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SMALL AND MEDIUM ENTERPRISES AND EMPLOYMENT
GENERATION IN THE CARIBBEAN REGION *

Prepared by
Frank Long
UNIDO Consultant

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INTRODUCTION

Studies on economic development of the Caribbean have tended to focus largely on the role of large international firms, notably those operating in the sugar, bauxite, and petroleum industries.

On account of this, a lacuna exists with regard to the study of small- and medium-size enterprises in general^{*/}, and their role in employment generation in particular. This report is an attempt to fill this gap by looking at small- and medium-scale enterprises and aspects of employment generation.

Small- and medium-scale enterprises and economic development of the Caribbean region

Policy makers and economists concerned with the "big push" approach to development have played down the importance of small and medium enterprises in economic development. The implicit view is that small size fails to provide the locomotive force to "lead" the process of economic development and change. Concerned with maximizing gains from economies of scale and minimizing problems of economic fragmentation, the support for large-size industrial units can be seen as an attempt to rid the Caribbean from dangers of economic vulnerability associated with small size^{1/} and of eliminating a small-size induced under-development trap^{2/}.

However, the above position ignores the role which small and medium enterprises play in the primary, secondary, and tertiary sectors of Caribbean economies. In a recent study of eight member countries of the Caribbean Community, the importance of small and medium enterprises

^{*/} Broadly defined as enterprises with non-dominant market shares in a given industry. Medium-sized enterprises will have larger market shares than small-sized ones, which in extreme cases come close to textbook models of perfect competition.

^{1/} This was an important rationale for establishing the Caribbean Community.

^{2/} Some of the basic objectives of the Caribbean Community relate to this.

is readily brought out^{3/}. It is estimated that more than 70 percent of main export crops -bananas, rice and sugar constituting the backbone of the Caribbean agriculture- is in the hands of small farm enterprises^{4/}. With respect to crops for the domestic market, the role of small farms is likely to be even higher than this.

Indeed, a group of Caribbean experts has recognized the contribution to the food sector^{5/} made by small and medium farms. In addition to production, small and medium enterprises play a leading role in agricultural marketing and distribution in spite of the importance assigned to state marketing corporations in most economies. Even where state marketing corporations are important, their effectiveness, at times, is determined by interfacing small-scale middlemen operating privately.

In the case of mining, notably in Guyana, small and medium operators account for most of the output of gold and diamonds.

With respect to manufacturing, small and medium firms tend to play an important role in wood products, garments and sewn products, handicraft, and the like. This role, however, tends to be more pronounced in import substitution than in export manufacture. However, for some export product groups such as garments, sewn products and handicraft -notably in Jamaica, Barbados, Guyana and Haiti- the role of small- and medium-scale enterprises can be equally significant.

Turning to building construction, small and medium operators are important in building repairs and maintenance, electrical installation, and construction of rural and urban residential homes. They also provide important middlemen's services to the construction sector.

^{3/} See J. Hamilton, H. Levers, D. Logan "A Proposed Regional Programme for the Year of Small Business" CARICOM Secretariat 1987.

^{4/} Ibid.

^{5/} The Caribbean Community in the 1980s: Report by a Group of Caribbean Experts (Georgetown, CARICOM Secretariat 1981).

In the capital goods sector, notably in Guyana, Jamaica, Trinidad and Tobago, small- and medium-scale enterprises occupy a leading role in equipment manufacture, agricultural implements, spare parts repair and replacement, and servicing of machinery and equipment among other things.

Regarding inland transport, small and medium operators dominate the industry in Barbados, Guyana, Trinidad and Tobago, Jamaica and also the smaller economies of the Eastern Caribbean. This is particularly true of tourist transport. Regarding tourism, guest houses, apartment houses and hotels owned by small and medium operators play a substantial but sometimes forgotten role in servicing which is a main source of foreign exchange in a large number of Caribbean economies. It is also true that large international hotel chains play an important role in the organization of tourism.

In recent times, small-scale enterprises have been the driving force behind the growth of the informal sector in a number of Caribbean economies. These enterprises operate predominantly but not exclusively in trading, servicing and repair, and petty manufacture.

