

**Presented by
Dr. Gene Leon
IMF Resident Representative, Jamaica**

**Small Business Association
June 30, 2011
Knutsford Court Hotel**

Resuscitating Growth in Jamaica



2011

Greetings

President of the Small Business Association, Honorable Minister of Finance, distinguished guests, ladies and gentlemen, good evening. It is my pleasure to be here with you to discuss how do we resuscitate an economy? How do micro, small and medium-sized enterprises (MSMEs) help that process? I will argue that resuscitating growth is a shared responsibility, with all sectors playing their part, and that MSMEs can contribute by exploring opportunities through being innovative, resourceful, and competitive.

To begin, let us note that Jamaica is delicately poised. Thirteen (13) quarters of declining domestic output have tested business confidence, stretched households, and resulted in pressures on government revenues.

The Jamaican economy has been faced with a persistent savings gap (financed by borrowing), low growth and high debt. With the onset of the global crisis the situation deteriorated significantly in FY2007/08. The current account deficit increased from 10% to over 17%. The central government's deficit deteriorated from lower revenues, as economic

activity within the country slowed. Job losses in the private sector increased, totaling approximately 86,600 during October 2008 to March 2011. And the economy contracted by more than 2% in FY2009/10, following average growth of 1% for the last 3 decades.

So, the country was ailing. Fortunately, there have been some recent improvements:

- Financials have improved since JDX:
 - interest rates on securities are the lowest in decades;
 - loan rates are declining, although slowly;
 - the Jamaican dollar is stable;
 - GOJ foreign bond spreads have declined;
 - financial sector risks appear contained
- Real GDP grew for the first time in 14 quarters by 1.5 percent during 2011Q1, helped by tourism, mining, and agriculture.
Employment for the March 2011 quarter increased by 15, 500 compared with December 2010.

- Structural reforms are ongoing (Tax Administration and Customs Modernization; Central Treasury Management System; Inner City Basic Services for the Poor; and Rural Education Development Initiative; Initiatives to fight crime and Redevelopment of Downtown Kingston)

But there is still a long way to go.

Despite glimmers of progress, there are still many impediments to growth in Jamaica. The low growth can be linked to a few key obstacles – high levels of crime, deficient human capital, a challenging business environment, and fiscal distortions - each contributing to low productivity- directly or indirectly - through economy-wide linkages.

The most significant growth impact will come from removing these key growth obstacles. Notably, all these factors require significant resources and cannot be achieved in a short space of time. But once addressed, the benefits that will accrue are tremendous. If Jamaica can achieve 1% growth from the removal of each key obstacle, imagine what the country could do if these problems are diligently addressed in a coordinated manner!

How do we go about tackling those challenges?

Although we tend not to acknowledge such, when a country's financial and economic position deteriorates, this outcome itself is a shared responsibility, even if all units did not contribute equally. Therefore, generating growth is a shared responsibility, and strategies need to be holistic and involve all stakeholders – i.e., government, private sector, households, and international development partners. The government alone cannot solve all the problems we face, neither can the private sector on its own, nor can the MSMEs on their own, but each sector can contribute in a unique way.

While there isn't a panacea common to all countries at any point in time, experience suggests the need for a commonly-shared vision expressed in well articulated objectives, a sense of urgency to act, good governance with defined accountability, clear communication to all stakeholders, recognition of how initial conditions and constraints impact the transition between the short-, medium-, and long term, a commitment to stay the course because there is no overnight magic bullet, and an acceptance that linkages dictate that all sectors and stakeholders have to play their part.

MSMEs make important contributions to economic and social development. In most economies they constitute the majority of business establishments, are usually responsible for the majority of jobs created and account for one third of the turnover the last two decades. Let me share some hard facts on the important contributions MSMEs have made to economic development in other countries – there is no reason we can't replicate this success in Jamaica.

- Data for the USA show that over 99 percent of all firms are small, and they provide 60-80% of the net new jobs.¹
- Brazil's 16 million SMEs contribute about 20% of GDP and employ 60 million people or 56% of the urban workforce in the formal sector.
- In India, about 26 million enterprises qualify as MSMEs, and produce 8% of GDP. Of these, 24.6 million are in the informal sector and employed almost 60 million workers.
- In Western Europe in the 1980s, MSMEs were recognized as an important sector when large companies were shedding large numbers of employees and the public sector was shrinking.

¹ "Small Business Drives U.S. Economy"- Provides jobs for over half of nation's private workforce. By Robert Longley (<http://usgovinfo.about.com/od/smallbusiness/a/sbadrives.htm>)

- In Taiwan, 97% of enterprises were SMEs in 2008. They alone generated 28% of total corporate sales, and 77% of the whole workforce in the country were employed by SMEs in 2007.
- Aided by the Information and Communication Technologies (ICT) revolution and the digital-information age, MSMEs have transitioned to larger entities, competing in global markets early in their development. We have experiences of this in the region - for instance, Sacha Cosmetics and Angostura Ltd of Trinidad and Tobago successfully transitioned from domestic to international players; Baron Foods, an agro-processing firm in St. Lucia, transformed itself from one of the more traditional exporters into an exporter of higher value-added products. Further afield, Acer, the Taiwanese-based electronics corporation, began in 1976 with only 11 employees and US\$25,000 in capital. By 2005, Acer employed 7,800 people; earned US\$11.3 billion in 2006; and in 2009, was the world's second largest personal computer manufacturer.

