provide a greater catalytic role through adoption of ICT and e-government technologies, but that it lacks a specific vision or agenda for science and technology development.

Human Resource Development. The Plan points out that secondary school examination pass rates are particularly low in subjects that are critical for technological progress, including Mathematics and Sciences. Jamaica acknowledged that it had a low capacity for enquiry-based approaches to learning, and that scientific enquiry is not a core component of teacher training. Technology deployment and usage was curtailed by a combination of human resource factors including high illiteracy rates; loss of ICT skills due to migration; as well as low skill levels and high technology anxiety among the elderly.

Inadequate data on ICT industry. The NDP calls for more data on ICT usage at macro and micro levels. The main strategic approach to addressing these constraints was to focus on the establishment of a world class National Innovation System (NIS) which was to include: 1) creation of finance and incentive mechanisms to attract research; 2) promotion of STI capacity formation and inward technology transfer; 3) creation of knowledge parks and centres of excellence; and 4) investment with the private sector in research infrastructure.

The institutional framework to support innovation is extensive. It includes: 1) the Ministry of Science, Technology, Energy and Mining (MSTEM); 2) the National Commission on Science and Technology (NCST); 3) the Science Research Council (SRC); 4) the Ministry of Education (MoE); 5) University of the West Indies (UWI) and UTech; 6) HEART Trust/ NTA, the national training agency for vocational training; and 7) the Ministry of Industry, Investment and Commerce (MIIC), which oversees the work of the Bureau of Standards; the Jamaica Intellectual Property Office; and the Jamaica Business Development Corporation.

Other entities involved in promoting and facilitating innovation include: Start-Up Jamaica; the National Foundation for Development of Science and Technology; the National Innovation Awards; the Technology Investment Fund; and an R&D tax credit scheme operated by NCST. Also, the University of Technology (UTech) has a School of Graduate Studies, Research and Entrepreneurship (SGSRE) and an incubator facility at its Technology Innovation Centre. Likewise, UWI has a Mona Office for Research and Innovation (MORI).

Given such an extensive range of innovation-related support institutions, how well has Jamaica done in terms of actually fostering innovation nationally? In the 2015 GII, Jamaica scores highly under the Pillar "market sophistication" where it was ranked 11th in the world for Ease of Getting Credit.

Other attributes include ease of starting a business under the "Institutions" Pillar; domestic resident trademark application under the "Creative Outputs" Pillar; and computer software spending as a percentage of GDP, under the "Knowledge and Technology Outputs" Pillar.

With a ranking of 79th out of 142 countries for technological readiness in the GCI, Jamaica is outperformed in this area by Barbados (25th), Trinidad and Tobago (61st) and the Dominican Republic (76th). Jamaica received a below average ranking overall for the innovation category (at 83rd) in the GCI. This is in spite of the fact that Jamaica has an above average ranking for the quality of scientific research institutes, at 48th. However, the 2014 IDB Private Sector Assessment Report (PSAR) on Jamaica, points out that to be competitive, Jamaican businesses must strive for higher levels of productivity, which can be attained through innovation and utilization of technology.

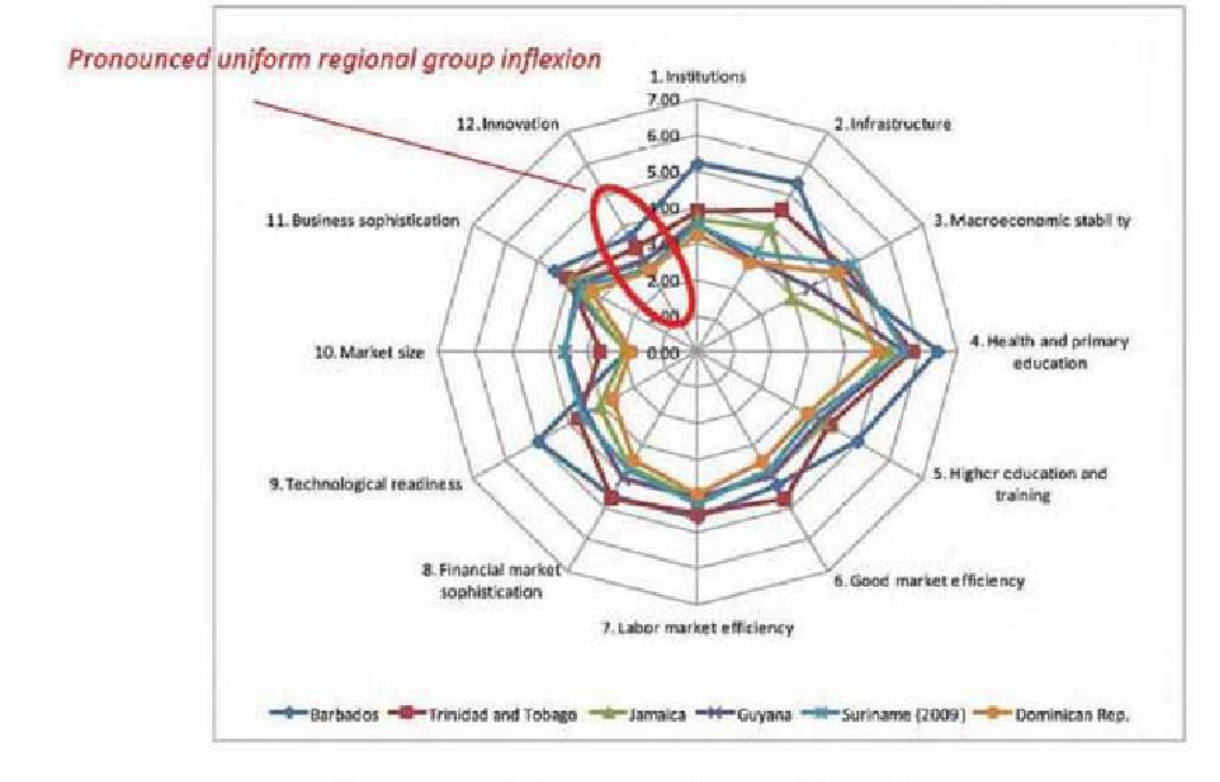
An October 2015 WIPO report notes that:[44]

- Jamaica has a very ambitious and complex overarching development strategy with 'Vision 2030' that tackles also the innovation dimension. However, the 'vision' may be over-ambitious and there are issues with respect to implementation, including the planned development of an S&T Strategy, which is delayed.
- Aside from the creative sector, overall innovation is low. There are IP hotspots in the creative sector, and also in some research institutes such as the UWI, and UTech. The nutraceutical industry, the app development and games/animation industries, as well as the upcoming logistics hub are fields of opportunities.
- The level of integration of IP issues in Jamaica differs across institutions, but is relatively low. There is little overall IPR awareness in the majority of institutions. However, the creative sector has strong IP awareness on copyright issues and a strong anchoring of IP topics.
- Linkages between research and industry, including incentives, are weak.
- Access to finance and funding sources is an issue, which is exacerbated by the tight public budgets and the current IMF requirements.
- Legal IPR services particularly in relation to patents and respective expertise are in limited supply.

These findings are corroborated in a 2012 presentation by the Digital Society of Jamaica –"Overcoming Barriers to Caribbean Innovation".[45] Overall, the capacity of Caribbean firms for innovation displays a marked inflection on the Global Competitiveness index as depicted in Figure 5.4 below.

[44] See: Radauer, A., "Integrating Intellectual Property into Innovation Policy Formulation in Jamaica," October 5, 2015 | [45] See: Clarke, S., "Overcoming Barriers to Caribbean Innovation: Towards a Restructuring of the Innovation Payoffs," June 19, 2012

Figure 5.4 Caribbean Firm Capacity for Innovation in Six Countries



Source: World Economic Forum. Global Competitiveness Index 2010 and Silburn Clarke "Overcoming Barriers to Caribbean Innovation," June 2012

Regionally, innovation support has emerged, but is still relatively underdeveloped. There is no CARICOM Innovation Policy and the Region's commitment to innovation is confined to a March 2007 policy paper on Science, Technology and Innovation for Sustainable Development sub-titled "Caribbean Regional Policy Framework for Action".

There are two main regional initiatives on innovation: 1) InfoDev's USD20 mn Entrepreneurship Programme for Innovation; and 2) Compete Caribbean's Innovation Challenge Fund. It was not possible to carry out an in-depth assessment of either programme. However, the IDB/Compete Caribbean has noted that its Innovation Fund has had limited effective coverage in the region to date.

5.4 MISSING LINKS IN THE APPROACH TO MSME INNOVATION

5.4.1 Industry or Services?

The most important finding on innovation in the Caribbean is that the region has attempted to adopt wholescale a techno-centric focus with respect to innovation rather than a more eclectic approach, which could lead to the application of more innovations in the economic and social sectors. It is very difficult to imitate the approach of developed countries to innovation without the matching resources (skills, finance, institutional infrastructure, etc.).

Therefore, the Caribbean needs to redefine its own innovation path.As the preceding innovation profiles of the four Caribbean countries listed on the Global Innovation Index reveal, all are orienting their innovation policies towards R&D and ICT development. Moreover, despite commitments to establish national innovation systems, each of the innovation strategies being pursued is still fragmented. In that context, the world is replete with lessons learned about R&D focused innovation. Consequently, there are many reports on this subject that provide poignant examples of the strategic orientations of both developed and developing countries in this area.

In the 2014 study "Innovative Activity in the Caribbean: Drivers, Benefits and Obstacles", the authors conducted an econometric analysis of manufacturing firms based on the 2,771 firms interviewed in 2010 by the World Bank for Enterprise Surveys[46]. The findings were that:

1. There are indeed productivity differences, regardless of the definition of productivity, between innovative and non-innovative manufacturing firms in the region.

2. Firms not spending money on innovation tend to be less productive, although they are also more heterogeneous in their productivity.

3. While there are economies of scope, size appears to be less an obstacle to undertaking innovation in the Caribbean than in Latin America.

4. The fact that neither group of firms has patents or cooperate with other firms is worrisome – although this is not the only metric that can be used to evaluate innovation activity.

5. Foreign-owned firms are not more inclined than those domestically-owned to invest in innovation. This is probably because their innovative activities generally take place in their country of origin.

6. But in the Caribbean, larger, mostly foreign firms nevertheless introduce more innovative techniques than domestic ones, perhaps creating the opportunity of spillovers to local firms.

7. Investment in innovation appears to be as successful in the Caribbean as in Latin America, in the sense that it translates into the introduction of new products and/or processes.

8. Most importantly, new products and processes increase productivity in the region, and the return may be larger than in some, but smaller than in other Latin American nations.

Overall, the study showed that the benefits to investing in innovation in the Caribbean, are not too different from those found in much larger Latin America nations.

Such findings and lessons are valuable, but perhaps not the most appropriate points of reference to use as the basis for developing sustainable innovation frameworks in the region.

There are three main reasons for this:

1. First, the region's economic engine is driven by Services - not industry. With little exception, all of the region's economic statistics point to the increasing emphasis on services. In Barbados, services contribute up to 83% of GDP; in Jamaica, the sector accounts for nearly 80% of GDP.

[46] Mohan, P., Strobl, E., and Watson, P., "Innovative Activity in the Caribbean: Drivers, Benefits and Obstacles", Impag Business School Working Paper Series.

And even in petroleum-driven Trinidad and Tobago, it accounts for 42% of GDP (petroleum accounts for 45% of GDP). Furthermore, the Region has been quite innovative in the provision of services – especially in offshore education (as in Grenada and the rest of the Eastern Caribbean) and in health tourism (as in the establishment of Health City in the Cayman Islands). Health tourism and offshore education represent potentially high-value sub-sector diversifications within a now maturing traditional tourism sector.

2. Second, while it is true that some countries still retain capacity for further manufacturing sector growth, the trend towards Services in almost all countries seems irrevocable and so the share of Services in GDP will continue to grow in the foreseeable future.

   Therefore, emphasis on service sector innovation is arguably more likely to offer greater value to the Region than innovation in industry.

3. Third, Services have so far been pulling down the average productivity of the region – making the area less competitive than it needs to be[47]. This challenge is compounded by the fact that most of the sector consists of, and is served by MSMEs. This is of major concern – not just to the Caribbean – but to highly developed economies as well[48].

   In contrast, the OECD countries have found ways to infuse higher productivity into the growth of Services in those economies (e.g. Uber, Facebook, online training services, etc.)

Given the sheer scale of Service sector development in the Caribbean, it is logical that innovations in Services are likely to: 1) represent a better "fit" between existing capabilities and investments than in industry R&D, and 2) have much larger impacts, in terms of the contribution to future economic growth, especially since Services have been growing while Manufacturing has been on a downward trajectory for some time. It must be emphasised that focusing on Services Innovation does not exclude manufacturing or product development, since Services are intertwined with product development in numerous ways.

For example, an industrial engineer develops the technological basis for Fab Labs (services), but Fab Labs then need to be manufactured, and used by designers (services again), who produce custom made products (manufacturing again) which need to be marketed (services again).

To date, the evidence of MSME initiation and/or adoption of innovation practices in services have been positive but uneven:

1. In Dominica, it was discovered that there were 125 innovations between 2005 and 2009 in the tourism sector in product (55), marketing (39), process (24) and organisational management (7) - although Dominica does not even register on the Global Innovation Index.[49]

   In that country the innovations in services were largely successful, mainly because they were autonomously started from the bottom up, ensuring strong ownership and follow-though by the various project initiators, most of whom were young entrepreneurs.

2. There have been at least 12 cluster projects in the Caribbean region since 2005 – mostly funded by USAID. These include: a) value adding agricultural or agro-processing projects in Dominican Republic, Guyana, Haiti,

[47] See: Luis Rubalcaba, "Innovation and the New Service Economy in Latin America and the Caribbean" in June 2013, Baumol's Cost Disease, pages 9 to 13 of that report and Ruprah et al., "Is there a Caribbean Sclerosis"? | [48] See: Dani Rodrik, "The Past, Present and Future of Economic Growth", Global Citizen Foundation. Working Paper 1, June 2013. | [49] See: Nia Cherrett, "Innovation in the tourism sector: A case study from the Commonwealth of Dominica" for ECLAC. June 2011.

Grenada, the OECS region and in Jamaica; b) tourism projects in Jamaica; and c) an ICT project (EtecK) in Trinidad and Tobago[50].

Some projects (e.g. the Jamaica Cluster Competitiveness Project coordinated by JEA) have been much more successful than others (e.g. the Grenada Nutmeg SME Project coordinated by GIDC). The underlying reason for success or failure is the degree of elimination of ambiguity in the roles and responsibilities of participants in each cluster group. In contrast to the Dominican innovation projects, most of these cluster initiatives were driven from the "top", i.e. by donor-funded projects whose longevity did not extend beyond the various lives of the respective projects. Also donor support for cluster projects has since waned, and there is limited support for such initiatives today.

