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**Green economy: catalysing and supporting sustainable small, medium and micro enterprise development**

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**Abstract:** *Small, medium and micro enterprises (SMMEs) are significant contributors to GDP and employment in the Caribbean, with CARICOM estimating that up to 70% of jobs are in this sector. They are also expected to be the main engine for future job creation and growth, and particularly ‘green’ growth. While reliable data on SMMEs are limited, in part because of the extent of the ‘informal’ element of the sector, documented ‘success stories’ and case studies indicate that many SMMEs, and particularly micro-enterprises, rely heavily on the use of natural assets. These include those involved in agriculture, craft and other non-timber forest products, food and beverage processing and ecotourism. SMMEs therefore have considerable potential to contribute to or detract from healthy ecosystems and provision of ecosystem services.*

*This paper examines regional and national trends in SMME policies, capacity building initiatives and institutional support frameworks and the extent to which they support the green economy. It also considers the potential for achieving benefits of scale through collaboration between SMMEs. It concludes by suggesting interesting areas of focus for action research and learning and identification of best practices.*

**RATIONALE FOR RESEARCH ON SMALL, MEDIUM AND MICRO ENTERPRISES FOR GREEN ECONOMIES**

Small, medium and micro enterprises (SMMEs) are already significant contributors to Gross Domestic Product and employment in the Caribbean, with CARICOM estimating that up to 70% of jobs are in this sector [1]. They are also expected to be the main engine for future job creation and growth, and particularly ‘green’ growth. Reliable data on SMMEs are limited, in part because of the extent of the ‘informal’ (i.e. unregistered, cash economy, non-tax paying) element of the sector. However, documented ‘success stories’ and case studies indicate that many SMMEs, and particularly the smallest (micro) ones, rely heavily on the use of natural assets. Such businesses include those involved in agriculture, craft and other non-timber forest products, food and beverage processing and ecotourism. SMMEs therefore have considerable potential to contribute to or detract from healthy ecosystems and provision of ecosystem services, depending on the practices they use.

There are many analyses of national and regional SMME policy gaps, as well as proposals and programmes to address them. However, most of these consider only areas that directly affect SMMEs, such as tax, incentive and trade regimes. In order to stimulate and sustain SMMEs’ contribution to green economies there is also a need to analyse the gaps in the wider policy environment, with a view to catalysing change across the spectrum of policies that affect SMME operations.

While most countries have programmes designed to expand the SMME sector and the capacity of individual entrepreneurs and companies, the medium or long-term outcomes of these programmes are rarely documented. Most just feature a few individual ‘success stories’, with success measured mainly in terms of profitability, length of time in business, job creation and increase in household income and assets. More analysis is therefore needed on what catalyses and sustains SMMEs that also contribute

social, cultural and environmental co-benefits; whether and how these benefits can be distributed equitably; and what forms of collaborative or community SMME are most effective in delivering such benefits.

## **REGIONAL AND NATIONAL TRENDS**

### *a. Policy*

Most national SMME policies are focused on removing barriers to competitiveness and growth, notably through:

- improved access to finance, particularly for those with no or little collateral, including provision of better interest rates than commercial banks;
- reduction in high levels of bureaucracy in the administrative and regulatory system, for example when registering a business or paying taxes; and
- building SMME capacity in core business management competencies.

These barriers are clearly real and need addressing urgently. New policies in these areas also offer potential for introducing incentives for 'green' SMMEs or 'green' behaviour, such as improved energy or waste management. However, changes are also needed in policies affecting land use planning, land tenure, access to state lands, and education for SMMEs to contribute optimally to green economies.

There is some evidence throughout the region of a shift towards development based on a green economy model, for example in the Vision 2030 Jamaica National Development Plan, Barbados's Green Economy Scoping Study and Guyana's Low Carbon Development Strategy. SMME policies are also starting to emerge at both the regional and national levels to support such a shift, for example:

- Jamaica's Micro, Small and Medium Sized Enterprise (MSME) and Entrepreneurship Policy, which suggests provision of incentives to MSMEs that procure and install energy-efficient technology;
- the Caribbean Development Bank's (CDB's) Private Sector Strategy and Policy, which seeks to *"take a balanced approach to improving the welfare of [the bank member countries'] citizens and ensuring that growth is inclusive, explicitly focused on reducing income and gender disparities, economic and social vulnerabilities and on other inequities .... and that it is environmentally sustainable [2]."*

There is also some evidence of a trend towards more participatory policy development (e.g. Jamaica MSME and Entrepreneurship Policy) and effective SMME policy advocacy (e.g. Jamaica MSME Alliance).

There are still few, if any, examples of comprehensive, coherent national programmes to incentivise SMME practices that contribute to environmental, social and cultural benefits or increased equity. Conversely, programmes remain, particularly in the agricultural sector, that provide perverse incentives, such as tax and duty exemptions on agricultural chemicals, including persistent organic pollutants, and energy inefficient vehicles and equipment.

