



**Partnership for Productivity**  
International

PRE-FEASIBILITY STUDY FOR A SMALL BUSINESS  
DEVELOPMENT STRATEGY IN THE EASTERN CARIBBEAN

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### Note on Difference Between Draft and Final Report

The following items were highlighted in the February 22, 1985 discussion between RDO/C's Peter Orr and William Phelps on the one hand and PfP's John Lynch on the other. It was indicated that the PfP study ought to provide more analysis in most of the areas listed below. These items do not reflect any organization of topics. New material relating to the specific topics appears in the cover article at the noted pages.

1. Strategy or thoughts relating to a perception that RDO/C is not adequately assisting the small business sector studied. (P. 63)
2. Further analysis of governmental policies and laws providing incentives and disincentives to small business. (P. 53)
3. Further analysis of institutional assistance efforts and impact of entities like NDFs, CAIC, etc. (P. 42)
4. Providing more information and analysis of subcontracting. What had PDAP people to say on the topic. (P. 39)
5. Further consideration and analysis of business data gathered. (Typology of firm relating to service need mix). (P. 9)
6. An assessment of the commonality of input requirements. Detail ideas on financial inputs as well as raw material purchase coordination. (P 9)
7. Further analysis or prioritization of constraints relating to business type and size. (P. 9)
8. The potential for institutional cooperation (see 3 above). (See letter)
9. Issue of business registration and entrance to formal sector.
10. Provide more information on business owners education and trainability. (P. 9)
11. What are other training requirements? (P.9)
12. What must still be looked into? (See letter)

These topics were discussed and John Lynch agreed to include them in the final report due at the end of the month.

The material has been inserted in the appropriate sections of the report. The new material is also included separately.

The draft report has been revised in a number of places to remove the appearance of non-objectivity.

# FEASIBILITY STUDY FOR SMALL BUSINESS DEVELOPMENT STRATEGY

## Executive Summary

### A. Nature of Study

Partnership for Productivity/International was charged with the following tasks:

1. To survey, inventory, analyze and evaluate the existing situation and growth potential of small enterprises in the islands of the Eastern Caribbean, and similarly to review and evaluate the institutional assistance efforts and governmental policies effecting the sector.
2. To recommend a strategy and program for assisting that sector, and
3. To recommend approaches that are appropriate to the region and look to coordinate donor support.

### B. Constraints and Problems

PfP's survey and analysis has identified the following constraints and problems:

1. Diseconomies of small scale in each separate island and state. These diseconomies impede many aspects of the islands' economic life. Specifically, (a) The small size of each local market does not allow businesses to grow to a point where significant cost reductions might be achieved; (b) Tools, equipment and supplies are usually imported in small quantities at high costs. This results in the loss of some competitive advantages which these islands may otherwise have because of low labor costs.
2. Poor Management. Most small businesses are operated in a purely intuitive manner and are not even aware of their need for management practices which could make their operations more efficient and profitable. Record keeping is almost universally absent. The colonial past left behind it many psychological vestiges, amplified by the smallness of these societies, which impede growth-oriented motivation and attitudes to work.
3. Lack of Access to Credit. Lack of credit for equipment and working capital prevents many business expansions and start-ups from occurring.
4. Institutional Support. The existing institutional support for small business is limited in scale and fragmented. While a number of praiseworthy programs are in existence, they lack coordination and require training and other inputs to improve their assistance delivery capabilities.

## C. Recommendations

1. Consolidation of Raw Materials Purchasing. Overcoming the diseconomies of small scale by a cost-reducing consolidation of input-procurement and output-marketing on the country, regional and international levels. Such a consolidation is well-known in many industrialized countries, (including the United States), where smaller independent manufacturers or retailers use specialized agencies which obtain for them more advantageous conditions of sale or purchase and spread administrative costs over larger volumes.
2. Shared Equipment. Wherever practical, increase the efficiency of small manufacturing businesses by cooperative associations formed for the acquisition in common of modern equipment, to be used on a time sharing basis. This could open to associated members, various contracting or sub-contracting opportunities.
3. Training Plan. Intensified training and product-specific technical assistance. Programs of training ought to be geared to the type of opportunities identified in the respective countries. Presently, many beneficiaries cannot find opportunities to apply their newly acquired skills in their own countries and regularly emigrate abroad where well paid jobs can be found.
4. Credit Mechanisms. Recommended are three forms of credit assistance: debt, equity, and business infrastructure grants.
5. Coordination. It is recommended that a closely inter-linked program be devised which uses all interested institutions and business in the sector. A co-operative multi-based organization is recommended.

## D. Project Design

1. A regional managing program office with (a) a communications and information service, and (b) a training, marketing and financial services function.
2. Local country program units consisting of (a) coordinating committee of assistance institutions and small businesses, and (b) local business service functions.
3. Program serves as RDO/C's surrogate for small enterprise assistance programs.
4. A loan fund for general small-business expansion
5. A venture fund for bridge financing and pilot business investments
6. A business infrastructure grant fund.

## Introduction

AID's Regional Development Office/Caribbean (RDO/C) has reflected current policies by developing and supporting a variety of private sector assistance programs. In that portfolio there are several programs directly meant to assist the small business sector. It has been drawn to AID's attention that while many programs are meant to assist private business in general, a large number of small businesses, especially in what may be called the "informal sector" are not "effectively availed of the assistance offered by these projects." In order to develop a program that may be more effective and pervasive, RDO/C requested the present contractor to inventory the small business sector on eight islands from several points of view. RDO/C sought a thorough set of facts and analyses of those facts so that it might develop its program in a manner that amply reflects the realities of the situation in the sector and that has a reasonable expectation of being a successful program.

In essence, the Scope of Work has called for a study that:

- a) inventories the small business sector of eight island countries in the region with attention paid to the natural, governmental, institutional, and human environment of the sector; and which
- b) follows up on the inventory with analyses and evaluations which will suggest alternative approaches whereby AID might provide its effective assistance; and which
- c) finally recommends a strategy and programs that involve specific techniques whereby AID might coordinate its assistance with other donor agencies and helping institutions which are obviously in place or might be persuaded to come in place.

There seems to be a consensus on the part of AID experts and the contractor, that the task described above is a "tall order". The central constraint, noted in the work order is time. The planning and budgeting and implementation start-up of a high priority activity is never adequate for the perfectionist. Eventually, an important decision has to be made on the basis of information and analysis available. Some risk is inevitable. In common with the prudent and successful businessman all steps should be taken to minimize the risk.

The contractor believes that the product being presented here provides a sufficient inventory analysis and alternative approaches to the Eastern Caribbean small enterprise sector so that the recommended strategies and programs may be successfully implemented. At the same time, we are aware that in the course of implementation a much greater and deeper

knowledge of all the variables discussed in this study will be required. The central limitations of this study derive from the ineluctable pressure of time, and the fact that the prime entities surveyed are very protective about the intimate details of their businesses. But, again, notwithstanding limitations and deficiencies of knowledge, there are clearly enough indicators of opportunities and willingness to cooperate and goodwill, so that a prudently phased small business enterprise development program can be undertaken with a strong chance of success in this region.

The agreed upon methodology for this survey called for the contractor to field a team of ten short-term consultants which would consist of a team leader and expatriate specialists along with subcontracted local persons to carry out an eight island survey [(1) Antigua (2) Barbados (3) Dominica (4) Grenada (5) Montserrat (6) St. Kitts/Nevis (7) St. Lucia, and (8) St. Vincent] and then work for several days in Barbados in order to draw together their conclusions and present the draft pre-feasibility study. Subsequent to a review, this final version has been scheduled for a February 28 submission.

The consultants selected for the team had strong backgrounds and excellent references. Most of them were known to the contractor through previous activities and association. While all of them had experience with small enterprise and development issues, they also reflected varied fields of expertise. In a final attachment, a matrix is presented which indicates their areas of specialization. This is offered so that the reader may have a somewhat better sense of each author's mind set as the country reports are read. Those eight reports, while edited somewhat, have kept the flavor imparted by their authors. As may be expected, they vary in approach and evenness, but they are of value in their present condition in that they demonstrate how similar phenomena may be viewed by different eyes.

The distillation of the findings, analyses, recommendations, and other thoughts of the consultants is presented in this report. The report has been organized to follow closely the logical structure suggested by the scope of work. As was noted earlier, the scope of work had three major divisions, namely (a) inventories, (b) analyses and evaluations, and (c) recommendations.

In the following pages, six parts have been presented. They relate to the Scope of Work requirements in this way:

- Part I        Scope of Work #
  - A. Working Definition A-1; B-1
  - B. An Inventory of Small Business A-2
  
- II            Subcontracting Real and Potential A-3; B-2

- III Assistance Efforts A-4; B-3
- IV Programs & Policies Effecting Small Business A-5; B-4
- V Alternative Approaches to Assistance B-5
- VI
  - A. Recommended Strategy C-1
  - B. Recommended Programs C-2

## Part I: SMALL BUSINESS ENTERPRISES

### A. A Working Definition

When the team of consultants set out for the individual islands to carry out the required inventory activities, they had agreed on tools that would perhaps expedite their approach to business and institutions. These were two distinct questionnaires which there was no time to test out and which certainly were not intended to result in statistically measurable parameters derived from random sampling techniques. Rather they served as instruments for gathering certain raw data and for helping the consultants and their local counterparts approach members of their targeted sectors. The consultants agreed how they would use a uniform approach to certain questions so that a better understanding of the sector could be had. For example, it was known beforehand that a large proportion of those surveyed would have no business records which could serve as a basis for sales figures. Also, for various reasons which will be discussed later, small businessmen in the region (and in the U.S. for that matter) are as reluctant to discuss their sales with a survey-taker as they are with the tax-collector. Hence techniques were agreed upon about what to push for and what to settle for, with the desired goal an informative, not too time consuming profile of the businesses contacted.

One set of parameters discussed at length before the team set out concerned the elements making up the "working definition of small enterprise in the Eastern Caribbean context," as was requested in paragraph A-1 of the scope of work..

It was generally agreed that asset size as well as gross sales figures could serve as quantitative indicators of the businesses that should be included in the targeted sector. Generally speaking, too, a qualitative measure was noted as a criterion even in the background section of the Scope of Work document. It was noted that "some A.I.D. financed programming is specifically designed to assist smaller enterprises and is sensitive to their unique needs and circumstances." The paragraph went on to remark that assistance is not usually made available to "small businesses that are not credit worthy by traditional standards and/or do not operate with formal management systems." Before suggesting a description, perhaps, rather than any narrow definition of the sector to which the presently contemplated assistance may well be given, it would be well to look a bit further at the implication of the terms "credit worthy" and formal management systems.

Traditionally a credit worthy borrower is one whom the lender has strong reason to believe will pay back the loan as agreed. Early in an individual's or firm's borrowing

experience, it is learned that at least one hundred percent (100%) security or collateral is required and that the enterprise or person must have an assured income source whereby the regular payments may be made. It is likewise important that the person or firm be legally recognizable and subject to the legal system so that potential claims may be properly processed. As it turns out, many entrepreneurs in the Third World, and indeed, many small business persons in the United States, deliberately remain out of the formal and institutionalized world of credit. Yet, as a matter of fact, a respectable number of such businesses have total assets and gross sales--and even net worth--which exceed those of prosperous "credit worthy" firms. One might further suggest that such individualistic non-credit-worthy entrepreneurs are clearly not candidates for a small business development assistance program. The reason being simply that virtually every program implies a system of cooperation.

Operating without a formal management system was suggested as a further criterion for including some businesses in the system. Interpreting this idea to indicate minimally firms that keep almost no records, or which co-mingle income with family accounts, or which avoid legal registration and tax returns, it can again be remarked that such firms transcend all quantitative size parameters.

The point of these brief remarks is that it may not be prudent to box any thinking too much into any definitions of smallness. In the U.S., the Small Business Administration has been wrestling with smallness criteria ever since it was instituted. Those of us who specialize in consulting with small businesses were kept busy following SBA definition updates. Also, as this study bears out once again, the large majority of enterprises in this particular region are in great need of numerous forms of assistance.

We would recommend that assistance programs always strive to get a better grasp of baseline data and that the gathering, analysis, and reporting of statistics be regularly upgraded so that we may have some objective means of measuring what is happening. Insofar as we can value assets and index them, and insofar as we learn what are gross sales (and insofar as we can help business people to account for all costs and minimize their tax exposure) our knowledge base will be widened and the business people beneficiaries will be assisted.

We would suggest then that a small business enterprise development program in this region should include in its targeted sector:

- a) Firms that would benefit from credit and presently seek it in vain;

- b) Firms that mature professionals recognize to be in need of technical managerial, marketing or financial assistance and which are prepared to utilize such aid; established firms ready to expand or enter into new contracting or production relationships--but require new injections of equity to make debt financing possible.

In other words, rather than use measurements of scale in a universe where almost all business is below any smallness measures we normally cope with, we suggest that a relatively simple needs criterion should be adequate to determine the sector we are dealing with.

In one sense we are suggesting a criterion that is more rigid than that of the banker, and one that is more entrepreneurial. The banker's prime concern is return of principal and interest; all else is peripheral. The assistance effort is targeted to development and so its scarce resources must look not to break even and ordinary return, but to a surplus derived from real growth. The entrepreneurial aspect, of course, is that the program will be making assessments about use of time and money which involve somewhat greater risks and which look for substantial returns.

At a later point in this presentation we shall return to issues regarding alternative strategies and programs which may be utilized to deal with the non-quantitative criteria suggested above.

In order that the short-term working team could fix some reference points for dealing with the sector described above, the Scope of Work document offered further helpful guidance. In paragraph A-1 it was requested that all types of small businesses in agriculture, light manufacturing and services should be included as should be all component activities including primary production, assembly, transportation, storage, processing, distribution, wholesaling, retailing, advertising, etc. This has been understood to mean, essentially that the team would concentrate on those sectors of the small business economy which tended to add to "gross domestic product" or which could be looked to for the surplus or large return spoken of earlier. Similarly, the team recognized the need to review all the ancillary businesses which relate to the transformation, distribution and marketing of the productive sectors.

## B. The Small Business Inventory

The team which consisted of several members with a strong background in service and work with small business in the Caribbean (Eastern Caribbean included) carried out on-site inventory activity between January 14 and January 24, 1985. As the eight attached reports and the various summary tables included in this paper indicate, the team was able to assemble a

huge amount of information about the targeted small business sector. With the valuable assistance of local enumerators and interviewers whom the consultants closely supervised a rather comprehensive cross section of businesses were interviewed.

The specialists brought back more than four hundred and sixty forms out of which four hundred and two were considered useful. (The survey questions appear in an attachment at the end of this report.) The questions elicited certain quantitative and logical (yes/no) responses as well as short comment type responses. The latter have been codified in a manner that we believe fairly reflects the variety of responses received. The "code book" is also offered with the material attached to this presentation.

The purposive sampling technique applied in gathering information on the characteristics of the small scale firm in the Eastern Caribbean islands has some noteworthy limitations. The question of how representative the sample is of the total population of small firms cannot be statistically proven by conventional methods. The reasons are:

- (1) The sample population could not be randomly selected prior to the survey.
- (2) The survey questionnaire was not uniformly applied in all cases. There were varying degrees of thoroughness and interpretation of the questions exhibited by the enumerators.
- (3) Information on costs and sales was often unavailable since many respondents do not keep financial records.
- (4) Insufficient time to properly design and field test the questionnaire.

