



Economic Commission for Latin America and the Caribbean  
Subregional Headquarters for the Caribbean

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Workshop on Boosting SME Development  
and Development and Competitiveness  
in the Caribbean  
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## **REPORT OF THE WORKSHOP ON BOOSTING SME DEVELOPMENT AND COMPETITIVENESS IN THE CARIBBEAN**

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# **WORKSHOP ON BOOSTING SME DEVELOPMENT AND COMPETITIVENESS IN THE CARIBBEAN**

## **Introduction**

The Economic Commission for Latin America and the Caribbean (ECLAC) Subregional Headquarters for the Caribbean, in collaboration with the Division of Production, Productivity and Management at ECLAC Headquarters in Chile, convened a one-day workshop on “Boosting SME Development and Competitiveness in the Caribbean”, at the Subregional Headquarters for the Caribbean in Port of Spain on 14 May 2009.

The workshop was the culmination of country studies that were carried out under an Italian Government-funded project to assess the policies, institutions and instruments for dynamic Small and Medium Enterprises (SME) development and competitiveness in Jamaica, Suriname and Trinidad and Tobago. The aim was to use the lessons learned from the three country studies to inform policy and practice in the other member countries of the Caribbean Development and Cooperation Committee (CDCC).

The main objectives of the workshop were to: (a) share and discuss the findings of the country studies and lessons learned; (b) provide a forum for high quality discussion of the policy environment, instruments, business development and support services required for successful SME development in the Caribbean; and (c) map out a strategy for moving from analysis and recommendation to policy implementation and business changes in order to promote a dynamic and competitive SME sector. The workshop aimed to arrive at practical solutions to major constraints and a weighting of key actions in order of priority of implementation, by adopting a problem-solving approach.

Participants at the workshop included representatives of key SME support institutions in the region, actual SMEs and academic researchers. The list of participants and provisional programme are annexed to this report.

## **Opening session**

In opening the workshop, the Director of the ECLAC Subregional Headquarters for the Caribbean stated that the Italian-funded project sought to analyze the evolution of SMEs in Jamaica, Suriname and Trinidad and Tobago assessing the policies, instruments and institutions that were required to promote their competitiveness. SMEs, he stated, definitely had a vital role to play in cushioning the fall-out from the global slowdown on Caribbean economies, and strengthening the foundation for long-term growth and development

The Director also highlighted the importance of SMEs in diversification and structural transformation of regional economies, through new activities in the services sector, such as boutique tourism, culture and entertainment and ICT, which could earn high incomes for providers and increase government revenue. He maintained, however, that the regional economy needed to raise value added in traditional activities, including plantation agriculture in order to make them more competitive and less vulnerable to shocks.

In recognizing the urgent demand for improved public-private partnering to build trust and cross-institution collaboration, the Director called on policy makers to put in place more transparent and focused policy, while SMEs must set timeframes and mechanisms for implementation of measures.

### **Agenda item 1: Overview of the SME sector in Latin America and the Caribbean**

The representative of the Caribbean Association of Industry and Commerce (CAIC) and St. Maarten Chamber of Commerce made a presentation on Regional SME Intermediaries platform. He stressed that in a challenging environment marked by globalization and liberalization, regional SMEs would be judged by their contribution to employment, income generation and economic development. He further noted that SMEs were required to surmount the difficulties they faced in the areas of finance, technology transfer and market access in order to contribute to an improved quality of life in the region.

He noted that at the regional level there was need for a database, available to SMEs, on business development services (BDS), regional and international human resources and technical and logistical support. This would provide SMEs with a one-stop access to information to upgrade their operations.

He then provided a synopsis of SME support services in the Netherlands Antilles. He pointed to the Small Enterprise Stimulation Netherlands Antilles (SESNA), a partnership between the government and the European Union (EU) as a good practice, which provided support services including finance, logistical support, business training, business advice and information to SMEs. A commendable strength of the programme was its benchmarking exercise to determine enterprise needs and its monitoring and evaluation mechanism to assess ongoing progress and to recommend changes.

An innovative programme was the “Be Your Own Boss” initiative, which sought to awaken the interest of young people to owning their own business and which provided practical training to young entrepreneurs. Considering the success of the Netherlands Antilles’ model, the representative suggested that it could be adopted in the Caribbean Community (CARICOM).

In addressing SME issues at the regional level, he underscored the challenge in making initiatives all fit together. In this respect, he outlined four planks of a jigsaw puzzle that were needed. These were: encouraging a favourable socio-economic climate for SMEs; improving delivery of training; supporting micro-business startups; and providing appropriate financial support. He noted, however, that regional SMEs still faced human resource, financial and other constraints, including an insufficiently calibrated policy regime. These challenges would have to be tackled head-on if the sector was to realize its full potential.

The representative of the National Entrepreneurship Company Limited (NEDCO) of Trinidad and Tobago provided an outline of that company’s role in the SME sector. He noted that NEDCO was established in August 2002 to implement government’s policy on SME development, with a focus on economic diversification. Further, the company has been

mandated to develop an entrepreneurial culture in Trinidad and Tobago based on strategies to attract the young and traditionally disenfranchised sectors towards business activities.

He further stated that NEDCO provided support in a number of areas, including its loan programme, the Entrepreneurial Training Institute and Incubation Centre (ETIIC), advocacy and facilitating alliances. Under the loan programme, he noted that loans ranged from TT\$500 to TT\$250,000. The interest rate charged was 8% and applicants must be citizens of Trinidad and Tobago and over 18 years of age.

The ETIIC, he pointed out, provided support in training, on-site business consultancy, business seminars, business library services and mentoring services. Training included exposure to the basic skills needed to run a business, such as planning, record keeping, costing, computer literacy and marketing. Importantly, NEDCO advocated for policies to facilitate SME development, such as the Business Incubator Programme, economic growth and diversification policy and facilitating higher levels of e-commerce. Two critical planks were increasing enterprise readiness to trade in new trading blocs and the upgrading of human capital to meet the demands of testy markets.

He noted that NEDCOs outreach programmes included trade shows, conferences, entrepreneurial training, adult literacy and the youth entrepreneurship programme. In this regard, the company had formed alliances with a number of partners, including government ministries, the Youth Training and Employment Partnership (YTEPP) programme and Caribbean Microfinance Network.

