



CANARI POLICY BRIEF No.19

Supporting SMEs to be pathways to a Caribbean green economy

2014

Green Economy

Summary

Can small and micro enterprises (SMEs) be pathways to a green economy in the Caribbean? This policy brief examines the characteristics of SMEs that make them suitable engines of green economic development, including their innovativeness and resilience to changing conditions, importance to poor and vulnerable groups, roots in local communities and stewardship of resources. However, several challenges hinder SMEs such as ineffective support programmes, lack of access to credit hampering adoption of new technologies, disincentives to sustainable extraction of natural resources and social inequities in the informal sector. Changing policy and practice to improve access to finance and resources, build capacity through mentoring and coaching, support 'greening' of SMEs themselves, and facilitate collaboration among developmental support agencies and entrepreneurs can help SMEs drive transformation to more environmentally sustainable and socially equitable economic development in the Caribbean.

Key messages

- 1. SMEs are the backbone of the Caribbean economy and provide economic opportunities, particularly for poor and vulnerable groups.**
- 2. SMEs' innovativeness and resilience to changing conditions, importance to poor and vulnerable groups, roots in local communities and stewardship of resources make them potential engines for the transition to more environmentally sustainable and socially equitable economies in the Caribbean.**
- 3. Changes in policy and practice are needed to enable SMEs to drive economic transformation in the Caribbean.**

The importance of small and micro enterprises

Small and micro enterprises (SMEs)¹ are the backbone of Caribbean economies. They promote innovation, create employment and economic opportunities and contribute to economic growth and development. In the Caribbean, SMEs make up the majority of businesses; they contribute 40% of the Gross Domestic Product (GDP) and 50% of employment². They are also considered drivers of the private sector that 'eases the burden on states³' by creating jobs that states would otherwise have to provide.

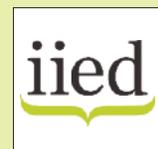
Many SMEs are in the informal sector. These are enterprises that are not legally registered or do not pay taxes but employ a large percentage of the Caribbean workforce and particularly for the poor and vulnerable groups, for example craft-makers, vendors and domestic workers.

¹ The Caribbean SME Action Learning Group defines a micro enterprise as one having a maximum of 5 employees while a small enterprise is defined as having 6-25 employees.

² Address by Ambassador Lolita Applewhaite, Deputy-Secretary General of CARICOM, to the Annual General Meeting of the Small Business Development Finance Trust, 30 June 2006, Georgetown, Guyana: "The role of small entrepreneurs in strengthening the CARICOM single market and economy". Available at http://www.caricom.org/jsp/speeches/small_business_applewhaite.jsp.

³ Hendrickson, M. 2009. "SME competitiveness in the Caribbean: Challenges and opportunities". Presentation to the Workshop on Boosting SME Development and Competitiveness in the Caribbean. 14 May 2009, Port of Spain, Trinidad and Tobago. http://www.cepal.org/portofspain/noticias/paginas/5/35505/sme_competitiveness_-_final_version.pdf.

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The green economy premise in the Caribbean

Green economy is a concept that many in the Caribbean have embraced. A green economy aims for long-term prosperity through equitable distribution of economic benefits and effective management of ecological resources; it is economically viable and resilient, self-directed, self-reliant, and pro-poor. It focuses on economic growth, environmental sustainability and social equity. This new approach to economic development is especially important given the failures of the current economic model. Unsustainable global economic growth over the last few decades is breaching ecological limits, increasing social inequality and resultant instability, and intensifying the eventual magnitude of climate change impacts. These interacting global developments are mirrored at the local level, threatening the political, economic, social and ecological viability of Caribbean states. (CANARI 2012)

Environmentally sustainable economic development is particularly important in the Caribbean where many islands rely on agriculture and tourism to drive their economies. These sectors are heavily dependent on natural resources and the ecosystem goods and services that they provide. These sectors are already impacted by unsustainable resource extraction and environmental degradation due to human activities (e.g. pollution). Projected impacts of climate change will further stress these sectors. Many businesses within these sectors are SMEs, which can potentially drive transformation of the sector but at the same time are themselves at great risk and can potentially benefit from green economy approaches.

Additionally, social and economic inequities are already pervasive in Caribbean countries, which suffer from high levels of poverty, widening income gaps, gender inequities, crime and breakdown of social structures and culture. Many policies developed to combat these challenges (for example social safety net programmes and 'make work' government employment programmes) have either been unsuccessful or slow to produce results, or have resulted in further negative impacts. These inequities are expected to be exacerbated by climate change. SMEs are important sources of income for many poor and vulnerable groups and are therefore an important strategy to address social and economic inequities using green economy approaches.

