

Small and Medium Enterprises in Curaçao: What is the Policy?

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Abstract: Purpose — The purpose of this article is to describe the case of Small and Medium Enterprises (SME) in the Caribbean zooming in on the Curaçao case. Methodology/Approach — For this study a brief literature review was conducted and a survey was held. Experts and a focus group were consulted. Findings — SME policy in Curaçao is not in place. This is in line with the outcome of other research done in the Caribbean region and also the general impression in Curaçao. Originality/value of paper — The paper contributes to the analysis of SME in small Caribbean Islands and is a reference point for further research.

Key words: Curaçao, Caribbean, SME, SME policy, unemployment, poverty reduction strategy, business financing

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1. Introduction

As in many Caribbean Small Island Developing States (SIDS), Small and Medium Enterprises (SME) are considered the backbone of the economy of Curaçao, especially considering the number of people employed in this sector. The discourse of politicians and other actors involved with the policy cycle confirm this, but what is the reality of their actions? How do SME sector experience the business climate? What are some of their concerns? To answer these questions a survey was held to get the response from the SMEs. In this study the discourse regarding SME is also studied. The literature on SME in the Caribbean is also reviewed. The results are presented in this paper.

2. Methodology

The literature on SME in the Caribbean was reviewed. In collaboration with the Chamber of Commerce of Curaçao a questionnaire of nine questions was prepared and tested. This was presented to the SMEs via the social media channels of the Chamber to the population, in the period of June 2014 till October 2014. This was a convenience sample. 51 SMEs responded. This is a low response what is very common when using the internet.

The results were discussed with five experts and a panel of representatives of the SME sector, conveniently selected. A newspaper article was published and reactions were gathered. After that the final results were formulated.

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3. Literature Review

There is no consensus on the definition of SME. United Nations proposed the following part of the definition of SME:

- Micro enterprise 1 to 9 persons employed.
- Small enterprise 10 to 49 persons employed.
- Medium enterprise 50 to 249 persons employed (United Nations, 2005)

SMEs are major contributors to employment and growth worldwide. According to the Organization for Economic Co-operation and Development (OECD): SMEs contribute about 55% of GDP and 65% of employment in high income countries and over 90% of employment and 70% of GDP in middle income countries, such as in most Caribbean economies. SME is also a growing source of export revenues in middle income countries. Only 13% of the Caribbean SME export, most on a very limited basis.

CARICOM estimates that micro and small enterprises account for more than 45% of jobs in the region. If medium-sized enterprises are included, the sector arguably contributes more than 70% of jobs (Hendrickson, 2009).

SMEs also fulfill a social role in the region. The vulnerable are more prone to start a business as a way of living (Coke-Hamilton, 2014). SME can play a key role in the fight against poverty (Kok de et al., 2013).

In 200 the ILO presented the following picture of SME in the Caribbean region:

With regards to constraints, SMEs have almost identical problems but with varying degrees across the region. Some constraints may be country or sector specific and can be classified into the following:

- Legal: While the importance of the SME sector has been recognized and articulated in official statements, no clear and comprehensive policy has been put forward for its further development. There is no formal official definition of what constitutes micro, small or medium enterprises. With the exception of Trinidad and Tobago, no other country in the Caribbean has legislated fiscal and monetary benefits to the sector. However, attempts are now being made in Barbados and Jamaica.
- Institutional: Although there are many agencies which provide support for the sector, there is no institutional frame work for facilitating the planning, implementation, co-ordination and valuation of activities in the SME sector.
- Infrastructural: The non-availability of factory/commercial space to suit the needs of the sector coupled with high cost of utilities and rent are considered the major impediments to the growth of the sector.
- Financial: The lack of accessible and affordable financing and appropriate financial mechanisms remain a major constraint for SMEs.
- Training and technical assistance: Although there are many institutions involved in skills training, there is limited entrepreneurial training offered. SMEs lack on-going technical assistance and “hands-on” training to upgrade their products, increase productivity and improve packaging.
- Marketing: Except in the agriculture sector, there are no formal institutional arrangements for marketing the products and services of SMEs.
- Others include the lack of timely market information, difficulties in accessing new technologies, the inability to adapt to local conditions, high competition from imported products due to trade liberalization and the non-availability of affordable technical and managerial consultancy/counseling (ILO, 2000).