It is difficult to quantify the overall role of small- and medium-sized enterprises in economic activity in the Caribbean since, as mentioned earlier, the informal sector is unaccounted for in national income accounts.

Small and medium enterprises as a strategic factor in economic development of the Caribbean

It is well known that economies of scale are important to large markets. Very often, economies of scale are reaped by large indivisible plants. Such economies result in lower per unit production costs as output expands to its full capacity. These lower per unit costs of production are in turn brought about largely through specialization of processes in a manner depicted by Adam Smith way back in 1776.

A basic characteristic of Caribbean economies is the small size of prevailing domestic markets. For example, the total population of the Caribbean Community made up of thirteen English-speaking countries of the Commonwealth Caribbean is slightly over 5 million. Only two countries have populations of over 1 million (Trinidad and Tobago and Jamaica). At the same time, income levels are either moderate or small. Small domestic markets offer ideal conditions for small- and medium-sized firms since they tend to use relatively simple production techniques involving small outlays of capital^{6/}.

Economies of scale are not as important to small markets as they are to large ones. Therefore, a major barrier to entry faced by small firms is eliminated from the outset. In view of the above, small and medium enterprises have many strategic advantages for the Caribbean. The chief ones are:

- (i) Since they are a bee hive of activity in all sectors of the economies, they contribute in no small measure to national wealth. However, their contribution is often underestimated.
- (ii) They possess considerable technological flexibility turning out new products and processes largely through minor adaptations, often in quick response to changing demand and supply conditions. In some countries, they are found to be a driving force behind recent indigenous technological change^{7/}.
- (iii) They provide a reservoir of indigenous entrepreneurial talent - an often missing factor in the process of economic development, particularly in small economies with relatively low levels of development.
- (iv) They tend to use simple, labour-intensive technology. Under conditions of high unemployment (at times as much as 20 percent), such as those currently experienced in many Caribbean economies, this technology can be said to be appropriate to prevailing factor proportions problems.

^{6/} Small- and medium enterprises are also associated with modern technology, i.e. microelectronics, bio-engineering, information technology and the like.

^{7/} See F. Long "The Growth of Indigenous Technology in the Guyanese Economy" - Paper presented to The Conference on Problems of Economic Development in Guyana: University of Guyana, May 1987.

- (v) Through informal intermediaries they mobilize resources for investment, in particular savings. Thus they utilize idle funds for productive purposes.
- (vi) They create a greater balance in the development process since they produce on a decentralized basis in rural, semi-urban, and urban areas, in response to prevailing demand levels.
- (vii) They tend to be intensive users of domestic resources, raw materials, skilled and semi-skilled labour, and therefore act as a safety valve for economies experiencing major foreign exchange problems.
- (viii) They provide production linkages between primary agriculture and manufacturing, i.e. food processing, agricultural implements and the like. These linkages did not exist insofar as primary products (i.e. bauxite and sugar) were mainly processed overseas in parent plants of United Kingdom and North American enterprises.
- (ix) They produce goods and services for which there is mass demand. Thus, their product mix is often appropriate from the point of view of satisfying basic needs of the population^{8/}. Traditionally, Caribbean economies have tended to satisfy their domestic requirements through imports. Since such imports are often geared to middle and higher income groups, they rule out poorer groups of the population.
- (x) Small and medium enterprises promote conditions for an equitable distribution of income in society.

On account of the above (ii), (iii), (iv) and (vii), small-scale enterprises have tended to fare better than larger ones under conditions of economic uncertainty. Flexibility of operations, low investment costs required for respective operations, and the speed at which such enterprises can adjust to market conditions introduce a measure of flexibility to economies which have traditionally suffered from forms of structural rigidity (mono-culture). For these reasons, they can serve as new dynamic driving force for economic growth and transformation.

^{8/} The problem of basic needs has assumed special importance in the Caribbean. See The Caribbean Community in the 1980s op cit.