Caribbean islands are trying to find methods to adapt to and mitigate against the effects of climate change, reduce poverty, strengthen communities and use natural resources sustainably. It is within this context that the green economy concept is being embraced as an innovative way to meet these challenges.

Characteristics of SMEs that make them pathways to a Caribbean green economy

SMEs have unique characteristics and attributes that are reflected in their management and organisation. Many of these characteristics make them ideal to drive green economies in the Caribbean.

Resilience: Because of their small size, SMEs are more flexible, reacting immediately to changing environmental conditions, markets and events. They are able to take advantage of opportunities more quickly than their larger counterparts. They also promote innovation and creativity because of their flexibility; they are more willing to try new ideas. Limited access to resources to cushion shocks also necessitates rapid response by SMEs to economic, social and environmental changes and risks.

Reaching marginalised groups: Many SMEs, particularly those in the rural areas, involve marginalised groups such as women and youth. SMEs are attractive to women because they are able to work around their domestic responsibilities. One study indicated that women are more likely to start or maintain enterprises because of the necessity to provide incomes for their families⁴. Youth are drawn to small and micro entrepreneurship because of the opportunity to be independent. Others are forced into entrepreneurship due to limited employment opportunities available.

Providing social benefits: SMEs typically have deep connections to their communities, particularly those located in rural communities in the Caribbean. They work closely with the communities they are in through outsourcing of products and services, local employment and use of natural resources. This is often incentive to be good stewards of their communities and provide wider social benefits to their community.

Challenges for SMEs

While SMEs have the potential to be pathways to a Caribbean green economy, there are several significant challenges that will need to be overcome.

⁴ Coke-Hamilton, P. 2014. *The Role of SMEs in the Caribbean*. Hamburg: EULAC Foundation. Available at http://eulacfoundation.org/sites/eulacfoundation.org/files/The%20Role%20of%20SMEs%20in%20the%20Caribbean_CaribbeanExport_0.pdf

Ineffective support programmes: Although there are many policies and programmes established by governments to develop and support SMEs, they have generally been slow to produce results. Long, bureaucratic processes take time and money that are not always available to the small or micro entrepreneur. Some support initiatives are only available to formal SMEs (e.g. those that are legally registered) while others are poorly advertised, poorly understood or are not widely known. Support programmes are often disconnected from their target audiences, and do not always demonstrate appreciation of the unique capacity needs and strengths of entrepreneurs. Most capacity building is done through training, which is often not effective in isolation.

Lack of access to credit: Credit is not always available to SMEs. Entrepreneurs are often not able to access credit easily because they are either not legally registered or because the process to access them is not properly understood or requires capacities that not all SMEs have (for example literacy and financial literacy, formal business planning and accounting skills). This makes using environmentally sound choices in enterprises difficult since the upfront cost of these are usually higher than many traditional methods (e.g. alternative energy sources such as solar panels) and SMEs neither have access to credit nor existing reserves for investment.

Insecure access to resources: Many rural SMEs in the Caribbean are heavily dependent on nearby forest or coastal resources for raw materials for their businesses. Many of these entrepreneurs use resources unsustainably (e.g. by cutting the mangrove or forest trees to make charcoal or using small mesh sizes in fishing nets). This may be driven by complex factors, including that there is no incentive to practice sustainable extraction of common resources where there are no formal or secure access rights and a weak culture of community stewardship.

Exacerbating social inequities: There is a danger that while SMEs generally promote community involvement and engage vulnerable groups, those in the informal sector may exacerbate social inequities. Informal workers are sometimes poorly paid or do not have access to social benefits because they do not pay taxes.

Weak voice: Finally, small and micro entrepreneurs, particularly those in the informal sector, have weak voices in policy. They are not organised into groups and are often overshadowed by their larger counterparts. This hinders their ability to influence

the development of policies and practices that are more supportive for SMEs.

What you can do

There is clearly a critical need for support agencies to change their policies and practice to better support SMEs to provide economic, social and environmental co-benefits and drive the transition to green economies in the Caribbean.

