



**BUILDING GROWTH INTO THE CARIBBEAN SUSTAINABILITY
AGENDA - THE ROLE OF ENTREPRENEURSHIP**

by

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at the

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INTRODUCTION

Thank you very much for inviting me to speak at your Gala Awards dinner and as you bring the curtain down on the Fifth Caribbean Microfinance Forum.

I wish to thank the Caribbean Microfinance Capacity Building (CARIB-CAP) Project for conceptualising and organising this Annual Forum. I trust that this year's meeting was a success, and that your deliberations, over the past few days, have been rewarding and productive.

The Caribbean Development Bank (CDB) is a proud sponsor of CARIB-CAP. We support its important developmental role through the promotion of micro-credit outreach and the strengthening of the capacity of microfinance service providers in our Region. We are happy to be able to partner with the Inter-American Development Bank (IDB), the Multilateral Investment Fund, and the European Union in this initiative.

Naturally, I am pleased to be part of the Caribbean Microfinance Awards 2014 ceremony, so let me take this opportunity to congratulate the winners in the Best Rural Micro-entrepreneur; Best Young Micro-entrepreneur and Best Technology Micro-entrepreneur categories.

I also wish to acknowledge the hard work of everyone who participated in the competition. I am certain that the same competitive spirit; the same desire to be the best; and the drive for excellence that led you to enter this competition will become the foundation upon which lasting success in all of your business endeavours will be built.

Tonight, I propose to speak on the topic, "*Building Growth into The Caribbean Sustainability Agenda - The Role of Entrepreneurship*".

I have found myself dealing with the over-arching theme of "growth and sustainability" on a number of occasions since I assumed the presidency of the CDB three years ago. Just last week, at the 44th Annual Meeting of CDB's Board of Governors, I spoke about the relationship between competitiveness, growth and sustainability. I underscored the importance of reducing energy costs if we are to improve our export competitiveness and, by extension, create the environment for sustained economic growth.

Growth rates in the Caribbean have been, on average, very low for several decades, and have remained below 3% since the most recent global recession. Such low rates of growth have contributed to the persistently high levels of unemployment and poverty in our region. With more than 21% of our population living below the poverty line, accelerating and sustaining inclusive growth is, arguably, one of the most pressing development challenges confronting our region's leaders, today.

The Caribbean needs to grow much faster if the unemployment and poverty rates are to fall substantially. At a Governors' roundtable discussion held during the recent CDB Annual Meeting, one Governor informed the gathering that unemployment in her country was currently in excess

of 24% and that if a meaningful reduction in that figure were to be achieved, her country would need to begin to realise growth rates of at **least 5%** per annum,

Role of Entrepreneurship

An admittedly cursory review of the literature seems to support the view that there is a positive relationship between the level of entrepreneurship and the rate of economic growth. P.D. Koellinger's 2008 study of 6,500 entrepreneurs in 30 countries appears to confirm the correlation. The indications are that this correlation is stronger in more advanced than in less advanced economies. His findings also suggest that the nature of the entrepreneurship in the advanced economies tends to be more focused on innovation whilst in the less developed countries, entrepreneurship is more imitative in nature.

Heretofore, the generally accepted view was that only big businesses with the resources and capital to invest in research and development and the creation of new products and services could be the principal drivers of economic development. Today, more and more, it is small firms, developed by young entrepreneurs anxious to explore new ventures, to take risks, to push innovation, and to force technological change which are rapidly emerging as the dynamic sector for job creation and for economic growth. A driving force behind this entrepreneurship is the now widespread use and availability of information and communication technologies and the natural inclination of our young people to master its power to create new products and to find simple solutions to old problems.

The state, too, was previously accorded a direct and leading role in economic growth and job creation. However, more and more today, we are accepting that the state must remake itself to act as enabler and regulator of private enterprise, creating the infrastructure and the conditions under which private sector activity can thrive.

These developments can represent a major breakthrough for small economies like ours where MSMEs are the backbone of the business sector; and microenterprises are a significant contributor to the gross domestic product (GDP). Microenterprises account for at least 40% of total employment in Guyana and as much as 45% of GDP in Belize. I would be very surprised to find that the situation, in other Caribbean countries, is any different.

CHALLENGES FACED BY MSMES

But ladies and gentlemen, even as government officials, and even as international civil servants like myself now readily acknowledge that it is the private sector and MSMEs, in particular, which represent the dynamic force for creating economic growth in our countries; and even as we speak eloquently of the need to create the conditions within which private enterprise can flourish; the unfortunate truth is that the byzantine state is still very much alive and well in all of our Caribbean countries.

The result is that the dynamism and the growth-producing potential of our small business sectors is being stymied and our Caribbean countries fall further and further behind, not only the large economic tigers of Asia, Africa and South America, but also behind small island states in other regions of the world.