In taking stock, he outlined a number of NEDCOs achievements including some TT\$212 million disbursed in loans since 2002, as well as the creation of 6800 SMEs and 21,000 job opportunities. Another success was growth in youth-based enterprises and higher indigenous value added in enterprises.

## **Discussion**

In the discussion that followed the session, the participants commended the presenters for their informative presentations and raised a number of questions and points of clarification.

In response to a question from the representative from Grenada on the tracking of the performance of SMEs, the representative of NEDCO pointed out that the company's in-house research facilities and field officers were used to track clients. He also noted that a reporting system had been established and training programmes undertaken to educate SMEs on how to relate to creditors/bankers. With respect to the company's collateral requirements for micro lending, he informed the meeting that "soft collateral" (business tools or stocks) was being used in lieu of "hard collateral" (real estate, etc). The rationale for his company's shift to more flexible collateral requirements was that borrowers were less likely to default on payments when the actual tools of their business would be repossessed by the lenders.

The representative of the University of the West Indies (UWI) Mona Campus drew the meeting's attention to the strategic plan that had been approved by CARICOM about two years

ago as part of a regional approach to SMEs and sought some clarification on the status of implementation of this initiative. This question was addressed by the CAIC representative who stated that he was not aware whether any concrete action had been taken on the initiative. He, however, pointed to an initiative being undertaken by UWI to develop a strategic plan for the region. Furthermore, he observed the challenges at a country level in meeting the needs of SMEs and therefore highlighted the value of lobbying governments to ensure that decisions agreed to at a regional level were implemented and followed through at a national level.

In response to the question raised by the Organisation of Eastern Caribbean States (OECS) representative on the impact of the constitutional breakup of the Netherlands Antilles on the operations of SESNA, he noted that the SME units were independent and as such they would not be adversely affected by the break-up.

The Barbados representative highlighted the need for a ‘Guarantee Fund’ for governments to share the risk of operations with SMEs. In response it was noted that some risk protection was provided as governments acted as intermediaries to cushion risks for SMEs.

At the end of the discussion, the chair of the panel highlighted the value of data in presenting the realities of SMEs in the region and further appealed for the use of disaggregated data that would provide a clearer picture of trends along age, gender/ethnic lines. The meeting concurred on the importance of such disaggregated data.

### **Agenda item 2: Presentation of Caribbean country studies**

The representative of the Mona Campus of the UWI made a presentation on “SME development in Jamaica: Policies, Instruments and Institutions”. In addressing the definition of SMEs in Jamaica, he noted the limited availability of data on the criteria that should be used to measure the size of a business. However, the Ministry of Industry, Commerce & Technology (MICT) had defined a small business as one that employed 4-10 people, had an average loan size of about US\$10,000, total assets of about US\$100,000, operated in the formal sector, could provide collateral for its loans and was very sensitive to high interest rates. A medium scale enterprise was defined as one that had gross revenues between US\$480,000 and US\$1.59 million.

He indicated that the strategic policy framework that informed SME policy was the National Industrial Policy (NIP) of 1996. The NIP affirmed the importance of SMEs and had planned a number of initiatives to tackle the challenges faced by the sector. While the NIP outlined different types of support for SMEs ranging from export promotion, industrial spaces and entrepreneurship training, these had not been adequately implemented and SMEs remained plagued by low competitiveness, low access to credit, high unit costs of production, low technology and poor management. However, in the absence of a comprehensive policy document to guide SME development, the government did focus on support in three areas: financial services, business development services and institutional support.

Financial services support was provided at the wholesale and retail levels and institutions specialized at these levels. A key wholesale institution was the Development Bank of Jamaica

(DBJ), which provided loans to SMEs through approved financial institutions (AFIs) and had assisted firms in the broiler industry, agro-industry and the music industry. Other wholesale providers of funds included the National Export-Import Bank Small Business Discount Facility (EX-IM SBDF) and the Jamaica National Small Business Loans Limited (JNSBL).

On the retail side, the National Insurance Fund Credit Facility for Small and Medium Enterprises (NIF/CF/SME) was a wholesaler of funds to participating financial institutions (PFIs) for on-lending to SMEs at affordable rates. Other retail institutions included the National Development Foundation of Jamaica, which was a major retailer of funds to micro and small enterprises involved in manufacturing, agriculture and services and the Credit Union League which was a vital source of funds for micro and small firms.

He emphasized the critical role of Business Development Services (BDS) in boosting SME productivity and competitiveness. These services included training, technology development, marketing and business linkage promotion among others. A number of institutions provided BDS in Jamaica. The Jamaica Business Development Centre (JBDC) furnished SMEs with support in business start-ups and consultancy services, while the Jamaica exporters association provided information, marketing and technical assistance. The EU/Jamaica Government Private Sector Development project assisted SMEs through cost-sharing grants, as well as providing direct support for market penetration, export centres, cluster initiatives, and conducting research into SMEs with a view to reduce the associated sectoral bottlenecks.

The Bureau of Standards Jamaica (BSJ) and the JBDC provided SMEs with technical support to meet international standards in products, packaging and labeling and had met with some success, such as technical information on herbal tea blends. Similarly, the Jamaica Exporters Association Business Technology Services programme had helped SMEs with information technology (IT) support and Hazard Analysis Critical Control Points (HAACP) quality training, which could bolster their ability to compete.

In reflecting on institutional challenges, he indicated that the main problem was that government or donor-funded programmes were viewed as soft loans, and were thus plagued with high levels of arrears and default. This acted as a disincentive to sustained SME funding activities. The MICT along with a number of retail lending agencies were therefore working to create a specialist SME credit bureau to assess the credit worthiness of SME borrowers.

He then provided an evaluation of SME support services and some recommendations. With reference to financial support, he noted that there had been a significant increase in the number of loans disbursed to SMEs over the last decade, however, funds retailing had become more concentrated with one lender dominating the market. This had stifled competition, which was necessary for efficiency. Furthermore, lending rates remained quite high (17.64% in 2006) although they have trended downwards in recent years. Also financing for SMEs suffered from supply side constraints that led to high volatility of supply. BDS also faced major challenges, in that over half of SMEs surveyed did not know any BDS providers. The business environment also presented important hurdles, for instance, dealing with licences took 236 days in Jamaica, the worst situation in the Caribbean.