3. The use of pre-designed ICT services by the MSME sector is also producing positive results. Smaller hotels in the tourism sector, which account for most of the hotels in the sector, have moved away from travel agencies and instead have tapped into commercial websites like Hotels.com and Expedia to reduce booking fees for stay-over visitors. According to Expedia, room bookings for smaller hotels have increased by as much as 30%, and net revenue per visitor has actually improved in this sub-sector.

The IDB report "Innovation and the New Service Economy in Latin America and the Caribbean", identifies key lessons learned about Innovation in Services that are relevant to the region – especially because that sector is the dominant force in regional economic activity[51].

Elements that help promote innovation in all areas exist at the crossroads of sectoral innovation in service, service-oriented innovation activities in business, and service innovation co-production through specific services or a special use of services. Examples of these elements are the rapid emergence of knowledge-intensive business services (KIBS), and the development of new technology, together with the associated ICT services of particular importance to organisational innovation.

The importance of services in modern economies calls for the formulation of service innovation policies. Service innovation policies should address gaps in productivity and competitiveness, in the most important economic sectors.

Services can create new advantages for some developing countries, including those hosting offshoring services (e.g. in Barbados, Jamaica, and Guyana), and service outsourcing from developed economies. New and improved services can provide competitive advantages in countries that have traditionally concentrated on commodities or tourism. Service innovation can reinforce existing competitive advantages (e.g., better service logistics associated with commodities trading), and create new types of services (e.g. ICT off shoring services). However, such arguments may not suffice to justify public policies aimed at improving service innovation. Perhaps the strongest argument for the dismissal of a focus on Services Innovation is that "Industry is the key sector to promote". This argument is partly valid for countries that have already established strong industrial development strategies (e.g. Trinidad and Tobago). However, policy makers should consider promoting Services Innovation given that: 1) all manufactured products need innovative services such as design, marketing, logistics, etc.; and 2) the economies of the Caribbean are service-sector driven.

[50] "Cluster Best Practices for the Caribbean": Private Sector Development Discussion Paper No.5. OTF Group. September 2010. |
[51] The exceptions are Trinidad and Tobago and Guyana and Suriname but even in those countries Services i.e. tourism is growing at an above average rate and is therefore likely to become far more important as an economic driver in the future than it is today.

Given the Caribbean's economic orientation, the absence of an emphasis on Services Innovation as a regional priority is glaring: For example the Caribbean Tourism Organisation (CTO) promotes the US billion dollar tourism sector, but puts limited focus on promoting innovative services that feed off or support that industry.

5.4.2 The Export Dimension and Opportunities for MSME growth

The opportunities for export growth by Caribbean MSMEs are especially strong for the adoption of innovative business solutions in Services, once idea-generating activities are actively fostered. There are three primary areas of possible exponential growth:

1. Culture and Creative Industries (CCI). The significance of these industries is highlighted in a December 2015 Ernst and Young (EY) report, "Culture Times – the first global map of cultural and creative industries", for the International Conference of Societies of Authors and Composers (CISAC). Interestingly, CCI revenues worldwide exceed those of telecom services (USD 1,570 billion globally). CCI employs 1% of the world's active population with the top three employers being visual arts, books, and music. Digital cultural goods are by far the biggest revenue source for the digital economy, and cultural production is young, inclusive and highly entrepreneurial. Also, creation is driven by small businesses and individuals, i.e. MSMEs, and generates agile and innovative employers. Most importantly for the Caribbean where youth unemployment is especially high, CCI contributes significantly to youth employment and CCI careers are open to people of all ages and backgrounds.

   In the Caribbean, the culture and creative industries are organic, robust and dynamic. Noticeably, CCIs function autonomously without "targeted" government support. Reggae, Steel Pan, Calypso, Carnival and other ethnic festivals, have emerged as highly innovative and sustainable products and services in their own right. International exposure and coverage are increasing exponentially as many aspects of Caribbean culture are cross-pollinating into other global settings (e.g. Nigeria, Uganda, South Africa and Japan). In recent years, new music genres have emerged in Grenada, Barbados and other parts of the region as well – organically through the cultural evolution of those societies.

2. Offshore education. The Caribbean, especially the Eastern Caribbean is now a well-established hub for offshore medical education. Recent years have witnessed the sale of 50% of St. Georges University for USD 750 mn to private investors in Canada. Increasingly, the industry now makes use of online lecturing services to address the specialty needs in its curriculum. The growth of the industry has been strong and will remain so – primarily because of the acute shortage of medical practitioners in North America and the aging of the Western World's population. However, MSMEs need to be more effective at leveraging this comparative advantage – possibly through ICTs – into: a) strengthening and diversifying its now conventional tourism products and services into health tourism, and b) increasing its international training offerings by them in non-medical services on an international scale.

3. Business Process Outsourcing. So far, Business Process Outsourcing (BPO) has been limited to the establishment of call centres around the Caribbean – initially in Jamaica but now in Guyana and in some Eastern Caribbean countries. However, the leveraging of this sub-sector into higher value added services remains largely untapped. The scope for MSME IT/ICT-related BPO services includes Application Services (application development and maintenance, system integration, IT infrastructure services such as help desks, data centre services, etc., and IT and network consulting).

They also include Engineering Services (upstream product engineering, downstream product engineering and software product development) and Business Process Services (horizontal processes such as call centres, human resource management, finance and administration, vertical processes such as banking insurance, travel, etc., and knowledge process outsourcing such as animation, data analytics, legal process and patent research). The reason why BPO is so important to Caribbean innovation is that: 1) MSMEs can develop direct or indirect support services to the sector in almost every area of activity noted above; and 2) the advancement of these types of ICT services in the Caribbean will strengthen the Region's capacity for "idea generation" and therefore to innovate in other areas of business, such as the CCIs and offshore education and training.

Of course, there are other potential areas for MSME innovation – agro-processing, app development, advertising and marketing etc., but the three preceding sectors currently offer stronger opportunities for innovation growth. Recommendations on the prerequisites for fostering MSME participation in these sectors are highlighted under section 5.4.3 and section 5.4.5 advancing and re-Thinking the approach to innovation, below.

5.4.3 A Framework for Service Innovation Policies

Most Caribbean countries recognise the importance of service sector development, but there has been limited examination of the types of policies needed to foster service sector innovation, especially for MSMEs.[52] Essentially, there are three main policy approaches aimed at facilitating Services R&D and Innovation: a horizontal focus, a vertical focus, and a systemic policies approach. Each approach emphasises different orientations for R&D policy, innovation policy and non-innovation policy. But for MSMEs in the Caribbean, the main priority is the need to send policy signals that confirm that governments are encouraging and rewarding MSME innovation in services. Possible policy options are highlighted in Table 5.3 below.

Table 5.3 Options for Framework for Service Innovation Policies

Policies	Horizontal Approach	Vertical Approach	Systemic Approach
R&D policies	1. Open existing R&D programmes to service companies 2. Increase accessibility of existing R&D support schemes (to service providers) 3. Include Services in technological foresight and road mapping exercises 4. Include Service firms in policies aimed at improving industry/ sciences relationships	1. Support public R&D in services 2. Introduce vertical R&D programmes aimed at services sectors (tourism, business services, and public services). 3. Develop Service IPR instruments 4. Create dedicated centres and clusters for Service innovation 5. Increase role of the Humanities in Service innovation	1. Introduce service innovation elements in existing topics (R&D for ICT and related services) 2. Understand and support role for R&D services in innovation systems 3. Support Services R&D in hybrid firms 4. Pay attention to tech and non-tech R&D innovation in Services

[52] Some countries, like Jamaica, Trinidad and Tobago and Barbados have identified the creative industries as a sub-sector for innovation and others – like Grenada and other OECS countries, have facilitated offshore education investment. But such initiatives are not deliberately linked to Service Sector Innovation Policies, none of which have been established yet.

Table 5.3 Options for Framework for Service Innovation Policies cont'd.

Policies	Horizontal Approach	Vertical Approach	Systemic Approach
Innovation policies	1. Increase accessibility of existing Innovation support schemes to Service SMEs 2. Innovation management training and practices also geared toward Service sector firms 3. Mobility schemes (aimed at scientists and engineers) become inclusive of Service expertise	1. Introduce courses in services innovation management at Higher Education Institutions (HEIs) 2. Develop and activate awareness campaigns on services innovation 3. Identify services innovation role models 4. Develop innovation policies specific to priority service sectors (tourism, offshore finance, BPO) 5. Promote innovation in offshoring services	1. Ensure that business support services also support Services innovation 2. Use Knowledge Intensive Business Services (KIBS) 3. Increase transparency in KIBS markets 4. Develop insight into int'l competitiveness of Service functions 5. Cluster/network strategies that include Services 6. Govt. procurement to include Service innovation
Non-Innovation policies	1. Increase coverage of Services in regular and R&D and Innovation statistics	1. Use deliberate polices for fostering R&D and innovation in Services 2. Use regulations that might trigger Services innovation 3. Analyse offshoring in Services conditions	1. Use regulation and standardization to support innovation 2. Modify financial and credit systems to acknowledge intangible assets 3. Support policies aimed at increased entrepreneurship

Source: Adapted from Rubalcaba, L., "Innovation and the New Service Economy in Latin America and the Caribbean," June 2013

Table 5.4 below provides a synopsis of examples of Service Innovation Policies in five successfully developed and developing countries.

Table 5.4 Five Examples of Service Innovation Policies

Type of Economy	Country	Main Innovation Policy Characteristics
Developed Economies	Finland	Leading country in service innovation policies. Very innovative and dynamic policy. Specific programmes since 2001. SERVE programmes focus on promising service companies and pioneers on the markets; "Pioneers of Service Business 2006-2013, 224mil. Euros). Key areas from 2011: natural resources and sustainable economy; vitality of people; intelligent environments; business in global value networks, added value by solution-based services and intangible concepts, renewing services and production by digital means.
	Germany	Policy addressed to services, mainly linked to manufacturing industries. Export orientation. Specific programmes for service innovation. Huge support from industries. 2008 Programme "Innovation in Services," 15 m per year. Current focus on ICT related services, knowledge-intensive services, biotechnology, nanotechnology, hybrid services, utilizing technology and innovative service elements
Developing Countries	China	Decision to go for services and service innovation. 12th Five-Year Plan on S&T Innovation for Supporting Service Sector Development. Focusing on technological support, S&T innovation support, and industrialization of achievement of S&T for modern services. Priorities on producer services, emerging services, S&T services. Wide set of policies for supply and demand. Policy experimentation. First experimental actions related to tax deductions.
	Korea	Service R&D Promotion Plan developed in 2010. Service innovation mainly promoted through services R&D specific programmes: • Education R&D Programme (5 billion KRW, 1 Euro =1500 KRW) • Healthcare & Welfare Service R&D Programme (9 billion KRW (2012)) • Tourism & Contents Service R&D Programme (6 billion KRW (2012)) • Business Service R&D Programme (55 billion KRW (2012) • SME Service R&D Programme (20 billion KRW (2012)) • Public Service R&D Programme (5 billion KRW (2012) In this plan, the new growth high-value service industries were selected as target investment service areas.
	Jordan	Modernization of services sector programme: three years (2009-2011) with a budget of €16 million. Comprehensive policy development plan for services. Beneficiaries of the programme are private service sector enterprises—SMEs—relevant business associations, and public sector bodies. To assist Jordan to fully benefit from the opportunities of trade liberalization of services in the context of the GATS and the economic integration objectives of the Istanbul Protocol. Private Services Sector Development: Support to SMEs and Business Associations in the Services Sector (grant schemes for start-ups, loan guarantee, export credit guarantees and venture capital, risk capital fund, clusters). Institutional capacity building. Service policy building. All services are included but particular attention to knowledge-intensive services, creative and cultural services, tourism, engineering services and health travel.

Source: Adapted from Rubalcaba, L., "Innovation and the New Service Economy in Latin America and the Caribbean," June 2013

5.4.4 Conclusions about the Caribbean's Innovation Framework for MSMEs

The preceding findings on innovation in the Caribbean can be summarised as follows:

1. Generally, the larger and/or more developed countries are aware of the importance of innovation to future economic growth. However, basic support structures are incomplete and are not as well organized as they could be in terms of their comprehensiveness in supporting MSME innovation initiatives. In particular, Caribbean countries do not have the equivalent of the Bayh-Dole Act, which fosters collaborative research between educational institutions and MSMEs in the United States.

2. For the most part, Caribbean countries' innovation programmes are mis-aligned with regional economic trends, and development of innovation is seen much more as an industrial rather than a service sector initiative.

3. The importance of directing innovation support to Services cannot be over-emphasised. Although Services is the leading economic sector in the Region, its low productivity is depressing overall productivity and competitiveness, which ultimately affect GDP growth. Therefore, innovation frameworks that are directed at this sector are exceedingly important mechanisms for addressing competitiveness and growth in the Region.

4. There is no coherent roadmap for re-aligning Innovation policy towards Services Innovation. Essentially the Region is almost at "ground zero" in terms of the establishment of a policy framework to support Services Innovation Policies.

5. Services Innovation is not going to emerge or happen simply because Services is the dominant sector in the Caribbean.

   A policy framework has to be developed and innovation in services has to be deliberately promoted and rewarded at national levels.

   Therefore, considerable work has to be done in communications and education to successfully restructure national innovation efforts towards Services.

Notwithstanding these observations, there are promising signs of a growing enthusiasm in the private sector – especially among younger entrepreneurs– for promoting their innovative ideas as sustainable business models. For instance, the innovative Ignite Project in Jamaica recently received more than 300 MSME responses to a Call for Proposals for creative and unique projects in Jamaica. But the re-thinking of Innovation Policy priorities, especially in support of MSME initiatives in Services, will require considerable technical assistance from international and regional donors, given the limited knowledge that is "on the ground" on this subject in the Region.

Commercial progress is also being made at the business level. The Caribbean is experiencing growth in CCIs, in offshore education and in BPO services. There are also promising signs at the digital level. Bitt, the Barbados-based digital asset exchange/remittance channel/merchant-processing gateway, is the front-runner in the Caribbean's crypto-currency eco-system. It received USD1.5 mn from Avatar Capital, a Caribbean investment group based in Trinidad and Tobago. The Bitt Exchange is a cornerstone project for digital finance in the Caribbean. It facilitates trade between traditional and digital currency markets. According to Gabriel Abel, Bitt's CEO, "the company is creating the platform for very low cost international commerce and remittances between the people who need it most – the millions of unbanked and under banked citizens of the Caribbean".

Admittedly, similar initiatives that arise in other countries tend to be one-off success stories and are not yet representative of the outputs of cohesive national innovation systems.

Moreover, the Caribbean needs to pursue more vigorously the MSME opportunities that are linked to Offshore Education and to BPO services. In that regard, strong active policies need to be articulated to realise that goal (see Tables 5.3 and 5.4 above).