#### Framework for the Analysis

In attempting the analysis, we relied on intuition supported by quantitative manipulation of those variables that lent themselves to aggregation. Since the implied task assigned to the research team was to arrive at a comparison of alternatives that can foment the growth of the smallbusiness sub sector in the Caribbean, the analytic approach was to arrive at a criterion of validity, both internal and external to the research design.

Internal validity refers to whether the observed differences between or among firms has some plausible explanation other than the difference in the assistance these firms received. If a firm's willingness to expand its production cannot be accomplished because the credit and technical assistance currently available is not reaching the

firm, but expansion decisions are not made despite the availability of resources, we might argue that firms do not need assistance. We might argue with equal force that current assistance efforts have no impact on expansion decisions. But before we reach this conclusion, here are some of the threats to the validity of assistance programs that were considered:

1. Other factors. Some event or force other than the assistance programs may have produced the "no expansion decision."
2. Biases. The choice of firms observed may lead us to pseudo-differences resulting from the selection of the firms for the study, the interaction by the enumerator with the respondent may elicit a set of responses such as "if I answer this correctly I might get some money from an international donor."
3. Measurement. Factors in the way we measured the process of expansion may lead to differences in interpretation. We noted above that the way the enumerators administered the questionnaire may have produced "outrageous" responses.
4. Randomness. The observed differences may be simply a statistical fluke.

In addition to these differences that could affect our analysis of the data, there are what is known as the threats to "external validity." Two are common, (1) Artificiality. The reactions of respondents may not be representative of those firms that were not included in the survey. This is the problem of conducting a purposive sample survey, whereby the firms were "volunteered" and not randomly selected. Only those firms with special characteristics were included, i.e. small scale, productive enterprise, sales of less than EC\$ 100,000 per year, less than 10 employees. (Though there were some firms that have been included that do not meet these criteria.) Another problem that is worth pointing out as a threat to external validity is that the behavior of the respondent under observation may not be the "normal" behavior. (2) Replicability. With respect to the assistance received by the firms for expansion, the replicability duplication of a "successful" assistance and credit program in the Eastern Caribbean. We could not determine the success of the assistance received from friends and family as being truly useful and one that could be replaced by a more formal system of delivering aid to the firm.

With this discussion of reliability and viability in mind, Tables 1- 11, (included in the following pages) offer data on the characteristics of businesses surveyed by category: type, sex of owner, years in business, number of employees, educational level of owner and business size by gross sales and current value of equipment and inventory.

Table 1: SUMMARY STATISTICS ON BUSINESSES INTERVIEWED

ISLANDS	MALE FEMALE OWNERSHIP		MANUFACTURING	SERVICES	AGRI-BUSINESS	TOTAL	AV. SALES VOLUME*	AV. VALUE EQUIP & INVENTORY*
ANTIGUA	53	23	29	39	8	76	155,000	45,000
BARBADOS	30	12	13	21	8	42	40,000	40,000
DOMINICA	26	16	10	19	13	42	21,000	9,000
GRENADA	36	8	20	15	9	44	40,000	38,000
MONTSERRAT	38	10	21	13	14	48	35,000	60,000
ST. KITTS	65	13	33	32	13	78	55,000	47,000
ST. LUCIA	25	13	16	19	3	38	65,000	55,000
ST. VINCENT	26	8	15	4	15	34	23,000	9,198
TOTAL	315	87	157	162	83	402	55,000	40,000

Drawn from interviews conducted by PFP/consultant team

\* Currency used: Eastern Caribbean dollar

TYPES OF BUSINESSES BY COUNTRIES *	ANTIGUA	BARBADOS	DOMINICA	GRENADA	MONSERRATT	ST. KITTS	ST. LUCIA	ST. VINCENT	TOTAL
<b>AG- AGRICULTURE</b>									
EAP-Edible Agr Products		1	2	3	2			5	13
FP - Food Processing	1	1	4		1		1	7	15
BKR-Bakers	7	2			1	1	1	3	15
NEA-Non-Edible Agr Products			1	2	1		1		5
O - Other Agribusinesses					1	1			2
<b>TOTAL AGRICULTURE</b>	<b>8</b>	<b>4</b>	<b>7</b>	<b>5</b>	<b>6</b>	<b>2</b>	<b>3</b>	<b>15</b>	<b>50</b>
<b>LM- LIGHT MANUFACTURING</b>									
AES-Auto Exhaust Systems						1			1
BAG-Bags-paper & plastic					1		1		2
BLD-Blinds, Louvres		1							1
BOS-Bottles, Soda						1			1
BOT-Boat Buildings						1			1
BRM-Brooms-Brushes		1							1
CBL-Concrete Blocks	1			1		1		2	5
CLO-Clothing Manufacturer	2	2	1	1	1	3		1	11
CON-Constructors-Construction						3			3
CRF-Crafts	12	3	3	4	2	9	4	2	39
DLA-Dental Laboratory			1						1
ELE-Electrical Mfg-Transformers				1		1			2
FUR-Furniture Mfg				5	1	1	5	4	16
HAB-Handbags				3					3
HRW-Hardware							1		1
JEW-Jewelry Maker						1	3	1	5
SHO-Shoe Manufacturers								4	4
SIG-Signs				1					1
STL-Steel Fabricator	1								1
TOL-Toiletries				1					1
WTR-Wire				2		1		1	4
<b>TOTAL LT. MANUF.</b>	<b>16</b>	<b>7</b>	<b>5</b>	<b>19</b>	<b>5</b>	<b>23</b>	<b>14</b>	<b>15</b>	<b>104</b>
<b>SV- SERVICES</b>									
APR-Appliance Repairs		1	2	1	1				5
ARP-Auto Repair Mechan & Body	7	2	3	1	2	6	2		23
BCH-Boat Charter				1					1
CTR-Contractors Elect./Plumb.	1			1	1	1			4
DIY-Dive Center				1		1			2
DLA-Dental Laboratory		1							1
EGR-Electronic Game Rental	1		1						2
ENT-Entertainment, Music	1								1
ESR-Electronic Service Repair			1	1	1		1		4
FLO-Florist Arrangements						1			1
FUH-Funeral Home				1					1
GHS-Guest House			1				1		2
GRA-Graphics/Printers				1		1			2
GRO-Grocery Store							1		1
HST-Hair Styling	4	1					3		8
LAN-Laundry Service	2	1				1			4
LOC-Locksmith		1							1
MLD-Medical Products									1
NDC-Nursery/Day Care		2						1	2
OMR-Office Machine Repair							1		1
PHO-Photography	1			1		1			3
RES-Restaurants/Catering				3			2		5
SES-Secretarial Services							1		1
SHR-Shoe Repair							2		2
SST-Seamstress & Tailors	2			2			7	2	13
TET-Technical Training				1					1
TRA-Transportation		1						1	2
<b>TOTAL SERVICES</b>	<b>19</b>	<b>10</b>	<b>8</b>	<b>15</b>	<b>5</b>	<b>12</b>	<b>21</b>	<b>4</b>	<b>94</b>
<b>COUNTRY TOTALS</b>	<b>43</b>	<b>21</b>	<b>20</b>	<b>39</b>	<b>16</b>	<b>37</b>	<b>38</b>	<b>34</b>	<b>248</b>

\* This chart includes only businesses coded not all businesses surveyed

CHARACTERISTICS OF BUSINESSES CODED

Ability to Provide Presently Imported Goods.	26% of respondents included in the data base believe that they can provide some good or service which is presently imported.
Women Owned Businesses	20% of businesses coded are owned by women.
Years in Operation	21% of respondents included in the data base have been operating their current business for less than 2 years; 4% have been operating their current business for 2 to 5 years; 63% have been operating for 5 or more years.
Number of Employees	51% of respondents coded employ less than 2 people, not including themselves; 20% of respondents coded employ between 2 and 5 people, not inclusive; 29% of respondents coded employ 5 or more people.
Educational Levels	Respondents across all sectors and business sizes have a mean of 10 years formal educational training; approximately 30% of all respondents have had vocational training.

START-UP AMOUNTS OF BUSINESSES \*  
BY COUNTRY

	AN	BA	DO	GR	MO	SK	SL	SV
Average start-up amounts (EC\$)	9460	13,225	20,051	19,848	42,186	45,473	12,369	1499
Number of respondents who answered 0 or no response	7	1	0	6	1	10	6	12

\*Average start-up amounts did not include "0" answers in the calculations.

START-UP AMOUNTS OF BUSINESSES\*  
BY SECTOR

	Agriculture	Light Manufacturing	Services
Average start-up amounts (EC\$)	19,034	16,297	10,645
Number of respondents who answered 0 or no response	6	31	13

\*Average start-up amounts did not include "0" answers in the calculations.

## CURRENT VALUE OF EQUIPMENT AND MATERIALS BY COUNTRY (in EC dollars)

	% responded	NUM. RESPONSES	AVERAGE
Antigua	97.73	43	21482.09
Barbados	100.00	21	143544.29
Dominica	100.00	20	221267.35
Grenada	48.72	19	76710.53
Montserrat	94.12	16	107276.88
Kitts	86.49	32	119663.91
Lucia	92.11	35	69304.29
Vincent	91.18	31	54310.16
TOTAL		217	89750.91

## GROSS SALES FOR 1984 BY COUNTRY (in EC dollars)

	% responded	NO.	AVERAGE
Antigua	97.73	43	9072.51
Barbados	90.48	19	61427.63
Dominica	100.00	20	74297.90
Grenada	58.97	23	36128.52
Montserrat	94.12	16	92800.06
St. Kitts	72.97	27	59431.11
St. Lucia	65.79	25	46648.00
St. Vincent	82.35	28	45148.21
TOTAL		201	46736.06

## USE OF CREDIT BY COUNTRY

WHERE FROM

COUNTRIES	% HAVING RECEIVED	WHERE FROM			
		COMM. BANK %	FRIENDS/FAMILY %	NDF'S HDB %	FVOT'S AID %
Antigua	48.84	95	5	0	0
Barbados	61.90	46	0	15	38
Dominica	95.00	16	5	68	10
Grenada	61.54	74	4	22	0
Montserrat	43.75	86	0	14	0
St. Kitts	51.35	58	0	37	5
St. Lucia	52.63	62	5	33	0
St. Vincent	55.86	53	5	42	0
TOTAL	57.26	61%	4%	30%	6%

## USE OF CREDIT BY BUSINESS SIZE

## WHERE FROM

BUSINESS SIZE	% HAVING RECEIVED	WHERE FROM			
		COMM. BANK	FRIENDS/ FAMILY	NDP'S NDS	PRO B SID
1 TO 25,000	54.49	55	3	35	7
26,000 TO 99,000	58.14	68	8	16	8
100,000 +	68.42	72	0	28	0
TOTAL	57.26	61	4	30	6

## USE OF CREDIT BY SECTOR

WHERE FROM

SECTOR	% HAVING RECEIVED CREDIT	COMM. BANK %	FRIENDS/FAMILY %	NDF'S NDS %	PVO'S AID %
AG	56.86	60	7	27	7
LM	56.66	55	5	32	7
SV	58.51	66	0	30	4
TOTAL	57.49	61%	4%	30%	6%

## EXPRESSED CONSTRAINTS BY COUNTRY

	AN	BA	DO	GR	MO	SK	SL	SV
	%	%	%	%	%	%	%	%
FINANCE	40	52	35	36	44	4	0	6
RAW MATERIALS	9	10	18	3	0	1	0	3
MACHINERY/TOOLS/SUPPLIES	21	10	63	13	6	12	3	18
BUSINESS MANAGEMENT	28	26	58	24	31	32	14	26
MARKETS-NEW/EXPANDED	13	3	10	9	22	0	0	3
TECHNICAL ASSISTANCE	0	0	3	4	13	8	3	3
INFRASTRUCTURE	23	3	0	0	0	0	0	0
LABOR-SUPPLY/RELIABILITY	13	3	0	3	16	1	0	0
GOVERNMENT	1	5	0	4	0	5	9	2
OTHER	0	0	0	3	0	3	0	2

## EXPRESSED CONSTRAINTS BY BUSINESS SIZE

Table 10

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	1- 24,999 EC\$	25,000- 99,999 EC\$	> OR = 100,000 EC\$
FINANCE	56	38	42
RAW MATERIALS	12	2	0
MACHINERY/TOOLS/SUPPLIES	41	24	18
BUSINESS MANAGEMENT	54	62	53
MARKETS-NEW/EXPANDED	10	19	16
TECHNICAL ASSISTANCE	4	12	8
INFRASTRUCTURE	10	10	3
LABOR-SUPPLY/RELIABILITY	10	2	11
GOVERNMENT	4	14	11
OTHER	2	2	3

## EXPRESSED CONSTRAINTS BY SECTOR

	AGRICULTURE	LIGHT MANUFAC.	SERVICES	ALL BUSINESS
	%	%	%	%
FINANCE	35	16	26	24
RAW MATERIALS	5	4	4	4
MACHINERY/TOOLS/SUPPLIES	21	13	13	17
BUSINESS MANAGEMENT	29	26	26	82
MARKETS-NEW/EXPANDED	12	6	6	7
TECHNICAL ASSISTANCE	4	4	4	4
INFRASTRUCTURE	4	3	3	4
LABOR-SUPPLY/RELIABILITY	5	1	1	4
GOVERNMENT	4	4	4	4
OTHER	0	0.5	0.5	1

The tables begin with number one (1) providing a general cross section of the four hundred two firms whose questionnaires were usable. The aggregates in this table may be contrasted with the following ones based on the two hundred forty-eight surveys that were codified and processed.

We note that 80% of the firms approached were owned by men. The average sales and average value of inventory and equipment are both quite small.

Table 2 is helpful for obtaining a global view of the types of firms surveyed.

Chart 1 offers interesting data especially the fact that almost two-thirds were in business five or more years. Also important for the implications for training is the fact the mean number of formal education years is ten. So even if the people are rather poor they are largely literate and well-schooled.

Tables 4, 5 and 6 indicate in some detail the sales and certain asset values of firms which started out with the amount noted in Table 4. Generally speaking, as one might expect start-up capital has been quite small (a number of people started-up with earnings or savings made overseas. They usually had the ability to buy land, a hand a vehicle and perhaps some equipment).

Tables 6, 7 and 8 refer to credit use and do demonstrate a fairly pervasive experience (almost 60%) with credit of one form or another. Since, we are dealing with firms currently in business we can assume that they have serviced their debts adequately. (Explicit questions about payment of debt would probably have offended the people surveyed here.)

Tables 9-11 summarize the hopes and frequencies of constraints that the firms considered to be obstacles to their development. At the end of this section we have presented further thoughts about constraints impeding business.

## 1. Ag-Business

Most of these islands have the largest part of their population involved in agriculture. While the ag-sector is frequently not the majority contributor to gross domestic product in the official statistics, it is clear that the sector must be given serious and careful attention in any small business assistance program. At the high-end of the agro-business sector we found the remnants of colonial days with sugar, banana, nutmeg, cocoa, etc. frequently controlled by the national boards which market through traditional channels and contacts. Bananas, for instance, which, on several of the

islands occupy a large portion of the agricultural land, are sold to Great Britain largely through WINBAN (The Windward Island Banana Marketing Agency). Bananas, by the way, sold to England have become an economic drain of late as the British Pound has been battered by the U.S. Dollar.