The UWI representative recommended that commercial banks and Non-Bank Financial Institutions (NBFIs) should shift roles from wholesaling or retailing donor funds to independently providing loans for SMEs. In addition, research should be undertaken to identify and correct the bottlenecks in the lending process. Policy and incentives should also aim to reduce the cost of funds to SMEs, which were still far too high. He recommended that an SME credit bureau and a central depository of information on SMEs should both be created to provide credit histories and information on available services. Also, improved coordination of BDS was required to reduce duplication and facilitate more targeted interventions. He also recommended the promotion of venture capital windows, and a junior stock exchange to service SMEs, particularly business start-ups.

The representative of the Arthur Lok Jack Graduate School of Business presented the main findings of the study on SME development in Trinidad and Tobago: Policies, Institutions and Instruments. He began by noting that the Vision 2020 Framework outlined plans for the development of an innovative society. However, none of the objectives specifically addressed export promotion, stemming rural-urban migration or the building of competitive enterprises.

On definitional matters, he noted that a small enterprise was defined as one with 6-25 employees, assets of TT\$250,000 – TT\$1.5 million and annual sales between TT\$250,000 – TT\$5 million. A medium enterprise was one with 26-50 employees, assets of TT\$1.5million – TT\$5 million and annual sales of TT\$5million – TT\$10 million. The development policy framework that dealt with SMEs originated from recommendations from a 1998 Task Force which yielded the Enterprise Development Policy and Strategic Plan for Trinidad and Tobago. Seven critical areas were identified, including coordination among Micro, Small and Medium Enterprises (MSME) development agencies, access to credit and finance and training and human resource development, among others.

He pointed out that there were four public sector institutions with a clear mandate for SME development. These were: the Ministry of Labour, Micro and Small Enterprise Development, the Business Development Company (BDC); NEDCO; and the Tobago House of Assembly. The ministry was responsible for setting overall policy and interfacing with international bodies that dealt with the sector.

The BDC and NEDCO were the two workhorse institutions as far as practical support to SMEs was concerned. The BDC provided financial, technical and export promotion services to SMEs to catalyze their sustained growth and international competitiveness. At the practical business level, the company focused on key business areas, including trade assistance, business restructuring project management and export promotion. It targeted six main clusters that had been identified: food and beverage, metal processing, leisure marine including yachting, information and communication technology/electronics and printing and packaging.

Two key support mechanisms of the BDC were its Research and Development Facility and the SMEXCHANGE. The former helped SMEs to introduce specialized technology and innovative ideas with a focus on process improvement, product development and technology management. The latter provided an on-line Business-to-Business Portal that brought buyers and sellers together.

NEDCO, on the other hand, provided a range of business services, including financing, training and shipping. The loan programme had a micro-enterprise bias and sought to put enterprises on a self-financing basis over time. NEDCO acted as a one-stop-shop for entrepreneurial support services, including training, business incubation and mentoring. The representative underscored the need for a clarification of rules between the BDC and NEDCO to determine which organization should pursue business development as distinct from entrepreneurship facilitation.

He outlined a number of barriers to SME growth and development in the region. Important among these were psychological barriers to growth and expansion, organizational challenges, operational problems stemming from outdated production systems and insufficient attention to product/market development. He also highlighted the fact that SME development entailed solving the internal and external constraints faced by the enterprises.

Internal constraints centred on managerial, organizational and entrepreneurial problems and the technology gap between SMEs and large firms. External constraints, on the other hand, included finance, especially limited access to credit, limited demand for products and services, misaligned economic policy and intrusive regulations.

In addressing the way forward, he highlighted the need for supporting institutions to clearly consider the key requirements for developing a competitive sector. He highlighted the importance of networking among firms, the development of competitive supplier networks to source cheaper inputs and internationalization, where the firm expanded its research and development capability to penetrate regional and international markets, as key drivers of SME competitiveness.

The representative of the Institute of Private Enterprise Development (IPED) in Guyana presented on “Creating Viable and Profitable SMEs in Guyana”. He noted that IPED sought to develop viable enterprises by providing suitable finance and technical and managerial support services. The wider progressive agenda of IPED included developing a knowledge and information sharing scheme, market facilitation and the setting up of a loan guarantee fund to service client firms.

IPED’s support was embedded in the wider government support programme that was guided by the Small Business Act, the National Competitiveness Strategy, the Agricultural Diversification Programme, the Rural Enterprise Agriculture Development and the USAID/GTIS Project. The Act created a Small Business Council and sought to ensure that 20% of government procurement was from SMEs. The Competitiveness Strategy focused on helping entrepreneurs access affordable finance, expanding shipping capacity and streamlining the business start-up process. The programme also prioritized the liberalization of telecommunications to support ICT expansion, reducing inefficiencies at customs and the setting up of a Small Business Credit Bureau.

The Agricultural Diversification Programme, which was worth US\$21 million, aimed to increase and stabilize Guyana’s export receipts from agriculture and to foster initiatives to

enhance entrepreneurship capabilities in the agribusiness cluster. The Rural Enterprise Agricultural Development Programme and a United States Agency for International Development/Guyana Trade and Investment Support (USAID/GTIS) project sought to increase cluster development and to provide technical assistance to SMEs. Supply chain development and developing public-private consulting processes were also on the agenda. Rural Enterprise Development promoted production and marketing systems, technology transfer and the use of demonstration facilities to teach best practices. Meanwhile, the USAID/GTIS Project facilitated cluster development, supply chain management and improved trade policy and an enabling business environment.

In terms of performance benchmarks, he noted that IPED served 3,500 enterprises with a view to quadrupling this number by 2020. Its current loan portfolio was worth US\$7.5 million and it financed enterprises in rice, distribution, fisheries, poultry and livestock, food crops and services.