5.4.5 Advancing and Re-thinking the approach to Innovation

Three groups of recommendations emerge from this discussion on Nurturing Innovation in the MSME sector in the Caribbean.

1. Firstly, countries that are committed to innovation should complete the establishment of national innovation systems (NISs) and institutionalise those systems by integrating them into national development plans; national and sector strategies; and support programmes. The "tipping point" countries are Trinidad and Tobago and Jamaica. In that regard, it is critical that Caribbean countries consider the introduction of the equivalent of a Bayh-Dole Act – which would encourage local universities to engage in joint research initiatives with MSME investors and to retain or share title to the resulting inventions with the private sector.

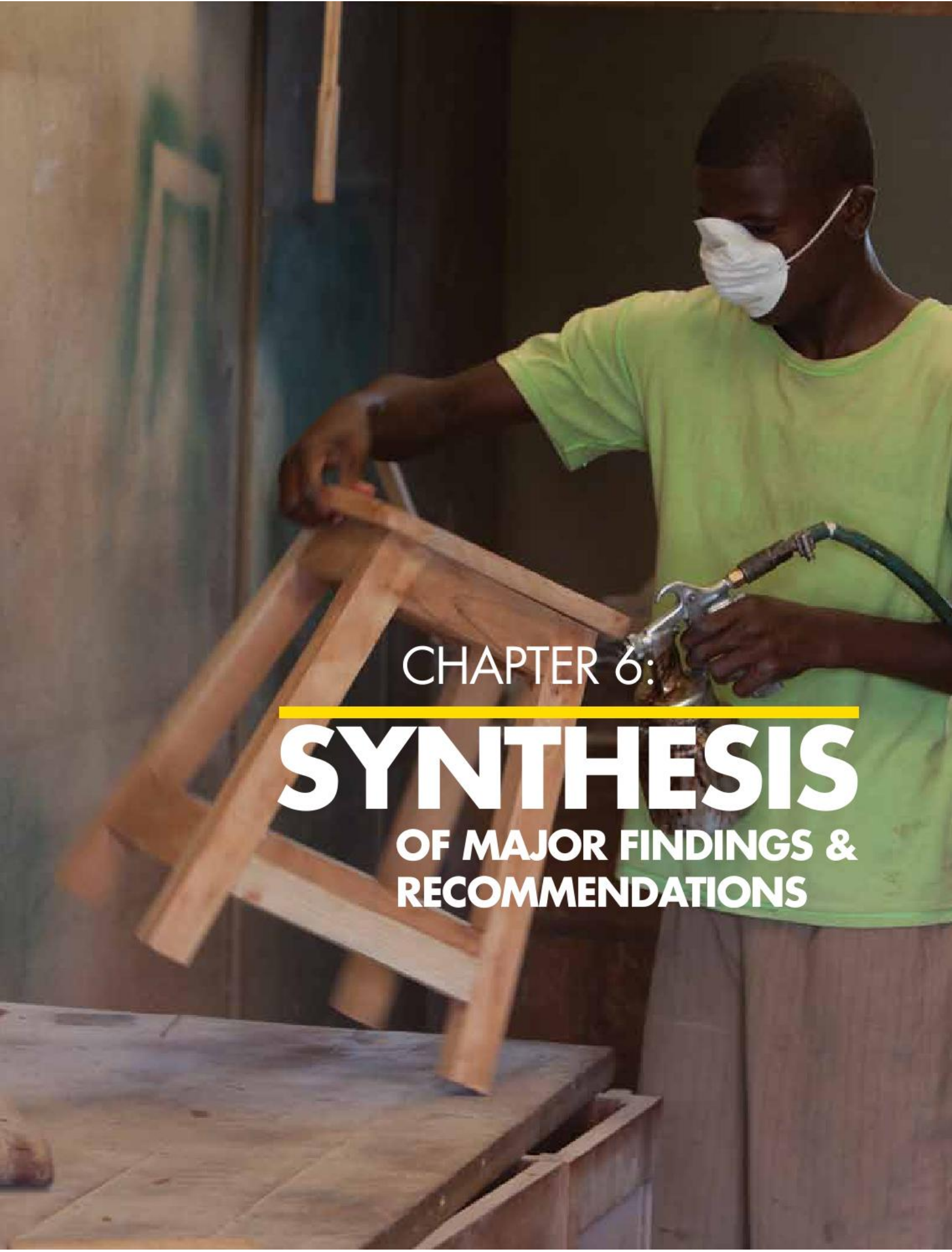
2. Secondly, the Caribbean should re-think its innovation orientations from an R&D manufacturing/industrial focus to one that is primarily driven by or linked to Services. This would include cultural and creative industries such as music entertainment, craft and service and product design. Jamaica, and to some extent Trinidad and Tobago, are both doing this – but without clear Services Innovation Policies or NISs. In other words, innovation in the Services sector needs to be highlighted as national priorities by the Caribbean governments and confirmed via deliberate articulation of service sector innovation policies.

3. Thirdly, operational frameworks for supporting innovation should articulate clearer support for MSME investment in sectors that offer the strongest opportunities for innovation in the Caribbean, for example: 1) Culture and Creative Industries; 2) Offshore Education; 3) Business Process Outsourcing.

   There are numerous issues still to be addressed. These include fiscal incentives to invest in training services and in creative education; access to financial resources; the introduction of international standards for training institutions; international certification systems for firms and employees; increased infrastructure capacity, such as Business Parks and broadband capacity; and ICT literacy for MSMEs. Such initiatives all need to be substantially expanded on a national basis. The implementation of such eco-systems will "signal" that the Region's support for innovative initiatives in the foregoing sectors has been solidified and that MSMEs are being encouraged to orient their businesses in those growth areas. As noted earlier, the introduction of such policies needs to be effectively communicated to the MSME sector, to ensure that they are aware of the support that Governments are prepared to provide to their investments in the three sectors.

Based on the contents of the various Framework options presented in this study, it seems that the vertical approach in Table 5.3 would be the most relevant approach/framework option for many Caribbean countries – on the proviso that SMEs are increasingly exposed to/made eligible for support under deliberately designed innovation Support Schemes for the Services sector.

Also, on the basis of the profiles proffered in Table 5.4 above, it could also be concluded that the most appropriate model to investigate would be Jordan's because: 1) it includes the entire set of "starter" programme elements associated with a focus on Service Innovation in the Caribbean; and 2) the Caribbean has the institutional infrastructure in both the public and private sectors to develop a similar Services Innovation initiative.



CHAPTER 6:

SYNTHESIS

OF MAJOR FINDINGS & RECOMMENDATIONS

CHAPTER 6: SYNTHESIS OF MAJOR FINDINGS AND RECOMMENDATIONS

6.1 OVERVIEW

Chapter 6 provides a summary of the major findings and recommendations emerging from the research carried out in Chapters 1 through 5. This synthesis includes the main issues emerging from: 1) the MSME sector profile, 2) access to finance, 3) the regulatory and policy framework, 4) the institutional support framework, and 5) nurturing innovation in the MSME sector.

Each group of findings and recommendations is provided in sub-sections 6.2 to 6.6 below.

6.2 OPTIMAL DEVELOPMENT PATH FOR THE MSME SECTOR

Chapter 1, Regional MSME Sector Profile, provided a cascading overview of the regional MSME sector – beginning with a summary of global economic trends and their impacts on Caribbean economies, followed by a general overview of the MSME sector globally. These findings were used to chart an optimal development path for the sector over the next decade.

6.3 FINDINGS AND RECOMMENDATIONS

Chapter 1: Optimal Development Path for the MSME sector:

6.1.1 Use of a three-tiered approach to MSME development strategy. It was recommended that the MSME Development Strategy should adopt the three-tiered approach effectively implemented in Singapore, Korea, Western Europe, Costa Rica and other successful countries during the past two decades:

- First Floor: support at the first floor, focusing on productivity and product quality enhancements among MSMEs to strengthen competitiveness, job creation and GDP.
- Second Floor: strengthen and modernise the efficiency and effectiveness of organisations and other intermediary structures providing developmental and other services to the sector.
- Third Floor: formulating enabling policies, legislation and strategies thereby improving the business friendly environment for MSMEs.

6.1.2 Adoption of a standard definition and classification for MSMEs. A uniform typology for MSMEs across the Region will greatly facilitate consistency in the registration and analysis of MSMEs as a distinct growth sector. The recommendation is that microenterprises be classified as those with 1–5 employees; small enterprises as those with 6–15 employees; and medium enterprises as those with 16–50 employees.

6.1.3 Extension of the information gathered /coverage of business registries. A regionally interconnected Registration Network of Intellectual Property and Companies with the capacity for accepting online registrations should be established to accelerate the pace of MSME formalisation; with a wider set of indicators (for example, amount and source of capital, targeted markets, amount of employees and gender, etc.) to

inform policy at the national and regional levels; to enable regional initiatives for sector development; and to improve the region's 'Global Competitiveness' and 'Doing Business' rankings.

6.1.4 Engagement in more in-depth MSME research and development. A specialised unit should be established within the state agency or ministry responsible for MSME development to conduct on-going sector research. The unit should interface with the registry and help provide reliable and current statistical and anecdotal data on the MSME sector to inform policy makers, planners and financiers.

6.1.5 Analysis of expenditure by MSMEs. CDB's BMCs should attempt to estimate annually the contribution of the MSME sector to GDP, specific sectors, employment, foreign exchange earnings, etc. This will allow the Region to establish the economic impacts and benefits of the MSME sector and to inform both new and modified approaches to MSME policy.

6.1.6 Establish a new policy direction. Government resources should concentrate on sector research geared towards enhanced policy formulation and implementation; quality standards enforcement; agency and programme coordination; performance monitoring and information dissemination; and liaison with donor agencies. In addition to promoting entrepreneurship development through a more equitable fiscal incentives regime and other initiatives, the new policy initiatives should embrace the shift towards concentration on "first floor" results (enhanced innovation, productivity, competitiveness).

6.1.7 Explore avenues to strengthen BSO delivery capacity. Numerous BSOs, both public and private, occupy the Second Floor (provision of developmental and other resources to MSMEs), in many cases performing valuable work. However, they face substantial constraints such as limited financial resources, weak internal capacity and resistance to organisational change.

Strategies for strengthening BSOs involved in business development and/or advocacy are addressed in Chapter 4.

6.1.8 Need for enhanced focus on innovation and enhanced productivity (First Floor issues), especially in the services sector and those subsectors with good export prospects such as creative industries, offshore education, health tourism, etc. Innovation strategies are discussed in Chapter 5.

Chapter 2: Improving MSME Access to Finance

6.2.1 Develop training programmes aimed at enhancing the capacity of MSMEs to improve financial management of their operations in line with financiers' information needs. This is the main challenge that MSMEs face –the capacity to demonstrate that management of their businesses and resources are "information based" and that they have institutionalised such approaches to running their operations on a day-to-day basis.

6.2.2. Expand the range of financial products available to MSMEs. Governments should expand the range of financial products offered to MSMEs in the BMCs along similar lines to those offered to MSMEs by OECD countries[53]. This can be achieved by accessing and re-deploying under-tapped institutional funds such as the NIS and the proposed Dormant Account Scheme in Jamaica. The most important mechanism is the creation/ expansion of Credit Guarantee Schemes. Apart from inadequate financial management literacy,

[53] The Small Business Bureau (SBB) in Guyana, supported by IDB funding, is an example of how a credit guarantee system can work for very small MSMEs in that country.

MSMEs have limited collateral. This is another of the major reasons they experience difficulty in accessing loans from the financial system.

6.2.3 Introduce tax reforms that allow formal MSMEs to retain a larger share of their profits and cash flows. Increased cash flows will improve MSME attractiveness to local financiers. Admittedly, such reforms may be more difficult in some countries than in others, partly because of the stringent fiscal conditions that many Caribbean countries currently face.

6.2.4 Increase the adoption of tax reforms that shift the burden of taxation away from direct taxes to indirect taxes. This would improve MSME "formality" and reduce administrative inefficiency of the tax system generally.

6.2.5 Introduce labour reforms that allow MSMEs to be more flexible in terms of hiring and firing labour. Apart from taxation, this is the second most important reason informality thrives in the Caribbean private sector.

6.2.6 Create stronger tax incentives to increase financial intermediation and encourage MSMEs to seek out alternative forms of investment funds (other than bank loans) via such mechanisms as the Junior Stock Exchange in Jamaica. This would strengthen the Finance Life Cycle for MSMEs.

6.2.7 Improve the enabling environment for access to credit by: a) introducing Credit Bureaus; b) opening up credit bureau information access to foreign financiers so that alternative funding sources such as crowdsourcing, angel investments and P2P investments can become more available to Caribbean MSMEs; and c) upgrading Bankruptcy laws to allow insolvent companies to return to the financial systems more quickly than is currently possible under outdated Bankruptcy laws. All three initiatives will improve the bankability of MSME project proposals in the region.

6.2.8 Overcome the limitations of domestic markets by: a) promoting and fiscally favouring export growth of MSMEs; and b) increasing the use of ICT "information access" mechanisms to facilitate greater business intelligence with respect to external markets. An excellent example of information access is T&T's "Made-in-TnT" portal, which promotes more than 400 products in 19 product categories online. Overall, both measures are likely to increase the growth and income generating prospects for MSMEs operating in an expanded global market place. This should improve the bankability of (export-oriented) MSME projects to local financiers.

6.2.9 Introduce regulatory reforms that would allow Accredited Financial Institutions (AFIs) and Microfinance Institutions (MFIs) to take deposits and offer an expanded range of financial products to their MSME clients. This would strengthen such institutions and allow them to be more creative in providing access to finance.

6.2.10 Increase the inclusiveness of Credit Unions by granting them access to SME financial programmes as Development Finance Institutions (DFI) recipients – including funding, credit guarantees and technical assistance in risk management.

6.2.11 Put in place legislation that would allow each Caribbean country to adopt Mobile Banking solutions at every level. Like MPESA in Kenya, this should contribute substantially to improved MSME productivity.

6.2.12 Examine the feasibility of establishing Mutual Guarantee Schemes in the larger Caribbean countries. Such schemes have worked reasonably well in European countries that have a high proportion of SMEs (e.g. Spain and Italy). Their potential viability should be examined in the Caribbean Region.

6.2.13 Create incentives to encourage the informal sector to formalise their businesses. Attractive incentives through very good, well thought out policy can make a significant difference. These can include low cost and readily available ICT-designed or app-based training programmes; fiscal incentives to training providers to develop more relevant courses aimed at MSMEs; simplified and lower tax rates (noted above); access to government contracts etc.

The preceding recommendations are mostly policy-based. The reason is that such an approach would afford more comprehensive coverage in addressing the "access to finance" challenge in the Caribbean. The following two recommendations (i.e. improving MSME financial literacy and expanding Credit Guarantee Schemes) are the ones that are likely to have the greatest impact on improving Access to Finance.