At the other end of the cash crop scale we find relatively large amounts of vegetables, fruits and root crops being marketed through the largely underground economy of the peddlers (higlers, hucksters - the name varies from place to place). In the attached reports on Dominica and St. Vincent it is noted that a limited organization and control has taken place in this marketing sector. But, for the most part, in most islands this is an important and undocumented aspect of the cash crop economy. Without extending this topic any further it should finally be noted that the costs of this aspect of the agro-business economy may well outweigh the benefits. Effecting change in this area, it must also be recognized, could be very disruptive to a very economically active and entrepreneurial part of the population.

Only a limited amount of food processing has been noted in these islands. The potential is present for additional value added and additional income in the ag-sector, but some of the constraints of the market and the infra-structure, and of access to capital, and limited knowledge, which will be noted below, have to be dealt with before these opportunities are grasped. At the end of this section we will include some agriculturally related business opportunities that the consultant team believed could be put in place in the short term.

## 2. Light Manufacturing

The other sector which is viewed as adding to the gross domestic product is light manufacturing. Our interviewed businesses amounted to one hundred fifty seven (157) firms in twenty seven categories. They tended to cross the entire firm size spectrum but obviously they are all quite small when measured by developed country standards. As may be noted from Table IV we have come up with an average annual sales figure of about US\$20,000 (EC\$55,000) and average equipment and inventory of about US\$15,000 (EC\$40,000).

The major categories noted were crafts, furniture, clothing and shoes and construction related firms. These small firms including the food product companies produce a limited range of consumer goods. Foods included basic items such as bread, noodles, and cassava farina along with non-basics like sweets, plantain chips, seasonings and items for preparing tropical products.

Wooden furniture is strong particularly in St. Vincent where import protection is given. Both the construction and metal working sectors are poorly represented.

Obviously the scope is narrow and the range is limited in these light manufacturing firms. Technical expertise is often at a low level as is the quality of the product produced. Presentation of product - it has been observed in many instances - is generally poor in labeling. (Containers for processed foods are at times sterilized and re-used bottles from imported products). The island people prefer imported products to locally-made items. To provide technical assistance to such producers without the promise of outreach to a broader market would cause little more than displacement.

### Services

Our list of services totalled 94 firms in the processed data. As we may have anticipated start-up money requirements were much less than in the other sectors. We also list the kind of service where a shop or place of business is to be found, rather than the "trays" of the higglers who are very numerous in this sector. This sector, while important as ancillary to production, especially where equipment and vehicles are repaired is not productive of a surplus itself.

### C. Business Opportunities In The Eastern Caribbean

As part of the small business survey respondents were asked about the new business opportunities. In addition, the consultants were asked to be attentive to potential business opportunities in the course of conducting the island surveys. The results of the generation of ideas for new businesses were sifted and examined in the light of certain pre-feasibility criteria, which are discussed below, and the practical business experience of the consultants. Those ideas which seem to merit further investigation are detailed.

#### 1. Contributions of Small Business

Before continuing it is important to understand the contributions of small business to an economy because these factors influence the selection criteria.

#### o Contributions of Small Businesses to Stability and Vigor of National Economies

a. Employment. Small Businesses in all economies in comparison with large companies, provide proportionally greater employment for the same volume of economic resources they use.

b. Diversity in Employment. The small-business sector counterbalances the large-firm sector's dependence on large employers with all the corresponding risk of economic disruption if a large employer weakens or fails.

c. Diversity in Economy. Small businesses as a class can offer a variety of products and services for the local market, the size of which is too limited to support the production of these goods and services by large firms.

d. Flexibility. Small Businesses tend to be able to mobilize their, albeit limited, resources to respond to disturbances in the economical environment.

e. Stability. Large companies, joint ventures and prime contractors tend to have less commitment to small economies, and move their resources, productive capacities and jobs in times of difficulties. Smaller businesses tend not only to be more "locked-in", but also tend to identify with the local economy and society and therefore work for improvements.

f. Sources of Innovation. In advanced industrial countries, a very large proportion of new products and services are created by small businesses while large businesses tend to be protective of products and services in which they have large investments. This is, however, only occasionally the case in developing countries where small businesses in most cases lack technological skills and information.

## 2. Sources of New Business Opportunities

The consultants were asked to seek new business opportunities for three sources:

a. Expansion. Often the most obvious source of new business activity is the expansion of an on-going activity. An increase in the production of existing goods and services is made easier by the fact that the nature of the productive activity is well known to the business person who undertakes the project. From the viewpoint of a lender, the quality of management is easier to assess than in the case of new processes.

b. New Lines and By-Products. Another way to find new business opportunities is to look for collateral lines of products or services for which there could be a market. For example, a garment manufacturer might find it relatively easy to expand into towel manufacturing because of similarities in the productive process, purchase of raw materials, the systems of distribution and marketing. Again definite advantages accrue because something of the nature of the productive activity in a specific location under specific local circumstances is known.

c. Transfer. If products and services are consumed and produced which are also consumed in similar economies, these can be sources of new business opportunities.

### 3. Criteria for New Business Opportunities

The new business ideas generated by the survey and the consultants were evaluated for further consideration in the light of several factors. Among them are:

- a. Availability and costs of raw materials
- b. Costs of financing
- c. Availability of skills to produce the product or service
- d. The capacity to manage the enterprise
- e. Access to market

While all these factors are important, two are particularly critical: market and management ability. The notion of market needs to be stressed in the Eastern Caribbean, since one has the sense that it is often neglected by those proposing to assist small businesses. It is useless to produce efficiently a product and accurately account for it, if there is no demand for the product.

#### D. The Local Market and Limits of Enterprise Expansion

##### 1. Goods-Producing Enterprises

Each of the islands (again with the exception of Barbados), taken separately, presents a very small low-income market, roughly similar in the style of living and consumer habits to that of other islands. This fact poses narrow limits to the potential positive effect of facilitating the expansion of enterprises in any given goods-producing trade. The small geographical dimensions of these islands make it easy to distribute products to retail outlets over each respective island's whole area, as soon as the enterprise reaches a certain size and has reasonable means of delivery (a few vehicles).

Unless the support program deliberately seeks to preserve the existing small units with narrowly localized markets, (such as the village baker, cabinet maker, seamstress, sandal maker), a very limited number of businesses, if well managed and endowed with adequate equipment, would be enough to satisfy the local demand and, in the process, push out of business the rest of their present competitors.

With better management and equipment, while the volume of production in any given trade may grow, the number of independent businesses may actually shrink and the less competitive members would have to look for another chance of earning their living in another trade or as wage earners, if

they can find a job. The effect of modernization of a trade on total employment in that trade is a matter of speculation.

Obviously, the program's aim cannot be to stop the efficient businessman, because he is exactly the element needed to have an expanding economy. The program's strategy should, however, include methods to seek for alternative opportunities for unsuccessful competitors, so that the process of growth can be made not unduly harsh.

It must be remembered that the above sobering conclusion pertains only to the presently existing, traditional goods-producing trades and their constituent business units. There is room for new types of production units, especially if the island economies grow at a satisfactory rate. Already, more ambitious businesspersons think of such lines as car battery manufacturing or greater use of wrought iron objects for local homes. In one of the islands the concept of "backward engineering" was recently discussed with regard to canvass-and-plastic travelling bags. In that latter case, foreign-made articles would be taken apart, carefully measured and inspected as to the method of fastening. Then a method of producing identical objects locally would be worked out.

Another field where local production could have an advantage in a local market would be inexpensive confectionary of popular types to compete with the expensive imported candies. This kind of project is being considered now on one of the islands. Yet another small business person envisages the manufacture of ice-cooled carts for street vendors of juices and soft drinks.

Finally, it should be expected that, once the opportunities begin to be realized on a significant scale, a dynamic multiplier process would develop. Increasing incomes created by new or expanded businesses will create additional consumer demand which, in turn, will create new opportunities. As the process continues, it may be expected that the presently narrow range of relatively unsophisticated industries will start expanding to create linkage opportunities, including some technically more advanced operations. At that stage, demand will appear also for services related to business, as well as demand for personal, health and other services for a more opulent population.

## 2. Services: Local and Export Markets

At the economic stage of most of the islands, (with the possible exception of Barbados), one cannot expect that growth of service industries will be an engine of general economic expansion, (as it is to a considerable extent in the economy of the United States). The situation will be probably reverse: as the economies grow and the needs of the goods-producing sector

and of consumers become larger and more diversified, the service sector will follow them in satisfying their expanding demand.

There are, at least, two important exceptions to the above statement.

One is the group of services related to tourism. An imaginative expansion of tourist recreation and entertainment services, (such as first-class restaurants with "quaint" or "exotic" atmosphere; interesting tours of striking sights, such as volcanoes, hot springs; sailboat charters with competent crews; folkloric shows of non-stereotype character, etc.), could make the islands an even greater attraction for North-American and European visitors. The effect of a larger volume of tourists, and perhaps longer stay, would, of course, have an impact on the entire economy and would generate new local activities.

The traders often operate without appropriate storage and loading facilities in ports, with resulting waste and damage to the quality of produce. Most traders would like to enter the above mentioned supplemental markets but lack detailed information on prices and other market conditions. Also, longer distances of shipping would require new arrangements with the fleet of small boats which carry the produce.

Marketing assistance to traders, accompanied by an improvement in shipping facilities could help in the expansion of this important class of exports, with a resulting substantial gain to the islands' economies.

#### E. Export Potential

##### 1. Goods-Producing Small Business

a. Processed products for ethnic markets in U.S., Canada, and U.K. Ethnic markets are mostly low- to middle-income, largely motivated by dietary habits and nostalgia feelings, and as a rule not excessively demanding on the point of packaging, provided the product is of a satisfactory quality. Fresh produce tends to be handled by relatively larger firms. However, various snacks (plantain and breadfruit chips), seasonings, pepper sauces and spices should have a reasonable chance, provided the transport and distribution are not too costly.

Once again, one should not exaggerate the size of the ethnic market, even in very large metropolitan areas, nor underestimate the number of potential competitors both within the East Caribbean region, as well as from outside of the region (Jamaica in the first place).

b. Processed tropical fruits and other products like ginger, nutmeg, etc. for the high-price, low-volume gourmet market. This market is, above all, quality conscious and puts high premium on the uniformity of the product, esthetic appearance of the package and its function as indication of the consumer's status.

The small businessperson who aspires to develop that kind of export must be a well trained and disciplined manager, with a good grasp of food technology and of packaging and shipping techniques. To be successful, the enterprise must have assured sources of supply of its raw materials, in good quality and on schedule. Hence, the importance of coordination with growers of fruits and other products used in production.

c. Semi-processed tropical fruit for further processing in the U.S.A. and Europe. Products under this heading will include such items as whole or cubed fruits in brine, pulps, purees, etc. Foreign buyers will include manufacturers of preserves and jams, chutneys, confectioners, bakers and ice cream manufacturers.

One can expect here long-term buying agreements, perhaps even involving some equity position of the foreign user of the product.

Technical and managerial qualifications required from the local businessperson will be here as high as under the preceding heading of the processing for the gourmet market.

Also the start-up capital requirements should be expected in the range of US \$75,000-150,000 and higher, depending on the volume of production.

2. Non-Agribusiness Export Opportunities for Small Business (electronics, textile articles, leather crafts, furniture and wood articles, luggage, sports goods, toys, etc.)

The question under this heading is: Can small business develop capabilities to supply some among the wide range of the labor-intensive products which presently are in the domain of larger firms working mostly on subcontracting or long-term contracts?

The answer is yes, provided that:

a. Technical and managerial skill and discipline, quality and uniformity are sufficient to satisfy the requirements of foreign buyers or contractors;

b. The volume is sufficient to justify the foreign buyer's or contractor's overhead cost of transactions with small suppliers;

c. Adequate equipment and working capital are available.

The required combination of the above indicated conditions will be found only in very exceptional small businesses.

The types and number of small businesses which could benefit from the non-business export and sub-contracting possibilities would be very substantially broadened, if they could form cooperative groups for specific operations. For example, on one of the islands a group of furniture makers formed a cooperative association, with the hope that they could afford a machine that they could not buy singly. That machine, operated on a time-sharing basis, will make it possible for the group to work for a U.S. company in a sub-contracting arrangement.

#### F. Business Opportunities Illustrated in Table

Business opportunities illustrated in Table fall mainly into three categories:

1. Processing of tropical products available in respective countries because of their specific climate, soils, etc. Here belong fruit products, essential oils, condiments, rare hardwood products, etc.
2. Manufacturing processes or subprocesses which can be competitive on the world scale because of the respective countries' relatively low wage rates. Here belong well-known cases of electronic, garment, furniture, etc. sub-contracting.
3. Filling in the local production of relatively simple-to-produce goods which now are imported almost in their entirety, or providing services which are now inadequately supplied (e.g., machinery and automotive maintenance and repairs).

In addition to the cases illustrated in Table IV, many other opportunities are worth mentioning. Here belong such potential projects as cooperative production of garments and other textile articles, leather goods, manufacture of nails and other light metal processing, clock assembly, converting of paper, cardboard and sheet plastic, processing of bananas (catchup, vinegar, etc.), coconut confectionary, peanut butter, fresh- and salt water aquaculture.