Small and medium enterprises: the need for a concerted policy framework

Although several strategic advantages have just been identified, many problems are inherent to the operations of small-scale enterprises. Some of the main ones are:

- (i) High failure rate as a result of institutional hardships faced.
- (ii) Limited access to financial markets and, resulting therefrom, high interest rates.
- (iii) Limited scope for entrepreneurial development.
- (iv) Problems of marketing products due to the absence of adequate distribution networks.
- (v) Limited potential for small enterprises developing into larger ones due to various bottlenecks to organizational development.
- (vi) Limited training of workers and high rates of labour turnover.
- (vii) Limited scope for technological development as a means of promoting greater efficiency.
- (viii) Difficulties to begin initial operations due to lack of capital, lack of capacity to prepare feasibility studies for bank financing, absence of certain critical skills (book keeping or accounting), etc.

Thus, the full potential of small and medium enterprises to economic development of the Caribbean is hardly realized. Therefore, inherent problems have to be minimized or eliminated.

This situation is partly the result of the absence of concerted policies specifically tailored to the needs of small and medium enterprises. When policy measures exist, as they seldom do, they are often ad hoc and partial, and therefore lack the effectiveness of a comprehensive and sustained approach to problem solving.

First of all, small enterprises should be seen as part of a macro economic and general development policy framework, in particular with respect to employment, incomes, economic growth and trade. Also, they contribute significantly to bringing about technological changes, accelerated industrial development and transformation of traditional agriculture. Their relevant impact is often undervalued, especially in comparison to the one of larger firms.

In view of the above, policies should be designed which are aimed at catering to the needs of small-scale enterprises in such a way as to optimally impact on the achievement of the above objectives. In particular, policies should aim at promoting the viability and accelerated development of small and medium enterprises. Therefore, they should include credit, fiscal, institutional and other measures, as well as mechanisms for monitoring and evaluating effectiveness of public policy towards small and medium enterprises. Specifically, the measures should include, inter alia: start up assistance; development of entrepreneurship; improvement in management ability; upgrading of technology; development of skills within small-scale enterprises; product development and marketing assistance; improved access to credit; and finance and expansion of small business activity, wherever possible. In this respect, the role of industrial extension services catering to the specific needs of small and medium enterprises is of major importance. While such extension services exist with respect to agriculture, they are non-existent in the manufacturing and services sectors in the Caribbean.

In light of the above, small and medium enterprises can be said to constitute an important instrument not only in terms of sectoral economic policy, but also in terms of macro economic and general development policy. Their strategic importance has already been recognized. Given this recognition, it can be argued that the success of general development policy is partly determined by the effectiveness of sectoral and other policies aimed at invigorating small and medium enterprises.

Small and medium enterprises in the creation of new and additional employment opportunities in the Caribbean

This section attempts to discuss small and medium enterprises and employment generation in the Caribbean. Several reservations must be made. First, statistics on small and medium enterprises employment are both fragmentary and incomplete. In particular, the informal sector tends to be ignored. Second, different definitions abound for small and medium enterprises making cross country comparisons difficult. Years for which data are available vary from country to country, further complicating this problem. Moreover, when they exist, data do not extend over a number of years and this makes time series comparisons difficult. Some of the available evidence is now pieced together so that rough orders of magnitude can be observed with respect to the role of small and medium enterprises in generating employment.

A study covering Guyana, Barbados, Grenada, Trinidad and Tobago, St. Lucia, Antigua and Barbuda, Jamaica and St. Vincent and the Grenadines has estimated that about 45 percent of total employment in such countries is provided by small-scale enterprises^{9/}. These enterprises employ between one to twenty-five persons. Since this estimate excludes medium-sized firms it under-estimates the role of small- and medium-size enterprises in employment generation in the Caribbean. Be that as it may, in some cases such as domestic agriculture, retail trading, repair services, urban transport, handicraft, and construction, the role of small enterprises can be safely said to be much higher than this estimate given their dominant role in employment generation in these activities in the Caribbean^{10/}.

^{9/} See J. Hamilton, H. Levers, D. Logal "A Proposed Regional Programme for The Year of Small Business" - CARICOM Secretariat 1987.

^{10/} Witness, for example, the growth of the informal sector.

For example, handicraft is predominantly small-scale oriented in most countries and urban transport is mainly undertaken by small-scale business. The same applies to retail business and repair services where employment is largely generated by small-scale firms. With respect to agriculture, again a large portion of employment is generated by small-holders. The same goes for local food processing throughout the Caribbean.

