

**“TWO HUNDRED MILLION VERSUS 15 MILLION –
SIZE, BUSINESS CULTURE AND POSSIBILITIES
FOR CARIBBEAN SMEs IN THE
SOUTHERN CONE-CARICOM/BRAZIL RELATIONS”**

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Introduction

- ▶ The essential reason for this primary research on the Brazilian SME sector and the gathering of data and analysis is to place the case of Brazil against the Jamaican/English-speaking Caribbean experience and to begin to stimulate research on how to align the best practices offered by the experience of the Southern Cone/South America. The largest economy, namely Brazil, presents a unique experience and we draw on this to see how possible policy recommendations might be made.
- ▶ The data was gleaned largely from interviews with officials from private and public agencies. Real potential for future research rests in this area with the vast possibilities which a country of 200 million people presents. Much of the information on Brazil is in Portuguese but this should not prevent potential researchers from pursuing academic research in any issue area particularly as global boundaries are torn down by technology and ease of travel.



Introduction (cont'd)

In a bid to explore the question of entrepreneurship, micro and small business and how the Brazilian case might teach us some lessons within the Caribbean context, one might ask how one might secure the following elements, for example:

- ▶ Coherent public/private partnerships with small firms in an economic context which is rapidly changing?
- ▶ Enhanced and sounder financial management within an SME?
- ▶ Improved accounting practices among micro and small entities?
- ▶ Improved business culture?
- ▶ Improved operational capacity?
- ▶ Closer relations – commercial and otherwise among SMEs in the Mercosur region and the English-speaking Caribbean with the great potential for doing business across cultures and geographical spaces?



The Research

The paper is structured along the following lines and essentially represents initial research based on data gathering, quantitative and qualitative analysis and interviews conducted both in Brazil and in Jamaica.

- *Section Two* of the paper examines the CNI (*Confederation of National Industries*) and SEBRAE (*Brazil Micro and Small Business Support Service*) experience in Brazil in an attempt to draw out the possible best practices which exist on the South American continent to improve, regulate and innovate in the area of SMEs and entrepreneurship.
- *Section Three* examines the Jamaica case and the building of public policy and a vision for domestic SMEs with outreach to CARICOM. It outlines the peculiar challenges small economies face in organizing the SME sector particularly in a context of economic and fiscal constraints.
- *Section Four* presents some trade data and provides an initial thinking on CARICOM/Brazil trade and investment relations as fertile ground for the establishment of further collaboration and cooperation between Brazil and the sub-region.
- *Section Five* provides some conclusions and policy recommendations which arise from the research, the data gathering and analysis.

The Research (cont'd)

Surely the key objective of research of this kind is to stimulate discussion and provide policy advice on how we marshal the SME sector to contribute to generating growth and development. Results-oriented planning and the implementation of modern ways of managing the SME sector and of inspiring further growth and development can only augur well for our economies in the larger region and sub-region.

SEBRAE & CNI – The Brazilian Experience

The Brazilian Micro and Small Business Support Service (SEBRAE) is a non-profit private institution established in 1972 with a stated mission to “promote competitiveness and sustainable development of micro and small businesses and to foster entrepreneurship in order to strengthen the national economy.” In terms of the layout of SEBRAE, a sense of the scale of Brazil is provided by the reality that this organization alone has 27 regional offices, 613 Business Services Centres, 6,554 employees, 9,864 accredited consultants, over 2000 institutional partnerships and in 2013, SEBRAE had over 3,830 projects on their books . With a complex governance structure led by a National Council, SEBRAE’s customers include enterprises both in the urban and rural areas of Brazil, potential business persons and potential entrepreneurs.