It is important to realize that this is, indeed, a true part of the third world close to the United States doorstep. There are citizens in the small business sector who have seen fit to stay on their small islands and who have in themselves -

## Small-Business Opportunities

This tabulation illustrates the types of project which were brought to the attention of the survey team on the respective islands they surveyed

No.	Country of Project Origin	Opportunity Area*			Description of Product or Service	Market Area**			Estimated Sales Reserve per year (US\$)	Estimated Capital Investment:		Number of Jobs Created:	Comments
		AB	LM	S		L	EC	O		Low	High		
1	Antigua		X		Hfg. of iced vending carts for vendors of cool drinks, fruit	X	X		26000	2000	5000	2	The local market will be saturated within a year. Expansion into aluminum pipe products, such as patio furniture, possible. Exports of other E.C. islands.
2	Antigua		X		Repair & rebuilding of electric motors and sales	X	X		50000 to 100000	5000	10000	2 to 10	Market includes industry, vehicles, and repair of small appliances, motors. Good retail potential.
3	Antigua		X		Battery reconditioning	X			125000	10000	15000	3 to 6	Advantages are: 1. Heavy import duty on new batteries 2. No transportation from abroad costs
4	Dominica	X			Production of semi-processed passion fruit pulp for further processing in Puerto Rico			X	up to 1000000	150000	250000	15 to 25	The ultimate market will be in Europe and the U.S.A. There will be additional jobs created in the agr. sector, with three crops per year.
5	Dominica		X		Manufacture of sulphur tiles for decorative and construction uses	X	X		125000 to 250000		additional: 20000	15 to 25	Existing plant valued at \$25000 needs only working capital to begin operation. Existing order in house for \$100,000.
6	Dominica		X		Manufacture of car batteries	X	X		200000 to 400000	150000	185000	5	The business person and his family already operate a tire recapping workshop, a wrought iron furniture workshop and a repair service, all located in own building. Total assets US\$ 150,000.
7	Dominica	X			Aquaculture (shrimps & conches)	X	X	X	75000 to 100000	100000	150000	20 to 40	The great number of hotels would provide a ready market until further growth. Thus, for quite a period there would be no problems with export technology.
8	Dominica	X			Nurseries for cut flowers and potting plants	X			150000	200000		15	The owner interviewed suggested the formation of a small land holders association of women to cooperatively buy inputs and sell to the United States and Europe.
9	Dominica		X		Industrial maintenance garage/service center			X	250000		300000	15	The primary market for the center would be comprised of: 1) IDC's nine industrial parks (trucks and machinery) 2) Government equipment and vehicles, and 3) Private business

Opportunity Area: AB = Agribusiness, LM = Light Manufacturing, S = Service

Market Area: L = Local, EC = Eastern Caribbean, O = Other

All money expressed in U.S. \$

## Small-Business Opportunities (cont.)

No.	Country of Project Origin	Opportunity Area			Description of Product or Service	Market Area			Estimated Sales Reserve per year (US\$)	Estimated Capital Investment		Number of Jobs Created	Comments
		AB	LM	S		L	EC	O		Low	High		
10	Grenada	X			Manufacture of whole nutmeg and grate & glass containers	X	X	X	up to 250,000	7000	15000	5	- A small plant already exists. Needed now are marketing skills and accessories - This concept is replicable on other islands where nutmeg trees are found
11	Grenada	X			Packing of plantain breadfruit & cassava chips	X		X	up to 250,000	15000	25000	10	- Probably, no possibility of marketing on other islands where these products are also manufactured. - Export to ethnic markets in USA and Europe possible.
12	Grenada	X			Wrapping and marketing of locally produced cocoa candy	X	X		100000	25000	35000	5 to 10	Local cocoa cooperatives produce and sell this product without wrappers. The project would upgrade the sales appeal of the product and expand its marketing. Market in USA doubtful.
13	Grenada			X	Electronic communications center	X			50000 (first year)	10000	15000	4	Expected recouping of initial investment in three years. Services include Zap-mail to U.S.
14	St. Kitts		X		Manufacture of mufflers for automotive exhaust systems	X	X		150000 to 200000	50000	75000	5	Required: 5,000 square foot facility--US\$100,000; metal working equipment--US\$ 25,000; inventory: US\$ 20,000 to be financed in part by mortgage on product. Price will be competitive due to 62% import duty from U.S., compared to 15% inside CARICOM area.
15	St. Vincent		X		Sub-contracting for export of wooden "knocked-down" furniture			X	100000 to 500000	130000	160000	15 to 30	This would permit sub-subcontract work to local craftsmen, with a time-shared use of the heavy equipment.
16	St. Vincent	X			Manufacturing of tropical fruit pulps, preserves, & for export to US & Europe			X		75000	100000	12	Project was presented by local food technologist who owns appropriate building but lacks equipment. The project would create additional jobs in the farming sector.
17	St. Vincent			X	Export promotion program for small exporters of root crops			X	up to 1000000	20000	30000	up to 30	The project would consist of organization of, and facilitating contacts for, a mission of small markets in Aruba, Bonaire, Curacao and possibly Venezuela. These exports are, after the banana industry, the largest foreign exchange earner in St. Vincent. Many additional jobs in the farming sector would result, if the attempt is successful.

All money expressed in U.S. \$

Opportunity Area: AB = Agribusiness, LM = Light Manufacturing, S = Service

Market Area: L = Local, EC = Eastern Caribbean, O = Other

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given the proper assistance - the capability of doing something to create jobs, income and something of a surplus. To those on the team who have witnessed much different and much more difficult third world economies it was clear that assistance inputs could improve the situation. As will be brought out shortly, there are also institutions prepared to be of assistance.

The stark reality of the economy of these islands is that they now do not produce enough food to feed themselves in a manner they would like. They do not have the manufacturing to procure the necessary and luxurious consumer goods they seek to possess. With minor exceptions, they have no petroleum resources to provide them with sources of energy they wish to use. All of these are items they purchase from overseas with dollars earned in an unstable primary product market and from a tourist economy easily influenced by U.S. recessions or street demonstrations on the islands. Add remittances from native sons and daughters abroad and, unfortunately, there is still not enough to pay the import bill.

## G. Constraints

### 1. Smallness of Scale

What are the major constraints to the development of the small business sector in these islands? What will an assistance approach have to contend with in considering support alternatives?

Smallness of scale is the most obvious and pressing constraint. Other than Barbados with its quarter of a million population and Montserrat with its ten thousand or so, we are faced with island nations having around a population of one hundred thousand and we do not observe much growth because the escape valve of emigration to England, the U.S. and Canada stays open. As long as a producer is limited to the domestic market then there is virtually no room for expansion. Similarly, there is minimal room for entry for a potential competitor who may have "built the better mousetrap." While the Caribbean regional market offers a somewhat wider horizon, we find that there is minimal specialization and subsequently, what one may have to offer is very likely available on the next island.

### 2. Limited Knowledge

To overcome the size constraint and reach out to a broader and, ideally, continental market, a further constraint of limited knowledge has to be faced. On the one hand, the education standard on the islands is not geared to knowing or even thinking about how one can stretch out from an island base and service the world. For those who stay at home, the ideal

culmination of education is a government position and the ability to scratch some further income from a shared or inherited piece of rural land. Knowledge of opportunities and confidence to go after them is wanting for the most part. Several of the consultant team note a diffidence, a lack of drive, an unwillingness to change the pace of island life. We tend to believe, however, that this is not an ingrained, irreversible situation. It is most likely an indication of how people adjust to situations they do not know how to alter. One example of a stirring from this viewpoint might well be noted in Grenada, where the U.S. intervention and follow-on AID activity has resulted in numerous initiatives being pursued by the people.

Other than knowledge of market opportunities, we have found that limited knowledge of business management; inadequate grasp of production and quality controls; insufficient technical training; and often a lack of marketing know-how add to the total picture of the constraint referred to as lack of knowledge.

It is perhaps wise to clearly distinguish between deficiencies that can be overcome through training and others that relate to a lack of knowledge. Of course, education and training of a sort can help one learn to seek out information from certain sources or even how to take advantage of various resources to fill-in gaps in knowledge. In the present instance the specialist team was requested to look to training needs and assess the potential value of providing training for members of this sector.

In our discussion of the prioritization of constraints which follows in a few pages we will note that in this sector there is little point in offering training when no felt need for the same is present. Also many small business persons do not even realize that there is a body of knowledge and experience available and important for them. In all likelihood training will have to be provided in most cases as a condition for receiving credit or some other type of desired service or discount. The organization of training programs around whatever time small business people can find away from their work is similarly a big problem in this sector.

If we are speaking of training for assistance agency personnel we are dealing with a different matter. In Part III we will distinguish between the CIAC type training of institutional personnel and the BIMAP training of individual business persons. As we say when discussing the agencies in the Barbados context, those agencies should be looked to for an experience base in the region. Training of trainers means first of all helping them to understand the thinking (and sensitivity of the small business person) and also to be able to diagnose the needs of the small businesses. Ideally, in gathering data about a business (in compiling a "profile") the trainer adviser

and business person will mutually recognize "needs." Training either in groups, when possible, or individually will have to address the needs and lead to demonstratable growth.

Time for activities outside of business is usually the most difficult thing a small business person can find. It always proves to be hard to gather groups of such people at sessions where formal instruction is provided. In general such meetings turn out to be opportunities to introduce counseling services.

It is the opinion of team members with experience in conducting training program for people in this smaller business sector, that the need for training and practical instruction is obvious, but the informal and rather expensive one-on-one approach is the only effective way to carry it out. Also the best way to see that business people take instruction in what is recognized as their need, is to make the training a "stick" that must be faced in order to receive the "carrot" of credit or some other benefit.

Hence, in making "training" opportunities available, we believe that one can not speak of courses or "training session." Training staff persons have to be available and they must keep records justifying use of time and details on clients, client needs and client's business improvement.

### 3. Inadequate Infrastructure

Referring only to the infrastructure related to the small business economy and commerce we note, a number of deficiencies in certain areas. The electric supply is unreliable or is even non-existent except for petroleum powered privately owned generators. On certain islands, even where water may be abundant, readily accessible mains are unavailable for small factories which may have heavy water use requirements. In several of the islands, small though they may be, the road system is not good enough for reliable pick-up truck transport of produce. Beyond that, the international and regional transport and communications systems by sea, air and telecommunications are often inadequate for competitive businesses. (One report read when preparing for this study gave an example of a container shipped from Hong Kong to the U.S. costing less in freight charges than for the same container shipped from a Caribbean island to Miami). This latter infrastructural problem is closely connected to that of smallness of scale and populations. The better and more reliable systems available require capital outlays which are not justified by the market demand.

#### 4. Access to Capital

As is noted elsewhere, a number of traditional and concessionary sources of capital exist in these islands. They seem to have the liquidity to deal with ordinary demand. However, the major sector of the economy where new growth and surplus has to be sought is this small business sector we have been reviewing. The general perception derived both from owners of various-sized businesses and from representatives of assistance agencies is that there are insufficient funds to deal with the financing needs of this small enterprise sector. This very listing of constraints should also make it obvious that this sector is not attractive to traditional lending agencies because of the risks involved and the irregularity of the businesses.

A further financial constraint flowing from smallness of scale and distance from supply points is the fact that inventory and equipment purchases cost quite a bit more than they do for, say, the American business in the same line. (Of course, if labor is paid for, the island business benefits). Inventory replacements usually are in small quantities with rather high shipping and import taxes, equipment is often obtained with supplier credit at a large carrying cost.

A financial constraint common to businesses everywhere is available start-up equity. This is a heavier burden in third-world settings than in others because family borrowings, or personal savings are usually insufficient sources of start-up money. An equity infusion, either to start-up and deal with early working capital needs or to help with business growth, is obviously a major financial requirement in this target sector. At present it is not being met.

#### 5. Taxes, etc.

When questioned about constraints, many small business owners spoke of government taxation policies and customs duties and even governmental red tape. Often this type of argumentation is offered when the businessperson is asked why registration and regularization has not yet taken place. This constraint is possibly more one of perception than reality. Later we will offer a short section in response to the scope of work request that we inventory and analyze government policies and programs that affect small business. There we will return to this issue while mentioning in passing here that the consultant team generally agreed that government programs to help the sector were not particularly effective or noticeable. To call them a constraint may be a misconception.

## 6. Prioritization of Constraints

The team was asked to indicate a prioritization of constraints. In the following paragraphs, we have indicated how constraints relate to everchanging experiences. The factors of the smallness of scale, of the limited knowledge, and of the insufficient access to credit, combine and interplay in determining the relative severity of constraints. The following order of listing may be thus compared to many interrelated aspects of growth which take place in non-optimal circumstances: one constraint may be dominant at a moment; as soon as it is assumed, the complementarity of the economy will push another aspect in the position of a critical bottleneck.

- a) Limitations of the respective local markets and lack of external markets;
- b) Lack of credit for equipment and working capital suffered by practically all small enterprises, i.e., those producing for the local market, as well as those which export or aspire to export;

If a fairly substantial and effective program of support for small businesses is implemented, these two principal constraints, while remaining at the top of the list, will be rotating between themselves as No. 1 priority and No. 2 priority. These changes of relative priority will be caused by the dynamics of growth of the firms benefiting from the program. At first, the availability of credit for equipment and working capital will help the beneficiaries to improve the quality of their products, cut their costs and increase their profitability.

Soon, however, the increased production will encounter the limits of their present markets. The absorption capacity of their respective local markets will not take long to be exhausted, including even the possible import substitution. In the case of the production for export, the existing business contacts and arrangements are rather limited both in their number and in the volume of demand. The increased supply of products and entry of new producers will tend to depress the prices of exportable goods. At that stage, we can expect that the search for new outlets will take precedence among constraint-breaking priorities. If that search is successful and new markets are opened up, then in turn, more equipment and working capital will be needed to take advantage of new opportunities. Thus, a new rotation will take place between the two top priorities.

- c. Lack of information on, and access to, wholesale markets of imported materials and supplies, and lack of alternatives in the procurement of these inputs;

This is the third constraint that cripples small enterprises. Specific island reports give some drastic illustrations of this impediment. In the few cases of sub-contracting arrangements with a foreign importer, this constraint is eliminated when the contractor supplies all the necessary inputs. For the great majority of businesses, however, the only source of procurement are the few local importers. The lack of alternatives and of competition among the importers severely limits the choice of available supplies and materials and increases the prices of goods imported in small quantities. As a result, possibilities of import substitution by local producers are impaired.

d. Inadequate management skills and practices, in particular near-absence of accounting.

At present, this constraint which closely follows the three preceding ones is not perceived by the majority of small business persons. This is simply because their management and accounting skills are, for the most part, so undeveloped that they even do not realize their need for improvement. However, if the small business support program is successful, production expands, and export transactions become numerous, then the need for better management and accounting practices will become a critical constraint and their lack may lead to breakdowns of enterprises with otherwise good potential. At that point, one can expect small businesspersons to become fully aware of the needs in question.

The difficulty inherent in the management training and assistance is that it is not really fully effective until the business person faces the real problems of her or his business, especially the problems of growth. A small cabinetmaker who easily keeps in his memory his orders and accounts payable and receivable cannot feel any pressing need for accounting, inventory control, etc. It is only if and when he becomes an industrial, or even semi-industrial, furniture maker that he is likely to be overwhelmed with problems of cash flow, storage space, collection and so on. Then, management and accounting training and assistance will find in him an avid student.

e. Insufficient technical expertise.

Lack of technical expertise and low quality standards are a serious constraint of a latent nature in production processes with an export potential. They may cause the loss of markets disappointed with the quality and may impair profitability of businesses by unnecessarily high cost of production. This constraint, however, prevalent as it seems among East Caribbean small goods-producing businesses cannot be counteracted, except in the case-specific manner. It is only once a production process is started that technical assistance can be given, the best manner being probably that used for IESC interventions. From the viewpoint of the effectiveness of

technical assistance, it is possible that the best way for a beneficiary is to learn the hard way, i.e., to make first his own mistakes so as to better understand what has to be improved.

f. Lack of skilled labor.

Skilled labor is already a limiting factor and its lack will grow in importance as an impediment to the expansion and diversification of production. This constraint is made even more serious by the fact that training facilities on most islands are inadequate. It must be observed, though, that any investment in training will be wasted if jobs are not created at the same time to absorb the graduates with their newly acquired skills. Otherwise, these young people will try, as they do now, to emigrate to countries where jobs are easier to find and the pay is usually better than on their native islands.

g. Cultural factors.

Constraints inherent in the culture of the region and related to its colonial history as well as to the small size of island populations should not be overlooked, even though purely financial or technical programs can hardly attack these constraints in a direct manner. It would be, however, dangerous to forget that a derisive or patronizing attitude to the work on land is still an obstacle to a vigorous growth of agricultural output. Also, the question of industrial discipline and work behavior is closely related to the question of the cost of production and quality of products.