## **Discussion**

The BDC representative provided some clarifications on the role and function of the BDC. First, she noted that metal processing was not on the list of the Trinidad and Tobago Government's priority sectors. Secondly, she stated that the Evolving Technologies and Enterprise Development Company (E-tech), not the BDC, was the leader in clustering efforts. In terms of the services offered, she reiterated that the leasing facility mentioned was not a regional plan as the BDC was looking to consolidate locally. Moreover, the BDC was in charge of assisting medium-sized firms, while NEDCO had the mandate to assist small and micro level firms. She however stated that no company that requested assistance would be turned away, but would be directed to appropriate agencies.

One participant asked the presenter from IPED what had become of the scheme to use remittances to fund SMEs. The IPED representative noted that not much progress had been made in this area. Another participant enquired whether there was any initiative in the area of micro-insurance given the high risk of financing. The UWI representative responded that credit insurance and credit guarantee schemes posed a moral hazard, as the outright guarantee of credit led to the misallocation of funds. In response to a query whether the BDC assisted SMEs with export development, it was noted that the BDC did provide technical assistance to SMEs for export development.

The representative of the CAIC reiterated the need to adopt a harmonized definition of an SME across the region for the purpose of comparison. He noted that the Organization for Economic Cooperation and Development (OECD) definition could be adopted in the region. He also indicated that SMEs should have greater flexibility when it came to financing. However, the regional experience with credit bureaus suggested that SME financing remained problematic. He enquired whether policies could encourage regional businesses to move from being sole proprietorships to formal companies.

In response to the harmonization of definition issue, it was noted that it was difficult to adopt a single definition for SMEs across the region, but that using consistent parameters such as

revenue, employment and linkages would be desirable. Some countries were trying to bring informal SMEs into the formal sector, but this had been challenged by some SMEs being reluctant to give up the benefits of informality, such as non-payment of taxes. In response to a question about the need for policies on youth and gender in SME development, it was stated that there was an emergent youth entrepreneurship programme in Jamaica, though the legislation to support it was clearly outdated.

The representative from Development Finance Limited of Trinidad and Tobago (DFL) emphasized that the purpose of the business support agencies was to satisfy the needs of the SMEs. He stated that less government intervention and more commercial funding was required. SMEs, he stated, must operate as businesses for profit and financing must be subjected to that requirement. He noted that badly-designed projects tended to fail and well-designed ones tended to succeed in the long term. He advocated that well-planned assistance schemes for SMEs should focus more on technical and business advice than on access to financing.

Another participant reiterated that in the case of Trinidad and Tobago, the Government approved the policy for small and micro enterprise in 2002. The policy created NEDCO as the implementing arm of the mandated line ministry. She noted that BDC was also assigned the responsibility for developing small businesses into large ones. At present, this policy was being reviewed. Following this clarification, the CARICOM representative stated that it seemed that responsibility was being duplicated between the BDC and NEDCO, thus allowing for the perception of competition.

The representative from the OECS commented it was important to rigorously account for the value of jobs created by SMEs instead of the number of jobs created, as increased employment provided no indication of the quality of employment. Meanwhile, the representative of Jamaica stated that a survey done in 2002 showed that more attention needed to be paid to what the SMEs felt they need. He suggested that while the governments usually saw the main constraint as access to finance, the survey indicated that assistance in marketing, improving productivity and production facilities were more pressing problems. SMEs were therefore in need of ideas that could help to boost profitability rather than simply more finance.

In his response, the representative of the Arthur Lok Jack School of Business underscored the point that the definition of SMEs must be contextual and that all definitions were basically judgment calls. For example, it was difficult to distinguish in the Caribbean between an SME and a family business, but that qualitative definitions encapsulated all the concerns associated with both. Therefore, one Caribbean definition would not necessarily be representative of the socioeconomic realities of the region. On the issue of financing, he referred to a study he had worked on with the United Nations Development Programme (UNDP) to question whether financing was the main constraint affecting SMEs. He further noted that although there were internal and external constraints on business financing, many entrepreneurs were averse to taking the time to develop proper business plans and other requirements for commercial financing.

Concerning the perceived rivalry between NEDCO and the BDC, he noted that a Strengths, Weaknesses, Opportunities and Threats (SWOT) study suggested that fierce competition from other SME providers was a threat to these institutions. The issue, was how the

reality on the ground could be used to inform governance problems, which were evident in the evolution of both BDC and NEDCO from the SBDC. The CARICOM representative suggested that it might be optimal for each agency to focus on particular areas of competence, rather than specializing according to business size in order to prevent duplication of work.

The IPED representative indicated that support institutions needed to be more conscious about boosting entrepreneurship with a focus on getting a good product market.

The Chair then closed the session by reminding participants that competitiveness was a concept that required a clear definition that the meeting would agree on such a definition. He also suggested that effectiveness with politicians was sometimes hampered if the binding constraints were not clearly pointed out. It was therefore better to present them with a few key constraints that could be addressed, rather than a shopping list of issues.

### **Agenda item 3: SME Competitiveness, requirements and challenges**

The representative of the Caribbean Export Development Agency (Caribbean Export) provided insights on issues and approaches to SME competitiveness in a changing global environment. He underscored the fragile nature of SMEs and the high failure rate within a few months of start-up. Nevertheless, he indicated that SMEs were critical, as they added more flexibility and adaptability to an economy. SMEs in the region, he opined, were constrained by a lack of adequate finance, the absence of vital product and market information, limited training, inadequate networking opportunities and lack of first mover advantage in new product or service development. He suggested that the diaspora market was a useful testing ground for penetrating external markets. Moreover, SMEs must innovate and develop strong promotion systems in order to be successful exporters. Sectoral, national and regional integration of firms could catalyze economies of scale and other cost reducing measures that could galvanize competitiveness.

He noted that various incentives and approaches to encourage development and innovation have been attempted and applied with varying levels of success in both developed and developing countries. In this regard, Caribbean Export had undertaken a number of programmes to ameliorate the bottlenecks faced by regional SMEs. Successful programmes included the Caribbean Design Network, which helped to strengthen the design capacity in the region and the 'Onsite Caribbean Line' of products had been expanded. He emphasized the need to better manage intellectual property rights and quality issues in the region, so as not to miss out on rights protection and market opportunities. In the area of finance, he noted that the Caribbean Export Grant Scheme had benefited a number of firms.

