

MICRO-BUSINESS AND EMPLOYMENT GENERATION

FOR POVERTY REDUCTION

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INTRODUCTION

At present there are approximately 475,000 persons living in poverty in Jamaica. In the developing world, it is estimated that 1.2 billion people live in poverty (OECD/DAC, 2000), which continues to haunt humanity, thereby becoming an affront to the rubric of Fundamental Human Rights enshrined in the Universal Declaration of Human Rights, which was adopted fifty years ago. It is internationally agreed, that the human indignity of hunger, homelessness, poor nutrition and health, lack of opportunities to learn and earn a decent wage, as well as the right to exercise basic and substantial freedoms, is intolerable and unjust.

The theme for this workshop is "Science and Technology For Social Development", which provides an appropriate framework for this session, which addresses the issue of "Micro-business & Employment Generation For Poverty Eradication". The framework is appropriate, because when poverty eradication is viewed in terms of social or human development, it provides the long-term objective that is needed for sustainability of effort. According to the UNDP's Human Development Report 2000, "The idea of human development focuses directly on the progress of human lives and well-being, substantial freedoms, integrally connected with enhancing certain capabilities."

There is no doubt that economic sector development, plays a major role in expanding opportunities and creating the enabling environment required for poverty eradication. Since financially troubled economies are not conducive to social sector development, alliances must be forged between the business sector and government to develop creative ways to expand livelihood opportunities for the poor.

MICRO-BUSINESS & EMPLOYMENT GENERATION

The employment picture for Jamaica over the past 13 years has remained consistently bleak. Table 1 below, shows that although there have been year-to-year fluctuations, the national level of unemployment has averaged approximately 15%. This high level of unemployment is an impediment to poverty reduction, and requires urgent attention. Because the socio-economic realities of each parish are unique, the approach must be varied to meet those realities. That is to say, that although micro-business as a means to generate employment is a viable approach for each parish, the type of micro-business must be determined by local conditions

Table 1: Unemployment Rates Per Parish

| Parish | 1990 | 1991 | 1992 | 1993 | 1996 | 1997 | 1998 | 1999 | 2000 | 2002 |
|----------------------------------|------|------|------|------|------|------|------|------|------|------|
| Kingston | 20.9 | 17.6 | 19.0 | 11.9 | 17.1 | 13.3 | 16.1 | 16.3 | 14.8 | 19.6 |
| St. Andrew | 15.7 | 12.7 | 14.2 | 13.1 | 7.2 | 8.7 | 9.7 | 12.0 | 12.3 | 14.1 |
| St. Thomas | 15.4 | 13.8 | 12.9 | 19.9 | 24.3 | 25.9 | 19.7 | 28.5 | 17.2 | 20.2 |
| Portland | 38.7 | 25.8 | 17.0 | 15.3 | 30.3 | 18.7 | 27.5 | 15.4 | 21.5 | 14.5 |
| St. Mary | 22.5 | 17.9 | 13.8 | 15.7 | 20.6 | 13.6 | 8.8 | 14.7 | 14.7 | 6.6 |
| St. Ann | 19.9 | 12.0 | 16.5 | 15.2 | 18.5 | 19.3 | 17.0 | 14.1 | 9.2 | 13.3 |
| Trelawny | 29.0 | 22.9 | 20.4 | 30.9 | 19.0 | 16.0 | 13.4 | 21.6 | 22.3 | 21.7 |
| St. James | 23.2 | 16.9 | 15.0 | 12.7 | 19.1 | 19.2 | 22.6 | 23.7 | 19.1 | 21.1 |
| Hanover | 12.1 | 10.5 | 9.4 | 16.7 | 12.4 | 31.7 | 26.8 | 30.1 | 25.5 | 21.3 |
| Westmoreland | 25.4 | 15.6 | 9.6 | 25.8 | 18.2 | 19.3 | 16.1 | 14.7 | 16.1 | 21.4 |
| St. Elizabeth | 9.6 | 9.5 | 14.4 | 16.0 | 19.0 | 15.5 | 16.9 | 14.0 | 13.2 | 13.3 |
| Manchester | 12.5 | 11.0 | 14.9 | 23.8 | 14.9 | 22.3 | 19.0 | 17.0 | 16.9 | 17.2 |
| Clarendon | 29.3 | 25.7 | 23.2 | 30.1 | 15.6 | 13.2 | 14.9 | 13.3 | 16.9 | 13.0 |
| St. Catherine | 14.0 | 15.6 | 16.8 | 20.0 | 20.6 | 14.5 | 13.9 | 14.8 | 16.6 | 12.5 |
| National Unemployment Rate | 15.7 | 15.7 | 15.9 | 16.0 | 16.3 | 15.7 | 15.5 | 16.0 | 15.6 | 15.0 |
| Male Unemployment | 9.3 | 9.4 | 9.7 | 11.1 | 10.6 | 9.8 | 9.8 | 10.5 | 10.2 | 10.7 |
| Female Unemployment | 23.1 | 22.8 | 22.9 | 21.5 | 23.1 | 22.7 | 22.2 | 22.9 | 22.4 | 21.1 |