F. Conclusion

1. Definition

In this section we have suggested that, at present, size parameters are not especially helpful for defining the sector we are considering here. Nor should registration or lack of same be a determinant. Rather, we might best concentrate on businesses that either add to the gross domestic product (GDP) or are services which are ancillary to the productive enterprises. We suggest that the sector should be further limited to those enterprises that have unmet financial requirements (loan or equity) and which are prepared to cooperate with providers of needed technical, managerial, marketing, financial, or other forms of business assistance.

2. Inventory of Small Businesses and Evaluation of Same

A sizeable cross section of the productive economy of the islands was surveyed. It is clear that the present businesses are weak, underfinanced, technically inferior and more or less stagnant in a small market off the main lines of commerce. Yet we discerned vitality, an openness to opportunity, and a base upon which some modest development can be brought about.

## Part II: Subcontracting Real and Potential

One of the areas of potential growth and of possible sources of steady demand for the products of the sector being studied involves actual and potential contracting relationships. It was agreed that the specialist team would particularly try to find what contracting experience the surveyed businesses had, and that they would review the topic with representatives of assistance organizations. The team was also well aware of the fact that one of the important RDO/C regional business development projects was being carried out by the big eight firm of Coopers and Lybrand. The project familiarly known by the acronym PDAP (Program of Development Assistance Project) has evolved into one that is encouraging U.S. firms to invest in the area in whatever manner makes economic sense. The Coopers and Lybrand experience was viewed as one that could shed light on the sub-contracting potential in the region.

The inventoried small businesses were asked several questions that looked both to backward and forward linkages that would indicate both actual contracting arrangements and potential ones. These questions were included in the marketing section of the survey instrument, specifically questions fifteen to twenty-five. An interesting effort at eliciting potential new production possibilities was included in questions twenty-three and twenty-four. In that instance, the businesses were asked what manufactured or processed products were used as materials for their production and where those items were produced. Question twenty-five explicitly asked the firms if they subcontracted any of their production.

The quality and uniformity of responses to the questions about marketing were rather uneven although a number of glimpses of light indicated interesting levels of entrepreneurial resourcefulness in the sector. Virtually no formal contractual relationships existed for the businesses surveyed. A number of firms indicated that certain steady marketing relationships existed which the owners viewed as being similar to contracts. Examples of this involved supplying this or that hotel on a regular basis throughout the seasons of fluctuating demand, or of supplying tile or block to specific builders.

A few plans were on the drawing boards or being negotiated that involve contracting. In St. Vincent it was noted that a furniture manufacturer was planning a joint production facility and a time shared use of equipment by up to a dozen peers. The thought would be to obtain contracts to supply foreign markets. In St. Lucia, also furniture manufacturing occupies a disproportionate number of firms in the sector. A rationalized, coordinated effort among some could well produce contracting opportunities.

In Dominica we noted the first step toward a "twin planting" project. In this case, a local entrepreneur with title to some agricultural acreage is receiving an EC \$339,000 loan to build, equip, and operate a small tropical fruit semi-processing plant. The Dominica plant will reduce passion fruit in the first instance to buckets of pulp which will be flash frozen in a local storage facility and shipped to Puerto Rico where processing of the final juice product will occur. All agreement and pricing contract with the Puerto Rican cooperative producer were in place as of this writing. In this instance the Dominica privately owned plant (financed for about U.S. \$200,000 in outside equity and debt) supplies a Puerto Rican plant that has fixed assets worth several million U.S. Actually, the capacity of the plant in Puerto Rico (producing tropical fruit juices which have a rapidly expanding demand and market) can support the product of similar relatively low cost semi-processing plants in several islands in the region.

The above case is referred to as "twin planting" and it is a developmental growth idea that is viewed as "doable" in these small island economies. Generally speaking, the small business people in these islands lack the financial resources even to come up with the equity required to obtain the needed debt financing for equipment and working capital. Even where the small island plant does not require a very large amount of capital infused by the entrepreneurs, enough is required to halt such plans unless outside equity is made available.

In these examples, two of the main economic growth ideas concerning contracting possibilities in the sector are noted. In the first instance we see proposed that several firms in the same sector get together, share facilities and service a market outside the region. In the second, we have a small plant providing a semi-processed island agricultural product to a large processor serving a major market (both U.S. and Puerto Rico, etc.). The constraints of market size, business size, and inadequate financing are faced up to in these examples.

We might note that these forward linked contracting relationships will require very reliable supplier agreements which may best be carried out through backward linkage contracts. The furniture makers need a regular supply of good (optimally kiln-dried) wood, etc. The fruit processor must obtain grower commitments in a market where there is huckster demand and one other processor (in Dominica) absorbing some of the local fruit for a jelly type product. In the latter case, business plans call for increased planting of fruit trees and substitution of acreage use from less profitable crops.

Assuming that all of the technical and managerial problems that lie ahead of these enterprises are properly dealt with, we can expect that contracting opportunities like the illustrated ones will have a beneficial rippling, multiplier effect on their small economies. Also, successful experiences in these

contracting relationships will normally spawn imitators seeking similar opportunities.

The team made a point of looking up PDAP representatives and of reading several reports and evaluations of the efforts of this activity. In-so-far as PDAP is working with local business entities who might enter into some form of joint activity with foreign investors, they are dealing with businesses and owners which would fall beyond the purview of a small business enterprise project. (While our definition or description of the targeted small businesses would not strongly support size criteria, we believe that those who have easy access to credit and have established (even if small by U.S. standards) firms and the capability of hiring professional consultants would not be included in the sector assisted by this type of program.) On page thirty-one of the St. Lucia report, we have a summary of the discussion with PDAP's own - Andrew Proctor. There we have reflected many of the thoughts of our specialist team. If the goal is fairly rapid generation of jobs and a surplus, then this small sector is not the place for targeted activity. On page thirty-four of the same report, Mr. Proctor is reported to have recommended printing and garbage disposal as two small businesses, ancillary to the tourist industry, which could well be developed.

The general view of our specialists and those working at the PDAP level is that we still have a long way to go before the small scale business will be a reliable counterpart in a contracting relationship. A great deal has to be learned and experienced (along with a reasonable number of setbacks) before the small entrepreneur can be expected to serve as a reliable contractor.

On the other hand, we believe that there is a growing potential for forward and backward linkages through contracting and sub-contracting. A small enterprise development program should encourage its participants to help bring about various contractual relationships that imply growth and stability. A program should have a reasonable but specific number of contracting deals included in its indicators of progress, and reports on their details should be part of project documentation.

Part III: Assistance Efforts

The following pages offer a partial distillation of the material concerning some of the small business assistance organizations which appear in three country reports. The three countries selected, Antigua, Barbados, and Dominica offer a cross section of our findings. Antigua is weak. Barbados is a special case with regional and local impact. Dominica offers a number of options in a favorable setting. Those agencies which have only a minimal or merely potential involvement with this sector have not been included.

## ANTIGUA

- Name: Antigua Barbados Development Bank  
 Type: A parastatal agency  
 Service: Helps small business people prepare loan applications.  
 Comments: Help is marginal - cannot be viewed as a major agency in the local small business aid structures.
- Name: International Voluntary Services  
 Type: U.S.P.V.O. setting up a five island based team of specialist advisors.  
 Service: Skills include appropriate technology and marketing; financial planning and management; small business development; women's projects and job skills training for youth.  
 Comments: Not yet in place. Potentially a good local and regional training source.
- Name: Women's Desk  
 Type: Governmental  
 Service: Work with women on gardening type projects.  
 Comments: Small with minimal resources. Not viewed as a significant factor in a national program.
- Name: Ministry of Economic Development  
 Type: Governmental  
 Service: Offers tax holidays, other fiscal incentives, import protection, etc.  
 Comments: So far, not interested in small projects. This is, however, the agency that has to be won over to small business support eventually.

General Comments. Of the islands with an average sized population in the region, Antigua has the least promising structure for assisting small business. The best we find are a few underfunded and understaffed organizations working with women and others at marginal gardening and craft enterprises. Yet Antigua has a growing tourist economy and has brought in some foreign investors to assemble products on the island. We understand that efforts are being made to organize an NDF in Antigua. This will help, we assume, at the lower end of the business size scale, which has been the traditional venue for NDF's. If a regional "program" is put in place, as this report recommends, Antigua may require much more external inputs than some of the other islands. In the light of the phasing, we are recommending, it may be prudent to delay the local Antiguan effort, until there has been experience in a better prepared location such as Dominica or St. Lucia. (Antigua requires financial, technical, managerial, and marketing aid).

#### BARBADOS

Name: Industrial Development Corporation  
 Type: Governmental  
 Service: Develops industrial parks, helps with fiscal incentives, etc.  
 Comments: Does some work with small business sector (e.g. crafts) and is aware of need to work with the sector.

Name: Barbados Development Bank, & The Central Bank.  
 Type: Governmental  
 Service: Various financial options including loans, share purchase and guarantees are offered to small business by these banks.  
 Comments: These entities and other private bank and agency lending funds assure adequate funding in Barbados for the sector under review. More crucial here is the process for obtaining and managing credit for the small business sector.

Name: Caribbean Association of Industry and Commerce (CAIC)  
 Type: Private with various donors including AID (regional in scope).  
 Service: Regional technical assistance and training in conjunction with local Chambers of Commerce.

Comments: CAIC is viewed, correctly, as one of the more effective private entities in the region. As such it has attracted much development support. It has a staff of twenty and a multi-faceted program which is to some extent focused on the development of the affiliate Chambers of Commerce in the region. When looking for an instrument to upgrade institutional assistance capabilities, work with Chambers should certainly be left to CAIC. We might note, however, that Chambers tend to be entities that don't attract many of the businesses we are studying. Also, generally speaking, Chambers in the region do not serve as business development agencies. CAIC has also served as an arm of the Caribbean Basin Information Network (CBIN) which has not been effective in generating an adequate demand for its services. Since the specialist team realizes that a strong communications network would probably benefit the sector, we believe that further study of the CBIN effort should be undertaken.

CAIC staff is overtaxed with its present tasks and it should probably not be considered as the instrument for the "program" we are recommending. But it should be turned to as an advisor, collaborator and frequently a sub-contractor in carrying out "program" activities.

Name: Barbados Institute of Management and Productivity (BIMAP)  
 Type: Private and governmental  
 Service: Primarily management training program utilized by managers and staff of larger firms. A four year AID grant to BIMAP's Small Business Development Division looks to identification of small business problems followed up by training assistance.  
 Comments: This organization has a good reputation in the human resources and management training sector. The experience they will have in working with businesses in the smaller business sector should be carefully noted and emulated where successful. This organization should also play a role in the "program" training efforts. [We view CAIC as training in institutional development and BIMAP as training small business management.]

Name: National Development Foundation Barbados (NDFB)  
 Type: Private  
 Service: Assistance to marginal firms (under BD \$15,000 in machinery and equipment) in technical area. Small loans.  
 Comments: This is one of several NDFs recently established on the islands usually with AID assistance to the Pan American Development Foundation which itself is a U.S.P.V.O. arm of the Organization of the American States (OAS). The Barbados NDF is very new and going through the process of establishing itself. There are various strongly held points of view, even in the growing NDF community, about the development philosophy behind the NDFs and about their role in small enterprise development. Without taking up those issues in this report, let us state that the team sees a limited but valuable role being played by the NDFs in a certain portion of the sector we are dealing with. We would not suggest inviting NDF's to be the leading agencies in sectoral growth and development. We would urge that our suggested "program" utilize NDFs as one type of collaborating agency. The NDF is best viewed as an entity working close to or at the "start-up" stage of quite small businesses. Whatever can make start-up more efficient and less wasteful of resources (through failure) deserves support in developing economies.

Name: Women in Development (WID Limited)  
 Type: Private - regional in scope  
 Service: Assists women in various business programs and with credit programs. Supported by AID and others, it has accumulated much experience in its specialized sector.  
 Comments: Both because AID has a mandate to assist women in the development process and because WID has learned to serve its sector and deal with the difficulties of satisfying donors such as AID, any "program" put in place should accord WID a major participatory role. Again, we view this agency as one that should be involved but not the one to carry the sectoral development burden as a lead.

General Comments. Barbados as the most popular and most developed of the islands studied, offers both regional and local examples of institutional capability which can be useful to our sector. As for the island itself, there is probably not much need identified at this stage of new

sources of credit for small business. Equity financing may be called for from new sources. While we have not found much technical assistance resources being applied to our sector "in need," the potential to apply them exists. The Barbados report lists several other entities that touch on our sector. Recently a Small Business Association (SBA) was set up with membership drawn from black business owners. This is an example of the type of lobbying arm we think should exist on each island to assure government attention to the needs of the sector.

## DOMINICA

Name: Dominica Agricultural Industrial and Development Bank (AID Bank)  
 Type: Governmental  
 Service: Lends money to businesses, provides factory space.  
 Comments: A well-run organization with a large portion of its portfolio represented by short term agricultural loans. Its deficiency is no staffing or funding to provide needed technical assistance.

Name: Dominican Industrial Development Corporation  
 Type: Governmental  
 Service: Encourages and facilitates business growth of all sorts and investments by foreigners. Provides tax holidays and other "fiscal incentives" to investors.  
 Comments: An entity that should be regularly encouraged to find methods to assist and promote the small business sector.

Name: National Development Foundation Dominica  
 Type: Private  
 Service: Technical assistance and credit to very small firms.  
 Comments: In discussing our views of the NDF in Barbados, we offered our main thoughts on these entities. We note here that on pages 17-23 of the Dominica report, a fairly lengthy presentation of this NDF is offered. This entity is the oldest of the NDFs in this region and it has developed effective ways to service its target sector. (See also St. Lucia.)

Name: Management Consultants Limited (MCL)  
 Type: Private consulting firm  
 Service: Management and business skills training often funded by Inter-American Foundation grants.  
 Comments: Apparently an effective consulting organization servicing many individuals in our targeted area. This firm should be encouraged to participate in any "program" that may derive from the RDO/C effort.

General Comments. A large part of the Dominica country report deals with service or assistance institutions. In several instances we have sub-sector groupings such as the hucksters, the sawyers, the hotel owners, etc. There is a small business development ferment in Dominica even if the assistance rendered is not very effective at this point in time.

We believe that this selection of items about assistance entities drawn from our institutional inventory gives a sense of what we and others have noted in this area. We would like to close out this portion of our remarks on the institutional inventory and institutional analysis with some thoughts provoked by the work of another recent student of support institutions in the area.

As is well-known in March 1984, Michael G. White, completed a study of small business support institutions in the Caribbean. He was working as a contractor for the IAF and he dealt with Barbados, Antigua, Dominica and St. Lucia along with Jamaica and Trinidad and Tobago. White's conclusions are borne out over and over again by our specialist team. On page 176, White states:

"Individual agencies and institutions serving the Small Business Sector may suffer deficiencies relating to administration, field staffing, financial resources, etc. Whatever their deficiencies, however, these organizations in general are staffed with trained and knowledgeable persons with a very sound grasp of the economic and social realities of the countries in which they operate."

He goes on to recommend that IAF and other donors cooperate with attempts to coordinate the assistance service. White suggests as we do that in a world that hates to multiply entities, we probably need a coordinating one to deal with the assistance institutions. His suggested title is "Institute of Small Enterprise Development." We suggest a "program" and think an effort to come up with a short attractive name for it is in order.