Regional Collaboration

An effective way to establish regional collaboration on improving access to finance is to establish a benchmarking system that allows access to information on MSME-related developments in the financial sector across the BMCs.

Chapter 3: Regional Policy and Regulatory Frameworks

6.3.1 Refocus MSME Policy. The BMCs should refocus the regulatory and policy frameworks to promote greater efficiency and effectiveness in facilitating expansion of a strengthened and more sustainable, productive and competitive MSME sector.

6.3.2 Pursue the Establishment of a business-friendly environment as a top priority. The consensus vision for a business-friendly environment must be premised on the overriding priority of developing and growing a competitive MSME sector by international standards. In this way, the sector can contribute to the creation of quality employment, boost productivity levels, and improve the quality and range of goods and services available to domestic and overseas consumers and processors.

6.3.3 Focus on private sector funding of innovation initiatives. Government support and funding for innovation policy is generally low in the Caribbean, and thus, international donors fund most innovation and competitiveness strategies. Ideally, funding should come from the private sector also, which is more efficient in stimulating applicable innovation (also see recommendations under Chapter 5, below).

6.3.4 Improve worker productivity. Hands-on training and in-factory counselling are vital support services required by MSMEs, especially those producing for international markets. These include issues such as assessing and improving working conditions; workplace co-operation; quality management; occupational safety and health; time and cost management; customer care; and service excellence.

6.3.5 Increase ICT usage by MSMEs. Encourage and facilitate ICT training as an important enabler of enhanced productivity, increased domestic and external market penetration etc. Towards this end, several policy areas must receive attention for ICTs to become a sustained enabler of MSME economic growth and development. These priority areas are: a) appropriateness of the legal and regulatory infrastructure for ICT development (modernisation of the Telecommunications Acts and regulations in particular where necessary); strong regulatory frameworks that can lead to the establishment and maintenance of competitiveness within the sector and thereby maximise access to ICT services; and c) enhanced private sector investment, particularly in broadband infrastructure.

6.3.6 Grow Entrepreneurship Culture through Education Reform. A new Entrepreneurial Studies syllabus should include modules on ICT, Financial Literacy, Marketing, Management, Accounting and Innovation.

The shift to Business Management should address also the skills gaps in Tourism and Hospitality, Agricultural Science, Financial Services and Co-operatives at the supervisory, technical and managerial levels. Renewed emphasis on attracting more students to the vocational trades is also vital in view of the shortage of these skills in the Construction and other Industries. Among repeated suggestions for increasing knowledge transfers, stakeholders also recommended a regional initiative to digitise the delivery of MSME Training and Education (e.g. online, video-training, Webinars).

6.3.7 Improved trade facilitation. Trade policy priorities that will bring value to MSMEs include the removal of inefficiencies in the trading system; building national and regional trading capacities; establishing harmonised regulatory frameworks to increase market access; building capacity in the productive sectors and the adoption of harmonised standards and practices.

6.3.8 Develop a Model MSME Policy as a Guide for the Region.

The policy should include but not be limited to: a) clarification of the different roles of government institutions (for example, identification of a single Ministry with overall responsibility for MSMEs), of private sector financiers and other non-state actors; b) identification of strategies for MSME capacity building and formalisation of the sector, including fiscal initiatives, eligibility for government procurement contracts etc.; c) formulation of strategies for improved MSME Access to Finance; d) institutional strengthening initiatives for public and private sector BSOs; e) establishment of a division within central government ministries to address specific needs of MSMEs including use of a registration "Super form"; f) facilitating increased access by more entrepreneurs (especially women and youths) to online, web-based training; g) entrepreneurship training provided throughout the formal education system etc.;[54] h) establishment of a set of Key Progress Indicators (KPI) by which to evaluate progress on the sector initiatives and for reporting to the Central Ministry; and i) inclusion of risk analysis, risk management and mitigation strategies.

6.3.9 Articulate an MSME Development Strategy. The strategy should focus on strengthening at least the following activities towards improved business performance: a) promotion of market access and competitiveness of MSMEs; b) enhancing the business and entrepreneurial skills of owners/managers; c) enabling MSMEs to access the resources needed to respond to economic opportunities; d) increasing the flow of capital to MSMEs; e) ensuring increased use of social media to promote enterprise culture and best practices; f) dissemination of programmes that encourage widespread public awareness of the definition, policies, laws and strategy; and g) encouraging innovation in domestic companies as a path to accelerated expansion.

Chapter 4: Strengthening Institutional Support Frameworks

6.4.1 Promote technical cooperation among Registries. Technical cooperation among the Registries in all CDB Member States is needed to improve the quality and currency of business data made available to researchers and planners. A computerised, all-inclusive Regional Business Register connecting the national registries is crucial for collecting and synthesising and researching reliable data on business registration within and across the CSME territories.

6.4.2 Disseminate information with respect to policy, legislative and regulatory frameworks within the region.

[54] For a full list of the contents or areas of coverage see section 3. 5.11 MSME Model Policies.

The governance and operations of all support organisations and agencies require supervision. Conducted regionally and utilising globally accepted criteria, emphasis should be placed on performance monitoring, ranking and on disseminating quality information on a predictable frequency in respect of: a) ministries and lead agencies in transforming their policy, legislative and regulatory framework; b) non-financial service providers in delivering training and technical assistance; and c) financial institutions and related mechanisms in enhancing access to finance.

6.4.3 The CDB should promote its services among MSMEs more effectively. The CDB's Private Sector Unit should take the lead in bringing the CDB's services closer to, not only governments, but also private sector intermediaries and many more MSMEs. The reason is that many of the BSOs and financial institutions are unaware of the role, purpose, structure, activities and achievements of the CDB's CTCS, BNTF and Private Sector Unit. Few are familiar with the activities of the CARTFUND and other projects linked to the CDB.

6.4.4 Improve private, public sector collaboration and enhance institutional strengthening for Capacity Development: The regional business development policy should deliberately encourage Public-Private Partnerships (PPPs) and more private sector service providers (professionals, firms and associations/BSOs) to sell affordable capacity building services to a larger proportion of businesses. Shared resources and services, amalgamations and mergers, where suitable, with other like-minded but strategic organisations, will increase their sustainability. Additionally, institutional strengthening and certification possibly through donor investments can lead to a stronger network of viable BSOs specialised as efficient, streamlined and effective providers of core services in the areas of Training, Technical Assistance/Coaching, Business Plan Development and other development services to increase MSME productivity. Towards this end, technical interventions by a regional or international development agency can prove cost-effective, especially by making maximum use of regional and international best practices. A combination of private, public and donor investments in training, marketing and enhanced production processes will lead to higher productivity levels within an increased number of MSMEs.

6.4.5 A public-private partnership (PPP) network should be explored between selected Microfinance Institutions, Business Development Agencies (BDAs) and BSOs to facilitate a larger flow of domestic resources into MSME growth and expansion. Using Barbados and Belize as pilots, a nexus between 3-4 large credit unions and Fund Access in Barbados and likewise between the 4 largest Credit Unions in Belize, BEST, DFC and BELTRAIDE is envisaged. With competent pre-screening and post loans assistance performed by competent staff in the BSOs and BDAs, the credit unions can be assisted in setting up special desks or units that specialise in MSME loans.

6.4.6 Develop regional online training programmes for MSME development.
A regional or international development institution can lead an initiative aimed at fostering the development of an online facility aimed specifically at MSME training for business development. The objective of this online facility would be to provide instant access to MSMEs, via mobile technology, of business training, toolkits and operating guidelines, especially in business management and financial literacy. Access to training information can be provided via a combination of apps and online videos that allow entrepreneurs to obtain needed information electronically.

Chapter 5: Nurturing Innovation in the MSME sector

6.5.1 Countries committed to innovation should complete the establishment of national innovation systems (NISs), and institutionalise those systems by integrating them into national development plans, national and sector strategies and support programmes.

In this regard, it is critical that Caribbean countries consider the introduction of the equivalent of a Bayh-Dole Act –which would encourage local universities to engage in joint research initiatives with MSME investors and to retain or share title to the resulting inventions with the private sector.

6.5.2 The Caribbean should re-think its innovation orientations from an R&D manufacturing industry focus to one that is primarily driven by or linked to Services. This would include cultural and creative industries such as music entertainment, craft and service and product design. Jamaica, and to some extent Trinidad and Tobago, are both doing this – but without clear Services Innovation Policies or National Innovation Systems (NISs).

Innovation in the Services sector needs to be highlighted as a national priority by Caribbean governments and confirmed via deliberate articulation of service sector innovation policies.

6.5.3 Operational frameworks for supporting innovation should articulate clearer support for MSME investment in the export sectors that offer strong opportunities for innovation in the Caribbean, for example: a) Culture and Creative Industries, b) Offshore Education, and c) Business Process Outsourcing. The issues to be addressed include fiscal incentives to invest in training services and in creative education; access to financial resources; the introduction of international standards for training institutions; international certification systems for firms and employees; increased infrastructure capacity such as Business Parks and broadband capacity and ICT literacy for MSMEs. Such initiatives all need to be substantially expanded at the national level. The implementation of such eco-systems will "signal" the Region's support for innovation in the three sectors.

6.5.4. A roadmap to support the development of an innovation eco-system should be developed – primarily because none of the BMCs reviewed in this study yet has National Innovation systems.

The roadmap should include: a) the reconciliation of innovation priorities with the national development planning system; b) the mapping of the current status of country-specific innovation eco-systems; c) the defining of the National Innovation System and d) assignment of institutional responsibility for leading the development of the innovation eco-system.

The roadmap should also lead to: a) the defining of sector level innovation priorities; b) the realignment of innovation support programmes in line with sector innovation policy; c) the establishment of a strong communications strategy and work plan that would ensure that government, the private sector and civil society are on the same "innovation focussed" page in terms of national and sector priorities; d) comprehensive promotion of Innovation Awards; and e) the establishment and implementation of a Monitoring and Evaluation (M&E) system to monitor progress in NIS implementation.

APPENDIX

BIBLIOGRAPHY

1. **Abe, M., Troilo, M., Juneja, J.S., Narain, S.,** "Policy Guidebook for SME Development in Asia Pacific Region," UN-ESCAP, 2013.
2. **Adams, D., Graham, D., and Von Pische, J.,** "Undermining Rural Development with Cheap Credit," Westview Press 1984.
3. **Ajodhia, W., et al.**, "Are Banks in Suriname Conservative in Providing Access to Finance to Surinamese Companies?," MBA Students University of Suriname.
4. **Bateman, M.,** "Microfinance as a Development and Poverty Reduction Policy: Is it everything it's cracked up to be?" Overseas Development Institute, January 2011.
5. **Bateman, M. and Chang, H-J.,** "The Microfinance Illusion" [circa 2007].
6. **Bernard, A. B., and J. Bradford, J.,** "Exporting and Productivity," National Bureau of Economic Research, May 1999.
7. **Branch, B., and Klaehn, J.,** "Striking the Balance in Microfinance" World Council of Credit Unions", 2002.
8. **Cap, J. et al,** "Reigning in Brazil's Informal Economy," The McKinsey Quarterly, January 2005.
9. **Caribbean Centre for Money and Finance**, "The Liquidity Problem in Caribbean Commercial Banks," 2014.
10. **Central Bank of Ireland**, "Policy Measures to Improve SME Access to Credit: A Survey," 2015.
11. **CGAP,** "Building Inclusive Financial Systems – Donor Guidelines on Good Practice in Microfinance,"World Bank, December 2004.
12. **Cherrett, N.,** "Innovation in the Tourism Sector: A Case Study from the Commonwealth of Dominica," ECLAC, June 2011.
13. **Clarke, C.,** "Formalisation of the Informal Sector – Jamaica," ILO, February 2015.
14. **Commonwealth Secretariat**, "Designing a Micro Credit Initiative for Rural Micro and Small Enterprises in St. Lucia – Core Strategy Paper for St. Lucia Micro-Finance Programme".
15. **Drum, B.,** "Suriname: Improving Access to Small and Medium Enterprises – A Roadmap for Action," January 2013.
16. **Economist Intelligence Unit**, Private Sector Development in the Caribbean, 2014.
17. **Edwards, M., Ward, W., and Lalonde** "St. Lucia RESTORE Programme – Direct Support to Rural Enterprises" December 2009.
18. **Edwards, M.,** "Grenada Microfinance Study," UNDP, May 2009.
19. **Edwards, M.**, "Grenada Small Business Development Policy", Government of Grenada and World Bank, February 2008.
20. **Edwards, M. and Van der Wees, C.**, "Grenada Credit Study," HIVOS, December 1993.
21. **Edwards, M. and Van Houten, S.,** "St. Vincent and the Grenadines Small Enterprise Policy and Strategy" Commonwealth Secretariat, 2010.
22. **Gibson, T. and Van der Vaart, J.**, "A Less Imperfect Way of Defining Small and Medium Enterprises in Developing Countries," Brookings Global Economy and Development, September 2008.
23. **Government of Barbados:** http://www.caribbean360.com/business/new-fund-to-help-small-businesses-in-barbados?utm_source=Caribbean360%20Newsletters&utm_campaign=eeca28bcb0-Vol_8_Issue_031_Business11_24_2015&utm_medium=email&utm_term=0_350247989a-eeca28bcb0-39365225
24. **Government of Barbados**, Human Resource Development Strategy, 2011-2016.
25. **Government of St. Lucia**, "Industrial Policy of St. Lucia," January 2001.
26. **Government of St. Lucia**, "Micro and Small Scale Business Enterprises Act," September 19, 1998 (Revised Dec 31, 2001).
27. **Greene, J.**, "Linking Agriculture to Nutrition and Health and Food Security," CAFAN, 2015.