Evidence with respect to Jamaica shows that most investment attracted through Jamaica National Investment Promotion and the Industrial Development Corporation, was made in small and medium enterprises. Most employment generated is from this source given its labour-intensive operations. Furthermore, in 1978 there were at least 37,738 small enterprises employing 79,287 people^{11/}. Of this, manufacturing accounted for 29,358 employees, and distribution for 36,445^{12/}. The evidence shows that in the craft sector 80 percent was attributed to small and medium enterprises; in woodworking the corresponding figure was 78 percent; bars and restaurants accounted for 88 percent, and repair shops and garages for 90 percent of employment^{13/}. Most of the employment, i.e. 60%, was created in rural areas; this figure is equivalent to 73 percent of all small-scale enterprises^{14/}. Fifty percent of all the establishments were one person operations; another 46 percent employed between 2-5 people. Establishments employing 6 people or more accounted for merely 4 percent of the total number^{15/}.

More up-to-date evidence in 1987 suggests that employment in small business in Jamaica is about 250,000, representing 45,000 formal establishments and 100,000 informal ones^{16/}.

^{11/} See Omar Davis, Yacob Fisshea, and Claremont Kirton "Small Scale Non Farm Enterprises": Social and Economic Studies - Vol. 29, No. 1, March 1986.

^{12/} Ibid.

^{13/} Ibid.

^{14/} Ibid.

^{15/} Ibid.

^{16/} Information provided by Jamaica Industrial Development Corporation 1987.

In the case of Barbados, available data show that the overwhelming portion of employment in manufacturing is generated by small and medium enterprises, i.e., most of the 9,652 workers in this sector according to 1979 estimates^{17/}. Small and medium enterprises also dominate employment in tourism, agriculture, and retail trade. In tourism, for example, 118 small and medium establishments were estimated to have generated 3,622 jobs towards the end of the 1980's^{18/}.

In the case of Trinidad and Tobago, -apart from sugar and petroleum industries- small and medium enterprises generate most private sector employment, particularly in import substituting industries. Between 1959-80, 700 small-scale enterprises were promoted by the Industrial Development Corporation. They created 20,000 jobs^{19/}.

In St. Lucia, out of a total population of 136,000, employment in small and medium enterprises was estimated by one source to be 59,000 with slightly less than half of this total in agriculture^{20/}. At the same time, manufacturing employment was estimated at 5,000, tourism at 6,000 and other services at 13,000^{21/}. A similar situation applies to other developing countries which are members of the Caribbean Community, notably Grenada, Dominica, Belize, Montserrat, St. Christopher and Nevis and St. Vincent and the Grenadines.

In Guyana, small and medium enterprises are prominent in employment generation throughout the economy (with the exception of the state-owned bauxite and sugar industries). This is so particularly in the area of retail trade, petty manufacture, agriculture, construction and transport.

^{17/} See W. Cox "The Manufacturing Sector in the Economy of Barbados 1946-1980" and D. Worrell (ed) The Economy of Barbados 1946-1980.

^{18/} D. Marshall, Tourism and Employment in Barbados Bridgetown: UXI 1978.

^{19/} See F. Long, Employment Effects of Multinational Enterprises in Export Processing Zones in the Caribbean (Geneva: ILO 1986).

^{20/} Official estimate.

^{21/} Ibid.

Data for Haiti suggest that there are over 25,600 employees. 259 small enterprises in the formal sector operate in the textiles, leather, chemicals, metals and trading sectors^{22/}. This information is hardly complete since it does not include the informal sector and medium-sized enterprises. In Haiti, most employment generated by small-scale enterprises is in the handicraft sector.

In Puerto Rico where some 85,064 small businesses exist, employment in manufacturing enterprises promoted by the Economic Development Administration was 133,941 out of a total of 152,382 in manufacturing in 1986^{23/}. The number of small enterprises in manufacturing was estimated at 2,300; 34,500 in retail trade; 21,800 in agriculture; 2,300 in wholesale operations and 1,000 in construction industry^{24/}. When account is made of employment in the agricultural, tourism and transport sectors, it is clear that small and medium enterprises are substantial generators of employment way beyond that depicted for manufacturing employment.