Rather than merely duplicate White's recent effort and include a few more islands, our team tried to verify whether there was interest in a coordinated program both at the local country level and with a regional body. No one, in this instance either, could promise when and if a program would be in place, although all were aware of RDO/C's determination to provide sectoral assistance. Since most agency representatives were aware of the constraints that they and small businesses are coping with, it was possible to have meaningful conversations. A program would indeed be welcomed. Most, as we might expect, would like to participate in the process of structuring it in their islands. All who are working in this sector seemed to have hope and optimism about it.

As is borne out in our conclusions that we too think that no one existing institution in the region could be the center of the entire coordinating effort. Most of those servicing the sector would be viewed as welcome participants in a regionally coordinated effort. As will be noted, we go further than White in the viewpoint that most of the support institutions need staff upgrading. Our specialist in Antigua, Mr. Cruz ended his study with an analysis of managerial weaknesses in the Antiguan institutions. Similar weaknesses are found elsewhere in the region.

One point that White makes probably best fits in our discussion here. He discusses the risk of lending to this sector, and the difficulty of measurement when so many businesses fail. We noted in passing earlier that surveys of small business are usually surveys of survivors. There are a large number of variables both economic and social that relate to continuation in business. Unfortunately many go into business for themselves because they have lost a job. Being offered a new job may mean the end of the venture. The point which White does not make fully is that it is important to set up evaluative criteria for dealing with the "going out of business" phenomena. Business closings and reasons for the same ought to be tracked by some entity in every country where small business assistance is provided. Our assumption and belief here is that "going into business" is a potential economic good which we should both encourage and assist.

In brief, our findings echo those of others. Business assistance institutions reflect the weaknesses of their beneficiaries. We are pleased to find them ready to work with a program that would be conceived to aid the small business sector of the islands.

TABLE 5, page 1

## Technical Assistance/Training Support Institutions

Institutions	Location	Scope of Services		Target Business Size		
		Regional	Local	Micro/ Household	Small	Small/Medium
<b>Private</b>						
1 CAIC	Barbados	*	*		*	*
2 BIMAP	Barbados	some	*		*	*
3 Chamber of Commerce & Industry	All Islands (Except Antigua)	some (CAIC)	*			*
4 Caribbean Bank	All English Possessions	some	some			
5 CBA	Barbados, St. Lucia, Grenada		*		*	*
6 Partners of the Americas	Barbados, Dominica		*		*	*
7 Executive Service Corps	Inter-national (US/Can/UK)	*				*
<b>Agriculture/Business</b>						
8 O.R.D.	St. Vincent/ Grenadines		*		*	
9 AGLTD	Barbados		*		*	
10 Private Consultants - MOL - Others	All Islands/ Dominica		*		*	*
11 CAEDC	Barbados	*	*	*		
12 MID Ltd./WAND/NOW	Barbados	some	*			
<b>Financial Institutions</b>						
13 IFC	Wash., D.C.	*				*
14 ODB	Barbados	*	DFC's		some	*
15 Coop. Credit Union League/Credit Unions/Friendly Societies All	Barbados, Dominica	*	*	*	*	
16 Barclay's Development Fund - Others	Barbados	*	*		*	*



Financial Support Institutions

<u>Institution</u> <u>Small</u>	<u>Location</u> <u>Medium</u>	<u>Loan Selection</u> <u>Criteria</u>	<u>Target Business</u> <u>Micro/Household</u>	<u>Size</u>
Commercial Banks	All Islands	Equity Equal to 100% of Total Debt		*
Barclay's Dev. Fund	All Islands	Economically Viable Small Business	some	*
Caribbean Dev. Bank (CDB)	Barbados	Country Sector Development Loans		(very large)
o Dev. Finance Corporations	Barbados (BDB) St. Kitts Montserrat Dominica St. Lucia	Economically Viable Small Business Owner Participation of 10-20% in Proj. Collateral	some	
Credit Unions	All Islands	Membership	*	*
CADEC	Barbados/ Regional	Econ. Viability Mgt. Skills Social Impact	*	
Credit Guarantee Scheme: Central Bank	Barbados	Total Capital <\$100,000 Annual Sales <\$500,00	Some	*
Nat. Dev.	All Except	Fixed Assets \$15,000 or less loans)	(few	
Caribbean Financial Service Corp.	Barbados/ Regional	Fixed Assets >\$50,000	(few loans large business)	

#### Part IV: Government Policies and Programs

In this part of this summary document we have made our main presentation a display, or table which graphically indicates the governmental programs or offices in the region which are said to service small business.

As may be noted the actual and perceived impact of government assistance efforts for the small business sector varies from island to island. The central question one might ask is, "Has the sector been formally recognized by government and are there assistance efforts in place to promote the sector." It is generally agreed that in Barbados there is both an effective small business lobby and a conscious effort on the part of government to respond. The other extreme would seem to be Antigua where the sector has not been recognized as yet as being potentially important for the island's economic growth.

Generally speaking we find a number of Industrial Development Corporations and Development Banks which tend to have a "small enterprise window." But the main benefits they can offer are usually "fiscal incentives" on the one hand and small loans on the other. "Fiscal incentives" which are more like tax holidays for a number of years along with import duty exemptions are usually not available to small businesses. Small loans- borrowers say -often involve interminable delays between approval and disbursement. (Frequently, unfortunately, the borrowers ultimate paper work is not in order.) Hence we find the perception that "government is no help" to small business.

We also note that community development and various social service related arms of government ministries offer some small business assistance services.

It is the view of the specialist team that probably governments are not doing enough. We are unable to see government as a positive obstacle to small business development. It has to be recalled that we are dealing with individualists and iconoclasts when we single out small business persons. Also, it must be admitted, they are reluctant tax payers. It is our contention that part of what the small business person has to learn is how to handle government reporting and tax requirements. Normally the businessman making money should find tax paying readily possible if painful. The one losing money has no tax problem.

We consider it a truism that almost universally the small business agenda can only be a small part of the government agenda. Therefore, insofar as the small business sector is

organized in a country it should be lobbying for change and for benefits provided to larger investors and suppliers of foreign capital. To do this well, however, the sector must prepare convincing data to support its arguments. Normally these are the functions of a Small Business Association (SBA). A program that coordinates services to the sector should help the SBA's. Dealing with government related issues will be a constant concern, but we saw no major or unreasonable constraints in government policies and programs. Finding ways to make the small businessperson capable of using government services is ever necessary.

In this region we have noted that the populations directly working in the productive, smaller business sector that we have targeted, are indeed, quite small. In some instances we are speaking about only several hundred people who may have three or four times their number dependant on them. From the point of view of government there is no significant constituency or tax base in this sector. Yet as we have pointed out elsewhere, this is a sector from which a certain amount of entrepreneurial innovation and growth traditionally arises. It is truly in the interest of governments to promote this sector. But how can governments be made aware of the sector's interests or of possible ideas that may foster it? Normally this is the task of interested citizens. The Small Business Associations (SBA's) must have available to them economic and political analysts who can help the business sector enunciate in reasoned terms exactly what disturbs it in government programs or policies. These analysts then have to develop the reasoned and convincing arguments and statistics that will help government officials understand the rationale for what is being proposed and exactly the extent to which benefits will outweigh costs. In developing economies, including those of the region, we do not witness this level of intellectual effort in this sector.

There are examples in our inventory of government policies and programs that show that certain island governments offer much more to this sector than do others. St. Lucia is a case where we find tax holidays offered to small business and where we find both protection for new industry (from import competition) and the reservation of certain businesses to citizen business people. While international economists generally deplore trade barriers as wasteful and uneconomic, in an economy as small as that of St. Lucia, the external effects of protectionism are minimal and the internal ones can be very stimulating and encouraging for small business.

One of the areas which we have noted is the underground economy of hucksters, especially those engaged in inter-island commerce. A large amount of trading is carried out by people who avoid government regulations and government currency controls and custom duties. The numbers of people engaged in this ancillary distribution and marketing (the majority seeming to be women) exceed the number of people employed in productive ag-businesses and light manufacturing. This is particularly true when we include both those exclusively involved in the domestic

markets and those traveling among the islands. In some island countries, there are government patrol boats being used to intercept the transport of "contraband" in an effort to bring this activity under control. It is our view that this is a local issue of some concern to government and a segment of our informal small business sector. Solutions or "changes" cannot be expected through the instrumentality of any external force.

Table 7 pg 1

Antigua - Governmental/Institutional Programs/Small Business Oriented

Title of Programs	Description (Main Elements)	Support Scale					Constraint Scale					Comments		
		1	2	3	4	5	1	2	3	4	5			
1 Women's Desk-- Primary government office that provides skills training for young women in areas of agriculture production	Training for youth management skills Garden plots		X										X	Women's Desk is underfunded Does not have enough space to conduct training.
2 Industrial Development Board	Stimulate industrial development. Has only 2 projects. Edible oil.			X									X	Not currently operational
3 Antigua, Barbuda Development Bank Loans/share capital for new and existing enterprises	Share capital lending for expansion of enterprises-- mostly larger sale than target group. Foster development of capital market.				X								X	Qualification criteria discourages SIs from applying for loans.
4 Investment incentives	Tax holidays--10 years repatriation profits Import duty exemption		X								X			Not used by the smaller scale firms
5 Small Farmer's Association	Technical Assistance on mature conserving practices.			X								X		Services are poorly delivered.
6 Ministry of Economic Development	Sets policy framework for small business development o Fiscal incentives o Technical Assistance Tax holidays Repatriation of profits Import Duty Exemption				X							X		Interest of support is high but delivery is low. The personal income tax fiscal incentives are of little use to SIs.

Support Scale: 1 = Little Support, 5 = Very Supportive  
Constraint Scale: 1 = Minor Constraint, 5 = Major Constraint

Table 7 pg 2

## Barbados - Governmental Programs/Small Business Oriented

Title of Programs	Description (Main Elements)	Support Scale					Constraint Scale					Comments
		1	2	3	4	5	1	2	3	4	5	
1 Ministry of Trade and Industry	Fiscal Incentives Duty free entry of raw materials, T.A., etc.		1							5		Government incentives are not restricted by business size. However, small businesses with exception of the Barbados Industrial Development Corporation have had no access to these incentives.
2 Ministry of Labour and Community Service												
a National Training Board	Skills training program toward self-employment among youth		5							4		Limited capacity for target population (youth 16 to 25) to participate. Training not considered adequate by critics in private sector.
b Community Development	Training offered to communities in an effort to increase employment opportunities and upgrade skills		1							5		Skills taught do not relate to job market. Poor records kept.
International												
3 Caribbean Centre for Development Administration (CARICAD)	Program training to improve public sector performance and administration		N/A							N/A		Included due to the excellent marks received by the CARICAD training program. Small business support programs necessitate coordination and cooperation from the government sector and CARICAD could provide assistance in making the public/private link and training government agencies to improve their effectiveness in dealing with small business.

Support Scale: 1 = Little Support, 5 = Very Supportive  
 Constraint Scale: 1 = Minor Constraint, 5 = Major Constraint

Table 7 pg 3

Dominica - Governmental Programs/Small Business Oriented

Title of Programs	Description (Main Elements)	Support Scale					Constraint Scale					Comments	
		1	2	3	4	5	1	2	3	4	5		
Women's Bureau	Designs projects for small scale economic participation of women			X									Needs specialized information
Dominica Agricultural Industrial and Development Bank (AID Bank)	Parastatal Dominica arm of CDB		X										Recognizes need for technical assistance, but unable to provide it.
Community Development Div. Small Business Section	Provide Business Training Technical Assistance, Manage Revolving Loan Fund		X										Problems with collateral

Support Scale: 1 = Little Support, 5 = Very Supportive  
 Constraint Scale: 1 = Minor Constraint, 5 = Major Constraint

Table 7 pg 4

Grenada - Governmental Programs/Small Business Oriented

Title of Programs	Description (Main Elements)	Support Scale					Constraint Scale					Comments
		1	2	3	4	5	1	2	3	4	5	
Grenada Development Bank	Assist individuals to expand/ establish/carry on development enterprises o Share Capital o Loans o Financial Assistance		X							X		10% loans to small business.

Support Scale: 1 = Little Support, 5 = Very Supportive  
 Constraint Scale: 1 = Minor Constraint, 5 = Major Constraint

Table 7 pg 5

Montserrat - Governmental Programs/Small Business Oriented

Title of Programs	Description (Main Elements)	Support Scale					Constraint Scale					Comments
		1	2	3	4	5	1	2	3	4	5	
There are no government programs to support small business in Montserrat												

Support Scale: 1 = Little Support, 5 = Very Supportive  
 Constraint Scale: 1 = Minor Constraint, 5 = Major Constraint

Table 7 pg 6

## St. Kitts - Governmental Programs/Small Business Oriented

Title of Programs	Description (Main Elements)	Support Scale					Constraint Scale					Comments
		1	2	3	4	5	1	2	3	4	5	
Department of Community Affairs Small Business Unit Small Business Loan Program Kevin King, Peace Corps Advisor	Revolving Loan Fund Project Funded by British Development Division on 5/84 in the amount of \$30,000 with additional \$30,000 due by 4/85. \$3,000 EC maximum loan at 5% interest.					X					X	Small business unit expressed a need for expansion of the loan program present funds are not adequate to fill demand. Estimated the loan fund should be \$150,000 < 5 times present amount. It would appear that only 20% of demand is being met. This is a constraint.
Department of Community Affairs Small Business Unit	Small business persons Counselling Small business workshops					X						91 individuals have been served.
The Minister of Women's Affairs Constance Mitcham, Minister Lingrad Rawlings, Asst.	Assist women in the area of business through counselling, work shops and training. Concerned with womens self-esteem. Assist in developing new skills--maximizes existing and potential resources.					X				X		Based on observations during interviews with other department heads of government. There seems to be little awareness or concern about the problems of women in business.
Establishment Division Patricia Hobson, Asst. Secretary	Technical college provides training for automotive; electric; plumbing; refrigeration; stenography; welding					X						
The Minister of Trade & Industry Valdemar Warner, Perm. Secretary Agriculture	Directly responsible for the small businesses.					X				X		Supportive of small business. However, the time and effort devoted to other concerns leaves little time or action in the interest of small business. Small business is left to solve its own problems.

Support Scale: 1 = Little Support, 5 = Very Supportive  
 Constraint Scale: 1 = Minor Constraint, 5 = Major Constraint

Table 7 pg. 7

St. Lucia - Governmental Programs/Small Business Oriented

Title of Programs	Description (Main Elements)	Support Scale					Constraint Scale					Comments
		1	2	3	4	5	1	2	3	4	5	
St. Lucia Bay Training Center	Jointly sponsored social rehabilitation program, training in motivational and entrepreneurial concepts.				X							Over 70% gainfully employed many own their own businesses
OAS Skill Training Program	Jointly sponsored training program in employable skills			X								Pilot projects underway
St. Lucia Development Bank	Provides loans, advances, credit assistance to development enterprises	X										Lack of collateral, management skills of small companies. Prevents bank from assisting this sector.