SEBRAE & CNI – The Brazilian Experience (cont'd)

- ▶ CNI is the second of the two key agencies which superintend SMEs capacity building and advocacy in Brazil. Headquartered in Brasilia, 91% of all CNI's members across the industry groups are SMEs. Part of the mandate of the CNI is to help to transform Brazilian business into global enterprises offering services such as – trade intelligence, business training and business promotion. CNI was founded in 1938 and co-ordinates a system formed by the Federations of Industry in all twenty six of Brazil's states and in the Federal District encompassing over 1000 Employers' unions. The “*sistema industrial*” in the CNI network also includes SENAI (the National Service of Industry Learning), SESI (the Social Service of Industry) and the training arm of the IEL (Euvaldo Lodi Institute).
- ▶ CNI is a critical player in the areas of industrial and economic policy, labour relations, legislative action, quality control, productivity, technology, environment and infrastructure. CNI is even involved in Brazil's international negotiations such as MERCOSUR, WTO and the LAIA and “strives to exert a positive influence in the formulation of Brazilian foreign trade policies in order to obtain better conditions for fostering Brazilian industrial exports.” With over 700,000 companies as their members, CNI has become one of the foremost institutions advocating for SMEs nationally and has recently revamped its image and mandate with a view to better meeting the demands of industry and competitiveness particularly in a harsh economic environment. Having produced a *Strategic Map of Industry* which covers the years 2013–2022, the stated priority topics and objectives are said to be access to markets, internationalization, increasing the participation of Brazilian industry in global value chains, promoting sectoral development and developing competitive factors in the less industrialized areas of the country. The watchword for CNI in 2014 and beyond is to secure “competitiveness with sustainability.”



SEBRAE & CNI – The Brazilian Experience (cont'd)

The central legacy which the CNI might offer CARICOM SMEs relates in some way to the strategic thinking which is set out in CNI's notion of competitiveness with sustainability. The critical elements include building policy, conscious of the following elements: the macro economic environment, government levels of efficiency, labour relations, innovation and productivity, financing, infrastructure, taxation, market development and legal certainty and red tape reduction.

Further research is required to examine the CNI model even more closely especially the aspects of training for SMEs, finding solutions for the low supply of vocational training, addressing the poor quality of basic education and the enskilment of existing workers closer to a level of that registered in more developed countries. This is a central theme throughout CNI's strategic objectives and might also present a useful area of focus for Caribbean SMEs policy.

Jamaica & MSME Policy

Turning now to the Caribbean, according to a senior Jamaican government official, it is estimated that there are between 300,000 to 400,000 businesses in Jamaica of which about half are micro businesses. The Social and Economic Survey employment data reveals that self-employment is a growing feature of the labour market. While the government's MSME Policy is clearly set out on the website of the Ministry of Industry, Investment and Commerce, there is still a clear lack of data and statistical accounting on the SME sector in Jamaica. Research is currently being conducted as part of a broader research agenda to assist in framing public policy on SMEs.

In defining Jamaican MSMEs the criteria include: the number of employees and the annual revenues produced by the entity. In the MSME policy adopted by Parliament, *micro business* is defined as less than five employees earning less than five million Jamaican dollars per annum, *small business* is defined as six to twenty employees earning between ten to fifteen million Jamaican dollars per annum and *medium enterprise* is defined as up to one hundred and fifty employees.



Jamaica & MSME Policy (cont'd)

The following policy priorities were suggested as in the forefront of the work being done by the MIIC on SMEs within a resource-poor context:

- ▶ The JBDC is to be retooled as the primary organization for the implementation of SME policy;
- ▶ Need to roll out a local network of SME centres such as envisaged by the Mobile Business Unit;
- ▶ Need fuller research agenda related to national industry and the SME sector with Universities as critical partners with a view to establishing a research project with a consortium of UWI, UTECH and NCU. This is part of the current policy proposals;
- ▶ Need retooling of institutions like CASE in Portland linking in to the work of RADA as part of the outreach to SMEs;
- ▶ The rest of CARICOM on a whole is recognized to be way behind Jamaica which is seen as having a more advanced model with a prototype which might be replicated throughout the broader sub region; work is continuing on this out of the CARICOM Secretariat in Georgetown.