## **CAPACITY BUILDING – WHAT, HOW, AND BY WHOM?**

There is broad consensus across the region that SMMEs need to build their capacity in areas of business planning, cash flow projections, management, book-keeping, marketing, communication skills, customer service and information and communication technology (ICT). There is also an emerging consensus that capacity building for community businesses and collectives (e.g. cooperatives and small or micro business associations), should also focus on 'softer' skills like leadership and conflict management.

Additionally, to support an expansion of the role of SMMEs in green economies, most traditional SMMEs (i.e. those that are not collective enterprises) would need a shift in world view and culture to encompass the idea of co-benefits, and to a lesser extent, environmental sustainability.

The extent to which entrepreneurial attitudes are developed through formal capacity building is unclear. However, the formal education system in most Caribbean countries does little to nurture (and may even suppress) entrepreneurial characteristics such as vision, risk-taking, opportunism and adaptability.

There is anecdotal evidence (i.e. feedback from those that have been trained) that much capacity building has been ineffective because it is delivered by trainers selected on the basis of their academic or theoretical knowledge rather than their ability to tailor the intervention to participants' life experience and level of education and literacy.

Similarly, there is often an over-emphasis on helping SMMEs to develop complex, one-off marketing or business plans at the expense of developing the entrepreneur's capacity to plan and adapt effectively on a continuous, long-term basis. As such, there is growing recognition that mentoring and coaching could be effective tools, either as a substitute for or complement to training, using entrepreneurs and business executives as the mentors. However, such recommendations rarely mention the need to train prospective mentors and coaches in mentoring and coaching skills, though this would seem desirable. For community businesses (including non-profit organisations with an entrepreneurial component), there is also a growing trend towards peer coaching and peer exchange, sometimes catalysed by support agencies such as the Caribbean Natural Resources Institute (CANARI) and the Global Environment Fund's Small Grants Programme, which have sponsored respectively a Community Expo and a Knowledge Fair for this purpose in Trinidad and Tobago.

## **INSTITUTIONAL SUPPORT FOR SMALL BUSINESSES**

In the past decade or so, there has been a proliferation of agencies (government and non-profit) to support small business development, including some operating at regional level and some specialising in specific populations, such as youth business trusts. Most focus on capacity building, while some also offer loans (e.g. the National Enterprise Development Company in Trinidad and Tobago). The non-profit support agencies, such as the MSME Alliance in Jamaica, often have a strong advocacy component. However, as noted above, there is little readily available documentation of the outcomes of these initiatives.

There is a range of government and private financing mechanisms for SMMEs but few that address the challenge of no or low collateral; so in effect they are often not accessible to start-up micro-entrepreneurs. None of the identified financing schemes incentivise 'green' behaviour, except some short-term, one-off competitions or grants (e.g. IDEAS Energy Enterprise Innovation Contest for the Caribbean or the GEF Small Grant Programme). However, the CDB Private Sector Policy suggests that funding for building resilience to climate change could be used to develop and sustain 'green' business. The role of credit unions in catalysing SMMEs and community businesses is under-documented, though the need for effective credit union regulation is widely acknowledged and starting to be addressed<sup>1</sup>.

Government marketing of the products and services of small enterprises and collectives is currently perceived to be weak, particularly in the tourism and agriculture sectors. To stimulate SMME

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<sup>1</sup> A 2007 project in OECS East Caribbean: *Strengthening Credit Union Regulation And Supervision* sought to address this. Outputs and lessons learnt are outlined at <http://www.firstinitiative.org/content/index.cfm?ctID=142>.

contributions to green economies, government support of this kind could be linked to adherence to standards that support environmental sustainability. Government programmes could also potentially incentivise some form of small business corporate social responsibility (CSR) that provides community co-benefits. Many large companies' CSR programmes already have a strong environmental component but their role in catalysing sustainable individual or community businesses based on natural resources is not well documented, although a number of examples of this exist.

### **ACHIEVING SCALE (AND OTHER BENEFITS) THROUGH COLLABORATION**

Policy statements acknowledge the benefits of collaboration to achieve scale, with the current buzzword being 'clusters', which can range from just forms of association to locating similar businesses in specifically designated areas, such as the proposed high-tech industrial park in Wallerfield, Trinidad. However, there appears to be little policy focus yet on clusters specifically to support micro businesses or green economies, although some private collaborative initiatives, like the Green Market in Santa Cruz, Trinidad are emerging to promote local produce, craft and culture and enhance the relationship between producer and consumer<sup>2</sup>.

Although the benefits of collaborating to achieve scale seem obvious, many collaborative SMME or community ventures break down or are weak. Reasons include preference for short-term individual gain over potential long-term benefits (e.g. by-passing collective marketing agreements and selling direct); interpersonal conflict; and business hours that conflict with association meetings. Cooperatives are the most well-known and established type of collaborative organisation for product development, marketing and collective branding. CANARI's case study of the Dominica Essential Oils and Spices Cooperative Society<sup>3</sup> provides a good example of this working effectively and delivering co-benefits. However, in some countries, the past history of failed and even fraudulent cooperatives (also often linked to credit union failure and personal loss of funds) means people will not countenance this model and are wary of collaborative ventures in general. For example, when Turtle Village Trust recently attempted to form a collaborative entity of this kind for the craft enterprises it catalysed in north-east Trinidad and south-west Tobago, none of the enterprises were prepared to countenance this. Other variants of collectives include small business associations and development foundations. Some have SMME membership only; others include partners such as government, non-governmental organisations and large business representatives.