Support Scale: 1 = Little Support, 5 = Very Supportive  
 Constraint Scale: 1 = Minor Constraint, 5 = Major Constraint

## St. Vincent -- Governmental Programs/Small Business Oriented

Title of Programs	Description (Main Elements)	Support Scale					Constraint Scale					Comments
		1	2	3	4	5	1	2	3	4	5	
Small business loan scheme of the Community Development Division, Ministry of Housing, Local Government and Community Development (Financed by the British Development Division)	Loans to small businesses which do not qualify for bank loans. I.A. in management, record keeping to the borrowers. Average loan: \$2,500 Average term: 2 years 74 loans outstanding as of January 1985 Rate of Repayment: 75%			X								- Supervisory personnel not sufficient - Possibility of political influence in granting loans? - Total amount of the loan fund is small in comparison with the needs
Small business loans of DEVCO (Development Corporation, a state owned entity). Financed by CBD.	Loans to small businesses which can provide collateral (The collateral policy is required by CBD) Eight loans granted in 1984 Loan repayment very poor DEVCO is now being reorganized because of management problems			X					X			- Supervisory personnel not sufficient - Businesses which are not able to provide collateral are excluded by CDB policy
Investment Incentives for new investors	Tax holiday up to 15 years Import duty exemption on equipment and materials, etc.			X								- Most small businesses are unlikely to take advantage of incentives.
Income Tax	Steeply progressive: 55% on income above EC\$20,000 (U.S. \$7,400) EC\$20 on income of EC\$1,000* EC\$2,270 on income of EC\$10,000* EC\$7,270 on income of EC\$20,000* * after deductions Deductions for a family with two children: EC\$2,700 plus 10% of earned income or EC\$500, whichever is less.							X				- Small Business generally evades taxes
Trade Turnover Tax	3% on gross cash sales over EC\$5,000 applicable to wholesalers and retailers							X				- Small Business generally evades taxes
Consumption Tax	Various rates: applicable to consumer goods; in practice collected by customs house on imported goods.							X				- In fact it favors local goods producing industries against imported consumer goods.
Import Licenses	Protection for some local industries such as furniture, paint, etc.									X		
Export Licensing	Instituted to protect local food supplies. In recent years, no export licenses were refused.										X	

Support Scale: 1 = Little Support, 5 = Very Supportive  
Constraint Scale: 1 = Minor Constraint, 5 = Major Constraint

## Part V: Approaches to a Program

As the specialist team visited the various islands studied, a perception that concerns RDO/C was verified. That is, after identifying themselves as specialists obtaining data that could help RDO/C survey the sector, the respondent often stated that AID is not interested in their level of business. And yet, it is quite obvious that AID is supporting a broad spectrum of agencies and activities that are directed precisely at assisting the smaller business sector. A number of credit programs such as those of the NDF's and others, and a variety of training programs such as those of CAIC, BIMAP, WID and IVS and a communications system such as CBIN, all are meant to benefit wholly or in part the sectors studied. The team is of the opinion that this issue is also one of perception which probably would not be changed very much by any of the strategies about to be discussed. And, while we are not specialists in the image business, we might recommend that RDO/C engage a public relations firm that might put out a pamphlet or series of them describing what AID's assistance programs are and what agencies are funded by AID to bring a whole series of benefits to the small business sector. Such material may well parallel hand-outs made for the U.S. SBA or for the Minority Business Development Agency (MBDA). We could well envision such material being very useful to RDO/C in carrying out its mandate and in helping it overcome some underserved criticism.

From the point of view of this study, the concern goes beyond the question of perception to the issue of whether or not more should be done to make assistance more effective. We find ourselves agreeing with RDO/C's original assessment in this area that constraints to development seem to exist and RDO/C may be able to help overcome them.

The consultant team has been aware that A.I.D., through RDO/C, desired that the team use its best efforts to discern and discuss "alternative approaches to providing assistance" to the small business sector. Also, in visits with businessmen and women and with representatives of assistance agencies, the topic of external aid from a source such as USAID was discussed. No promises were made to anyone about future inputs, rather they were asked their opinions about assistance and how it might be administered and what it might make available to the small business sector. In Dominica, especially, the consultant was able to assemble a sizable group of agency representatives to consider the present topic. This was done, also, in a less structured format in all the islands.

Some of the assumptions borne in mind by the team as it reviewed alternative approaches were:

1. All approaches must contend with one or more of the constraints on small business activity on the island.

(Recall that the major constraints are: a) Small size of local market; b) Inadequate technical managerial, marketing and financial training; c) Limited finances and access to capital exacerbated by high costs of materials, supplies and shipments; and d) A poor infrastructure for business.)

2. Each approach should reflect the fact that RDO/C can only give a limited amount of regular attention to the program.

3. Since almost any regional effort can absorb a large amount of funding, ultimately each approach must consider ways to reduce costs and to diversify income sources.

4. Each approach must offer proportionately similar benefits to each island nation since we have recognized nationalistic sensibilities throughout the area.

The remainder of this section will consider:

- a) Approaches to a regional assistance unit
- b) Approaches to island based units
- c) Finance related alternatives

#### A. The Regional Alternatives

Contending with smallness of scale we believe that any consideration of alternatives should begin with ways to extend the reach of small business beyond the island horizon.

1. Minimally a regional "hub" must be available to assist small businesses to overcome their smallness and isolation. This "hub" could be conceived of as a relatively passive information processing service. It could be located in Barbados or one of the other islands of the region. It could be a time-share service purchased from one of the more efficient operators of such communications networks.

The service would process and pass on requests for information. It could, further, put people in contact with each other, being in this respect a small scale PDAP type operation. It could also receive orders for spare parts, etc. from those entitled to access the "hub."

We have not adequately investigated at length whether the CBIN communications network can or should be adopted to have a specialized section dealing only with the needs of this smaller business sector. We certainly do not think this is the time to multiply AID supported communication networks when we have not

yet learned to make adequate use of the original ones. Our view is that we have to upgrade regional communications and that we should hook the region into better links with the mainland. Modern business relies heavily on state-of-the-art communications. While we must strive for a system that is appropriate to the economies of the sectors we are trying to assist, we can not seriously propose communications linkages that are perhaps not state-of-the-art.

2. The above mentioned "hub" operation could take on even larger active roles. Again, at the least expensive level, it would track all requests and see whether or not the expected reply is given.

3. Or it would actively go out and get the replies and satisfy the inquirer itself.

We suggest that some mechanism should be available to facilitate communications and help overcome the isolation noted here. We do not, however, believe that the options suggested above will be adequately effective because:

- a) The linkage, as described, is too weak. The "hub" has no responsibility for performance of the contact points and vice versa.
- b) The small businesses are too weak and introverted at present to be able to make proper use of a bulletin board type operation.

4. We can see the "hub" type passive and active information and data gathering operation being supplemented with a technical services and training specialist. This person would be available to provide in-house technical advice and insights. The trainer could also be available to offer courses and consultancy services to contact points on the circuit. The office could also contract for needed training seminars of specialist services needed by businesses learning a new process or a new machine use, etc.

5. Similarly the "hub" could add to its staff a marketing specialist around whom an array of marketing services and planning programs may be organized.

6. Similarly a financial analyst who may also have loan and investment packaging skills could round off this "hub" which would now look more like a regionally centered small business services operation.

A.I.D. could well consider contracting to set up an office of the above description in any of the sites suggested earlier. A good number of American consultant firms would surely be interested in bidding on the contract to operate such an information and consultant services center.

Again a pressing and perhaps decisive question would be what is the nature of the relationship with the contact points.

7. This consultant team was convinced that there had to be formal and strongly binding linkages between the regional unit and whatever local units it serviced. The local entities (to be discussed shortly) along with the regional unit should be measured and evaluated to some degree by their ability to break loose from small scale activities. Similarly growth indicators should be established for training and financial assistance. These indicators should be used in evaluating both the central and local units. We tend to believe that a systems model with an unbroken series of linkages would be the one with the most effective impact on the small business sector of these islands.

In suggesting that a central service unit, which, by extension, we may eventually call a central managing unit, would make more sense in this context, we do not suggest that the entire unit should be put in place from day one of a formal assistance program. A bit later we would like to offer thoughts on alternative options for financing this program. We will suggest that services should be phased in when they make economic sense to the small businesses and to the program. However, it may be noted, that in expanding our concept of the "hub" we began to face up to the constraints of inadequate knowledge and financing needs along with that of smallness of scale.

Now as we expand our alternative options it may be well to talk of a regional "small business development program" which is made up of subscribing members and which over time develops a growing list of small business services for its members (information- printed or electronic news, insurance, tax and money management advice).

#### B. Some Local Alternatives

And what are the alternatives one might consider at the local country level? If we stopped short of trying to pull together a regional membership organization what must we consider?

One of the approaches to the smallest, almost marginal portion of the small business sector has been well assisted by USAID in recent years; we have in mind the several National Development Foundations that have been established in the region. Presumably RDO/C has enough leverage and good will with those entities to persuade them to serve as the agencies where local coordination and services are centered. On the other hand, as we indicated earlier when discussing the helping institutions in Barbados, responsibility for an effort such as

we envision would probably cause the NDF's to go directly against certain tenets that are central to their developmental role and philosophy. The key role of their boards of directors, in regular decision-making and in trying to develop a local support base, would have to be down-played. Also, the infusion of the resources this program may require, would probably mean the Foundations' existence would depend entirely on the program. As may be noted in the individual reports, the Foundations are in various stages of early development. All indicate interest in a solid program that would strengthen the small enterprise sector. As we will state later, our bias to the local approach is to mobilize, in a coordinating office, all available and willing assistance resources. The NDF's, we would hope, will be major participants in the program and hopefully they will accept contracts and help pay for training and other services relating to their expertise.

Short of having in place a staffed coordinating office in each island, we can conceive of a much smaller start-up operation. We could have our "honorary consuls" who would serve as the local contact for the "hub" type entities spoken of earlier. The local information post could transmit requests and responses and, as such, be quite helpful in expediting communications. (We noted earlier that an unreliable and slow communications network was one of the serious constraints to small enterprise development.) This may well be where the local effort should be started in certain islands. It is likely that willing contractors affiliated with some of the support entities we have identified in each island can be readily found to operate the communications post. However depending on the structure and linkages desired in the program chosen, care must be taken to see that the start-up does not create conditions that would impede further growth of the local structure.

The consultant team does not believe, however, that any local program which falls short of providing significant technical and training inputs can be effective. Some members liked to use the term "OJT", on the job training, as what is needed to cope with many of the management and other deficiencies noted in the small enterprise sector.

Other approaches can be conceived of with several different combinations of variables, phases, and contractors. As was noted in our assumptions preceding this section, we would expect that participation in the program should be made available to all who are interested or can be persuaded to join it.

### C. Finance Related Alternatives

It is our view that approaches to a program to assist small enterprises in this region must consider the various alternatives involved in making as many as three different types of funding available to businesses. (The costs of delivery of

the financing assistance along with the other inputs will be estimated in the final section of this paper. It will vary significantly according to the alternatives selected.) The types of financing we have in mind are loans, investments, and direct grants. The latter two instruments are rather unusual when dealing with small enterprise development programs. Guidelines and safeguards would have to be put in place for all financial transfer mechanisms. At this draft level we do not think it necessary to spell out such details. We would like to say something about these financial options in the order of familiarity. The alternatives to consider would include combinations of all, some, or none of the variables and the magnitudes considered necessary to have the desired effect.

1. One more small business revolving loan fund can be either established anew or set up as a further line available to an entity or group of entities administering similar loan funds at present. The degree of usefulness of further loan funds for this rather undocumented sector, will depend greatly on the alternative chosen. If something like a multi-faceted regional system is to be put in place, then it is likely that the system will develop a respectable number of business growth and diversification opportunities that will be able to live with greater debt and debt servicing costs. Unless the RDO/C wants simultaneously to strengthen the entities which presently provide small enterprise loans, the alternative of allowing the "program" to own the loan portfolio is worth considering. Portfolio income would pay a small portion of program costs. The bias of the consultant team is that a loan fund must be strictly administered with strong measures available to deal with default (and reasonable restructuring available when a rescue can be achieved).

2. Frequently a promising business deal can only take place if equity is infused into the enterprise. Equity usually makes it possible to obtain debt or other financing. Equity, whether a direct purchase of shares of a business or represented by convertible debenture holdings, seems to be a much needed resource to this under-financed sector we are dealing with. It would also be well if the program had the capability to be the principal investor in ventures that could serve as new business models for the region. Even though our concept of a "business development program" is that of a long-surviving service institution (wedded perhaps to a CAIC), it would probably be well to allow "buy-outs" and "sell-offs" regularly, of equity holdings. One would hope that this investment function would be very important to many small businesses and after five or so years begin to generate some support funds for the program. Investment in developing world enterprises is an activity PfP is beginning to pioneer in the PVO community. Pre-feasibility studies have been made. During the course of this project we were able to see that quasi-equity of \$12,000 was injected into a passion fruit/processing project noted in the Dominica report.

The soft-loan cum investment made it possible to close on an EC \$339,000 loan from the AID Bank of Dominica.

3. Finally we think that the program could include the options of making direct grants to private enterprises. These may be referred to as business "infrastructure" grants which are projected to cause significant business growth to occur. This fund would be primarily used for buildings and equipment that cannot be expected to amortize their investment costs over a reasonable period of time. Indirect economic indicators and benefits would be used to justify the grants. At the same time it would be desirable in most cases if the businesses could cover the carrying costs of the granted equipment. Again, though we are not proposing detailed mechanisms here, we might suggest that title transfer of grant fund equipment to the enterprise might be delayed until some performance levels or the like were reached.

Finally beside making various types of funds directly available to the businesses eligible for the program, we would suggest a certain amount of money be made available to subsidize small purchase or transportation costs. At the same time the program should be encouraged to try to develop means to reduce parts purchase costs to a level closer to that nearer the main supply sources. Since we are dealing with a rather small equipment base in the region, it may be conceivable to build-up a central parts depot, or at least to put together a strategy to keep the machinery going through essential stockpiling, etc.

The exercise of suggesting alternative approaches can, we are sure, be much prolonged. These paragraphs present options that should assist a thoughtful decision-making process.

The following paragraphs may be of further value to the reader to consider alternative approaches to assisting in this sector. One way of thinking about making inputs in any project or enterprise is to consider whether there is any commonalities among them which might better help to rationalize the activity. The following brief notes suggest three different ways one could view and structure one's thinking about a project such as a small business support program.

#### COMMONALITY OF INPUTS

The principal inputs of a small business support program are expected to be the following:

1. Credit
2. Equity participation (by a financial unit for venture capital)
3. Management training and supervision of the use of funds by the borrower:

- a) basic management methods and tools
  - b) accounting (appropriate to the level of the borrower)
4. Technical assistance:
    - a) in management
    - b) in production
    - c) in marketing and export procedures
  5. Information services:
    - a) for marketing
    - b) for procurement of equipment, materials, supplies, etc.
  6. Export promotion and search for specific outlets

From the viewpoint of functions and skills involved in the delivery of these inputs, they fall into three classes:

- I. (1) Credit and (2) Equity participation
- II. (3) Management training and supervision and (4) Technical assistance
- III. (5) Information services and (6) Export promotion

The second viewpoint is to ask whether the delivery of these inputs should be left to the choice of the beneficiaries or should be obligatory. It is recommended that, whenever credit is extended or an equity position is taken, the beneficiary should undergo obligatory training and submit to the supervision of the use of the borrowed funds. Certain basic management training also may be made obligatory if the lending institutions feel that it is necessary for the effective use of the loan.