BIBLIOGRAPHY

28. **Harper, M and Levitsky, J.,** "Small Enterprise Development: An International Journal," Vol.1, No. 1, Intermediate Technology Publications, 1990.
29. **Harper, M.,** "What's Wrong with Microfinance? Some Final Thoughts," Practical Action Publishers, 2007.
30. **Harris, M.,** "The Current Situation of Small and Medium-Sized Industrial Enterprises in Trinidad and Tobago, Barbados and St. Lucia" UN-ECLAC, August 2000.
31. **Holder, L.,** "Challenges faced by SMEs," Caribbean Association of Small Enterprises Inc. [undated].
32. **Hunter, J. and Grant, N.,** "'Eat Jamaican' Campaign: A Game Changer," November 19, 2015, www.cafan.org.
33. **Innovation Management**, "Innovation without Borders: Six Best Practices to Improve Innovation Success rates."
34. **Inter-American Development Bank**, "Measuring the Competitiveness of Selected CARICOM Countries," World Economic Forum, October 2009.
35. **Inter-American Development Bank**, "Private Sector Assessment of Antigua and Barbuda," May 2013.
36. **Inter-American Development Bank**, "Private Sector Assessment of St. Lucia," 2014.
37. **Inter-American Development Bank**, "Private Sector Assessment of Suriname," 2014.
38. **Inter-American Development Bank**, "Private Sector Assessment of Trinidad and Tobago," 2014.
39. **Inter-American Development Bank**, "Private Sector Development in the Caribbean: A Regional Overview," December 2014.
40. **Inter-American Development Bank**, "Suriname Growth Forum: Access to Finance," Working Group Minutes of Meeting April 8, 2013.
41. **Inter-American Development Bank**, "The Age of Productivity: Transforming Economies from the Bottom up," DIA 2010.
42. **Inter-American Development Bank,** "The Landscape of Innovation in the Americas", Inter-American Competitiveness Network (RIAC), circa 2012.
43. **Inter-American Development Bank/MIF,** "Building up Business: Micro Enterprise Demand for Credit in the Caribbean," May, 2014.
44. **International Finance Corporation (IFC)** "Scaling Up SME Access to Finance in the Development World" http://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/financial+markets/publications/scaling-psme+access+to+financial+services+in+the+developing+world
45. **International Labour Organisation**, "Small Enterprise Development in the Caribbean," ILO Caribbean Office, No. 3, 2000.
46. **International Labour Organisation**, "MSMEs and the Global Economic Crisis," 2009.
47. **International Labour Organisation**, "Begin and Expand Your Cooperative: Trainer's Manual," ILO Caribbean Office, November 2015.
48. **Levitsky, J.,** "Microenterprises in Developing Countries: Papers and Proceedings of an International Conference," Intermediate Technology Publications, 1989.
49. **Lucas, S.**, "Wealth: Grow it, Protect it, Spend it and Share it," Wharton School of Publishing, 2006.
50. **Mann, C., Grindle, M., and Shipton, P.**, "Seeking Solutions – Framework and Cases for Small Enterprise Development Programs," Harvard Institute for International Development, 1989.
51. **McKinsey Global Institute (MGI)**, "A Tale of Two Mexicos: Growth and Prosperity in a Two-Speed Economy," March 2014.
52. **McKinsey Global Institute (MGI)**, "How Brazil Can Grow," December 2006. http://pracademia.blogspot.com/2006/04/20-how-brazil-can-grow-mckinsey-report.html
53. **McKinsey Global Institute (MGI)**, "MSMEs in Emerging Markets: How Banks can grasp a $350 billion Opportunity", 2012.

BIBLIOGRAPHY

54. **Micro Credit Summit Campaign**, "Countdown 2005", Vol. 1 Issue 4, May-June 1998.
55. **Micro Credit Summit Campaign**, "Countdown 2005", Vol. 3 Issue 1, Feb-Mar 2000.
56. **Mohan, P., Strobl, E., and Watson, P.**, "Innovative Activity in the Caribbean: Drivers, Benefits and Obstacles," Impag Business School Working Paper Series.
57. **National Development Foundation**, Annual Report.
58. **OTF Group**, "Cluster Best Practices in the Caribbean," Private Sector Development Discussion Paper, No. 5, 2010.
59. **Oxford Economics,** "Innovative Cities: Key Challenges for Latin American and Caribbean Cities," Inter-American Competitiveness Network (RIAC), circa 2015.
60. **PRMED, M.**, "Caribbean Small States – Growth Diagnostics," circa 2006.
61. **PROPLEND** "A Guide to Peer to Peer Lending" [undated].
62. **Radauer, A.**, "Integrating Intellectual Property into Innovation in Jamaica," Technopolis Group, Austria for WIPO, October 2015.
63. **Radjou, N. and Prabhu, J.**, "Innovation: How to do More with Less", The Economist, 2014.
64. **Ramesh, R.**, "Moving Beyond Collateralised Financing: Alternative Models based on Case Studies for the Regional Private Sector," CEO, Trinidad and Tobago, International Financial Centre, (Undated).
65. **Rodrick, D.**, "The Past, Present and Future of Economic Growth," Global Citizen Foundation, Working Paper 1, June 2013.
66. **Rubalcaba, L.,** "Innovation and the New Service Economy in Latin America and the Caribbean," in Baumol's Cost Disease, June, 2013.
67. **Ruprah, L., Melgrarejo, K., Sierra, R.,** "Is there a Caribbean Sclerosis? Stagnating Economic Growth in the Caribbean" IDB, March 2014.
68. **Rutherford, S.**, "The Poor and their Money" Department for International Development (DFID), Oxford Press 2000.
69. **Sagewin-Alli, I.**, "The Role and Impact of SMEs in the Economy," UWI (St. Augustine), 2012.
70. **Sagicor Mutual Funds,** Investment Commentary, December, 2015.
71. **Segal, M.**, "Peer to Peer Lending: A Financing Alternative for Small Businesses," SBA Issue Brief No. 10, September 2015.
72. **Slavin, B.**, "Peer to Peer Lending: An industry Insight." www.bradslavin.com
73. **Springer, B.** "The Characteristics of an Entrepreneur," The Barbados Advocate, November 23, 2009.
74. **St. Vincent and the Grenadines Small Business and Microfinance Co-operative (COMFI)**, "3rd Annual General Meeting Report," March 18, 2015.
75. **Suriname Chamber of Commerce and Industry**, Policy, 2004-2007.
76. **Tennant, D.**, "Access to Finance for Productive Development in Jamaica," April 30, 2015.
77. **Vandenderg, P.,** "Micro, Small and Medium-Sized Enterprises and the Global Economic Crisis: Impacts and Policy Responses," ILO 2009.
78. **Weiner Borse, A.G.**, "Private Sector Baseline Study – Investment Climate Survey, St. Lucia," July 2009.
79. **World Bank**, "Impact Evaluation of SME Programs in Latin America and the Caribbean," January 2010.
80. **World Bank,** Enterprise Surveys, 2010.
81. **World Bank/FIAS**, "Doing Business 2015 Report – Caribbean Region," November 2015.
82. **World Council of Credit Unions**, "2014 Global Credit Union Statistics Report," June 2015.
83. **World Economic Forum**, Global Competitiveness Report, 2013-14.

APPENDIX 2A: TEMPLATE - INFORMATION REQUESTS
3A - INTERVIEW QUESTIONS

SECTION 1: INTRODUCTION
1. How do you define MSME Development?
2. Do you believe that MSME is a priority here?
3. If "no". Why?
4. If "yes", why do you think MSME development is a national priority?
5. How has the development of MSMEs in (COUNTRY) evolved?
6. Do you believe that informal (unregistered) businesses should be formalised? Please explain.
7. a) What are the pros and cons of MSME development as it relates to entrepreneurship?
7. b) What are the pros and cons of MSME development as it relates to social justice?
7. c) What are the pros and cons of MSME development as it relates to Economic Growth and Development?
7. d) What are the pros and cons of SME development as it relates to Global Competitiveness?
8. Are you aware of, or are involved in, donor funding or government subsidies for MSMEs?
8. a) If yes, what are the benefits and the downsides? In what ways would you say that these public sector and donor interventions have helped to impact MSME growth, development and/or expansion?
SECTION 2: MSME SECTOR PROFILE
9. How do you define and classify MSMEs in (COUNTRY)? NOTE: For this Study, we classify MSMEs as follows: Micro : 1-5 employees; Small : 6-15 employees; Medium: 16-50 employees.
10. Should this definition and classification extend/apply to the wider Caribbean?
11. Allow me to share the latest Performance Statistics for Small Businesses in (COUNTRY). Would you agree that the specific economic indicators required to measure performance in a MSME should be: • Profitability – net profit margin • Liquidity – current ratio - assets/liabilities • Debt – accounts payable • Asset turnover – operating expense ratios • Employees - Number and levels.
12. Would you suggest any other major economic indicators of performance from global observations?
13. What, in your opinion are the strengths of the MSME sector?
14. What are the weaknesses?
15. What opportunities are available for MSMEs here?
16. What are the threats to this sector?
Please share your opinion on how the following factors affect MSME development in (COUNTRY) and in the wider Caribbean.

APPENDIX 2A: TEMPLATE - INFORMATION REQUESTS
3A - INTERVIEW QUESTIONS CONT'D.

17. Please share your opinion on how the following factors affect MSME development in (COUNTRY) and in the wider Caribbean.
Internal Factors:
17. a) Growth in consumption by customers (so growth in demand)
17. b) Scale of operations
17. c) Ease of Entry into production, markets
External Factors:
17. d) Enabling legislation/policy
17. e) Structure of business concessions, incentives
17. f) Support agencies and advocates
17. g) Unfriendly government bureaucracy
17. h) Obstruction from big business (land, space, input prices, utilities)
17. i) Labour market environment (permits, social security, filling vacancies, trade unions)
17. j) Information technology
17. k) Intellectual Property
17. l) Business Plans
17. m) Equity Investment/capitalisation
17. n) Collateral-based financing
Quality of programmes to address the following among MSME owners& operators:
17.o) Low education levels
17. p) Weak management capacity
17. q) Poor skills mix in service, marketing and finance?
17. r) Lack of continuity: failure of donor-funded MSME development projects to become institutionalised?
18. What is your vision of the MSME sector in 10–20 years, if the appropriate reforms are implemented?
19. In your view, does Government operate on a clear and integrated policy concept of its optimal role in the development of MSMEs?
20. Should government be the main driver of financial and non-financial support to MSMEs?
21. Does the current approach coincide with/support the need to build economic competitiveness?
22. What roles do you ascribe to non-government and private sector Business Support Organisations (BSOs)? Why?
23. On a scale of 1 (low)-10 (high), how would you rank (COUNTRY) in respect of the adequacy of access by the majority of MSMEs to financing?
24. Please share your opinion on what improvements are desirable in the following areas where MSMEs are concerned:

APPENDIX 2A: TEMPLATE - INFORMATION REQUESTS
3A - INTERVIEW QUESTIONS CONT'D.

24. a) Collateral requirements?
24. b) Risk-based lending?
24. c) Savings- based lending
24. d) Additional financial products desired?
24. e) Success rates of Government funded Revolving Credit Programmes?
24. f) Success rates of For-Profit Microfinanciers?
25. Generally, why do you think MSMEs experience difficulty in accessing finance?
26. Rank on a scale of 1 (low) -10 (high) the relative importance of the eight factors below in reducing/eliminating typical financial challenges:
26. a) Enlightened Bankers and other Financiers keen to grow MSMEs
26. b) Strong MSME management capacity
26. c) Growth-sensitive Tax systems
26. d) High interest rates & fees
26. e) Incentive regimes
26. f) Business Plans
26. g) Seed capital
26. h) Reliable technical coaching
27. Can you share with me examples of unique self-sustaining development finance initiatives that can be linked or replicated or adapted regionally?
28. Please share any planned or enacted Legislation and Policies in your country or elsewhere in the region that would encourage improved access to financing for MSMEs.
29. What role can regional bodies like the CDB play in improving the policy and legislative framework for same?
30. Are there any new and noteworthy MSME legislation, capacity developments, champions in your country for a stronger network of institutions supporting this sector? If yes, please share.
31. Please identify organizations/agencies that provide technical assistance to MSMEs, e.g.:
• Adoption of International Standards, • Best Practice Manuals, • Technology upgrades, • Quality Testing & Monitoring, • Worker Training and Certification, • Other _____

APPENDIX 2A: TEMPLATE - INFORMATION REQUESTS 3A - INTERVIEW QUESTIONS

32. Mindful that such services often present sustainability challenges, what national and regional institutional arrangements do you think, can be attempted to improve cost effectiveness?
33. What importance do you attach to stimulating innovation in order to strengthen this component of the Business Community?
34. How will information sharing help in this respect?
35. What other entrepreneurial approaches, do you believe, can impact future MSME development?
35. ANY OTHER COMMENTS appreciated.

APPENDIX 2B: FINANCIAL INFORMATION REQUEST

NAME OF INSTITUTION: _____

COUNTRY _____

A. Lending Policies:

I. Does your Financial Institution have in place a specific policy and procedures document for Business Loans?

☐ Yes

☐ No

If yes, can you share a copy of this document with us?

☐ Yes

☐ No

II. If yes, can you share a copy of this document with us?

☐ Yes

☐ No

B. Statistics on Customer/ Member Products and Accounts:

1. Do you offer the following products/ services?
   Please provide information as at December 2015, if possible.

FACILITY	YES # of Clients	NO
Cheques		
Credit Cards		
Debit Cards		
ATM		
Bill Payment		
Remittances		
Loan Protection Insurance		
Life Savings Insurance		
Funeral Insurance		

APPENDIX 2B: FINANCIAL INFORMATION REQUEST

II. Business Loans Portfolio Size & Quality (in US$):
Please provide information for years ending December 2014 & 2015, if possible.

a) Total number of Business accounts →
Percentage of Total Number of Client Accounts →
Number of *Non-Performing Business Accounts →
Percentage of total number of Business accounts →
*Payments in default 90 days and over.

b) Total value of Business accounts →
Percentage of Total Loan Portfolio value →
Value of Non-Performing Business Accounts →
Percentage of Business Sub-Portfolio value →

III. Business Savings & Deposit Accounts (in US$):

a) Value of all Savings Accounts held by Businesses →
Value of Total Savings Accounts held →

b) Value of all Fixed Term Deposit Accounts held by Businesses →
Value of Total Fixed Term Deposit Accounts held →

C. Pricing & Requirements for Business Loans:

Rates Range: _____
Applicable Fees: _____
Minimum Deposit: _____
Any other details/conditionalities: _____

APPENDIX 3: LIST OF PERSONS CONSULTED/INTERVIEWED

COUNTRY	NAME	ORGANISATION
ANTIGUA (13 Persons)	Andrea Joseph - Senior Lending Officer Andre Marshal - Lending Officer	Antigua and Barbuda Development Bank
	Acres Stowe	National Development Fund
	Rohan W. Anthony – Statistician Aba Scotland - Statistician	Statistics Division
	Hon. E.P. Chet Greene – Minister Sandra Joseph – Permanent Secretary	Ministry of Trade, Commerce & Industry
	Karl Spencer – General Manager	Community First Cooperative Credit union
	Jamilla Gregory – Business Development Officer	Antigua and Barbuda Chamber of Commerce
	Ricki Camacho - Registrar	Intellectual Property Office
	Jacqueline Yearwood - Enterprise Development Director	Antigua and Barbuda Investment Authority
	Julianne Jarvis - Project Implementation & Dev't Officer	Coalition of Service Industries
	Nasel Phillip-Samuel – Project Officer	Ministry of Trade, Commerce & Industry
BARBADOS (26 Persons)	LeVere Catlyn – Financial Controller Judith Sarjeant - Business Innovation & Facilitation	Barbados Public Workers Co-operative Credit Union
	Misha Clarke - Project Manager	Barbados Coalition of Services Industries
	Aubrey Browne - Director Trevor David – Deputy Director	Barbados Statistics Service
	Patrick Kendall – Economist Consultant	Caribbean Development Bank
	Damie Sinanan - Senior Advisor Trade and Export Development	Caribbean Export Development Agency
	Steve Belle – CEO Norman Belgrave – Financial Controller Algernon Yearwood – Chief Operations Officer Joseph Holder – Loans Manager	City of Bridgetown Credit Union
	Kevin Hunte - Deputy Registrar, Companies	Companies and Business Registry Corporate Affairs and Intellectual Property Office (CAIPO)
	Tara Lisa Persaud - Business Climate Reforms Coordinator Celene Cleland-Gomez – Coordinator, Enterprise Innovation Challenge Fund (CIF) Wayne Elliott, Project Development Officer	Inter-American Development Bank - Compete Caribbean