Provide access to finance: Many policies already exist to improve access to finance and building business capacity of SMEs such as Trinidad and Tobago's National Integrate Business Incubator System (IBIS). Some are progressive and do not overtly require SMEs to be formal to access grants (e.g. Trinidad and Tobago's *Draft Micro and Small Enterprise Policy for Trinidad and Tobago*). However, much more needs to be done to transform existing support policies and programmes so that they can more effectively address the needs of SMEs while recognising the capacity limitations they face and respecting the strengths that they bring to the table.

Give secure access to natural resources: There is a need to change policies on land use, access to natural resources (especially those located on state lands) and land tenure if SMEs are to have secure access to resources that they need for their businesses. This will encourage adoption of sustainable use practices and support a culture of stewardship.

Explicitly support greening of SMEs: New SME policies such as Trinidad and Tobago's *Draft Green Enterprise Development Policy for Micro and Small Enterprises and Cooperatives* and Jamaica's *Micro, Small and Medium Sized Enterprise (MSME) and Entrepreneurship Policy* are promoting SMEs in "green sectors" (such as agriculture, tourism and culture) and subsidising ways that SMEs can use environmentally friendly energy sources and waste management principles.

Use mentoring and coaching to build capacity: Despite the range of programmes that exist to build the capacity of entrepreneurs, many remain unsubscribed or their success has been limited. This may be in part because the opportunities were not tailored to suit specific needs or were at levels beyond which the entrepreneurs could understand⁵. Using an approach of mentoring and coaching has provided some success with lower capacity small and micro entrepreneurs. Some organisations like the Caribbean Natural

⁵ Discussions as part of a project 'Empowering rural women through improving livelihoods'. <http://canari.org/rurallivelihood2.asp>

Resources Institute (CANARI) have also adopted an approach of training mentors and coaches so that they can support and assist entrepreneurs and build their capacity to be able to access existing government programmes.

Case study: Development of enterprise policies in Trinidad and Tobago

Trinidad and Tobago has drafted a policy to develop green enterprises. The *Draft Green Enterprise Development Policy for Micro and Small Enterprises and Cooperatives (2014-2016)* will “create sustained employment, diversify domestic production and provide opportunities for resource efficient innovation.”⁶ It uses a green economy model to support development of green micro and small enterprises in areas such as agriculture, tourism and energy and transport. The Caribbean Small and Micro Enterprises Action Learning Group (SME ALG) had an opportunity to comment on the policy before it submitted to Parliament. Some comments included developing the social dimension in the policy by showing the link to poverty reduction, strengthening partnerships with civil society organisations and identifying different and innovative sources of financing.

Adopt and support collaborative approaches among SMEs, among support agencies, and between SMEs and support agencies: Collaboration is needed to support the use of SMEs as pathways to a green economy. Collaboration among SMEs in associations or cooperatives, while not always successful or palatable in a region wary and weary of such approaches, can help SMEs achieve the scale necessary for successful markets. Strong small business associations can also have a stronger voice in policy. Collaboration among developmental support agencies (government, private sector, civil society, etc.) is also critical to support the development of SMEs as pathways to a green economy. Harmonisation of policies and reduction in bureaucratic processes can move the Caribbean to a green economy but this can only happen when there is cooperation among the developmental support agencies. Improving dialogue between small and micro entrepreneurs and developmental support agencies can also support SMEs as a pathway to a green economy.

If the region is to nurture SMEs as an engine of growth for the green economy, there is a strong

argument to use novel approaches which facilitate innovative methods that integrate the experiences, challenges and lessons by both SMEs and correlated support agencies. CANARI is facilitating a Caribbean SME action learning group (SME ALG) with both groups of stakeholders as an innovative approach to find ways to do this. The Caribbean SME ALG offers an avenue for undertaking some of the research, testing and knowledge sharing that will be needed for an innovative approach to catalysing and supporting SMEs so that they bring co-benefits (economic, environmental sustainability, social equity) and are an engine for green and inclusive economic transformation in the Caribbean.

References

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Caribbean Natural Resources Institute

The Caribbean Natural Resources Institute (CANARI) is a regional technical non-profit organisation which has been working in the islands of the Caribbean for over 20 years.

Our mission is to promote and facilitate equitable participation and effective collaboration in the management of natural resources critical to development in the Caribbean islands, so that people will have a better quality of life and natural resources will be conserved, through action learning and research, capacity building and fostering partnerships.

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⁶ CANARI. 2014. Report of the second meeting of the Small and Micro Enterprises Action Learning Group. Port of Spain: CANARI.