

SME HIGH-LEVEL SYMPOSIUM: Entrepreneurship & the SME business environment in the Caribbean – June 5th 2008, Port of Spain, Trinidad

Are SME's in the Caribbean sustainable – what are the critical issues?

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The issue I was just asked to deliver a 5 minutes presentation on is “Are SME's in the Caribbean sustainable – what are the critical issues? I think any discussion essentially must start with definitions, and we got a definition earlier on from our friend from St. Lucia in terms of how SME's are defined in their particular Act. I do not know that there has been any attempt in the Trinidad and Tobago context to officially define SME's. But the first issue really is one of definition because a lot of times we are not comparing apples with apples when we speak of SME's, so we need to understand really what an SME is. I want to propose that it is not just asset size, or turn-over or number of employees, I think some cultural issues should be brought into play as well. I know of companies that employ more than 50 persons and whose turnover may be in excess of \$5/6/7/8 million a year but for all practical intents and purposes that organization is in fact an SME. When you look at the way it is run, the way it is managed, the sort of informality that takes place and things like that so I just want to throw that in the pot for what it is worth.

Assuming that we can get past the definition, the critical question is “Are SME's in the Caribbean sustainable” and I want to twist that a little bit by saying that it is not really a question of whether they are sustainable, I think we need to make them sustainable because when you look at the contribution that SME's make to our economies in the Caribbean I cannot see how we could survive if we did not have SME's and make them viable, profitable business organizations.

The time given to me to prepare for this morning did allow me to do some research but I can almost accurately estimate that SME's probably provide about 60% of the jobs in the Caribbean – I think that is a conservative measure Chris would you say - so given that reality, it would be foolish of us as Caribbean people to think that we cannot make SME's sustainable. The stakes are simply too high for us. So that really and truly it is not a question of are they sustainable but really what do we need to do to make them sustainable. I want to applaud Gerry and his team for putting on such a symposium because clearly it's about getting solutions and finding solutions to what are very common problems I would imagine across the region as a whole.

So having made the bold statement that we cannot afford for them to fail, we cannot for them not to be sustainable, then we need to examine some of the critical issues impacting on SME's on how we can best come up with solutions to solve some of these critical issues. The number one issue from where I stand is really based on the critical characteristic of most SME's and that is they are

either one-man owned and operated and family-owned and operated and therein lies a lot of issues, or that simple fact will then bring a number of issues in terms of informality, in terms of succession planning, in terms of business continuity if there is no succession, in terms of family issues in comparing SME's. Only last week I was able to visit a very successful business that is now the center of a divorce battle and therefore is likely to be destroyed as part of that. It's not that the business is not an excellent business in fact because it is so excellent that is why it is the center of the battle. But chances are it will be destroyed. So we have family-type issues coming in that have nothing to do with financing, accounting and business savvy and things like that, issues that are totally outside the realm of those topics.

Because they are family held or one-man held and operated, the issue of capitalization which we have discussed to some extent earlier on comes into play as most individuals may not have the necessary wealth to raise the necessary capital to start or to sustain their businesses. Of course the issue of capitalization comes into play and I don't think we need to say much more there we have ventilated quite a lot on that particular topic for the morning. There is a point that was made by Phillip Pierre earlier on though which I think is very critical. A lot of times it is not so much an issue of lack of access to financing as much as it is how are SME's utilizing financing. I take an example from Tobago. In Tobago it is something called the Enterprise Development Fund which the Tobago House of Assembly launched a few years ago. Basically they lend money, up to a \$100,000 to small and micro enterprises, to start up capital basically and in the first year of that fund operating \$3 million was made available. I remember saying to the Secretary for Finance in Tobago, "you got to be joking, \$3 million no way". Do you know \$2.2mn was returned to the consolidated fund at the end of the year? The people simply did not access the funding. And those people who came to access the funding simply did not come prepared enough to make good business sense. So a lot of times it is really about preparing them so that one of the critical issues I would say is that of proper financial analysis of the businesses so that when they approach financiers, when they approach people like yourselves, when they approach people like myself, they come prepared, understanding what is required, what is needed of them. So I think that is the critical issue. Another critical issue that I have found is a lack of risk analysis. Entrepreneurs are not prepared to do the necessary risk analysis or they do it and then they stick their head in the sand and hope that it goes away, not taking measures to mitigate or take care of whatever risk factors there are they go to the financiers and say these guys are bad they know we need money, not realizing that it is all about risk, risk profiling, risk assessment and returns that assume the level of risk. So that whole question of risk assessment and how do you assess the risk equity is totally absent in a number of cases. I mean it is universal among SME's quite frankly.

Another issue I have found is that SME's have not done proper market research. They really do not know what they are producing or who they are producing for, they have not properly identified their market space they have not properly identified their product, they have not properly identified their service, they have a good idea, they get up one morning, something, some

dream, some vision, you know I could do a good Jamaican pattie. I have a real live example for this one, I could do a real good Jamaican pattie. All my neighbours like my Jamaican pattie, yes I think I could go into business. Fine, yes. There is a market for Jamaican patties presumably, where is your marketing plan, What? Where is your marketing plan? Who are you going to sell to, what varieties are you going to sell, are you going to do beef patties or are you going to do vegetarian patties? What nonsense are you telling me about Mr. Pierre, I am making Jamaican patties to sell. Yes, but to whom, who is your market. So a lot of the times as fundamental as that may sound, a lot of times the research is not done even at the most basic level and therefore obviously later on they are going to have problems as we get involved in these types of operations.