Let us look at some of the evidence.

According to the World Bank's Doing Business surveys, which benchmark the regulations that affect small and medium-sized enterprises, in particular, the arrangements for businesses to operate in the Caribbean are less than satisfactory. Out of 189 countries surveyed, the average ranking for the Caribbean is 100, suggesting that, relative to the other countries, much work remains to be done to create an environment which is "good for business".

In most of our countries, there is ample evidence of inadequate legislative and regulatory frameworks, weak public sector institutions for providing legal protection, and inefficient business support and training services. In some Caribbean countries, for example, property registration continues to be time consuming and expensive, because property rights are not adequately defined or protected. Bankruptcy laws are oftentimes excessively punitive; and severe penalties can confound the willingness to invest in new business ventures. Also, better enforcement of copyright, patents and trademarks is required to provide appropriate protection for businesses and to avoid litigation and copyright infringement.

Another troublesome constraint facing small entrepreneurs is the limited access to credit; the paucity of venture capital; and the generally underdeveloped nature of the Region's capital markets. According to diagnostic studies done by IDB, only an estimated 3-5% of micro-entrepreneurs in the Caribbean have access to financing. Generally, formal financial institutions are reluctant to lend to MSMEs, which lack adequate collateral, and operate in unfavourable business environments that could jeopardise their debt servicing capacity.

The difficulty in accessing financing to invest in plant and equipment is further compounded by the limited access to affordable accounting, legal, auditing and other services which are prerequisites for dealing with formal lending institutions.

According to a recent IDB study, even in those instances where efforts have been made to increase the availability of micro-credit, MSMEs continue to demonstrate a preference for informal modes of credit, which are relatively easy and relatively cheap to secure. As a result, the uptake of micro-credit has lagged behind expectations. This suggests that effective penetration of the micro-credit market may require service providers to consider more innovatively redesigning their product offerings to better fit client needs.

RESPONDING TO THE CHALLENGES

For small enterprises to grow, an effective partnership needs to be forged between the state, the small business community, and development agencies, like CDB, IDB and the Multilateral Investment Fund. We all need to do more to tangibly recognise that the somewhat unheralded

sector of small business can hold the key to transforming our economies and restoring the faith of our young people that they can make a viable, and even a prosperous, living in this Caribbean of ours.

(a) Role of the State

I spoke earlier of the role of the state as an enabler and regulator of the environment within which small businesses operate. All businesses, especially those that are small and vulnerable, require a stable and predictable macro-economic environment where public finances are healthy; sovereign debt is at sustainable levels; where domestic inflation is not substantially higher than which obtains in the countries of our international trading partners; foreign exchange and interest rates are competitive; the financial sector is stable and subject to modern supervisory and regulatory practices; and domestic and international trading facilities are business-friendly.

That, ladies and gentlemen is a very tall order, but that is what modern, business-friendly governments are called upon to provide in the modern world.

(b) Role of Entrepreneurs

While Governments can have a profound impact on the enabling environment for business, the ability of entrepreneurs to grasp opportunities and to convert them into viable business ventures is equally important for economic growth to reach sustainable levels. There are several key requirements for successful business ventures.

First, the operations must be well-managed. This calls for investment in good internal management systems for, *inter alia*, accounting, planning and human resource development. A successful enterprise must differentiate itself from its competitors, both in the nature and the quality of the goods and services provided. It should strive to be unique and take advantage of the brand recognition peculiar to its country or region of origin.

Second, recognising the small size of regional economies and the inherent difficulties of achieving economies of scale in that environment, our entrepreneurs will need to exploit opportunities in the export markets by forging strategic partnerships with other firms. All businesses in today's Caribbean must think globally if they are to survive and grow, and if our countries are going to be able to earn the foreign exchange necessary to provide the quality of life to which we all aspire.

If local and export markets are to be retained, and the business is to grow on a sustainable basis, arrangements have to be in place to guarantee a consistency of product quality and a regularity of supply.

Part of the competitive advantage of small enterprises is their agility and flexibility; their capacity to respond quickly and to adjust to changing tastes and preferences in the market; and their ability to meet the unique requirements of their customer base. To sustain this competitive advantage, small firms need to stay close to their customers; have a deep understanding of their requirements; and to identify innovative and cost saving options for continuously meeting their

needs.

(c) Role of CDB

Let me turn now to CDB's own role in fostering entrepreneurship in our Region.