Source: STATIN: The Labour Force, various years

N.B. Data for October 2001 are not available due to the Fieldwork regarding the Population Census

Salmon (2003) in a paper on creating wealth through science and technology, pointed out that "Since it is generally agreed that the small and micro-economic sector offers the greatest potential for economic development, it is of paramount importance that we improve the application of science and technology to this sector." The consensus among development experts is that science and technology if properly introduced in a country, is one of the most powerful tools available to spark sustainable development in the developing countries of the world. It follows then, that if science and technology is appropriately applied to the micro-business sector, the sector could be a major force in the creation of new employment opportunities, particularly for the poor. The application of science and technology to the sector would also lead to the development of new products and services, which would contribute to economic growth as well as create employment.

The available data as shown in table 2, clearly show that micro-businesses offer significant opportunities for employment generation.

Table 2: Select examples of micro-business employment 2003

| AGENCY | # OF ACTIVE LOANS | # OF JOBS CREATED |
|-----------------------------------|------------------------------|--------------------------|
| Jamaica National | 6,873 | 9,596 |
| Micro Enterprise Financing | 579 | 1,489 (estimated) |
| MIDA | 1,598 | 3,665 |
| Self Start Fund | 206 | N/A |
| NCB | | |

THE REQUIREMENTS

If micro-business is to be an engine for employment creation, certain conditions and requirements must be met; chief among them are the following:

- Financing
- Research and development
- Non-financial services

Financing

Let me begin this section by challenging two assumptions that often form the basis of discussions about micro-enterprise and poverty. The first assumption is that micro-financing only benefits those in poverty, if loans or grants are made directly to them. There is an implicit falsehood about this assumption, because it ignores the fact that loans or grants made to those not in poverty, can result in employment for those in poverty. The second assumption is that high interest rate is not an impediment for those in poverty. This assumption is inherently false because it is based on the fact that those in poverty usually complain about the lack of credit and not about high interest rates. It is quite probable that they do not complain about high interest rates, because the lenders usually quote rates on a monthly basis without telling the client, and without giving the comparable annual rate. It is also true that these borrowers usually have no alternative source of financing, therefore, they have no choice.

Malcolm Harper points out that the vast majority of people involved in the micro sector are usually poor, land-less, and asset-less (Levitsky, 1989). It is for this reason that they have difficulty accessing credit. If the micro-enterprise sector is to achieve its potential for generating employment, there must be greater access to funds. It is recognized that one of the key factors that limits access, is the transaction costs and risks associated with the sector. Access is related to proximity, therefore, financial institutions that have networks near to borrowers provide greater access by being available and by reducing transaction costs. In the case of Jamaica, the attempt to provide better access through the establishment of the Community Development Fund (CDF) and other Approved Lending Agencies (ALA), offers much promise for the sector.

But access is also related to the affordability of interest rates. Micro-businesses operate at the margins, therefore, high interest rates and other service charges can easily devour the already meager profits of the borrower. Historically, low interest ceilings and fixed interest spreads have tended to benefit larger borrowers with collateral, while they have operated to the detriment of smaller borrowers. The challenge facing the society, is how to provide funds to micro-businesses at interest rates that are affordable, while at the same time beneficial to the lender. I suggest that this can be achieved through a partnership between private financial institutions and Government. The government could provide some type of guarantee and incentive, while private entities could provide funds by earmarking a fraction of available funds for the micro sector with the clear understanding that as a contribution to social development, profits on these funds will be lower.

One of the major deficiencies of the financial system in Jamaica, is the unavailability of venture capital in general, but particularly for micro-businesses. It is a well-known fact that the overwhelming majority of new micro-enterprises will fail, which means that the risks are great and this serves to inhibit those who are already in poverty. This problem could be partially addressed if large businesses and government would collaborate in establishing a venture capital fund specifically for the micro-business sector.

Research and Development

The state of research and development for the small and micro enterprise sector is negligible in general, and nonexistent in most areas of Jamaica. The most significant effort in this regard, is to be found in Jamaica Business Development Center (JBDC) which has "state of the art" equipment and is doing a good job with limited funds. The Center carries out research, which is then used to the benefit of the small and micro enterprise sector. The University of Technology has only recently established a Technology Innovation Center which has research and development as a major activity. One component of this center, is a desperately needed business incubator. The Scientific Research Council does research but it is not specifically targeted to the small and micro-enterprise sector.