APPENDIX 3: LIST OF PERSONS CONSULTED/INTERVIEWED

COUNTRY	NAME	ORGANISATION
	Hamilton Roach – General Manager Michael Callendar - Credit & Project Manager Gerald Amos, Information Systems Manager	The Barbados Agency for Micro Enterprise Development Ltd. (FundAccess)
	Egbert Irving – Programme Manager	UWI Cave Hill School of Business
	Hon. Donville Inniss – Minister Philmore Best – Permanent Secretary Anderson Cumberbatch – Director, Business Development Unit	Ministry of Industry, International Business, Commerce and Small Business Development
	Jenson Sylvester – Director, Managed Services Jonathan Sylvester – Sales Engineering Manager	C&W Business
	Marina Taitt - Director Export and Business Dev't	Barbados Industrial Development Corporation
	Dr. Marcia Brandon	Caribbean Centre of Excellence for Sustainable Livelihoods
BELIZE (17 Persons)	Natalie Goff – General Manager Renan Gongora –Credit Delivery Manager Judith Leslie – Credit Administration and Loans Recovery Manager	Development Finance Corporation (DFC)
	Yvonne Hyde - CEO	Ministry of Economic Development
	Ruby Pascascio – Senior Projects Officer Nilda Sosa-Riverol - Manager	SBDC BELIZE
	Dennis Jones – Managing Director	Belize Enterprise for Sustainable Technology (BEST)
	Patricia Rodriguez	Belize Companies and Corporate Affairs
	Hugo Moguel - President Melanie Eiley - Admin/Accounting Officer	Coalition of Service Industries
	Kim Aikman - CEO	Belize Chamber of Commerce & Industry
	Corine Fuller - Manager Deanna Gomez - Business Dev't Officer	Belize Credit Union League
	Daisy Dawson - Manager Earl Arthurs - Accountant	St. John's Credit Union

APPENDIX 3: LIST OF PERSONS CONSULTED/INTERVIEWED

COUNTRY	NAME	ORGANISATION
	Yadele Urbina - General Manager	La Immaculada Credit Union
	Clement Usher – General Manager	Holy Redeemer Credit Union
TRINIDAD & TOBAGO (13 persons)	David Marquez – General Manager Michelle Wallace - Finance Manager Yola Charles - Loans Manager	City of Port of Spain (COPOS) Credit Union
	Joy Francis – Manager Business Dev't	Trinidad and Tobago Manufacturers Association (TTMA)
	Julian Henry – CEO Curtis Mayers - Corporate Business Analyst	National Entrepreneurship Development Company (NEDCO)
	Brian C. Awang – CEO	Trinidad and Tobago Export-Import (EXIM) BANK
	Francis Sandy - Deputy Registrar	Registry of Companies
	Denise Dickson-Cunningham - Manager, New Business & Product Dev't Valerie Jack - Monitoring Officer	Trinidad and Tobago Agriculture Development Bank (TTADB)
	Kelvin Sargeant - Regional Specialist, Sustainable Enterprise Development & Jobs Creation	International Labour Organisation (ILO)
	Sharon Mark - General Manager Sherry McDonald - Financial Controller	Eastern Co-operative Credit Union
ST. LUCIA (14 Persons)	Hon. Emma Hippolyte – Minister Alison Plummer - Permanent Secretary	Ministry of Commerce, Business Development, Investment and Consumer Affairs
	Emmanuel Gerald – Director, C& I Junia Emmanuel-Belizaire - C&I Officer	Department of Trade and Commerce
	Barbara Innocent - Director, Small Business Development	Small Business Development Centre (SBDC)
	Edwin St. Catherine - Director of Statistics	Department of Statistics
	Gayle Devaux-Segovia – Director	NATMED Herbals
	Brian Louisy - Executive Director	Chamber of Commerce, Industry & Agriculture
	Paula James - Executive Director	St. Lucia Manufacturers Association
	Yvonne Agard - Executive Director	St. Lucia Coalition of Service Industries
	Ronald Charles - Executive Director	National Research and Development Foundation
	Gordon Charles – President	OECS Business Council

APPENDIX 3: LIST OF PERSONS CONSULTED/INTERVIEWED

COUNTRY	NAME	ORGANISATION
	Levi Serieux - Business Lending Officer	Bank of Nova Scotia
	Priscillius Simeon - General Manager	Mon Repos Credit Union
JAMAICA (15 persons)	Donovan Wignal - CEO	MSME Alliance
	Hon. Anthony Hylton - Minister Andrene Collings - MSME Director	Ministry of Industry, Investment and Commerce
	Gillian Hyde – CEO	Jamaica National Small Business Loans Company
	Hugh Johnson - President	Small Business Association of Jamaica
	Orville Plummer - Project Manager	Heart Trust NTA
	Sandra Glasgow - CEO	Jamaica Exporters Association
	Jackie Mighty – CEO	City of Kingston Sodality Cooperative Credit Union
	Marjorie Straw - Project Manager	JAMPRO
	Valarie Viera – CEO	Jamaica Business Development Corporation
	Judith Ramlogan	Companies Office of Jamaica
	Edward Chin-Mook, President	Caribbean Association of Small and Medium Enterprises
	Martin Blackwood - General Manager	Portland Co-operative Credit Union
	Fitz Gerald Rowe - General Manager	St. Elizabeth Co-operative Credit Union Ltd.
	Terrence Cooper - CEO	CRIF-NM Credit Assure Ltd.
	Adrian Thompson – CEO	Credit Union Fund Management Company
GUYANA (17 Persons)	Nicole Prince Runuka - Registrar	Guyana Deeds Registry
	Abu Zaman - Branch Manager	Bank of Nova Scotia
	Ms. Roxanne Sumner – Senior Investment Facilitation Officer	GOINVEST
	Clement Duncan – Director Yonette Jeffers – Director	Guyana Manufacturers Association
	Lance Hinds – President	Georgetown Chamber of Commerce
	Ivor Coates – Statistician	Central Bureau of Statistics

APPENDIX 3: LIST OF PERSONS CONSULTED/INTERVIEWED

COUNTRY	NAME	ORGANISATION
	Ramesh Persaud - CEO	Institute of Private Enterprise Development IPED
	Reshma Ramratan - Research Officer Jason Allicock - Economist II	Central Bank of Guyana
	Collin Dejouge - Corporate Manager Michelle Johnson - Marketing Manager Ian Grant - Senior Credit Officer Deborah Young - Senior SME Officer	Republic Bank
	Gillian Edwards - Manager	Small Business Bureau
	Evadnie Enniss - Director	Guyana Bureau of Standards
	Manjula Brijmohan - Executive Director	Guyana Small Business Trust
DOMINICA (2 Persons)	Mr. Sobers Esprit - Business Dev't Officer, Creative Industries Mr. Marlon Marie - Business Dev't Officer, ICT & E-Business	OECS Export Development Unit
ST. KITTS NEVIS (1 Person)	Daniel Arthurton - Advisor	Eastern Caribbean Central Bank
SURINAME (15 Persons)	Wonnie Boedhoe - Managing Director	NOB (National Development Bank)
	Rathan Kalka - Coordinator, Business Support Services and Coalition of Services Industries	Suriname Business Forum
	Anil Pardairt - Chairman Prija Soechitram - Legal Officer	KKF (Chamber of Commerce and Industry)
	Guilliano Koornaar - Manager, Economic Division Selvyn Bishop - Staff Member, Research and Planning	ABS (General Bureau of Statistics
	Edwin Watson - Chairman	GODO Credit Union
	Wigo Bilkerdjk - President	ASFA (Association of Surinamese Manufacturers)
	Montague McLeod - Director, Corporate Banking	Republic Bank, Suriname
	Maureen Badjoeri – CEO Clarence Tokromo - Micro Credit Coordinator Rocky Samidin - Business Banking	Trustbank (MSME financier)
	Kenneth Foe-A-Man - Director Amit Chanderangsingh - CUS Coordinator	Suriname Competitiveness Unit
	Hon. Sieglien Burlerson - Minister	Ministry of Trade and Industry

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCS

This appendix offers an analysis of SME access to finance in eight BMCs: Antigua and Barbuda, Barbados, Belize, Guyana, Jamaica, St. Lucia, Suriname and Trinidad and Tobago. It is based on a combination of: 1) original research carried out by the consultants, and 2) findings summarised in the IDB's Private Sector Assessment Reports (PSARs).

The OECS: Antigua and Barbuda and St. Lucia

Table A1 below, shows loans advances and overdrafts for Antigua and Barbuda and St. Lucia, recorded by the Eastern Caribbean Central Bank over the period 2009 to 2013[55]. The data reveal that loans, advances and overdrafts (LAO) contracted in Antigua and Barbuda by 8.4% during the five-year period. This contrasts with a 12.5% overall growth in St. Lucia over the same timeframe. The diverging numbers are understandable since Antigua and Barbuda was one of the hardest-hit high tourism economies during the global financial crisis of 2008, when its GDP egistered, on average 1% negative growth per year from 2008 to 2014. In comparison, St. Lucia experienced modest gains of 0.10% per year in GDP over the same period.

[55] Data adjusted by deducting loans and advances to 1) financial institutions and 2) government services .

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

Table A1: Changes in loans and advances in Antigua/Barbuda and St. Lucia 2009 -2013

Country and Category	2009	2010	2011	2012	2013	Overall Change
Antigua and Barbuda:	2009	2010	2011	2012	2013	Change
Loans and Advances and Overdrafts		0.17%	-3.3%	-3.22%	-2.27%	-8.40%
St. Lucia:						
Loans and Advances and Overdrafts		3.27%	2.65%	6.62%	-0.45%	12.50%

Source: Eastern Caribbean Central Bank Financial Statistics Yearbook 2014

According to the Antigua and Barbuda Private Sector Assessment Report (PSAR) of 2014, that country was ranked 130th (out of 189 countries) in the World Bank's 2014 Doing Business (DB) report in the "getting credit" category. Addtionally, the local credit market is relatively inefficient when measured by the spread between lending and deposit rates. Given the important role played by finance in the development process, the country's poor DB ranking in terms of access to credit, represents a significant constraint to private sector development and growth.

Antigua and Barbuda is served by seven commercial banks and six non-bank financial institutions; however, at roughly 8 percentage points, it has one of the widest interest-rate spreads among its comparator group of countries, although the Seychelles, Guyana, Jamaica and Haiti have significantly wider spreads. Antigua and Barbuda has attempted to fill the credit void through the establishment of a national development bank, but the credit needs of the private sector significantly outstrip those available resources. Key policy interventions that are required include setting up a public credit registry and support for the establishment of a private credit bureau[56]. The lack of information on creditors means that risks are perceived as higher than they might otherwise be, and banks therefore demand higher interest rates and greater collateral. Legislative changes are also required to provide greater protection for creditors.

The St. Lucia 2014 PSAR, generated similar perspectives on that country's "getting credit" status. St. Lucia has a number of finance providers, including public-sector institutions such as the St. Lucia Development Bank (SLDB), whose mission is to facilitate enterprise and sustainable socio-economic development by providing accessible and affordable financial, technical and advisory services. However, according to the World Bank's Enterprise Survey (2010), 35% of businesses interviewed, cited access to finance as the biggest obstacle to doing business in St. Lucia. Private sector stakeholders interviewed, stated that finance was either difficult to obtain because of collateral requirements or too costly in terms of interest rates.

[56] There is a regional Credit Rating Agency, CariCRIS, but it rates regional debt markets and does not provide/cover individual credit ratings.

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

At the end of 2010, bank deposits stood at over 92% of annual GDP and the ratio of bank credit to deposits was 122%, the highest in any of the comparator countries. Despite this high conversion ratio, the island was still ranked relatively low, at 130th (out of 189 countries), for ease of accessing credit, and only 24% of businesses had either a loan or line-of-credit services.

Business finance on the supply side has the perceived (higher) risk associated with providing loans to the small-business sector, while on the demand side, many entrepreneurs and small businesses lack the ability (in terms of record-keeping, constructing business plans and so on), to access available lending facilities. Moreover, St. Lucia's credit market is fairly inefficient when measured by the spread between lending and deposit rates relative to those in other Caribbean countries. At roughly 8 percentage points, the island has one of the higher interest-rate spreads of any of the comparator countries. Importantly it should, be noted that the reserve requirement level is set by the Eastern Caribbean Central Bank (ECCB) which suggests that the total funds available for lending are less than the amounts deposited. However, in 2015 the ECCB opted to reduce the minimum deposit rate from 3% to 2%, a policy that could lead to gradual reductions in loan rates in ECCB member countries.

Barbados

Table A2 below illustrates the growth in loans, advances and overdrafts in Barbados between 2009 and 2013.

Table A2: Changes in loans and advances in Barbados 2009 - 2013

Country and Category	2009	2010	2011	2012	2013	Overall Change
Barbados:	2009	2010	2011	2012	2013	Change
Loans and Advances and Overdrafts		-1.34%	1.46%	6.31%	-2.57%	3.69%

Source: Central Bank of Barbados online statistics 2016

The growth rates in loans, advances and overdrafts in Barbados, appear to be just as anaemic as those experienced in Antigua and Barbuda over the same period. Barbados, like Antigua and Barbuda, is also heavily dependent on tourism, a sector that, prior to 2014, had been performing quite poorly, especially in terms of stay-over visitors and the average spending levels by visitors over the same period. Between 2009 and 2013, loans and advances grew by an average rate of 0.92% per year, a sub-optimal growth rate for both the private sector and the local banking sector.

The 2014 Private Sector Assessment Report (PSAR) on Barbados observed that, since 1981, the interest-rate spread has generally widened, indicating a possible deterioration in credit market efficiency. Between 2009 and 2011, the spread increased sharply, as banks reacted to the initial deterioration in economic conditions, subsequently narrowing as the slump became more protracted. It is possible that the spread will contract further because of an April 2015 Central Bank policy decision to eliminate the minimum saving rate and to allow the market to determine both deposit and lending rates in the future.