The dynamic role of small and medium enterprises in employment creation is fully brought out when looking at new manufactured products in the Caribbean.

With respect to Barbados, in 1985 there were 23 enclave enterprises operating in Industrial Estates administered by the IDC^{25/}. Most of these are in the field of electronics and electrical and precision.

^{22/} Obtained from official sources.

^{23/} Selected Socioeconomic Statistics - Puerto Rico (San Juan: Economic Development Administration 1987).

^{24/} Ibid.

^{25/} See F. Long, Employment Effects of Multinational Enterprises in Export Processing Zones in the Caribbean (Geneva: ILO 1986) or cit. All data pertaining to Barbados obtained through the Industrial Development Corporation.

instruments. However, within this group the electronics sector predominated. Firms were mostly engaged in assembly operations and only a few of them were involved in high technology activities like e.g. data processing. Wearing apparel firms are engaged mainly in stitching operations. On the whole, labour intensive enterprises are the rule in the export manufacturing sector.

In terms of size, most of the enterprises are relatively small (12 firms employing less than 100 people, 7 between 101 and 300). Only four enterprises employ more than 3000 people. INTEL, a company in the electronics sector which is no longer in operation, employed 1,000 of the 2,313 workers in this sub-sector.

Between 1978-1982, some 5,400 new jobs were created in the manufacturing sector with the assistance of the IDC. In this regard, it is estimated that in 1984 about 80 percent of manufacturing jobs recently created were in electronics and data processing. In 1983, of the 1,425 jobs created in IDC-assisted manufacturing firms, roughly 50 percent were in electronics.

Between 1979-1985, employment in enclave enterprises rose from 3,060 to 4,217 at a time when national employment was falling. For example, between 1979 and 1984, national employment dropped from 97,700 to 95,400; net employment in the enclave sector at the same time rose by 1,157. More than 90 percent of workers in the enclave sector are women.

Most of the workers in small and medium firms employed in export-related activities are non-seasonal workers. However, employment prospects are a function of world trade in exports. For example, a number of plant closures affecting the textile and garment industry and a few firms in the electronics sector took place recently. This resulted in sharply reduced levels of employment in this sub-sector. However, the growth in electronics and data processing industries led to higher net employment. Labour turnover in enclave industries on the whole has tended to be lower than in the rest of the economy.

There is no substantial difference between the average size of enclave enterprises and other manufacturing enterprises, namely import substituting ones; quite a number of the latter enterprises are also fairly small in size.

Most of the small and medium enterprises in enclaves are foreign-owned. Since there are only two joint ventures, 100% foreign ownership is the rule.

There are no state enterprises in the export sector. Local firms participating therein, either entirely or in partnership with foreign firms, belong to the private sector.

With respect to Jamaica, manufactured exports from the Kingston Free Zone dominated by small and medium enterprises grew more than ten-fold between 1980-1984 (from US\$ 1 million to US\$ 18 million). At the same time, traditional manufactured exports were virtually stagnant between 1980-1983 (from US\$ 14.1 million to US\$ 14.8 million)^{26/}.

Bauxite and alumina exports dropped from US\$681.7 million in 1980 to US\$423.8 million and sugar exports from US\$59.1 million to US\$57.3 million. Thus, the success of the Kingston Free Zone can be considered as spectacular.

The enterprises are comparatively small-sized with only one firm employing more than 1,000 workers. The average employment per firm is 310. In this respect, they are different from the two traditional export industries, i.e. bauxite and sugar, where large firms predominate. Of the 17 enterprises, only 1 is entirely locally owned. Over 90 percent are either completely or partly foreign-owned.

^{26/} See F. Long, Employment Effects of Multinational Enterprises in Export Processing Zones in the Caribbean (Geneva: ILO 1986) op cit. All data pertaining to Jamaica obtained through the Industrial Development Corporation.

In the field of textiles and garments, 4 of the 8 enterprises are from Hong Kong. Most of these have relocated from Asia to take advantage, among other things, of proximity to the U.S.A. market.

