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Fuelling SMEs in Supporting Economic Development: What's Your Role?

General Information on SMEs

Small Medium Enterprises: Opportunities and Threats

Within developing countries SMEs are important as they contribute to the development of the country by providing more jobs, which leads to a decrease in poverty and the promotion of productivity. Despite the important role that SMEs play in contributing to economic growth and development, they have in the past tended to receive little assistance, and often report that they are marginalized. SMEs are not greatly supported financially, and this factor often prohibits them from contributing meaningfully to Jamaica's productivity in the way they do in other economies. This however, has been recognized by the Government of Jamaica (GOJ) and private firms, and measures are being put in place in order to give a lending hand.

What are SMEs?

There is no common or mandatory definition, however, there are guidelines as to what is accepted as a MSME in Jamaica. The following are the typical criteria used in Jamaica:

- Micro enterprises are generally defined as having one to three employees and/or an annual turnover of less than J\$10,000,000.
- Small enterprises are described as having between four to ten employees and/or an annual turnover of over J\$10,000,000 but less than J\$40,000,000.
- Medium enterprises are categorized as having between eleven to fifty employees and/or an annual turnover that fall between J\$40,000,000 and J\$150,000,000.



In addition the following criteria may apply:

- Most SMEs have a single owner who could also be the sole employee.
- SMEs are essentially local in nature; their market is usually localized to the area where they are located.
- Importantly, SMEs are not limited to any particular type of industry or service; they indulge in small manufacturing facilities, small processing units, trading companies, export-import companies, distribution, retailing, rental Etc.

Importance of SMEs within developing countries

- SMEs are important to developing countries because they contribute to output and to the creation of new jobs.
- They are also seen as the next important step for expanding micro enterprises. They contribute directly and significantly to aggregate savings and investments, and they are also involved in the development of appropriate technology.
- In addition, SME businesses generate up to 90% of jobs in developing and low-income economies; they also contribute to approximately 55% of GDP and 65% of employment in high income countries, and 70% of GDP in middle income countries.
- The jobs generated are usually suitable for semi-skilled workers.

There are roughly 262 Small Medium Enterprises in Jamaica. SME development requires a specified strategy such as the ability of the government to implement sound macroeconomic policies, the capability of stakeholders to develop conducive microeconomic business environments through simplified legal and regulatory frameworks in order to reduce poverty, and the opportunity to increase growth within developing countries.



Challenges Facing SMEs in Jamaica

The major challenge faced by SMEs in Jamaica is the lack of adequate financing at affordable interest rates. This fact was garnered from a survey conducted in 2008 among local SMEs. In addition, the survey showed that many of the small businesses did not make it beyond the first year because of among other things, the pressure of the global recession, the pressure to compete, the pressure of taxation and also the pressure of loan availability. Other challenges facing SMEs in Jamaica include the following:

- The doing business environment
- Limited workforce
- Administrative procedures
- Government policies

The SMEs noted that the GOJ could help by granting more loans to small businesses. In the financial year 2012/2013, the Government made JM \$1 billion available through the Development Bank of Jamaica (DBJ) to persons interested in starting small businesses and also to small businesses that are in need of expansion. In addition, it was noted in the survey that the government could provide more support to SMES by launching programmes which facilitate entrepreneurial development through financial and non-financial support.

The Government of Jamaica has also implemented the National Industrial Policy (NIP), which has identified planned initiatives that would address challenges faced by Micro and Small enterprises, arising particularly from their small scale, limited capital and skills. These initiatives include:



- Incorporating MSE's in the national export promotion drive by increasing their productivity and efficiency, upgrading skills and management capabilities, improving access to credit, providing market support, and simplifying the process of business registration.
- Developing industrial space for small businesses.
- Encouraging the efforts to link small businesses and larger firms through sub-contracting relationships.
- Increasing the emphasis given to training in entrepreneurship and small business management.
- Establishing a Micro and Small Enterprise Coordinating Bureau to provide strategic direction for the sector's development.

Some of the Institutions Used to Support SMEs in Jamaica

1. The National Insurance Fund Credit Facility for Small and Medium Enterprises (NIF/CF/SME)

The NIF/CF/SME is a credit facility established by the GOJ in 2007, that provides support to small and medium sized enterprises. The GOJ increased its NIF SME loan fund facility to ten billion in September 2013. In addition the following also applies:

- The loan limit for any one enterprise is J\$10M, and the maximum repayment period is four years.
- Loans are made to existing enterprises with an established business performance history.
- New businesses will receive funding only if stringent requirements are met.



2. The Self-Start Fund (SSF)

This was created in 1983. The main objective is to promote entrepreneurship and employment opportunities in the private sector. The entity provides loans to micro and small entrepreneurs who are unable to access financing from traditional institutions. The SSF is projecting to lend more than \$100 million to the micro, small and medium enterprise (MSME) sector for the 2014/15 period, leading to the creation of over 1,000 jobs.

The entity provides loans to persons involved in agriculture, trading, services and manufacturing-type businesses, up to a maximum of \$750,000, with an interest rate of 23 per cent per annum.

Since 2009, SSF has disbursed 617 loans valued at over \$200 million, and indirectly created 2,144 jobs. The following conditions apply:

- The loans have to be for the purpose of acquiring basic tools, implements of trade, equipment, raw material and services.
- The range is J\$60,000 – J\$3,500,000 and successful applicants have a maximum term of three years to repay.

How do SMEs Economically Contribute to Jamaica?

Locally, the weight of SMEs in the economy is increasing due to the reduction in the number of large firms. In addition, productivity growth, and by extension economic growth, is strongly influenced by the competition inherent in the entry and exit of smaller firms. This process involves high job turn-over rates and competitive labour markets, which is important to the competitiveness process.

Globally, smaller firms have traditionally focused on domestic markets and many will continue to do so. But others are becoming increasingly globalized, often on the basis of inter-firm



linkages and clusters. About 25% of manufacturing SMEs are now internationally competitive and this share should increase. About one-fifth of manufacturing SMEs draw between 10%-40% of their turn-over from cross the border activities. At present, SMEs contribute 25%-35% of world exports of manufacturers and account for a small share of foreign direct investments.

Networking allows SMEs to combine the advantages of smaller scale and greater flexibility with economies of scale and scope in larger markets- regional, national and global markets. Relative to larger firms, SMEs can better respond to changing market conditions, evolving customer preferences and shorter product life cycles by customizing and differentiating products. New communication tools make it easier for small firms to reach foreign partners. As a result, SMEs are becoming more involved in international strategic alliances and joint ventures, both individually and in groups. Larger multinationals are partnering with smaller firms with technological advantages to economies, and as a result, SMEs are reaching across borders to form international alliances and ventures with globalized small firms.