New services were proposed as an important area of competitive advantage for the region. Key areas included health and wellness tourism, information and communications technology (ICT), the creative industries (film and video) and fashion. The representative highlighted the need to focus strongly on indigenous content to differentiate the Caribbean brand in these new services. He emphasized the need to identify and build on what was already present in the SME sector and to focus on the long term. Finally, he stressed that there would always be problems in the sector but it was imperative to find solutions to them.

The representative from the OECS provided an overview of support for SME competitiveness in the OECS. This was based on the history of SME support initiatives undertaken by the secretariat. He noted that there were hardly any formal institutions servicing SMEs in the OECS prior to the National Development Foundations (NDFs) which emerged to MSMEs to foster economic growth and diversification in the 1990s. This was in response to the loss of traditional European markets. Business support led to the emergence of successful cottage industries such as seamoss in Dominica, pepper sauce in Antigua and Barbuda and brewery products in Saint Lucia.

Over time, other agencies including the Eastern Caribbean States Export Development Agency (ECSEDA) and the Agricultural Diversification Coordinating Unit (ADCU) were created to meet specific needs. The purpose of ECSEDAs was to assist manufacturing firms in the OECS with a view to increasing exports. It assisted with packaging, labeling, promotion and buyer identification. The ADCU was established in 1989 in order to increase hard currency exchange earnings in non-traditional agricultural exports to extra-regional markets. It provided assistance with market intelligence, market trials, containerization and established national exporter associations in some territories. Both agencies were closed with the termination of donor funding in 1997.

In evaluating ECSEDA/ADCU, it was found that more attention needed to be focused on sustainability and quality of production in order to boost export market penetration. This realization resulted in the formation of the OECS Export Development Unit in 2000, which had provided assistance to 200 OECS companies in 2001-2004, with a view to facilitating training and assistance for export readiness. Support centred on business management, production support and quality assurance, including Hazard Analysis and Critical Control Points (HAACP) and good agricultural practices.

He indicated that a major challenge was the difficulty in rationalizing donor-supported programmes to guarantee their benefit to the subregion. Further, at the micro-level improved coordination and streamlining of programmes were critical to their success. Also, over the medium to long term, the support agencies would need to nurture entrepreneurship from the school level, implement business incubation models and focus on ISO and other certification.

The representative of the Competitiveness Company of Jamaica made a presentation on “Clusters: Innovation, Entrepreneurship, Networks and Small Businesses”. She noted that the company’s overall goals were to build new competitive advantages at firm level, increase firms’ export capacity and contribution to the national economy. Partnerships were considered key, and were established with UWI Jamaica, various ministries, private sector organizations, donors and SMEs. In underscoring its relevance, she noted that the company arose out of a felt need as firms were losing interest in support institutions and not paying their dues, plus a number of constraints including lack of standards and traceability were limiting the export potential of SMEs.

She outlined the theory and practice of cluster development in Jamaica as a platform for innovation and competitiveness of firms. She noted that a supportive macro-economic policy

was necessary, but not sufficient for the development of competitive firms. Clusters were advanced as a major driver of firm success, as the unique web of relationships arising from geographic concentration of firms and their support systems were hard to replicate and imitate. Development of clusters resulted in more efficient and sophisticated firms and, in turn, encouraged more globalised strategies.

Critically, she noted that clusters provided concrete advantages, including access to specialized inputs and employees that allowed firms to differentiate themselves from the competition, access to information and incentives and performance measurement. Spillovers from clusters including positive externalities helped to reduce coordination failures, speed up innovation and firm productivity growth.

She indicated that a situational analysis of firm performance in Jamaica unearthed a number of bottlenecks, including inconsistent suppliers of packaging, costs of packaging between 40% to 66% of total production costs, which were far above international benchmarks and the need to share container space to reduce costs. To address these and other constraints, the Jamaica Cluster Competitiveness Project (JCCP) targeted key clusters in agro-industry, entertainment, tourism and other areas to bolster their competitiveness and their ability to gain and sustain market share abroad.

In the agro-industry sector, 11 sauces were selected for detailed analysis and a joint purchasing programme was established for bottles and other inputs, leading to cost savings of over US\$500,000. Moreover, the Jamaica Scotch Bonnet pepper had gained intellectual property protection under a registered trademark. In the tourism and entertainment cluster, 30 new tours had been developed, with over US\$800,000 in new investments made by cluster members. Meanwhile, in the entertainment cluster, Jamaica Signature Beats was created to improve and market Jamaica's professional studio offerings. Finally, the representative emphasized that registration of Jamaican brand could buttress the competitiveness of its SMEs.

The representative of the ECLAC Subregional Headquarters for the Caribbean made a presentation on "SME Competitiveness in the Caribbean: Challenges and Opportunities". He situated the importance of SMEs by pointing out that on average they contributed 90% of employment and 70% of GDP in middle income countries, such as most Caribbean economies. Aside from their contribution to income, employment and exports, SMEs were drivers of growth and sustainable development. SMEs also contributed to a vibrant private sector thereby easing the burden on the State to create jobs for a growing population. He noted the varying definitions of SMEs across the region, which depended on country size, level of development and the strength of the private sector.

In tackling the contentious issue of competitiveness, he suggested that it was an omnibus concept that borrowed from business theory and economics. Nevertheless, it could be broadly viewed from the vantage point of the firm's potential versus its actual performance. Drivers of potential competitiveness included relative productivity, product/service quality, technology, innovation, management and organization and marketing, among others, while actual performance was indicated by relative market share, relative profit and sales, among other indicators.

There were two broad types of competitiveness: static competitive based on price, cheap labour and abundant raw materials; and dynamic competitiveness built on product/process quality, innovation, invention and new products and problem-solving to meet a sophisticated market niche. Given their relatively small size, regional SMEs needed assistance to become dynamically competitive.

In assessing challenges, he pointed out that maintaining a competitive real effective exchange rate (REER) was crucial to price competitiveness. The evolution of the REER during the 1990s and 2000s in the region had been mixed. In Belize, St. Kitts and Nevis and Saint Lucia, the REER depreciated during the 2000s leading to some improvement in price competitiveness and benefiting papaya and non-traditional exports from Belize. However, the REER appreciated in Guyana and Trinidad and Tobago, leading to diminished price competitiveness.