Overall, strong leadership appears to be the critical determinant of sustained operation of collectives, but this does not necessarily result in equitable distribution of benefits. In the case of the Heritage Tourism Association of Saint Lucia (Heritas), for example, powerful private business interests seem at times to have dominated at the expense of organisations that place greater emphasis on wider community benefits.

### **POSSIBLE AREAS OF FOCUS FOR ACTION RESEARCH AND LEARNING**

#### *a. Research Questions*

Based on the findings above, the following could be of interest:

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<sup>2</sup> See [www.sanantoniogreenmarket.com](http://www.sanantoniogreenmarket.com) for more information.

<sup>3</sup> This case study is included in CANARI. 2012. Community Forestry in the Caribbean: A Regional Synthesis. Laventille: CANARI, available at [http://www.canari.org/documents/CaribCBFRegionalSynthesisfinal\\_2\\_.pdf](http://www.canari.org/documents/CaribCBFRegionalSynthesisfinal_2_.pdf).

- How does the current policy environment facilitate development and oversight of a sustainable and equitable SMME sector? What policy gaps still exist at regional, national and sub-national level and how can these best be addressed?
- To what extent can a critical mass of 'green' SMMEs influence national sectoral policies and the policies/practices of larger businesses?
- What financing mechanisms (loans, grants, CSR programmes) can best stimulate development and growth of SMMEs that contribute to green economies?
- What forms of collective organisation are best suited to Caribbean culture and world view? Are different forms of collective organisation needed for different purposes (e.g. mutual learning; collaborative product development, marketing and branding; advocacy) or can one organisation address all these needs? How can individual and collective interest best be balanced? Are formal organisations always necessary or can informal collaboration on an as-needed basis serve equally well, e.g. for advocacy?
- Is mentoring and coaching an effective strategy for SMME development? What institutions and approaches best facilitate this? How can mentor and coach capacity be built to facilitate the development of SMMEs that contribute to green economies?
- How can ICT act as a catalyst for the development of 'green' SMMEs?

#### **POTENTIAL CASE STUDIES**

Listed below are a few case studies that could support action learning:

- a) *The process of developing the Jamaica Micro, Small and Medium Sized Enterprise and Entrepreneurship Policy* to support Vision 2030 Jamaica and the role that collective SMME advocacy contributed to outcomes.
- b) *The Saint Lucia Heritage Tourism Programme (SLHTP), Heritas, and the subsequent European Union Special Framework of Assistance (SFA) 2007 Community-Based Eco-Agro Tourism Project* that focused more narrowly on Dennery/Mabouya, to include analysis of:
  - the respective roles of formal policy, party politics and the collective (Heritas) in driving heritage tourism policy and process;
  - the differing approaches of SLHTP and SFA to SMME development (locally-driven versus use of external technical assistance);
  - the role and effectiveness of intermediary institutions (e.g. SLHTP, Ministry of Tourism, Saint Lucia National Trust);
  - the role and effectiveness of SMME partnerships (Heritas, Dennery/Mabouya Development Foundation);
  - the outcomes in terms of SMME capacities built and the most effective approaches for achieving these (training, mentoring, coaching);
  - the strategies for post-project sustainability and their outcomes;
  - the triple bottom line contribution of Heritas and Dennery/Mabouya SMMEs.
- c) *Community enterprises based on sustainable use of forest resources*. Several of these have already documented by CANARI, including useful lessons on policy, power relations, institutions (both at community and partner level) and benefit equity. The International Institute for Environment and

Development has also done extensive work on small and medium forest enterprises, which may provide useful lessons for the Caribbean even though the work has not focused on the region.

- d) *Turtle Village Trust* (TVT) as an example of a community-initiated, multi-sectoral (business, government, community) non-profit organisation with the stated objective of contributing to sustainable community development, in part through the growth of community/collective entrepreneurial activity, e.g. with analysis of:
- board structure (corporate, community, government) and its impact on power relations;
  - benefits to partner community groups and the wider community (including communities in the TVT focal area that are not represented on its board);
  - dynamics between the member community groups and structures for supporting collective decision-making;
  - other factors that are contributing to development of SMMEs and green economies in TVT's focal areas.

## References

[1] 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.eclac.org/portofspain/noticias/paginas/5/35505/SME\\_Competitiveness\\_-\\_Final\\_Version.pdf](http://www.eclac.org/portofspain/noticias/paginas/5/35505/SME_Competitiveness_-_Final_Version.pdf).

[2] CDB. 2012. Caribbean Development Bank's Draft Private Sector Strategy.

[http://www.caribank.org/uploads/2012/05/SDF8\\_2\\_NM\\_6\\_CDB\\_DraftPrivateSectorStrategy.pdf](http://www.caribank.org/uploads/2012/05/SDF8_2_NM_6_CDB_DraftPrivateSectorStrategy.pdf).