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

Domestic savings play a key role in the availability of credit. At the end of 2009, bank deposits stood at over 90% of GDP, and rose to 105% in 2012, one of the highest ratios among the group of comparator countries. However, bank credit as a proportion of bank deposits stood at just under 50% in 2009, and 70% in 2013, among the lowest ratios in the Caribbean. This suggests that businesses in Barbados—and particularly small businesses, which lack the access to international credit markets that some larger firms enjoy—find it difficult to access credit, despite the availability of funds in the financial system. As highlighted under sub-section 2.3.3 Bank Liquidity and SME demand, business finance is both a supply and a demand problem. On the supply side, there is the perceived risk associated with providing loans to small businesses. On the demand side, entrepreneurs and small businesses may not be aware of the lending facilities that are available.

Both the private and public sectors have attempted to address these constraints on finance. Commercial banks are the main credit providers to both small and large companies, offering various types of facilities, such as traditional loans, overdrafts, leases, etc. Most commercial banks offer dedicated credit products aimed at small businesses. In addition to banks, there are a number of specialist institutions and funds that offer financing to specific target groups. Credit unions are highly active in the small business sector, and are particularly so in the informal sector. Although the regulations governing credit unions prohibit lending to companies, since many small businesses are not incorporated, credit unions can structure such lending as personal loans. This makes credit unions an important source of lending to small businesses.

The government has established a number of funds aimed at providing capital, in the form of loans or equity financing, to specific sectors. As noted elsewhere in this report, in 2002, the government enacted the Small Business Development Act, which provides a framework of activities aimed at supporting micro and small enterprises through incentives (fiscal and others) and technical support.

The Government of Barbados (GOB) has also developed a dedicated institutional framework to spur SMEs entrepreneurship through the Ministry of Industry, International Business, Commerce and Small Business Development. Section 4.3.5 of the "Barbados Growth and Development Strategy Document for 2013-2020" is dedicated to Micro, Small and Medium Sized Enterprise (MSME) Development. It highlights the government's commitment to provide greater access to capital for MSMEs, and to further promote their growth, productivity and revenue generation, and underscores the role that financial institutions play in promoting investments.

To this end, the GOB has initiated a number of dedicated funding initiatives, amounting to approximately USD80 mn , comprising: 1) the Enterprise Growth Fund Limited created in January 1998; 2) the Caribbean Financial Services Corporation; and 3) the Youth Entrepreneurship Scheme. Each entity has a specific sector allocation, such as tourism and small hotels investment, agricultural development, industrial investment and employment. Through the Central Bank of Barbados (CBB), the government also offers financing and guarantee schemes to support credit and export promotion. There are different types of schemes provided by the CBB, with the most important mechanism being the Enhanced Credit Guarantee Scheme (ECGS) and the Trade Receivables Liquidity Facility (TRLF).

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

However, these schemes have had limited effectiveness in addressing SME financing needs, for the following reasons. First, their eligibility criteria have been sector or niche based, which is too narrow to support the comprehensive needs of SME financing. Second, their terms and conditions have not been sufficiently attractive for retail financial institutions to participate robustly. Third, their non-standardised requirements from one scheme to another, have created a perception with retail financial institutions, that applying for a guarantee is cumbersome. Fourth, there has been limited outreach with financial institutions and potential beneficiaries to develop a sustained pipeline. Finally, the practice of filing claims has created a perception with financial institutions that these can only be submitted once the company has been liquidated, a potentially contentious justification[57]. Moreover, in spite of the availability of various lending windows for tourism as well as for enterprises in the agricultural sector more than 30% of firms surveyed by the IDB for the 2014 PSAR indicated that access to finance was a "major" or "very major" obstacle to doing business.

Overall, there is a perception among interviewees that traditional financial institutions do not provide financing for start-ups or R&D investments, unless collateral is made available (for example in the form of vehicles, land or houses). There are many government-owned financing enterprises, including FundAccess and the Enterprise Growth Fund, that have arisen to fill the gap. However, owing to a lack of capital, these institutions often focus on small-scale finance. Consequently, their coverage of the total SME sector is often well below 20%, at best. Barbados, unlike other surveyed countries, such as Trinidad and Tobago and Jamaica, does not have a development bank or a credit bureau, and some interviewees pointed out that these were major deficiencies in the domestic financial system.

Jamaica

Jamaica, according the IDB 2014 PSAR, was ranked 12th (out of 189 countries) in the World Bank's 2015 Doing Business report for ease of getting credit. However, around 30% of firms identified access to finance as a major constraint, according to a 2013 countrywide, firm-level survey, funded by the Compete Caribbean Programme. The interest-rate spread of Jamaican banks in 2010 was the second highest among the comparator countries, being exceeded only by Haiti. Since peaking during the crisis and immediate post-crisis periods, spreads have been trending downwards.

The below-average performance of Jamaican financial institutions in mobilising and intermediating domestic savings, increases the importance of the availability of international funding. At 79%, Jamaica has a high ratio of international debt issues to GDP, compared with other countries in the region, suggesting that international bond issues are relatively heavily relied on as a source of financing by the country. However, only large private institutions use such financing instruments. MSMEs do not rely on international bond issues as a source of financing. Such firms are also less likely to receive credit from overseas banks.

[57] Lessons learned for the Barbados SME Guarantee Fund, The InterAmerican Development Bank. Undated.

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

Institutions that serve to reduce information asymmetries, such as credit bureaus, are relatively new in Jamaica. With assistance provided under the Jamaica Competitiveness Enhancement Programme, the Credit Reporting Act was passed in October 2010, and the Credit Reporting Regulations that operationalize the Act were approved by parliament in January 2011. To date, Bank of Jamaica (the central bank) has licensed two credit bureaus to operate and both are now operational. In the absence of good credit information, banks and other financial institutions protect themselves through high collateral requirements. For MSMEs, the difficulty of gaining access to credit is compounded by a shortage of collateral. Only 27% of Jamaican firms had a bank loan in 2010. Among the comparator countries, only Namibia and St. Lucia had smaller proportions of firms accessing credit from banks. If Jamaican firms had easier access to international sources of credit, or to other domestic funding sources, this would not be a major constraint.

In 2013, Jamaica passed a law governing the creation of security interests in personal property, as one of several new pieces of legislation introduced to satisfy structural benchmarks under the four-year Extended Fund Facility approved for the country by the IMF[58]. Since the law was passed, both a public and a private moveable-collateral registry have been launched, with strong uptake from individuals and financial sector firms. It is expected that these registries will help to expand credit to micro-level firms, and will extend services to both lenders and borrowers, nationally and regionally. Table A3 below illustrates the growth in loans and advances in Jamaica between 2009 and 2014.

Table A3: Changes in loans and advances in Jamaica 2009 2014

Country and Category	2009	2010	2011	2012	2013	2014	Overall Change
Jamaica: Loans and Advances to Private Sector		-24.71%	-1.11%	-17.26%	24.70%	26.20%	-3.05%

Source: Bank of Jamaica online statistics 2016

The table shows that loans and advances by commercial banks to the private sector plummeted by almost 25% between 2009 and 2010, and by a further 17% in 2012, and then returned to growth of 24.7% in 2013 and 26.2% in 2014[59]. Such significant swings validate the private sector's identification of Access to Finance as a major constraint to development in that country. The overall growth rate in loans and advances between 2009 and 2014 was -3.05%. However, the more positive growth trends in loans and advances in 2013 and 2014 would suggest that Jamaica is "right-sizing" again as it begins the process of returning to economic growth following the negative consequences of the global financial crisis and the IMF Structural Adjustment Programme, which was still on-going at the time of this study.

[58] The need for secured transaction reform was reinforced under a GOJ Letter of Intent, Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (MOU) with the International Monetary Fund (IMF), of April 17th 2013. In that Memorandum and under its Growth Strategy the GOJ committed to an initial phase of reforms to improve some Doing Business indicators of which a secured transaction framework was a key part. | [59] Most recent data on Loans and Advances to the private sector, from Bank of Jamaica statistics, is for 31 October 2014.

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

Guyana

For Guyana, the 2014 IDB PSAR pointed out that Access to Finance is an issue that was frequently mentioned during interviews for the PSAR as having a significant impact on private sector expansion. The most common criticism made by private sector leaders was that the banking sector was too liquid and did not provide enough lending to new businesses, thereby limiting investment and economic growth.

The banking sector's response to this criticism has been to argue, that banks assess risk and the availability of collateral (consisting exclusively of real estate) to make all their business-lending decisions, and that the result of this is that the portfolio of loans to the private sector is growing faster than the economy. The end result is that lending is expanding, but is not doing so quickly enough to satisfy demand for loans. Structural barriers, such as the lack of availability of registries of movable property, legal frameworks regulating the use of financial instruments, and limited property rights for miners and farmers, impose restrictions on lending to some clients.

But is this actually the case? As of May 2013, commercial banks held reserves 33% in excess of the level required by the Bank of Guyana (the central bank), which is currently set at 12%. As the economy has expanded and the banking sector has grown, excess reserves have increased, growing from 15% in 2011 to 22% in 2012. So the banks may be lending more to MSMEs, but the proportion of their deposits that is being invested in much lower interest-bearing government securities is increasing, suggesting that, on the demand side, the growth in bankable projects has not been in line with (commercial) bank criteria.

According to bankers interviewed, the traditional characteristics of the banks and their clients limit the expansion of credit to the private sector. In particular, they note that large and well-established businesses, especially in the services sector but also in manufacturing, are banks' preferred clients due to long-term established relationships.

A long-standing problem in Guyana, partly resulting from the economy's small size, is the concentration of loans to a few businesses—at the end of the first quarter of 2013, the exposure to the top 20 borrowers accounted for 15.9% of the total loan portfolio of the banking sector. New businesses find it difficult to borrow, in part because of the current structure of the banking system (which is small and is focused on lending to large companies), but also because in many cases such businesses lack appropriate collateral. Commercial banks require up to 150% collateral, and have cumbersome loan-application processes. This acts as a major constraint for small and medium-sized enterprises (SMEs). The (banking) regulatory system is biased towards the exclusive use of real estate as collateral, and the banking system offers only a limited supply of financial products such as leasing, factoring and the use of movable property as collateral.

Moreover, property rights over land are insecure in the most promising sectors of the economy, namely mining and agriculture, making it difficult for traditional commercial banks to lend to these sectors. Meanwhile, farmers lease land but cannot sell it, and a large proportion of land is subleased without a contract (illegally, as this is explicitly prohibited). Farmers cannot access bank finance under these conditions. So how supportive have commercial banks been in lending to the Guyana private sector? Table A4 below illustrates the growth in loans and advances in Guyana between 2009 and 2014.

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

Table A4: Changes in loans and advances in Guyana 2009 – 2014

Country and Category	2009	2010	2011	2012	2013	2014	Overall Change
Guyana: Loans and Advances to Private Sector		18.01%	23.10%	21.71%	14.19%	8.55%	119.15%

Source: Bank of Guyana 2016 data

As the table reveals, the growth in loans and advances to the private sector has been consistently higher than that of the other seven countries surveyed in this study. Moreover, according to Bank of Guyana data, total commercial bank loans grew, on average between 2006 and 2015, at a rate of 14.5%, while commercial bank credit to the private sector, which is a sub-set of total commercial bank loans, grew at 14.1% on average over the same period. This suggests that the banks have been building out their private sector loan portfolios in line with their general growth rates in overall loans.

What is also revealing is that by 2014, the total loans and advances to the private sector has more than doubled since 2009. While the data does not specifically stratify "loans to the private sector" from "loans to SMEs", it is quite possible that SMEs have had reasonable access to bank credit over the 2009–2014 period given that, apart from 20 larger firms, most of commercial bank lending in Guyana is to SMEs. To a significant extent the growth in bank loans is reflective of Guyana's above average GDP growth rates over the same period.

Belize

In Belize, the IDB 2014 PSAR pointed out that "the financial system is characterized as comparatively underdeveloped and also high-cost. The undeveloped and oligopolistic structure of the industry has led to significant challenges for businesses in terms of their access to finance".

As in many developing countries, bank credit is the main source of financing for large businesses, while credit unions and moneylenders in the informal sector tend to finance smaller investments and micro, small and medium-sized enterprises (MSMEs). The analysis in this section is based mainly on bank credit, given that loans for credit unions to business are usually classified as personal loans. The main issues emerging from consultations with stakeholders are access to finance and affordability of capital. Loans to businesses are available at high interest rates, with a collateral requirement that generally can exceed 175% of the value of the loan (see Table 2.13 under sub-section 2.3.3 Bank liquidity and SME demand, below). As is the case in other parts of the Caribbean – and generally in the developing world, micro and small businesses often lack appropriate collateral to back their financing needs and are therefore more credit-constrained than large businesses. Such conditions strongly suggest that the institutional remedies are that Government should give more consideration to establishing and/or significantly expanding Credit Guarantee Schemes to address the shortfall in MSME collateral capacity.

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

So how well did the commercial banks support the private sector in Belize – in terms of loans and advances to them between 2009 and 2014?

Table A5 below illustrates the growth in loans and advances in Belize between 2009 and 2014.

Table A5: Changes in loans and advances in Belize 2009 – 2014

Country and Category	2009	2010	2011	2012	2013	2014	Overall Change
Belize: Loans and Advances to Private Sector		-2.31%	-0.24%	2.61%	2.43%	4.53%	7.07%

Source: Central Bank of Belize Statistical Digest 2014

As the table shows, there has been relatively insignificant growth in private sector borrowing from commercial banks in Belize over the five-year period. Loans and advances contracted slightly in 2010 and 2011 and returned to positive growth thereafter. However, on average, loans and advances grew by less than 2% annually, a metric that perhaps supports the private sector's claim of limited access to finance in that country.

Suriname

In Suriname, according to that country's 2014 PSAR, access to finance is an important bottleneck to private sector development, and is recognised as such in the 2013-14 Global Competitiveness Report compiled by the World Economic Forum (WEF), and also by the World Bank in its Doing Business report (ranked 170th out of 189 countries for ease of getting credit). The financial sector is very small consisting of nine commercial banks, with a large concentration of lending and deposits at the three largest banks, RBTT Suriname (now Republic Bank), DSB and Hakrinbank. Both DSB and Hakrinbank are fully or partially owned by the government.

Credit to the private sector, at about 33% of GDP as at the end of 2012, is low by regional standards. Lending interest rates have remained relatively stable since 2008, averaging 11.8% between 2008 and 2013. Meanwhile, inflation fluctuated drastically in the same period, and so too did real interest rates. Indeed, real lending rates stood at negative 2.5% in 2008, then rose to 11.8% in 2009, before posting a negative rate again in 2011 (at 6%). The real lending rate stood at 10.1% in 2013.