He contended that although productivity growth was the main driver of competitiveness, it has remained a bugbear in the Caribbean. Kida (2006) found that the median country average total factor productivity growth in the Caribbean moved from 1.0% in the 1980s to -0.4% in the 1990s. Moreover, the analysis showed that growth was driven by factor accumulation, rather than productivity growth. Indeed, a number of SMEs in the region in light manufacturing and agro-processing went out of business in the 2000s as wage and other costs outpaced productivity growth. Along with productivity growth, quality management and certification such as ISO 9000 and HACCP needed to be institutionalized in SMEs in the region. He noted that phytosanitary standards were absolutely essential if the regional agro processing sector were to penetrate OECD markets.

He indicated that finance remained an important challenge in terms of cost, availability, timing and term structure. High interest rates needed to be addressed by encouraging increased competition in the market; and specialized institutions such as venture capital, angels and the stock markets were required to facilitate a greater supply of affordable debt and equity finance to SMEs.

Other business support should focus strongly on increasing the innovation capacity of SMEs. This could be facilitated by building linkages between technology institutes (e.g. Caribbean Industrial Research Institute (CARIRI), universities, standard bureaus and SMEs to bridge the gap between research and invention and the development of new products and services. In addition, policies and incentives needed to be better targeted at promoting a culture of entrepreneurship and innovation, through prizes, intellectual property protection and youth-based programmes.

With respect to opportunities, he noted that the services sector was the main area of competitive advantage for the region. He challenged policy makers to design well-planned support to realize maximum benefit from tourism, cultural and entertainment, education services and niches in ICT, as these offered good opportunities for regional SMEs. Nevertheless, with an educated workforce, specialized niches in manufacturing such as some areas of electronics could also present opportunities. However, to capture and sustain market share in these areas, SMEs

would need to be assisted with branding, product differentiation and the strengthening of customer service. In addition, the development of robust clusters and networks provided a major opportunity to realize inter-firm cost savings, improve learning and to build subcontracting arrangements with Multinational Corporations (MNCs).

## **Discussion**

One participant who was a recipient of OECS assistance stated that niche markets were not competitive and that the playing field was not level. It was proposed that a set of satellite support institutions should be established in the region. She also stated that there was no clear State-supported export strategy, which could assist progressive companies that were trying to export.

The representative of Grenada outlined a number of initiatives that the government was undertaking to drive SME competitiveness. He noted that policy makers accepted the need for business reform and promotion of investment opportunities, as well as encouraging public-private partnerships and social partnerships. In addition, a Small Business Act has been enacted, and a number of agencies had been created or revitalized to support SMEs.

Participants agreed that the solutions used by the Competitiveness Company to develop SMES brands could be replicated across the region. A regional distribution company was also seen as a good idea to lower costs. It was also proposed that some focus should be placed on developing a Caribbean cluster, which was guided by activities at the country level.

The representative of UWI Jamaica noted that there was no shortage of entrepreneurship in the region, as evidenced by the number and resourcefulness of small business persons. However, it was acknowledged that some of the smaller SMEs might need to develop more formal arrangements to access the inputs required to enhance their competitiveness and viability.

### **Agenda item 4: Integrated SME development – Challenges, prospects and sketching a future road map**

The representative of Gom Food Industries of Suriname presented an overview of the experiences of his company in the context of “the making of a brand”. He indicated that the motivation to establish his unique brand of marinade was based on its export potential, unique recipes, an entrepreneurial spirit coupled with positive market research results. The mission of developing a quality brand with continuous growth prospects also called for an international vision. The company was family owned and employed 14 part time and eight full-time employees. Growth had been marked by an increased production from 8000 litres in 1999 to 190000 litres in 2008. New processing equipment had been installed and there were plans for future expansion.

With funding from Caribbean Export, market research was done across the English and Dutch Caribbean and the Netherlands with the use of marketing tools, SWOT analysis, promotion and feedback to decide on export strategy. Efforts to expand and grow focused on

training workshops, research, clustering and joint ventures. Caribbean Export had also assisted with finance, product analyses and feasibility studies.

Exports to the EU began on a trial basis in 2001 and were expected to reach five 20 foot containers in 2009, while regional exports had been mainly to the Dutch Antilles, with sample orders to Trinidad and Tobago and Antigua and Barbuda. Importantly, competitiveness had improved over time as the company tackled quality issues such as providing detailed product information and gained intellectual property registration. The company was currently expanding into the United States market, while trying to expand its capacity to tackle new markets. Finally, Gom Foods also took corporate social responsibility seriously, and was involved in many social projects in Suriname.

The Managing Director of Caribbean Specialty Foods made a presentation on the development of her firm. She related that her firm started with the aim of exporting and that she worked with local producers to get the best quality supplies available. At the start-up of business she approached financial institutions for loans, but was turned down as the firm lacked the necessary requirements to secure them.

Initially, there was a lot of scepticism about the potential of the business as there were many competitors in the pepper sauce business in Trinidad and Tobago, but the company wanted to differentiate itself in making a quality, all-natural product. The company persevered and focused on quality and standards. As a result, it got approval from the United States Food and Drug Administration under 10 projects to export a number of products to the United States. More attention was to the export market than to the local market, because of extant problems with the logistics of local distribution.

The Managing Director of ACR Business Solutions and President of the Barbados Small Business Association (BSBA) made a presentation on her company and the BSBA. She stated that her company, which provided ICT business solutions, was started in 2000. The company provided business and ICT services to a range of clients, including medical transcription and other data services. In addition, it facilitated financing and offered business and financial advice to small businesses at lower costs than alternative institutions.

She pointed out that the success of the firm's model was built on key strategies including shared services such as internet, security and procurement and a measurement and performance based compensation system that targeted concrete productivity and efficiency parameters to reward performance and also a culture of continuous learning and upgrading. Crucially, the company was committed to corporate social responsibility and had supported SMEs in Barbados, especially in the 'urban corridor', where most marginalised groups resided.

