

# Small Medium Enterprises (SME's)

# Introduction

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According to the “doing business index Jamaica”, Jamaica has been consistently falling in the overall ranking, moving from 85<sup>th</sup> in 2012 to 90<sup>th</sup> in 2013 and 94<sup>th</sup> in this year. But overall, Jamaica has improved in some aspects. However, it is essential to improve our day-to-day business environment, more specifically, our ability to collect taxes and trading across borders. With that said, it is important that we closely inspect the small medium enterprises within Jamaica.

The Small Medium Enterprise (SME) is an enterprise which employs less than 250 people on average. Within developing countries the SME's are important as they contribute to the development of the country by providing more jobs resulting in a decrease in poverty and the promotion of productivity.

Even though SME's are important to a country's development, they are not greatly supported financially, and thus prohibiting them from contributing to the country's productivity. This however, has been recognized by the government and a few private firms and measures are being put in place in order to give a lending hand.

### **What are SME's?**

In regards to Jamaica, there is no common or mandatory definition, however, there are guidelines as to what is accepted as a MSME.

- Micro enterprises are generally defined as having one to three employees and/or an annual turnover 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.

### **How do you categorize SMEs?**

- SME's are relatively small in nature. The number of employees varies, for small businesses 10 person, while in medium business 200 persons are employed.
- Most SME's have a single owner who could also be the sole employee. Limits are also set which states that a set of 250 to 500 employees are to be employees in order to be called an SME.
- SME's are essentially local in nature; their market is usually localized to the area where they are located.
- Importantly, SME's 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.

### The SME's development

- There are roughly 262 Small Medium Enterprises in Jamaica. SME development requires a specified strategy such as the ability of government to implement sound macroeconomic policies, capability of stakeholders to develop conducive microeconomic business environments through simplified legal and regulatory frameworks in order to reduce poverty and increase growth within the developing countries.
- They provide 80 percent of new employment created, by Rex James's reckoning. Recent research has shown that the SME's contributed to two-thirds of the economies in Europe, according to Christopher Lowe.
- In the November 6, 2011 Gleaner article, it was observed that the Development Bank of Jamaica (DBJ) has cut its interest rates to as low as 8% which was previously coming from 11%. This reduction in the DBJ's cost of funds resulted from the general decline in interest rates. This response was due to the signal of the central which implemented another cut in its policy rate in September to 6.25%.

### Importance of SMEs within developing countries

SME's are important to developing countries because:

- They contribute to output and to the creation of “decent” jobs; they are also seen as the next important step for expanding micro enterprises. They contribute directly and significantly to aggregate saving and investments, and they are also involved in the development of appropriate technology.
- SME businesses generate up to 90% of jobs in developing and low-income economies, they also contribute about 55% GDP and 65% of employment in high income countries and 70% of GDP in middle income countries. The jobs generated are suitable for semi-skilled workers. Importantly, employment is a major driver of reduced conflict and social empowerment.
- Within Jamaica the Micro, Small and Medium Sized Enterprise (MSME) alliance was formally registered in January 2007. The MSME, formally known as the Jamaica Small Enterprise Alliance (JSEA) and The Jamaica Small Business Alliance (JBSA) are a non-profit organization which lobby's on behalf of its members. They aim to do this by fostering collaborations and also by engaging in capacity building programs and non-partisan activities that can enhance the global competitiveness of Jamaican MSMEs. In doing this they will become a solid voice and source of effective support for MSMEs by improving the business literacy of MSME in Jamaica by ensuring and enabling public policy environment for sustainable development and growth of MSMEs in Jamaica.

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## Challenges faced by SME's

**The major challenge faced by SMEs within the country is the lack of financial support from banks.**

The small businesses are hampered due to the lack of financial support from banks and also prohibitive interest rates. Prime Minister at the time Bruce Golding and the Minister of finance Audley Shaw were trying to implement conditions that are conducive to investment.

A survey was conducted on the SME's and it showed that many of the small businesses did not make it beyond the first year. This was the case because the pressure of the global recession ranked very high, the pressure to compete, the pressure of taxation and also the pressure of loan availability.

The Governments of Jamaica (GOJ) could help by granting loans to the small businesses. In the financial year 2012/2013, the Government made JMB 1 billion available through the DBJ to persons interested in starting small businesses and also to small businesses that are in need of expansion. In addition to the above, the government could provide support to the SME's; they can do this 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). The NIP have identified planned initiatives that would address challenges faced by Micro and Small enterprises arising particularly from their small scale, limited capital and skills. The planned 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 target 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 and
- Establishing a Micro and Small Enterprise Coordinating Bureau to provide strategic direction the sector's development.

Other institutions used to support the SME's in Jamaica, just to name a few, are as follows:

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, they provide support to small and medium sized enterprises.
- The loan limit for nay one enterprise is J\$5m, and the maximum repayment period is four years.
- Loans are made to existing enterprises with an established business performance history also; new businesses will receive funding only if stringent requirements are met.


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 retail institutions lends directly to both microenterprises and small businesses.
- The SSF was originally financed by USAID CBI funds reflow; they also received funds from GOJ/Government of the Netherlands agreement, as well as from Micro Investment Development Agency (MIDA).
- Loans granted to applicants whose assets, excluding land and building, do not exceed J\$1,000,000 (US\$13,000).
- The loans made for purpose of acquiring basic tools, implements of trade, equipment, raw material and services.
- They offer small business loans with a limit of J\$1,500,000 (US\$20,000) and maximum term of three years.



### National Commercial Bank (NCB) SME Financial Services.

In 2004 NCB SME Financial Services launched a loan facility which issues loans to small and medium sized enterprises.

- The receivables financing facility is a line of unsecured credit for the financing of working capital requirements of the SME's pending collection of outstanding receivables from approved paying companies.
  - It allows the small businesses to fill cash flow gaps by providing immediate cash amounting to a maximum of 75% of the receivable.
  - The amounts range from J\$100,000(US\$ 2,000) to J\$10m (US\$150,000), interest rate ranging from 21% (or 11% on USD loans) for NCB depositors, and 22% ( or 12% on USD loans) for businesses that do not have their main operating account with NCB.
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## Local and Global Competition from the SME's

### **How do SME's economically contribute to Jamaica?**

#### **Locally**

The weight of SME's in the economy is increasing due to the reduction in the size of the large firms. In addition, productivity growth, consequently 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 churning in labour markets which is important to the competitiveness process and structural changes.

Few small firms develop into the core group of high performance firms which drive industrial innovation and performance. This reduces the need for the government to reform policies and frame work conditions that have a bearing on firm creation and expansion with a few to optimizing the contributions that these firms can make to growth.

#### **Globally**

Smaller firms have traditionally focused on domestic markets and many will continue to do so. But others are becoming increasingly globalizes, often on the basis of inter-firm linkages and clusters. About 25% of manufacturing SME's are now internationally competitive and this share should increase. About one-fifth of the manufacturing SME's draws between 10%-40% of their turn-over from cross the border activities. At present, SME's contribute 25%-35% of world exports of manufacturers and account for a small share of foreign direct investments.

Networking allows SME's 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, SME's are becoming more involved in international strategic alliances and joint ventures, both alone and in groups. Larger multinationals are partnering with smaller firms with technological advantages to economies, as a result SME's are reaching across borders to form international alliance and ventures composed of globalized small firms.