With respect to food processing, 3 North American enterprises predominate; in the case of ethanol, a U.S.A. firm is the sole enterprise.

Industries located in the Kingston Free Zone include:

The apparel industry which produces jeans, shirts and blouses, sweaters and pullovers. It consists mainly of assembly operations. Processed food includes canned fish products and by-products such as fish oil and fish meal and also fruit juice concentrates and animal feed. It is based on traditional manufacture. Ethanol is a high-technology industry requiring a highly skilled labour force. Data supplied by the IDC suggest that 85 percent of total production of the Kingston Free Zone is accounted for by textiles.

Employment generated in the Kingston Free Zone rose from 240 in 1980 to 2752 in 1984. By 1985, total local employment was 3,587. Garment manufacturing is by far the greatest employment generating activity, with food processing being next in importance. The largest employer is East Ocean Textiles, a Hong Kong enterprise with 1,703 workers.

The spectacular increase in employment in the Kingston Free Zone compares very favourably to the growth in national employment which amounted to 707,500 in 1981, and 724,700 in 1984, respectively. Between 1983-1984, national employment actually fell by 11,000.

In the case of Puerto Rico, most of the employment in manufacturing is provided by small and medium enterprises operating in the export sector^{27/}. The enterprises are largely engaged in assembly operations

^{27/} Information derived from Selected Socioeconomic Statistics Puerto Rico (San Juan: Economic Development Administration 1987).

in which subsidiaries of U.S. firms are active. Since exports provide the main thrust, it is reasonable to assume that most of the 133,941 jobs generated in 1986 by plants assisted by the Economic Development Administration were created by small and medium enterprises in the export sector.

In Trinidad and Tobago, however, larger capital-intensive plants predominate in employment generation in the petrochemical and natural gas based sectors, even though there is increasing recognition of the role of small and medium enterprises in generating new employment in the export sector.

In Guyana, recent growth of investment in mining is largely attributed to the activities of small and medium enterprises. This has been associated with a rise in employment in gold and mining.

The above evidence shows clearly that economic growth in the Caribbean is largely attributable to small and medium enterprises. They provided new stimulus, eased unemployment problems, delivered essential services and generated new manufactured exports, thus providing massive impulses to industrial and economic growth.

Financial aspects of employment generation in large and small industrial enterprises in the Caribbean: Some issues

- (i) In small and medium industry, less investment is required per job created. This can be illustrated in the following manner: in Jamaica, 138 small and medium projects with a total capital investment of J\$352.8 million created 5,400 jobs in 1984^{28/}. This averages about J\$2.5 million per

^{28/} Bank of Jamaica, Annual Report 1984, p.6.

industrial project, and approximately 39 new jobs per project. On the other hand, large projects generated much less employment with substantial capital investments. In the case of Trinidad and Tobago, large petrochemical enterprises at Point Lisas with net sales of US\$40 million and capital investment of several US\$ billion generated a little over 2,000 jobs in 1984^{29/}. Small-scale investments, at the same time, created a substantially larger number of jobs with much smaller amounts of capital.

- (ii) In addition, since small firms use more local raw materials, indirect employment tends to be much higher than that of larger firms which generate limited inter-sectoral linkages and associated indirect employment. However, this point is less true for small and medium enterprises engaged in assembly operations and using mainly imported inputs.
- (iii) Small and medium industries usually do not require the availability of highly developed infrastructure. Therefore, they may be located in rural or other lesser developed regions. They provide employment opportunities for the local population without incurring costs related to housing, transportation, etc. as large enterprises located in industrial centres often do. In addition, small and medium industries usually do not apply highly sophisticated technologies requiring extensive training of workers. Therefore, social costs of employment generation in small and medium industries are much less than in large and/or technology-intensive industries.
- (iv) Since small and medium investment is more decentralized than large investment, it has created more employment in rural areas. Accordingly, it has reduced the full impact of rural-urban migration, and the social cost of investment per employment opportunity.

Thus, small scale enterprises tend to be more substantial generators of direct and indirect investment employment than large-scale ones, at a given level of investment. The social cost of employment created in terms of harmonic development, balanced growth and generation of inter-sectoral linkages (in the case of non-assembly operations) also tends to be lower in the case of small-scale employment opportunities.