She gave an overview of the SME sector in Barbados, stating that it contributed 50-60% of GDP with a presence of 11,500 companies, most of which were family-owned businesses. Practical support was provided through agencies such as the Rural Development Commission/Urban Development Commission, particularly in agriculture and general business, the Youth Entrepreneurship Scheme and the Barbados Small Business Association.

Even with those structures in place SMEs still faced major challenges. The regulatory structures remained restrictive, lobbying was not encouraged and was often myopic, financing was inadequate and there was a lack of research to inform policy. Additionally, high cost raw materials, poor management systems, import substitution, lack of technical support, high labour costs and limited investment opportunities also plagued these firms.

Increasingly, however, opportunities were becoming available, especially for SMEs that were flexible and prepared to innovate. She stated that a critical benefit of SMEs was their ability to create backward and forward linkages in the economy, earn foreign exchange and generate employment. In terms of sectors, the main areas of opportunity included professional services, small manufacturing such as condiments and craft, fashion, ICT general services and youth entrepreneurship.

In order to remove some of the constraints facing SMEs, a five year strategic plan had been devised. The plan earmarked a number of areas for action including increased funding, adjusting the policy framework, improving the institutional capacity of SMEs, improved ICT, especially e-commerce to reduce business costs and downtime and improved marketing management. The plan challenged government to facilitate research, strengthen institutional support, increase development finance and promote an entrepreneurial culture.

To inform the way forward, the representative of the CARICOM Secretariat presented her organisation's initiatives and perspectives on SME development in the region. She indicated that the Secretariat was very pleased to participate in the workshop and expressed the Secretariat's thanks to ECLAC for hosting the workshop.

She underscored the importance of the private sector as an engine of growth and development in the region, noting that the regional SME sector contributed more than 60% of GDP and employed more people than large businesses. CARICOM therefore had focused priority attention on the sector.

With respect to constraints, a number of studies had led to a general awareness of best practices that were required to propel the sector forward. However, in spite of a number of initiatives, the sector continued to face daunting challenges, which had been aggravated by the present situation of the global economy. She highlighted key challenges that were articulated in the Workshop on "Ameliorating Binding Constraints Facing Small and Medium Sized Enterprises in the Caribbean" in June 2008. Among these were lack of access to adequate sources of financing and the high cost of SME financing, the high cost of doing business, evidenced in part by inefficient air and sea links, the absence of a regional policy on SMEs and limited access to new technology, including ICT.

She offered a number of pertinent questions that must be answered in addressing SME development. These included:

(a) Had SME development been approached in a holistic way and given priority attention by governments?

(b) Did regional financial institutions really appreciate the role of SMEs in regional development?

(c) Did supporting institutions, including the donor community, know what each other was doing, in order to reduce duplication of effort?

She noted, however, that despite severe human and financial constraints, the CARICOM Secretariat had attempted to mainstream the SME sector into its work programme with initiatives such as the first SME Roundtable, which was held in Jamaica in 2003 and examined the development of small businesses in the region with a view to establishing a holistic Strategic Plan for SMEs and the completion of the draft model Small and Medium Business Development Act.

She highlighted the formation of the Caribbean Association of Small and Medium Enterprises (CASME) as a welcomed initiative, which could provide added institutional support to the sector. She also noted that the region appreciated donor support that was targeted and met the real needs of SMEs.

In prioritising her recommendations, she first put forward some ‘low hanging fruits’, including:

(a) Member States should be requested to appoint a National Coordinator/Coordinating Agency for SME development;

(b) A list with full contact information of all public sector and private sector bodies with responsibility for SME development should be compiled; and

(c) A stocktaking of current initiatives for SME development should be undertaken and updated on monthly or quarterly basis (National, regional or donor funded).

She then advanced other recommendations, which would be more time consuming to achieve, but were equally important. These included:

(a) Countries should start the harmonisation of the legal and regulatory framework for SME development;

(b) Each member State should identify its priority sectors and provide a status update for each identified sector;

(c) The 2006 Draft Strategic Plan should be updated and ‘sign-off’ obtained from the relevant organizations/bodies;

(d) A way forward should be devised for the Draft Model Bill for SME Development; and

(e) Initiatives for the region must be consistent and a holistic approach undertaken.

In conclusion, she stressed that if collectively participants were to make a difference, there must be consistent efforts rather than sporadic initiatives.

In his presentation on the way forward, the representative of the Arthur Lok Jack School of Business proposed that lack of access to finance was not the main constraint facing SMEs but that the greatest constraints were factors that were internal to these firms. Therefore the establishment of a framework for SME development must not be academic, but practical and based on a problem solving approach to tackle firm level constraints.

He stated that the Caribbean did not have a shortage of entrepreneurs, but that reinvigorated efforts were needed to stimulate innovation and new products and services. Moreover, policy makers must note that the innovation process in the real market was very different from what was taught in academic circles. Hence, although education and training were the best ways to approach the problems faced by SMEs, academic training must be linked with practical firm level experiences to be effective.

With reference to the earlier debate about firm size, he noted that size was not the main point. It was not an issue of small enterprises versus large enterprises; indeed, small enterprises thrived best where they collaborated with large firms.

He underscored the importance of social networks and clustering as catalysts of SME competitiveness. In fact, most businesses began based on their social networks. Also, most business and innovations started with two-person conversations. A worthwhile lesson was how the Chinese community had been able to expand around the world based on social networking, and the Caribbean would do well to learn from this experience.

He raised the question of whether partnerships in the Caribbean were sinking ships. However, he concluded that the Caribbean needed to strengthen its internal partnerships because the world was a very competitive and complex place, and any country trying to expand on its own would have a tough time doing so. More regional collaboration was required for SMEs to succeed. Finally, he reiterated the need for a diagnostic benchmark evaluation of the SME sector and for countries to develop a National Innovation System to boost the dynamic competitiveness of their firms.

