

MSEs and Diversification



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There is a commonly held hope in the potential of the small business sector and entrepreneurship to contribute substantially to national economic diversification, poverty alleviation and national wealth. Although popularly echoed from many government and international agency quarters, in Trinidad and Tobago and the Region, there continues to be an ambient dissatisfaction with the progress made to date to realise SME potential, while the dream of diversification of the national economy remains largely unfulfilled.

The Trinidad and Tobago Ministry of Labour, Small and Micro Enterprise Development's Draft MSE (Micro and Small Enterprises) Development Policy 2014-2016 cites that "an estimated 25,000 registered businesses or 90% of all registered businesses in Trinidad and Tobago are recognised as micro or small". Clearly a number of MSEs already exist in-country. It can be argued therefore, that MSE development efforts going forward may not need to emphasise encouraging new business formation, but rather to focus on expanding the capacity of existing MSEs such that they are able to contribute more sustainably and substantially to the national economy and long-standing economic diversification aspirations.

Many historical and even current efforts in this regard have targeted a generic, "SME sector" with broad one-size-fits all prescriptions. On the contrary, the posit here is that, in SME development efforts moving forward, policy makers should note that the fostering of innovation, the development of small business and the facilitation of entrepreneurship should not be pursued generically and in abstract; but should be tailored specifically within the context of an overall national growth strategy and

sub-strategies for identified and targeted individual sectors. To illustrate: A government of Trinidad & Tobago striving to achieve economic diversity may identify alternative potential growth sectors such as tourism, agriculture and manufacturing. Looking at tourism, but noting that the analysis can be applied to other sectors as well, the sector is characterized by a wide array of small and micro enterprises such as taxi drivers, tour guides, bed & breakfast inns and the like. There must first be a vision and strategy for overall tourism growth which must then, within that context, articulate aligned strategies for the development of these small business actors. How do we leverage our tour guides to highlight the best of our national product at every tourist touch-point? What training in customer care can we afford MSEs at hot customer touch-points (such as taxi, guest house reception etc.), to enhance a tourist's overall service experience? What ICT innovations can MSEs produce to help tourists self-determine the latest attractions? How do we represent MSEs as part of our national tourism product, online? We can appreciate therefore, that these MSE development considerations specific to tourism may differ from those in another sector such as construction, for example.

To go further, diversification theory states that diversification strategies can be pursued horizontally or vertically. Horizontal diversification seeks to offer new products within the same sector, while vertical diversification exploits forward and backward value chain linkages, with the aim of increasing the value-added produced locally. In this regard, strategies to develop MSEs should be significantly informed by the type of overall (horizontal or vertical) diversification strategy being pursued. For example, in a 2013 Regional Study conducted by CARDI, hoteliers reported that they resorted to the use of imported produce because the agro-food products produced locally did not meet their requirements. For example, they indicated that the sweet potatoes produced locally were not long enough to prepare sweet-potato fries, and that the cuts of lamb available on the local market were not suitable for the preparation of lamb chops and other specific gourmet dishes demanded by tourist customers. The study further revealed that farmers were not aware of these requirements, but that through knowledge exchange and facilitation, farming practices could be altered to produce to the desired specifications. This example is used to illustrate that a vertical diversification strategy which envisions the output of the local agriculture sector being used as input to the local hotel and tourism sector requires a customized information sharing, co-ordination and capacity building intervention for agriculture sector smallholders. To attempt to generically develop these agriculture smallholders, outside of an understanding of the specific nature of the diversification and growth strategy being pursued would result in an incomplete treatment of all the issues and sub-optimal outcomes.

As another illustration, let us look at the cross-cutting small business challenge of access to finance. Smallholder farmers in agriculture face this issue as do burgeoning ICT firms. In the case of the small farmer, this challenge may be due to a lack of proper record keeping and an inability to produce formal financial

documentation. In the case of the ICT firm however, which has an accountant on board and a multi-year history of audited financial statements, challenges in accessing financing may be due to a traditional bank's inability to evaluate and assess the risk associated with digital and virtual, products. Therefore, while in both instances the issue is generically classed as "inability to access financing", the approach to successfully resolving the matter in each case is not one-size-fits-all.

This approach, which I dub "SME Development by Sector" (as opposed to "SME Sector Development") may justify a disaggregation of the "SME sector" as it were, such that SMEs are not treated as a sector unto themselves, but are rather addressed specifically within the context of traditional sector growth strategies. The thinking is that although there are indeed some cross-cutting realities that SMEs share, grouping SMEs together to generically treat with these common issues overlooks the diversity of characteristics of SMEs from sector to sector and the overall character of the aspirations and specific growth strategies of the sectors in which they fall.



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