^{29/} See F. Long, Employment Effects of Multinational Enterprises in Export Processing Zones in the Caribbean (Geneva: ILO 1986) op cit. Data obtained from Ministry of State Enterprises, Government of Trinidad and Tobago 1985.

Legislative, fiscal, economic, social and other measures

Many policies have been promoted to stimulate industrial development in the Caribbean. Two broad categories exist: import substitution and export promotion.

In both cases incentives were offered to firms to stimulate domestic investment. These have included tax holidays, training grants, provision of low cost factory shells, the development of domestic infrastructure and accelerated depreciation allowances, among others. In the case of co-operatives, measures were enacted to increase access to credit, development of technical skills and improved marketing of final products.

However, policies have tended to favour medium- and large-sized firms. Apart from handicrafts they have not systematically focused on the problems of small-scale enterprises per se. However, there is increasing public policy concern for such enterprises throughout the Caribbean.

The incentives listed above had positive and negative effects. Positive effects include:

- (i) Growth in the number of small and medium enterprises in the formal sector, especially in import substitution activities.
- (ii) Increased participation of small and medium enterprises in export-oriented industries.
- (iii) Increased activity of small enterprises in handicraft.
- (iv) Facilitation of access to credit and marketing assistance for small and medium enterprises, particularly for already established enterprises.
- (v) Improved rationalization of small and medium enterprises through the provision of advisory and other services.

Negative effects include:

- (i) Micro enterprises are largely neglected. Therefore, national development foundations have been set up in a large number of countries to focus specifically on such enterprises. However, these foundations operate largely on a voluntary basis upon the initiative of the private sector. Thus, they are not closely interwoven with public policy.
- (ii) Insufficient attempts at avoiding business failures of small and medium enterprises, and at preserving continuity of operations and/or business development, particularly with respect to smaller enterprises.
- (iii) Little success regarding product development and improvement of technology by smaller firms.
- (iv) Little success in improving access of smaller enterprises to cheap sources of finance and credit. Often, expensive informal sources of finance are being utilized.
- (v) Little success in improving infrastructural facilities available to smaller enterprises. It is usually the larger enterprises which benefit from these facilities.
- (vi) Failure regarding involvement of local small and medium enterprises in viable export industries, especially in the case of newly manufactured products. In Barbados, Jamaica and Puerto Rico, e.g. such products have been produced mainly by medium-sized overseas firms.
- (vii) With respect to assembly-based export industries, there is a need to improve working conditions, particularly for women.

Remedy of these defects calls for an integrated long term national policy regarding small and medium enterprise development rather than ad hoc measures. Apart from the re-orientation of policy, it requires, inter alia, improved staffing of national institutions concerned with the promotion of small and medium enterprises; greater thrust on follow-up action; creation or intensification of programmes of specific assistance, and improved extension facilities. Thus, more effective programmes can be implemented.

At the macro level, investment subsidies still support capital intensive operations favouring larger enterprises. Interest rate policies continue to favour larger established operations, infrastructure is still geared towards larger investment projects, and training grants and facilities continue to discriminate against smaller enterprises. This situation needs to be modified in order to explicitly confront a myriad of problems facing small-scale firms in the Caribbean.

Based on the positive impact of SME on economic development, small and medium enterprises must play a more invigorating role in accelerating industrial development in the Caribbean region.

Summary and Conclusion

- This report has examined the role of small and medium enterprises in employment generation in the Caribbean. Evidence suggests that small- and medium-scale enterprises contribute in no small measure to employment generation. They are a strategic factor in economic development of the Caribbean and a dynamic force giving new growth impulses. The full impact of these enterprises on employment generation on the one hand, and industrial and economic development on the other is, however, yet to be felt, as public policy towards accelerated development of small and medium enterprises is either non-existent or implemented on an ad hoc basis. Comprehensive policies recognizing the importance of small and medium-scale enterprises as a crucial factor in the economies of the Caribbean, are yet to fully evolve. In particular, such policies will have to pay special attention to the needs of smaller enterprises where problems affecting development are seemingly greatest.