



Comments on the MIIC's MSME Policy

**Prepared by
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INTRODUCTION

The purpose of this paper is to highlight the concerns of the Fair Trading Commission (FTC) as they relate to a document outlining a policy framework being proposed by the Ministry of Industry, Investment and Commerce (MIIC) to develop Micro, Small and Medium-sized Enterprises (MSMEs) in Jamaica.¹ The comments are offered pursuant to the perspective of the FTC's statutory authority to safeguard competition as the primary means of organizing economic activity in Jamaica.

COMMENTS

1. Vision Statement

The vision statement for the Policy Framework reads "A highly efficient, competitive and profitable sector which increases employment and confidence and fuels economic growth and development."²

The main concern with the stated vision is that it proposes to promote inherently conflicting goals, by virtue of encompassing multiple economic and social goals. The economic goals targeted include (i) efficiency; (ii) competitiveness; (iii) economic growth; and (iv) economic development whilst the two social goals targeted include (i) increased profits³ and (ii) increased employment. While the economic goals complement each other, they conflict with the social goals. For instance, as the sector becomes highly efficient and competitive, MSMEs will inevitably generate less economic profits; this as competition would not allow enterprises to

¹ MIIC. MSME Policy: A Framework for the Development of Micros, Small and Medium-sized Enterprises in Jamaica (Draft). September 22, 2011.

² MIIC. MSME Policy Framework: A framework for the Development of Micro, Small and Medium-Sized Enterprises in Jamaica (Draft), September 22, 2011, p. 30.

³ Policies targeting increased profits for a special interest group have the effect of redistribution of wealth and are therefore considered to be promoting social goals.

maintain excess profits in the long-run. Similarly, Policy 6.0, dealing with Innovation and Productivity, seeks to encourage greater utilization of technology. To the extent that a greater usage of (labour-saving) technology may require enterprises to rely less on human labour, this strategy may frustrate the goal of increasing employment. The Commission recommends that policymakers consider revising its vision statement to encompass a set of mutually consistent goals; either social goals or economic goals. In the absence of such a revision, policymakers should make it clear as to which set of goals takes precedence in the event of conflict.

Comment 1 The vision statement is too broad in scope in the sense that it captures mutually inconsistent goals which is likely to frustrate attempts to realizing the vision.

Recommendation 1 The Commission recommends that policymakers consider revising its vision statement to encompass a set of mutually consistent goals. We recommend that the vision be limited to economic goals. In the absence of such a revision, policymakers should ensure that the economic goals take precedence over the social goals.

2. Rationale and Scope

The empirical evidence supporting, or the rationale for, the government's interest in developing the MSME sector is inadequately established in the MSME policy document. The only empirical evidence supporting the government's interest in promoting the MSME sector is offered in a related but separate policy on increasing the participation of Micro and Small Enterprises (MSEs) in public procurement tenders. The current procurement policy has been in effect since April 2009. A document outlining a framework for strengthening procurement systems indicates that MSEs contribute the economy, job creation and sustaining the social-economic fabric by:

- Supporting community development and co-hesiveness (sic);
- Reducing the payment of unemployment benefits;
- Increasing job participation for low skilled workers;
- Their Increasing numbers having a direct relationship to National Income levels
- Contributing to the supply chains of National and International companies; and
- Providing increased levels of entrepreneurship and industry flexibility.⁴

The benefits listed above justify only the social goals identified in the vision statement of the broader MSME Policy. It is unclear whether any study has been done to determine if an increased participation in public procurement tenders on the part of MSEs will contribute to, or

⁴ McDermont, David and Sonia Witter-Richards. Policy Framework: Increasing MSME Participation in Public Procurement (Draft Final Report). September 2010, Section 3.2.

frustrate, the realization of the economic goals identified in the vision statement of the MSME Policy. Given that the procurement policy will inevitably divert funds from big businesses to MSEs, any study aimed at justifying the government's policy would have to measure the economic contribution of MSEs relative to other enterprises offering procurement services. If MSEs are less efficient or less competitive than other enterprises, for example, then the procurement policy is likely to frustrate the economic goals identified in vision statement of the wider MSME policy.

Comment 2 The economic contribution of the MSME sector relative to larger enterprises has not been quantified.

Recommendation 2 The policy framework document should disclose studies which support the view that small businesses make a demonstrably greater economic contribution than big businesses do. The scope of the policy framework should then be limited to only those markets in which this result is reasonably likely to be tenable.

Recommendation 3 If Policymakers do not identify markets in which small businesses make a demonstrably greater economic contribution than other enterprises do, the scope of the policy framework should be limited to only those markets in which big businesses do not participate.

3. Classification of MSMEs

The Policy Document endorses a metric for classifying MSMEs based on two criteria: (i) number of employees and (ii) total sales. Clarification is needed on whether the number of employees comprises part-time, contract and full time employees. Another issue which needs clarification is how these criteria are to be used. For example, the document indicates that the two conditions under which an enterprise may be classified as being micro are: (i) if it employs at most 5 individuals or (ii) if it generates total sales not exceeding \$10 million (presumably annually). The document is silent, however, on whether both conditions are required to be met to be classified as a micro enterprise. Further, where both conditions are conflicting which condition is given greater weight in deciding upon the classification? For example, if an enterprise employs 4 persons and has \$40 million in sales then how should it be classified? Similar concerns hold for the classification of small and medium-sized enterprises.

Comment 3 Policymakers should clarify its system for classifying the size of enterprises.

Relying on absolute measures of size to classify enterprises is likely to pose considerable problems when used across a variety of industries. For example an enterprise generating sales of \$100 million would be considered small in the road works industry but considered big in the catering industry. This problem could be overcome by relying on a relative measure, namely

market share, to classify the size of enterprises. Market share is used routinely by competition authorities to measure the size of an enterprise in a given market.

Recommendation 4 Policymakers should consider using market share, based on total sales and/or total number of employees, to classify the size of an enterprise in a given procurement market.

We recognize the challenges in obtaining market share data in Jamaica given the size of the informal sector, and therefore the use of industry specific benchmarking with regards size may be the most appropriate standard for deciding upon classification.

4. Miscellaneous Comment

Inconsistent statements The final sentence on page 36 states that “...Micro-Enterprises are relatively insensitive to high interest rates” while the first sentence in Section 2.4(a) on page 37 states “...SMEs are more sensitive to high interest rates.” (emphasis added)