## **Conclusion**

In summing up and looking at the way forward, the meeting arrived at the following key recommendations:

(a) A registry of regional SMEs should be created and an audit of SME support services undertaken to determine what measures were effective;

(b) Research should be undertaken on how best to get SMEs to prioritise innovation and new product/process development in their competitiveness strategy and what forms of assistance were most suitable for innovative firms;

(c) Regional collaboration and partnership among SMEs should be promoted and regional coordination and harmonisation of policies and strategies facilitated, especially in areas of regional public goods such as standards, joint marketing and promotion and the creation of Caribbean brands;

(d) Entrepreneurship training should be actively promoted, especially among young people;

(e) Incentives should be provided for more appropriate forms of financing for SMEs, including angels, venture capital funds, equity markets and well-designed development finance institutions and a monitoring of performance undertaken to determine effectiveness;

(f) At the macro-level, governments must strive to make the business environment more SME-friendly by tackling bottlenecks in customs, administration, transport systems and macro-policy that affected interest rates and financial intermediation; and

(g) Targeted national cluster and network programmes should be designed to promote cooperation, learning and positive externalities among SMEs.

The Director of the ECLAC Subregional Headquarters for the Caribbean noted that the Caribbean was very good at offering plans, but suffered from a major implementation problem. He challenged the meeting to target key recommendations that could be implemented over the short- to medium-term. Finally, he thanked the participants for their lively discussion and debate and pronounced the meeting officially closed.

**Annex****List of participants**

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ECLAC

## WORKSHOP “BOOSTING SME DEVELOPMENT AND COMPETITIVENESS IN THE CARIBBEAN”

14 May 2009

ECLAC Conference Room, Port of Spain, Trinidad and Tobago

### PROVISIONAL PROGRAMME

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08:30 - 09:00 a.m.

Registration
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09:00 - 09:20 a.m.

Session Title:	Time	Opening Remarks
Chair:		Mr. Michael Hendrickson, Economic Affairs Officer, ECLAC Subregional Headquarters for the Caribbean
Presenters:	09:00 - 09:10 am	<ul style="list-style-type: none"><li>Mr. Neil Pierre, Director, ECLAC Subregional Headquarters for the Caribbean</li></ul>
	09:10 - 09:20 am	<ul style="list-style-type: none"><li>Mr. Carlo Ferraro, Economic Affairs Officer, Division of Production Productivity and Management Unit, ECLAC Headquarters, Santiago</li></ul>

9:20 a.m. - 10:20 a.m.

Session I Title:	Time	Overview of the SME sector in Latin America and the Caribbean
Chair		Ms. Asha Kambon, Regional Adviser, ECLAC Subregional Headquarters for the Caribbean
Topics:	09:20-9:40 am	SME development in Latin America- Policies, institutions and challenges <ul style="list-style-type: none"><li>Mr. Carlo Ferraro, EAO, DPPM Unit, ECLAC, Santiago</li></ul>
	09:40-10:00 am	The role of the National Entrepreneurship Development Company Limited (NEDCO) in SME development <ul style="list-style-type: none"><li>Mr. Ashley Mitchell, Executive Manager, Development Support Services</li></ul>
	10:00-10:20 am	Moderated panel and plenary discussion
10:20-10:35 am		<b>COFFEE BREAK</b>

10:35 a.m. – 12:30 p.m.

Session II Title:	Time	Presentation of Caribbean Country Studies
Chair:		Mr. Roberto Machado, Economic Affairs Officer, ECLAC Subregional Headquarters for the Caribbean
Topics:	10:35-10:55 am	SME Development in Jamaica - Policies, Institutions and Instruments <ul style="list-style-type: none"> <li>• Mr. Claremont Kirton, Dean, Faculty of Social Sciences, UWI Mona Campus</li> </ul>
	10:55-11:15 am	SME development in Trinidad & Tobago - Policies, institutions and instruments <ul style="list-style-type: none"> <li>• Mr. Colin McDonald, Programme Director, Arthur Lok Jack Graduate School of Business</li> </ul>
	11:15-11:35 am	Creating viable and profitable SMEs in Guyana <ul style="list-style-type: none"> <li>• Mr. Ramesh Persaud, Finance Comptroller, Institute for Private Sector Development (IPED)</li> </ul>
	11:35 - 12:30 pm	Moderated panel and plenary discussion
<b>12:30-02:00 pm</b>		<b>LUNCH</b>

2:00 p.m. - 3:40 p.m.

Session III Title:	Time	SME Competitiveness, Requirements and Challenges
Chair:		Ms. Leela Ramoutar, Specialist, Private Sector Facilitation, CARICOM Secretariat
	02:00-02:20 pm	Issues and approaches to SME competitiveness in a changing global environment <ul style="list-style-type: none"> <li>• Mr. Phillip Williams, Executive Director, Caribbean Export Development Agency</li> </ul>
	02:20-02:40 pm	SME competitiveness in the OECS, institutions, processes and policies <ul style="list-style-type: none"> <li>• Mr. Rodinald Soomer, OECS Secretariat</li> </ul>
	02:40-03:00 pm	Innovation, entrepreneurship and networks in successful small businesses <ul style="list-style-type: none"> <li>• Dr. Beverley Morgan, Head, The Competitiveness Company</li> </ul>
	03:00-03:20 pm	SME competitiveness in the Caribbean: Challenges and opportunities <ul style="list-style-type: none"> <li>• Mr. Michael Hendrickson, EAO, ECLAC</li> </ul>
	03:20-03:40 pm	Moderated panel and plenary discussion
<b>03:40 - 03:55 am</b>		<b>COFFEE BREAK</b>

3:55 p.m. – 5:30 p.m.

Session IV Title:	Time	Integrated SME Development – Challenges, Prospects and Sketching A Future Road Map
Chair:		Mr. Neil Pierre, Director, ECLAC Subregional Headquarters for the Caribbean
Panel Discussion:	03:33-04:10 pm 04:10-04:25 pm 04:25-04:40 pm 04:40-04:55 pm 04:55-05:10 pm	Mr. Kenneth van Gom, General Manager, Gom Food Industries, Suriname  Ms. Leela Ramoutar, Specialist, Private Sector Facilitation, CARICOM Secretariat  Ms. Hesma Tyson, Caribbean Specialty Foods, Trinidad and Tobago  Ms. Celeste Foster, Managing Director, ACR Business Solutions Inc., Barbados  Mr. Carlo Ferraro, EAO, DPPM Unit, ECLAC Headquarters, Santiago
Closing	05:10-05:30 pm	Wrap up and concluding remarks