Apart from the potential to create and expand employment opportunities in both the formal and informal sectors, MSMEs facilitate the development of skills in entrepreneurship, ensure the expansion of

market opportunities, utilize indigenous raw materials, promote labour intensive ventures, and encourage export promotion and import substitution.

In considering the ways in which MSMEs in Jamaica can contribute to economic growth, here are a couple of ideas:

- Consider what is ailing the economy? Lack of innovation. How can MSMEs be innovative to support the economy? Think creatively – in this age of technology and communications, you have access to ideas, markets, and partnerships around the world. Do you see a problem (or part of a problem) you can solve? Then solve it – get to work! Look to your frustrations for ideas. Is there a better way to provide a service? What service or product do you wish were available to you? How can you be a part of that solution, and spawn the creation of a new MSME?
- What else is ailing the economy? Lack of diversification. How can MSMEs diversify in services and products? Look at horizontal and vertical diversification opportunities. Consider whether there are micro pathways by which MSMEs may contribute to manufacturing output and economic growth. For example, what opportunities

might exist in sector-specific vertical or horizontal value chains where MSMEs may function as important or even critical links for larger companies? Are there opportunities in the value-added end of limestone, sugar, alumina industries? And in services?

My point is that MSMEs need to innovate, be resourceful, and remain competitive to survive. Small size is not an impediment. We can and must think big with respect to global competitiveness, pursuit of excellence and high quality, and use of sound business practices, but use the advantage of small size and be adaptable, flexible, and nimble with respect to exploiting opportunities. For example, build nimble workforces with multi-tasking generalists who can be easily redeployed as new opportunities present themselves.

MSMEs can best serve countries when the sector is developed. So what are some things you can do together as a body? How can you pull yourselves up by your own bootstraps?

- Increase your demand for and use of technologically-driven business practices to boost productivity

- Develop a framework for standard practices on legal, administrative and regulatory matters
- Advocate for an updated, accessible, centrally-located directory of public and private Business Development Programmes (BDP) that would be readily available to MSMEs
- Build your marketing capacity through collective market research, networking, and increased online presence

These are all issues you can tackle immediately, and largely on your own.

MSMEs are part of the broader private sector, and I must be candid - the private sector needs to buy into a cultural re-orientation. There has been a heavy reliance on incentives, and quite frankly the growth performance of the last decade or two suggests that the fiscal incentives model has not been sufficient in generating sustained growth. Did you know that a recent study by Holden and Holden identified over 200,000 incentives in Jamaica? Even if beneficiaries argue some positive benefit, incentives are costly, directly in terms of who is providing them, and indirectly in terms of the opportunity cost of what could have been done with those

resources. The private sector must develop viable business cases independent of the need for government direct support. So incentives should be targeted within a prioritizing framework, be time bound, measureable, capable of being monitored, and implemented with a contingent exit plan.

So what are some things the private sector can do?

- Commit to international competitiveness and pursuit of excellence
- Pursue opportunities for greater economic diversification in goods and services, and new markets
- Seek to promote vertical and horizontal linkages to allow a filtering of benefits to many subsectors

And how can the government help?

- Continue the commitment to fiscal responsibility and better public financial management
- Commit to improving the environment for doing business, such as simplifying the tax system and reducing crime

- Invest in human capital towards a well educated, flexible work force, able to adapt to the ever changing global environment; encourage Jamaicans living abroad to participate in the new rebuilding effort, effectively mitigating the impact of brain drain.
- Promote MSMEs, including through active consultation on policy issues that affect the sector

Every sector has a part to play in shaping an environment that allows for MSMEs to be efficient and add meaningfully to the growth process of any economy. There must be:

- A culture of enterprise in society which rewards individual as well as collective initiative and innovation in all its citizens, including the socially excluded and other minority groupings. The first step towards the creation of such a culture lies in education;
- An economic, political and social climate that encourages a high rate of business start up and survival leading to an overall increase of the SME stock;

- A significant proportion of quality businesses contained in the new stock;
- An economic and social climate which encourages existing MSMEs to grow;
- A sympathetic and entrepreneurial stakeholder environment for MSMEs.

In summary, Jamaica must continue to address its constraints, building an environment where the private sector can pursue growth opportunities with minimal direct government support. There is no one action that will get Jamaica on the path to sustainable growth. All sectors need to share some of that responsibility. The MSMEs too need to rise to the challenge, to help realize that vision. Jamaicans are blessed with an immense spirit of entrepreneurship. Let us harness this spirit and channel it into creating an optimal MSMEs sector.