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

Anecdotal evidence collected in April 2012 indicates the pervasive practice of lending using real estate as collateral, as well as the limited availability of factoring. Additional financial instruments that would deepen financial intermediation are not available. Such instruments might include the expansion of the market for government bonds, thereby promoting saving and investment by individuals and firms; leasing; secured transactions; and the revitalization of the stock exchange. The Suriname Stock Exchange (SSE) functions sporadically – trading only twice per month with only 11 listed companies and without a Securities Exchange Act. Also since the SSE is private, only brokers who are admitted by the Board are allowed to participate on the exchange on behalf of their clients. So how well has the banking sector done in providing credit to the private sector? Table 2.11 below illustrates the growth in credit to the private sector between the fiveyear period 2011 to 2015:

Table A6: Credit to the private sector in Suriname 2011 – 2015

Country and Category	2011	2012	2013	2014	2015	Overall Change
Suriname:						
Credit to the private sector (SRD millions)	3660.1	4228.9	4963.8	5407.4	6287.6	
% Change in credit to the private sector		15.4%	17.38	8.94%	16.28%	71.79%

Source: Centrale Bank van Suriname. Selected Macroeconomic Indicators 2011–2015

The table suggests that loans to the private sector have been relatively robust over the 2011–2015 period, with an average growth rate of approximately 18% annually. However, this trend is not aligned with the progressive contraction in GDP growth – which declined from 5.3% in 2011 to an estimated 1.5% in 2015[60]. But given that the economy is natural resource dependent, the growth in credit could be reflecting an increase in the level of investments in key sectors such as mining and agriculture[61].

Trinidad and Tobago

Findings from the 2014 Private Sector Assessment Report (PSAR) suggest that access to finance in Trinidad and Tobago for all companies, but especially for small and medium-sized ones in the non-energy sector, is limited. According to the Central Bank of Trinidad and Tobago, banking sector liquidity, measured as the ratio of liquid assets to total assets, stood at about 25% in 2011. However, the total stock of credit to the private sector is low, at only 29% of GDP in 2012 – which is close to a similar level in Belize.

[60] Centrale Bank van Suriname. Selected Macroeconomic Indicators 20112015 | [61] Similar findings were generated in "Are Banks in Suriname Conservative in Providing Access to Finance Surinamese Companies" by Weena Ajohia et al. of Kom University in 2012.

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

These indicators reflect two facts regarding the country's financial institutions. First, although liquidity is high, there is little appetite for risk-taking on the part of banks in terms of lending to private sector companies. Second, levels of financial intermediation are low, as banks prefer to keep their liquidity levels high rather than lending to firms that may face repayment difficulties for reasons beyond their control. Generally, banks consider it risky to lend to companies outside the energy sector, as such firms may find themselves unable to repay loans when external conditions change. Rather than being a problem arising from the management approach at individual banks or firms, this is a systemic issue, related to the existence in Trinidad and Tobago of an incentive framework for lending that does not facilitate financial intermediation. For instance, a presentation on "Moving Beyond Collateralized Financing" by Ram Ramesh at the 1st Caribbean Competitiveness Forum in Trinidad and Tobago noted that there was limited intermediation for venture capital, angel funding, IPO funding and government subsidies[62]. Nevertheless, interest rates in the country are low. In June 2014 the basic prime lending rate stood at 7.5%.

As noted in section 2.2 Life Cycle System and Table 2.2: MSME Life Cycle Financing in eight Caribbean countries, Trinidad and Tobago offers a relatively robust financial system that could bolster the progressive development of SMEs. The main weaknesses in the system are: 1) the contraction of venture capital availability, the high non-performing loans (NPLs) of the National Enterprise Development Company (NEDCO), and the absence of an active junior stock exchange. The completeness of the Life Cycle financing system would be notably enhanced if the first mechanism (i.e. venture capital) is re-activated and the second (i.e. the junior stock exchange) becomes fully operational. The idea of the junior stock exchange had been strongly promoted by the Chamber of Industry and Commerce in recent years. In that regard, the TTSE will establish a market for Small and Medium Enterprises (SME Market) and has drafted a Listing Agreement and Listing Requirements for companies interested in being listed in this market. To encourage SMEs to list, the T&T Government has legislated a 10% corporate tax rate, which is 40% of the normal rate of 25% for the first five years to SMEs listed on this market. They are required to raise capital on the exchange through IPOs with a minimum of 25 shareholders holding at least 30% of the company's share capital. To date, however, there have been no listings (yet) on the exchange, but this was the same pattern that the Junior Exchange exhibited in its first year in Jamaica.

Another major player in the financial sector is the EXIM Bank of Trinidad and Tobago, which offers a wide range of financial products to support exporters including post shipment financing (the equivalent of the factoring of receivables), pre-shipment financing (the equivalent of working capital financing), demand loan financing (for equipment upgrades), and export credit insurance (risk protection to exporters against payment default by foreign buyers). The EXIM Bank is owned by the Government of Trinidad and Tobago (GoTT) and facilitates export development, which is seen as a top priority by GoTT. According to its 2014 Audited Financial Statements, loans and other financial assets were USD 66.5 mn and accounted for 88% of total assets. Over time, the loan portfolio has therefore experienced consistent growth from USD 12 mn in 1975. How well has Trinidad and Tobago done in facilitating SME access to finance in recent years? Table A7 below summarised the allocations of loans and advances to the private sector over the six-year period 2009 to 2014.

[62] See "Moving Beyond Collateralized Financing: Alternative Models based on Case Studies for the Regional Private Financial Sector", Ram Ramesh, CEO, Trinidad and Tobago International Financial Centre. Undated.

APPENDIX 4: ANALYSIS OF SME ACCESS TO FINANCE IN EIGHT BMCs

Table A7: Loans and Advances (L&A) to the private sector in T&T 2009–2014

Country and Category	2009	2010	2011	2012	2013	2014	Overall Change
Trinidad and Tobago (TT$millions):	41244.6	39933.1	41975.5	44208.8	45855.2	49148	
% Change in L & A to private sector		-3.18%	5.11%	5.32%	3.72%	7.18%	19.16%

Source: Trinidad and Tobago Central Bank online statistics 2016

On average, commercial bank lending to the private sector grew by 3.83% per year for the five-year period. Although L&As showed a strong increase in 2014, it is unlikely that this trend will continue into 2016, especially given the dramatic contraction in global oil prices – which is having negative consequences for the Trinidad and Tobago economy. Nonetheless, loans to the private sector have been growing at a faster rate than T&T's lacklustre economic performance. In terms of GDP, the country has failed to achieve more than an average of 1% GDP growth between 2007 and 2014[63].

[63] See Chapter 1, Regional MSME Sector Profile, Chart 1, Caribbean GDP Growth between 2007 and 2014

APPENDIX 5: COUNTRY & DONOR DEFINITIONS OF MSMES BY PARAMETERS

1. CARIBBEAN COUNTRIES & Source document	EMPLOYEES	ASSETS (US$)	ANNUAL TURNOVER (US$)	NOTES
ANGUILLA	**N/A**	**N/A**	**N/A**	No Current Definition
ANTIGUA & BARBUDA Small Business Dev't Act No. 24 of 2007	Small/Micro: ≤ 25	Small: ≤ $1,111,110	Small: ≤ $740,740	The majority of small and micro businesses are owned by citizens of Antigua & Barbuda. No formal definitions for micro and medium businesses.
ARUBA Central Bureau of Statistics	Medium: < 50 Small: < 10 Micro: < 2	Info not available	Info not available	Info not available
BARBADOS Investment & Dev't Corporation	Small: ≤ 36	Small: ≤ $250,000	Small: ≤ $380,000	
BARBADOS Manufacturers' Association Small Business Association	Small: ≤ 25	Small: ≤ $500,000	Small: ≤ $1,000,000	
BARBADOS Small Business Dev't Act 1999	Small: ≤ 25	Small: ≤ $500,000 (paid-up capital)	Small: ≤ $1,000,000	No formal definitions for medium businesses. An enterprise is considered either small or large. Financial institutions have their own definitions.
BELIZE MSME Policy & Strategy, 2012	Medium: < 50 Small: < 20 Micro: < 5	Medium: ≤ $250,000 Small: ≤ $75,000 Micro: ≤ $25,000	Medium: ≤ $750,000 Small: ≤ $250,000 Micro: ≤ $50,000	Micro enterprises must be owner managed The majority of companies are SMEs.
BONAIRE	Medium/Small: ≤ 100	Medium/Small - ≤ $55,865 (private equity)		

APPENDIX 5: COUNTRY & DONOR DEFINITIONS OF MSMES BY PARAMETERS

1. CARIBBEAN COUNTRIES & Source document	EMPLOYEES	ASSETS (US$)	ANNUAL TURNOVER (US$)	NOTES
BRITISH VIRGIN ISLANDS (BVI)	Medium: ≤ 20 Small: ≤ 10 Micro: ≤ 5		Medium: ≤ $200,000 Small: ≤ $125,000 Micro: ≤ $25,000	
CAYMAN ISLANDS	Small: < 13 Micro: < 5		Small: ≤ $914,630 Micro: ≤ $340,870	Medium sized business is not defined
CURACAO	* Medium: ≤ 249 Small: ≤ 49 Micro: ≤ 9			*SME Definition proposed by the UN (2005). There is no consensus in Curacao
GRENADA Small Business Policy, 2010	Medium: ≤ 50 Small: ≤ 20 Micro: ≤ 5	Medium: ≤ $370,370 Small: ≤ $185,185 Micro: ≤ $37,040	Medium: < $740,740 Small: < $185,185 Micro: < $37,040	Borrowing Needs: Medium: < $185,185 Small: < $92,600 Micro: < $18,520
GRENADA National Small Enterprise Dev't Advisory Committee.		Micro: < $18,500	Micro: < $36,000	no formal definition of "micro" & "small business"
GUYANA	Small: ≤ 25 Micro: ≤ 5	Small: ≤ $9,036 Micro: ≤ $3,012 (equipment investment)	Small: ≤ $39,000 Micro: ≤ $37,030	Informal definition - discussions with shareholders revealed this consensus view
GUYANA Small Business Act, 2004	Small: ≤ 25	Small: ≤ $96,570	Small: ≤ $289,570	Is a registered Cooperative Society under the Coop Societies Act
JAMAICA MSME & Entrepreneurship Policy, 2013	Medium: ≤ 50 Small: ≤ 20 Micro: ≤ 5		Medium: ≤ $1,250,000 Small: ≤ $416,670 Micro: ≤ $83,333	
JAMAICA Micro & Small Enterprise Survey, 1996	Micro: < 10	Micro: < $5,480 (initial capital investment)		
JAMAICA Government's Industrial Policy		Small: < $82,192 (capital investment - excl land/building)		

APPENDIX 5: COUNTRY & DONOR DEFINITIONS OF MSMES BY PARAMETERS

1. CARIBBEAN COUNTRIES & Source document	EMPLOYEES	ASSETS (US$)	ANNUAL TURNOVER (US$)	NOTES
JAMAICA Micro Investment Dev't Agency (MIDA)		Micro: < $16,340 (excluding land/building)		
MONTSERRAT Micro & Small Business Bill 2013		Small - $185,185 or less Micro - $27,780 or less	Small - $370,370 or less Micro - $37,040 or less	
SABA				No Current Definition. Most businesses are small.
SAINT LUCIA '98 Income Tax Act # 11	Small: ≤ 50		Small: < $400,000	No formal definitions for medium businesses. An enterprise is considered either small or large.
SAINT LUCIA Micro & Small Scale Business Enterprise Act 19, 1998 (amended 2001, 2009)	Small: ≤ 50 Micro: ≤ 5	Small: ≤ $185,185 Micro: ≤ $27,780	Small: ≤ $37,037,000 Micro: ≤ $37,030	The majority of firms in St. Lucia are micro-businesses.
SAINT LUCIA Small Enterprise Dev't Unit	Small: ≤ 40	Small: < $200,000	Small: < $400,000	No formal definitions for medium businesses. An enterprise is considered either small or large.
SAINT MAARTEN			Medium: ≤ $674,150 Small: ≤ $337,000 or less; Micro: ≤ $100,800 or less	Many enterprises have fewer than five employees and little capital. SMEs are therefore classified based on gross turnover.
ST. BARTHELEMY 2008 Act	Medium/Small: < 250	Medium/Small: < $48,310,900	Medium/Small: < $59,190,500	
ST. EUSTATIUS				No Current Definition. Most businesses are smal

APPENDIX 5: COUNTRY & DONOR DEFINITIONS OF MSMES BY PARAMETERS

1. CARIBBEAN COUNTRIES & Source document	EMPLOYEES	ASSETS (US$)	ANNUAL TURNOVER (US$)	NOTES
ST. KITTS NEVIS SKN SB Policy and Act - circa May 2010	Small: ≤ 25	Small: < $370,370	Small: < $740,740	The composition of the board of directors is not controlled by a large company or subsidiary of a larger group
ST. VINCENT Small Enterprise Policy and Draft Small Enterprise Bill	Medium: ≤ 50 Small: ≤ 20 Micro:- ≤ 5	Medium: < $370,370 Small: < $185,185 Micro: < $37,040	Medium: < $740,740 Small: < $185,185 Micro: < $37,040	Borrowing Needs: Medium: < $185,185 Small: < $92,600 Micro: < $18,520
TRINIDAD & TOBAGO *Manufacturers' Association	Medium: ≤ 150 Small: ≤ 50	Medium: $240,000 - $800,000 Small: $20,000 - $240,000 (excludes Real Estate)	Small: $20,000 - $1,000,000 Medium:$1,000,000 - $2,400,000	*Suggested Definition
TRINIDAD & TOBAGO MSE Dev't Policy (2014-2016)	Small - ≤ 25 Micro - ≤ 5	Small - ≤ $230,770 Micro - ≤ $38,460	Small - ≤ $769,230 Micro - ≤ $38,460	
TRINIDAD & TOBAGO Section 1 8A - Corporation Tax Act Chapter 75:02		Small: ≤ $230,770		
TRINIDAD & TOBAGO Small Business Dev't Co.	Medium: ≤ 50 Small: ≤ 25	Medium: $50,001 - $240,000 Small: $15,000 - $50,000 (excludes Real Estate)	Medium: $120,001 - $1,000,000 Small: $20,000 - $120,000	
TURKS AND CAICOS MSME Development Ordinance, 2015	Medium: ≤ 25 Small: ≤ 19 Micro:- ≤ 5 dd	Medium: ≤ $2,500,000 Small: ≤ $1,000,000 Micro: ≤ $500,000	Medium: ≤ $2,500,000 Small: ≤ $1,000,000 Micro: < $250,000	Other Parameters: Medium: In operation for at least 10 years Small: < $92,600 Micro: < $18,520

CARIBBEAN DEVELOPMENT BANK
P.O. BOX 408, WILDEY, ST. MICHAEL
BARBADOS BB11000
T: (246) 431-1600
F: (246) 426-7269

www.caribank.org