Without the appropriate research and development, the micro-business sector is likely to lag behind in every conceivable way. Research and development is costly, therefore, in a small economy like Jamaica's, there is a need for several entities to share the cost by collaborating on research and development activities. Such collaboration will increase the chance that micro-businesses will be conducted on a scientific basis, thereby increasing the likelihood that they will survive in a highly competitive global environment.

Non-financial Services

Judging by the current availability of service to the micro-business sector, it can be concluded that the provision of non-financial services to the small and micro enterprise sector in Jamaica, is not a high priority. The availability of service is very poor in the urban areas but it is essentially non-existent in the rural areas. As a consequence, the full potential of the sector to create employment and reduce poverty is not being realized. The absence of such services jeopardizes the sustainability of the micro and small business sector and retards the development of communities and the nation.

The Jamaica Business Development Centre offers a wide range of services through its satellite centers that are located at strategic points throughout the island. The University of Technology, through its Entrepreneurial Center, provides training and technical support to entrepreneurs. As far as can be ascertained, no other agency provides a systematic approach to the provision of non-financial services. Certainly, some service is provided by other agencies but it is usually sporadic and very limited.

Marketing, Management, and Training, are three crucial areas of non-financial service that must be addressed if the sector is to achieve its potential. As noted earlier, people often lack the capital to invest in micro-business; but even when they have or obtain the capital, they may lack either markets, management skills, training or any combination of these. The success of micro-business in creating employment and reducing poverty, depends on our ability to identify and fill the gaps that may exist in any of these areas.

Traveling around Jamaica, one will observe abundant quantities of goods that have been produced by micro-businesses, but are stored in makeshift locations because there is no market or they have not been properly marketed. Very often the business produces good quality products that are in demand, but the demand cannot be met, therefore, the customers seek out other suppliers. One of the obstacles to appropriate marketing strategy is the failure of many micro-business to decide whether they are going to produce for the retail or the wholesale market. A good example of this is the case of a leather craft manufacturer in the parish of St. Mary. With the assistance of a loan, he created a thriving business and hires two other persons. Typically, he makes items two or three days per week, and spends three or four days selling these items in Kingston, Montego Bay and Ocho Rios. He states that he does wholesale some items to traders but he cannot produce enough for this market. An analysis of the situation revealed that the owner incurs a sizeable overhead by traveling to sell the items on the retail market, and that in the process he sacrifices valuable production time. When he was advised to consider focusing on the wholesale market, he flatly rejected the idea, because he believes that the markup that would go to the retailers should come to him. Efforts to show him that he is losing production time, and incurring unnecessary expenses for

overhead, proved futile. There is no doubt that this business has the potential for employing more persons, but his approach to marketing is a major impediment.

Most micro-business operators, do not adhere to appropriate management practices, and this puts them at a disadvantage. They often cannot tell you whether they are operating at a profit or loss, and rely excessively on hunch and anecdotal evidence for decision-making. If micro-businesses are to be the engine of economic growth, employment creation and poverty reduction, decisions and direction must be driven by science and technology. This is particularly true in light of globalization today, when even micro-businesses are no longer protected, so that they can face competition from both distant and near locations. Whereas a large business can afford the luxury of employing persons with specialized skills, a micro-business owner has to be a generalist who does a little of everything. It means, then, that the micro-business operator invariably needs training in management as well as a variety of areas. Micro-business operators need to be trained in appropriate packaging, quality control, contract negotiation, purchasing of raw materials, basic bookkeeping, and how to increase market share.

Crucial to the development and sustainability of micro-enterprises is the establishment of related networks through which experience and expertise can be shared. Such networks can and should evolve to become trade organizations that can offer support and become a lobby for the interests of the sector.

In conclusion, in order to enhance the potential of the micro-business sector for employment generation and poverty reduction, I recommend the following:

RECOMMENDATIONS

- Establish a fund dedicated to Research and Development. Such a fund could be jointly financed by the government and the private sector.
- Establish a transparent process for accessing these funds to carry out research related to small and micro-enterprise
- These funds should be made available through a competitive process and involving scientific criteria.
- Increase funding to JBDC to enable it to increase its research and development activities as it relates to the small and micro-enterprise sector
- Establish small and micro-enterprise incubators at focal points, where entrepreneurs can get "hands-on" experience.

Institutional Framework

Permit me to leave you with two key questions posed by Malcolm Harper in regard to institutional framework. These are as follows:

1. What type of institutions can assist/support micro-enterprises and what are the strengths and weaknesses of each?
2. What institutional arrangements can be made to combine the strengths of some or all of these institutions in service of the sector?

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