The use of other inputs of a support program should be optional, i.e. left to the discretion of the borrower.

The third common viewpoint relates to the cost of inputs and their financing. Even at the lowest level (i.e. smallest size) of the enterprise, it is advisable that, while inputs may be subsidized to a substantial degree, some charge for them should be borne by the beneficiary. This is needed to establish with the borrower a business-like psychological attitude and a clear understanding that all the inputs be benefits from, (and not only the credit), are of value to him and have their cost to the provider. If the credit is extended at a realistic, or at least near-realistic, rate of interest, it ought to be made clear to the borrower that the interest is used to cover some part of the cost of his training in accounting, supervision, etc.

Other inputs, such as information, technical assistance, export promotion, should be delivered at a price. If subsidized, the beneficiary ought to be made aware of the degree of the subsidy.

It may be well also to say something further about the grant and equity financing mechanisms, we consider deserving of attention by those considering small business support.

The idea of providing grant funds to purchase business equipment in the developing world is not totally unusual. For that matter it was drawn to one's attention that an earlier version of this report did not take note of an A.I.D. grant of funds to equip a small plant that preserved fruit in St. Lucia. Among other support inputs provided by RDO/C was the provision of a short term expatriate manager who served on this team of specialist (Mr. Kunde). We have subsequently learned that the processing business is doing quite poorly at present. We have not attempted to analyze why this particular business or any other one is floundering. It was drawn to our attention that a government agency took over management after the U.S. manager left. Without appearing too biased, we are not surprised when government businesses do worse than those which represent a family's holdings.

We tend to think that grants for fixed assets should be made when other types of financing do not make economic sense. That is, when carrying a loan is too burdensome for a firm, or when an investor can not anticipate adequate return to justify an equity involvement, there are still instances where the indirect benefits of jobs created and income generated may justify the grant. Since economic return does not seem assured to a lender or investor, we are clearly in the realm where future is fairly likely. Therefore, to reduce the risk of failure, a whole series of safeguards and safety checks should be part of the assistance package. Market analyses, supplier requirements, personnel capabilities, management experience and ability should all make good sense to professionals. Also assistance will probably have to be made available over the long run. This infrastructure type of grant may not be justified in too many instances.

We would not even recommend that this type of support should be publicized to any great extent. (The Ambassador or RDO/C Mission Director may well attend plant openings.) As was suggested a bit earlier, we would also tie up title transfer to granted equipment until a number of performance and training goals were clearly met. As to potential cost, a fund of \$250,000 or so should be adequate for the first few years to cover and restrict regional opportunities.

Equity participation in developing country small business opportunities is a new and rather untried approach which we view as helpful from several points of view. It helps the entrepreneur launch activities he/she usually could not afford; it helps the assistance to an agency and helps it participate more fully in the economy and hopefully generate some income; and they help the donor to see that, again hopefully, agency and

small business dependency is reduced. Certainly the agency (or program entity "that we are recommending) has much greater interest in the success of a firm in which it has invested than in one to which it had merely given a grant.

We might note that the concept of PVO -"helping agencies"- using equity investments in developing country businesses has not been tried adequately. Venture firms require staff skills and staff thinking which is usually quite different than those normally found in the PVO sector. Normally PVO staff are altruistic while the good venture people are acquisitive. The two traits are not necessarily contradictory and hence we find it possible to suggest the approach.

A reason to believe the "thick-skinned" venture approach can be used in development is because we have seen PVOs learn to run loan programs where repayment is at the 97% and above level. To reach such performance a very business-like approach to lending had to put in place.

Equity mechanisms vary, as we noted above, and the type and depth of participation is quite diverse. (Again, at this stage of considering a regional assistance effort we would not think too much funding should be reserved for equity opportunities. Especially where the equity makes loans to the firm conceivable we will find that packaging and processing will take much time. To achieve eight investments in the right island region in two start-up years of a program would be quite remarkable. Hence, a line of \$250,000 to \$300,000 may be more than adequate at present.)

## Part VI: Recommendations

The consultant team spent a significant amount of time reviewing its findings and reflecting on many direct experiences on small enterprise development projects in order that it could arrive at a set of recommendations for RDO/C. The following paragraphs spell out a strategy and program for assisting the target sector in a manner that the team believes best reflects RDO/C expectations. It is stating the obvious, presumably, to note that while many specific suggestions and plans will be spelled out in new and follow-up documents, we are dealing with areas of uncertainty and unpredictability in a part of the developing world that does not usually draw much attention to itself. The team has been involved in the development of many different designs and projects in this specialized development sector, and it knows that a preconceived formula (the McDonald's prescription for success??) does not seem to be the key to accomplishment here. What we have learned to be new in each situation or location is the way to find acceptance among the intended beneficiaries. Reflection tells us that this usually flows from being recognized as a supportive presence, eager to hear what the locals desire and willing to chart the development program by means of an ongoing dialogue.

To some extent an approach, which is cautious, open-ended and given to trial and error, is a bias shared by the consultant team which we draw to the attention of those reading these recommendations. The following topics suggested by the scope of work will be discussed:

- A. Objectives
- B. Recommended Program
- C. Policy Changes
- D. Institutional Changes
- E. Financial Considerations

### A. Objectives

We recommend that a strategy be adopted that looks both to developing the capabilities of individual small productive businesses in the region, and to improving the capabilities of the infrastructure required for the successful operation of this business sector. By that infrastructure, we have in mind the institutions and agencies servicing that sector, the ancillary businesses vital to those businesses and the communication facilities necessary to keep those businesses in touch with all their required contacts.

In pursuing such a strategy it is our understanding the RDO/C is not prepared to be involved in the day to day review of proposals, purchase orders, and administrative back-up this strategy calls for. For that matter the strategy, ideally, would look to this assistance program being administered by a surrogate which we assume would take on many of the tasks now burdening RDO/C in this sector. Specifically we are referring to the several local and regional assistance programs RDO/C now supports such as CAIC, the NDF's, WID and other discrete projects affecting small enterprise development. Without doubt this latter strategy goal is an understandable objective. It is also clearly one that is likely to be met with resistance because of its implications to power structure alignments. Including this objective in the overall strategy will surely require a transition of a few years and the determination not to waiver from such a course for at least five years. We recommend that this be part of the strategy.

The central objective then would be to put in place a regional small enterprise development program which has the capabilities of positively addressing the major constraints hampering small business development at present. This program (which will probably be a legal entity with, ideally, a short, attractive and meaningful name) would channel whatever assistance RDO/C is prepared to provide the small enterprise sector. At the same time it should be so constituted from start-up if possible, that other donor entities may share in the support and receive the recognition each may require.

## B. Recommended Program

### 1. Preliminary steps

We recommend that RDO/C solicit applications from a contracting organization or from a contracting team willing and able to be responsible for setting up and managing a small enterprise development program such as described, as the most complex alternative considered in Part V. There are precedents for pre-screening the qualifications of interested bidders, to reduce PVO costs and AID cost in dealing with and managing an application procedure.

### 2. General Program Design and Implementation

We recommend that a project such as this have distinct phases with certain objectives gained indicating movement into a further phase--or with certain obstacles met causing the transfer of action into a different phase for a period of time.

a) The first phase or start-up may require as much as six months. Activities would be:

- \* Recruitment and settling in of a program manager.
  - \* Setting-up the program's legal presence.
  - \* Setting-up the beginning of an administrative office.
  - \* Publicizing project purpose and inviting participation of regional service organizations.
  - \* Informal presentation to potential cooperating organizations followed by formal meeting of consultative body.
- [\* Implementation thoughts such as this and others are purely tentative and illustrative.]
- \* Establishment, with collaborators, of first cut at ground rules and methodologies and setting-up of program membership requirements.
  - \* Announce and lay ground-work for program inauguration in each island.
  - \* Begin setting-up island coordinating bodies.
  - \* Review pre-start-up design and adjust scheduling of phase two inputs and services.

b) The second phase would gradually bring on the organization of island based program offices. It would last 2 to 3 years.

- \* It would also begin planning and scheduling various small business and institutional inputs.
- \* Institutional collaboration and institutional skills upgrading should be stressed heavily at first. This, because the only way we can conceive of this program succeeding is through the effective performance of helping agencies.
- \* Various administrative and reporting systems would be put in place as the various assistance services begin to be provided. Auditing procedures would have to be synchronized.

- \* The development of procedures and planning documents and annual budgeting exercises by each local office in conjunction with the regional central office will be crucial to operations. (Probably budgets and plans will have to be in place long enough in advance to cope with multi-donor requirements.)

As needed, the regional office will bring on board its centralized communication (information and procurement) service, and its various technical service sections. (As suggested earlier, these would include training of all sorts needed for business, marketing and product presentation, financial services and other assorted small business services.)

- \* The program will have to concern itself always with its capacity to raise income. During this phase, indications of a minimally subsidized viability should start to become apparent.

c) Finally a full-scale program will have been phased in. We would hope that more and more specialists from the region would staff the senior positions and that the final product would be recognized as something that grew from local ideas and even local inspiration.

### C. Policy Changes

We are not sure whether what was suggested earlier about RDO/C using the program as its surrogate for aiding this sector is a suggested policy change or not. Precedents for this type of action exist in the Latin American Bureau (at least CINDE in Costa Rica) and in AID's support of consortiums like PACT.

On the other hand, we do believe that the program should work very hard to obtain various "fiscal incentives" for the private business sector in the islands. When writing earlier about government policies effecting small business we noted the perception that tax laws are viewed as virtually destructive. Many small businesses avoid regularization or avoid income declaration and taxes. It is hard to imagine this program providing financing, at least, to unregistered small businesses. Governments with small and poor population bases need taxes from business. This program, we are sure, will increase government revenue in the short run. While we believe that the tax problem is largely one of perception, we must be prepared to recognize perception or policy changes to ensure business development.

#### D. Institutional Changes

As was noted by our team and earlier in Michael White's study for the IAF, there are in place certain institutions and agencies already helping this sector. They have indicated a willingness to work with a program such as we have spoken of here. They also recognize their limitations and are willing to accept assistance that will upgrade their capabilities. We are aware that this is an area where "easier said than done" is epitomized. So without presuming that a collaborative effort which includes upgrading institutional capabilities, is the proverbial "piece of cake", we do expect that a culturally sensitive program staffed by sensitive people can achieve institutional collaboration.

As for commercial and other banks we do not want them to abandon standard banking practices and procedures. A solid banking system which protects its owners' and depositors' funds is a most valuable adjunct to business. Part of becoming a good business person is by becoming someone who is respected by his banker. The fact that this sector lacks proper banking relationships is not usually due to problems found in the banking sector.

Institutional changes called for are in direction. Participation as program members will probably expose the institutions to more collegial scrutiny than is now the case. Seeking donor funding through the program rather than directly from the donors will be perceived as difficult. In fact, it should turn out to be a blessing since we should expect more stability in staff and policy emphasis from the program than is normally the case with donors.

#### E. Financial Resources Required and Donor Collaboration

We understand that donors in the Eastern Caribbean have either a formal or informal structure to exchange information. We would suggest that a presentation be developed for other donors indicating how the program design is structured and its functions singled out (not offered in detail at this time). Donors could well be asked to consider funding one or the other aspect of the program. They would also be asked to join RDO/C as official sponsors of the program. They would be requested to review program budgets annually and to consider committing funds to it annually.

TABLE 1: QUALIFICATION OF THE PFP CONSULTANT TEAM

	SED Project Development	Caribbean Regional Development	PVO/NGO (mgt/service delivery)	Institutional Development	Agribusiness Development	Education and Training	Financial Management	Research Methodologies	Project Evaluation	Economic Analysis	Credit Extension to SSE's	Private Sector Initiative	SED Project Management	Investment Analysis	Information Systems
Robert Wolfson - Team Leader	XX	XX	X	XX	X	XX	X	X	XX	X	X	XX	XX	X	X
Pierre Armand - St. Lucia	XX	XX	X	XX			XX			XX	X		X		
Robert Blayney - Barbados	XX	X							XX	X	XX	X		XX	
Fernando Cruz - Antigua	XX	XX	XX	XX		XX		XX	XX		XX	XX	XX		
Jerome Glenn - Dominica	XX			X	X	XX				X			XX		XX
Eugene Grassberg - St. Vincent		X	X	X	XX			X	XX	X		X		XX	
Gordon Kunde - Monserrat	XX	X			XX		X			X		X	X	XX	
Rick Morren - Grenada	XX	X		X		XX				XX		XX			X
Daniel O'Connor - St. Kitts		X		X		XX	XX		X	XX	X	XX		XX	X
Wm. Yaeger - Business Opportunities	X						XX			X		X		XX	
John Lynch - Main Report	X	X	X	XX			XX	XX	XX	XX				XX	

KEY: XX = EXPERTISE

X = FAMILIARITY

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February 27, 1985

Mr. William Phelps  
USAID RDO/C  
c/o American Embassy  
Bridgetown, Barbados

Dear Mr. Phelps:

As I mentioned in my memo of February 24, I intended to have the final version of our report reach your office by courier by the close of business on February 28. I am still aiming for that goal, although my assistants insist the final production is facing print shop delays.

I am including for your reference a list of the topics that were brought out in our February 22nd meeting. I have attempted to provide further analysis on almost all of the topics listed. If you consider that we have come closer to what you need but still would be open to more of our views please feel free to request them.

When we met on the 22nd I indicated that we were putting the questionnaire responses in DBASE III files and that, unfortunately, a number of interesting responses were small sentences that had as yet no coding plan. Ms. Thams and myself strongly felt that we should code those responses and so provide you with a more complete data foundation for our analyses. The coding has been done and some 248 questionnaires were entered. Charts have been developed to display some of the information included. In the attachment at the end of the report we have included a copy of our "code book." We can develop and provide you much more related data if you wish. I also intend to see that the remaining questionnaires are entered and made available for you.

With this delivery we are providing two copies of the final report and a xeroxed set of all the questionnaires sorted by country.

Among the topics listed on the enclosed note, I do not have anything really new to suggest about item eight. In the enlarged section about assistance institutions we have noted that certain existing entities could take an important part in a "program" involving cooperating agencies; some train trainers, some train business people, some lend and have credit funds, and some are involved in attempts to provide good communications access. We are convinced that many would cooperate in a meaningful program.

This, however, leads to item 12 (still to do) which is not explicitly taken up in the text. If there is interest in supporting a program including cooperating agencies, how can they truly be brought together? How would they take on and divide any responsibilities that go beyond their current work? Except for the case of Dominica we have little data about the performance borrowers from this sector. How much credit can they use and how well? What is the optimum number of field people needed to develop a certain size loan program to this sector? What is the actual business failure rate in these islands?

It is our opinion that many of these unanswered questions will only be clarified as a carefully phased assistance effort is put in place.

We also have not suggested an assistance budget since we think that should spring from the type of assistance package you are interested in. It is our experience that a coordinated assistance package can be developed if sufficient resources are made available for program design and implementation.

I trust that we have been of some assistance and that we may work together again either in the Eastern Caribbean or some other region in the future.

Sincerely,

John Lynch  
Comptroller, PfP/I