Since the founding of our institution 44 years ago, CDB has recognised the pivotal role of the private sector, especially MSMEs, in promoting sustained economic growth and the development of our people. To that end, we have been:

1. enhancing MSMEs' access to finance via institution and capacity building, and through financial intermediation;
2. promoting business reforms to improve competitiveness and reduce the cost of doing business; and
3. intermediating resources provided through initiatives, like the UK-funded Caribbean Aid for Trade and Regional Integration Trust Fund, to channel financing to government institutions which facilitate international trade and to businesses seeking to take advantage of new export opportunities available under the European Partnership Agreement, and other trading arrangements.

CDB's Caribbean Technological Consultancy Services, (CTCS) has also been a major vehicle through which we provide business advisory services to MSMEs.

Drawing on CTCS' expertise, recently, we have also been assisting MSMEs to become more efficient by conducting energy audits which identify opportunities for reducing energy costs. Working through local financial intermediaries, CDB makes resources available for small firms to investment in energy saving measures identified in the audits. High energy cost has been identified as one of the key constraints to achieving export competitiveness and sustained economic growth in the Caribbean. The initiative represents, therefore, an important milestone in tackling this constraint.

In order to better understand the constraints to economic growth in the Caribbean, CDB over a two-year period, collaborated with World Bank, IDB, and other development partners to create a platform - the Caribbean Growth Forum - for engaging key stakeholders in dialogue about an appropriate framework for sustained growth in this Region.

We have also partnered with the IDB, the United Kingdom's Department for International Development and Canada's Department of Foreign Affairs, Trade and Development to launch Compete Caribbean, a programme to provide productive development policies, business climate reforms and MSME development activities in the Region.

Recognising that our youth is our Region's future; we are giving higher priority to addressing the vexed issue of youth unemployment. It is estimated that, on average, 40% of the youth labour force in our countries is unemployed. In that regard, we fully endorse youth entrepreneurship as an appropriate mechanism to combat this problem.

Our support for youth entrepreneurship is not new. In the past, we have provided resources for capacity building to youth entrepreneurship development programmes in the Region. Most recently, we partnered with the World Bank and the Government of Jamaica in the highly successful Digital Jam 3.0 Initiative. Digital Jam 3.0, many of you already know, was designed to equip our youth to create employment opportunities using technology. It provided a platform to showcase their talent and innovation in the area of mobile applications software development. In just a few weeks following the launch, nearly 200 mobile app concepts had been submitted from teams across the Region. The participation of the Barbados developers and those from the OECS was facilitated by CDB. This enthusiasm and readiness to pitch ideas to regional and international investors are indicative of the new 'youth tech-entrepreneurs' that our Region is producing. CDB will continue its support for our youth entrepreneurship by offering access to mentorship, finance and business networks.

We are also giving special attention to women entrepreneurs in our Region. Women account for a sizeable share of private sector activity and play a vital role in reducing poverty and keeping families together. Growth in the number of women-owned businesses is outpacing those owned by men despite biases in our legal, regulatory and administrative frameworks against female participation in economic activities. Many of these biases are based on tradition and socio-cultural contexts such as rights to inheritance and property rights.

At CDB, the adoption and implementation of a Gender Equality Policy and Operational Strategy commits us to ensuring that gender dimensions are mainstreamed throughout MSME development strategies and programmes with which CDB has an involvement.

CONCLUDING REMARKS

Ladies and gentlemen, the goal of achieving rapid and sustainable economic growth represents the salvation of our region. More and more, our people are recognising that the creation of that future is largely in their hands. It is for that reason that the dynamic role of small businesses in economic development is beginning to get the recognition and the support which it is now enjoying.

But I have tried to make the point, this evening, that if the transformational role of small entrepreneurs is to take root in a manner where it can lead our people to a better future, we will need a grand partnership. This partnership will see the state becoming more of an enabler of business by creating an appropriate environment; and it will see entrepreneurs accepting that they need to raise their game. They will need to formalise their businesses; keep proper financial records; develop business plans; get to know their customers better; and accept that business today is global not parochial!

The multilateral development banks must give higher priority to small business if we are serious about development. Not only must we provide financial resources to MSMEs, but we need to use our convening power to bring small business people together to learn about the successes and the failures of MSMEs in other parts of the world.

In closing, let me say to those of you in this room tonight who might be ruing the thousands of dollars spent educating your children to become doctors, lawyers and high-level bureaucrats only to discover that, disillusioned by diminished job prospects and relatively unattractive earnings in these traditional fields, they are choosing instead to develop their own businesses from home, sometimes with not much more than a laptop computer, internet access and some seemingly arcane ideas.

For many of us, this is a difficult pill to swallow; but as I have watched this phenomenon unfold in my own household, even I have become convinced that I am in the privileged position of being able to observe, from ring-side, the future of our region emerging. It is our young people with their broader world-view, their unbounded optimism and their natural inclination to embrace new technology and new ideas who will change the nature of our economies and alter the economic and social circumstances of our region.

Ladies and gentlemen, I thank you!