Jamaica & MSME Policy (cont'd)

- ▶ In thinking through the policy framework, one might suggest that:
- ▶ The SMEs potential to create jobs and provide a backdrop for growth is predicated on the JBDC providing the incubator for the start up operations. The entities should be weaned over time. The provision of the technological platform from which to operate to provide the efficiencies which would lead to competitiveness could be a part of the incubator offering of JBDC;
- ▶ The possibility exists that the secondary school curriculum could be transformed to sensitize students to the importance of the SME sector as a distinct avenue for employment.
- ▶ The Development Bank of Jamaica through specially sourced funds matched with government funds, could initially provide the capital base to assist in the start up of small businesses. Funds could be advanced in tranches but subject to the operators of SMEs meeting pre-determined criteria. The criteria should be growth oriented and customer centric and quality driven. In addition,
- ▶ Markets could be sought for goods produced by the entities.
- ▶ A major sweetener could be the provision of tax breaks for a period of five years to seven years . This would have to be specially negotiated with the International Monetary Fund (IMF) in light of the institution being inimical to tax incentives.



CARICOM/Brazil Cooperation

- ▶ Empirical data suggests that there is much room for growth particularly in the trade in goods related to agri-business and in the trade in services, including tourism. Brazil remains an extremely “protectionist” environment but one with great potential particularly with a view to establishing joint ventures with existing companies across Brazil. With exports from Brazil totalling \$244.8 billion in 2013, this is indeed a large economy and one which offers a very lucrative market for Caribbean producers.
- ▶ A Caribbean Export Development Agency study (CEDA ref) undertaken in 2013, outlined in some detail the barriers to trade (including the non-tariff barriers) and the complex nature of doing business in Brazil which characterises this market. SMEs, in particular in the Caribbean region, remain generally risk-averse but an orchestrated strategy by CARICOM governments to encourage private sector interest in the market, would lead to some positive results. There is need for more research and market intelligence work to be done with a view to understanding the Brazil/Mercosur context and the endless possibilities which South/South cooperation with these countries might bring for the Caribbean sub-region.



Conclusions & Policy Recommendations

- ▶ In niche manufacturing, SMEs can share the costs of training to get highly skilled workers matched with technology to capture segments of market in electronics, ICT and other activities. SEBRAE and CNI provide good examples of how training might be structured and implemented and more importantly, funded. Even examples on how the sector is taxed and how the sector is treated as a contributor to government revenues becomes immediately relevant.
- ▶ The whole realm of ICT can be used more creatively to overcome some of the constraints of scale;
- ▶ Opportunities in tourism exist in particular in the sub-region with proper branding, product differentiation and levels of customer service. The potential for cooperation between Brazil and Jamaica in tourism, for example, is tremendous.
- ▶ Clusters, networks and value chains which provide critical elements in the Brazilian case also might provide opportunities for learning, increasing the share of services and inputs, collective risk taking and economies of scope and scale.
- ▶ The efforts to subcontract to large firms (especially in a bid to increase export capacity) are also a positive step especially where that occurs in strategic high value-added niches such as electronics and ICT services.
- ▶ International Trade Agreements and the long awaited negotiations which may lead to a MERCOSUR-CARICOM Trade Agreement in some form, should seek to have specific provisions and solutions for capacity-building for SMEs market access in an optimal way.
- ▶ Public-private partnerships are important features of the implementation process and in building policy preferences- these policies must be targeted and evaluated to assess what works best and indeed, equally what does not work. Encouraging SME"s to employ better controls in their financial operations (eg , bank reconciliation, approval of spending, proper documentation of receipts and lodgement of funds);

Conclusions & Policy

Recommendations (cont'd)

- ▶ Implementation of a strong budget regime and the adherence to it needs to be a clear feature of the day to day management of SMEs;
- ▶ Preparation of accurate monthly accounts;
- ▶ Strong internal audit practices which will be supported by the practice of annual external audits.
- ▶ Strong governance practices (regular meetings and the documentation of the decisions made at these meetings)
- ▶ These submissions point to best practices which will make the transition to the Junior Stock exchange as a vehicle for access to capital easier. The access to capital will facilitate growth and efficiencies which would not be possible otherwise.
- ▶ Participation in the Junior Stock exchange is predicated on operators of SME's having a growth-centred vision about their business. Two factors must be removed from the minds of these operators; namely the fear of the dilution of their ownership base which will invariably come with an initial public offering and secondly, the discipline and will to go through with what is often seen as monotonous operational details.



THANK YOU!