Of course, the issue of quality and quality assurance is something that SME's simply do not understand. You speak to them about the need to standardize production processes for example, standardize the way in which they approach different issues to do their businesses and they are simply clueless or refuse to take advice, which by the way is another critical factor. The fact that most SME's tend not to take professional advice - you know you try, you advise them, you speak to them. You know in my area, one of the big risk areas in a lot of SME's is their relation with the tax authorities, they don't like to pay taxes although they are making profits. They do not like to hand over to the Government the Value Added Tax or the Sales Tax whatever they collect on behalf of the Government. Invariably they get into trouble - invariably one day the tax man will walk through that door and all they will do is pay me big fees and after that pay the rest to the tax man. And the financial institutions like yourselves run a very big risk. This is something I have been speaking to financiers about and is something that I had a very in-depth conversation with one of the Managing Director's of one of the local banks about. A lot of your clients have significant taxation exposure and one day the authorities are going to walk into those businesses, levy on them and goodbye to you and your loans because the Government is the Government. The tax exposure is a big, big issue and is something that as people involved in SME development we need to encourage them to do the right thing, pay over your VAT. First to begin the VAT is not yours. I give my SME's a very "chinee chop" approach to egg here in Trinidad. You sell an item, you collect a \$115. \$15 belongs to the Government. Open an account, call it a VAT account and deposit the \$15 there. You know that you have \$100 to deal with it is not yours it is set aside. At the end of the period because of how the VAT system works, you end up with a bit of a surplus in that account anyhow which you can then bring back into the business and finance activities and things like that. Very, very important point your tax exposure is real and I can't talk for the rest of the region, but in Trinidad and Tobago tax authorities are becoming very, very, very serious given that very important issue.

The use of technology is another issue. A lot of times SME's are either afraid to or hesitant to embrace technology. Again, real life experience, only yesterday I have a client into the business of scaffolding rentals he is having problems controlling his scaffolding, he is having problems controlling his receivables, scaffolding is leaving and people are not being billed for it and things like that.

I said okay it is time to mover to computerization. Let's computerize your scaffolding stocks, let's use bar codes, let's scan them when they go out and enter the name of the customer so we know where each piece of our scaffolding lies whether it is in south, north, east or wherever it is so we know where our scaffolding is and we know who has it, who is responsible for it, we know who is accountable for it and the very same system will invoice that client automatically at the end of a month once the scaffolding has not been returned and that way you can track it. And he said "You know that sounds like a good idea, how much that will cost". First to deal with it is not a cost it is an investment. You are investing in technology and the money it is going to save you based on what you said to me in terms of the amount of scaffolding you lose on an annual basis, surely it will pay for itself in a matter of months, if not certainly a year or two. The challenge really there is to change the way SME's view technology as well as to bring to some understanding as to how technology can work for you. Another example is a supermarket that I do work for. I have been telling them to do a scanning check out for years and eventually they got around to doing it and in one year sales increased by over \$500,000, in one year, in one year and the guy said "Wow", now part of that was due to inflationary trends, he said "Wow my sales have really gone up." Pilferage in supermarkets is high, extremely, extremely high. I have seen with my own eye a woman when we used to have Klim in 5lb tins, remember those 5lb tins of Klim Gerry, I have seen a woman put one of those in her dress hem the hem was like about 3 feet you would not believe that this woman had a tin of Klim in there and she was just walking out of the supermarket. Pilferage is very high, and the use of technology is very simple, with the introduction of technology you solve that problem overnight and you will get the type of returns that you deserve to see.

The other point I have is the point that Chris tied into the issue of skills or lack of skills within the SME's and the employment of skills, the employment of skilled people, the employment of certain people, certain know-how and technologies and things like that.

In a sense, I could go on maybe for another hour or so talking about various critical issues I have touched on one of the key ones based on what I have seen in my own travels and working with SME's. I myself am an SME, I am an SME accounting firm so that I have seen a lot of these issues and things like that.

Before I close we are talking earlier on about financing. The opportunity didn't present me to make the point at that point in time, but when you look at alternatives in terms of funding of SME's and this is more from a Governmental perspective I guess, the Credit Union sector in most Caribbean states are poised to become a major player in SME financing. The problem there of course is they themselves are SME's and because they themselves are SME's they have some of these very problems that we spoke about in terms of being able to identify markets and that kind of thing. A couple years ago the IDB did a major project here in Trinidad trying to do just that, trying to move them away from consumer lending into small and micro enterprise lending. Need I say that they have failed miserably but it's a source that has impacted to or encouraged in some way in terms of funding SME's they are closer to SME's and they

understand – that personal relationship that you look for and informality at that level rather than at the established financial institutions level. I will give you one little example. In Toco, and for those of you who are not Trinidadians, Toco is a little fishing village which is in the north-east end of Trinidad. There is a Credit Union out there and of course the nearest commercial bank to Toco would be in Sangre Grande which is about 21 miles so that the Credit Union out there plays a critical and pivotal role in the economic activity of the village. It's fishermen as I have said before, and I saw this happen and I laughed and I remarked to myself what a wonderful thing. So the guy is going out to fish one morning and he needed some ice so he came by the Credit Union president, the Credit Union is run from the President's living room and he said I need to get some ice today because I am short of cash could you lend me \$400 – you meaning the Credit Union. The President said fine and he let him have the \$400. The fisherman went and bought his ice and went to fish. So I asked the President when and how that money was to be repaid, you just made a note in your notebook. The President said that the fisherman would bring back that money for the Credit Union tomorrow plus \$20.00. That is calculating say 20 over \$400 in one day's time - that is a real good rate of return. It is a classical application of micro credit and how micro credit can really work if we become innovative and being flexible enough to accommodate that kind of transactions.

So I want to thank you so very much for listening to me for the last five or six minutes and I am sure we will continue this discussion throughout the day as we progress.