The ILO proposes the following SME policy:

Building SMEs capacity requires cohesive planning, a strong institutional and organizational framework, and an effective implementation mechanism that has a build-in monitoring structure that would ensure sustainable and productive development of the sector. Following are some recommendations for building the SME capacity in Caribbean countries:

- Establishment of national micro and small enterprises boards
- Implementation of a national small business policy
- Introduction of entrepreneurial education in the school curriculum
- Develop programs to identify prospective entrepreneurs and business opportunities
- Training in new skills and upgrading existing skills
- Implementation of innovative SME friendly financial schemes
- Development of a sophisticated marketing culture through proper institutional support
- Development of “hands-on” technical assistance programs
- Integrate technology-based institutions with the SME sector and establish a strong networking mechanism with other promotional/financing agencies
- Development of infrastructural support services through Small Business Development Centers
- Development of exclusive entrepreneurship development and enterprise management programs for women, youth and other disadvantaged groups
- Development of stronger linkages between employers’/workers’ organizations and the SMEs (ILO, 2000)

4. SME in Curaçao

SMEs are of vital importance to the economy of Curaçao. SME in Curaçao contributes 30% to the GDP. In 2010 the Bureau of Statistic of Curaçao published that there are 12.200 SMEs, 97.4% of all enterprises are SME. In October 2014 an investigation of the Bureau of Statistic of Curaçao states that only 5.000 are active, the rest is dormant or something else¹. In Curaçao micro business employs on average 1.5 workers, small business 6.5 and medium enterprises employ 21.4 workers. SME employs 55.7% of the total workforce (Kunneman, 2014). SMEs contribute 31% of Gross Domestic Product. SMEs are a large contributor to employment and economic activity on the island.

Compared to the world and the Caribbean region SME in Curaçao/The Netherlands Antilles fall behind. Although according to the ILO (2000) the whole region faces more or less the same challenges.

Table 1 SME Curaçao Compared to the Region and the Globe

	Global	Caribbean	Curaçao
Contribution GDP	55%	70%	31%
Employment	65%	70-90%	50-56%

To improve SME performance Curaçao must learn from the regional “best practices”. Especially explore the most suitable legal construction for SMEs. For the older businesses Curaçao should study how to deal with succession of the founder of the company. SMEs should consider installing an advisory board for management. In HRM also much remains to be done (Kunneman, 2014).

¹ http://qraao.com/index.php/nieuws-vandaag/12335-meer-dan-de-helft-van-bedrijven-bestaat-niet?fb_action_ids=10201754490063966&fb_action_types=og.comments&fb_source=other_multiline&action_object_map=%5B793858547337859%5D&action_type_map=%5B%22og.comments%22%5D, accessed on 23 October 2014.

The president of the Central Bank of Curaçao and St. Maarten claims that dollarization and other reforms will improve the competitiveness of Curaçao, including SME. Other reforms that are needed are to make the labor market more flexible as well as the capital market. Another important area of reform is the reduction of administrative barriers (Tromp, 2009).

The government of Curaçao is aware of the importance of SMEs as part of the economy. In the government program 2013-2016 (2013a) it is stated that the financial offshore and SME sectors are vital. In the main economic policy document, *Strategies for sustainable long term economic development in Curaçao*, the report states the following: That there is an official SME policy: *SME and Entrepreneurship Policy, March 2012*.

The policy document also states that government is lowering its funds dedicated to SME.

In terms of public expenditure on Small and Micro Enterprise Development (SME), it can be seen that this is relatively low at NAf 3.3 million in 2011 and 2012, and is budgeted to be reduced to NAf 3 million in 2013. Given that SME Development is expected to be an important engine of economic growth, it seems that public expenditure in this area should be increased rather than decreased. A careful assessment of the critical requirements for stimulating the SME sector should be conducted and resources allocated accordingly.²

The recommendations in the report regarding SME are:

Develop a culture of implementation of decisions taken and plans defined. For instance implement the SME policy which has already been approved by the government.

More incentives should be developed and targeted at SMEs. It is the team's understanding that the Government is already working on this issue. The main tenets of the SME Policy:

- The establishment of a Small Business Administration Office which plays the role of a central coordination office to deal with the needs of SME entrepreneurs
- Reduced bureaucracy and barriers to trade for SMEs
- One-on-one coaching and business support services for SME entrepreneurs
- Easier access to credit for SMEs
- An SME Business Incubation Program
- A public education and awareness program to encourage persons to choose entrepreneurship as a career option
- Creation of a database on SMEs
- More explicit inclusion of SMEs in the policy cycle
- Additional financial resources allocated to SMEs.

5. The Survey Results

86% of the companies that responded to the survey employ less than 10 persons, 8% between 10 and 49 and 6% between 50 and less than 250.

How many people do you employ?	
Base	51
Less than 10	86%
Less than 50	8%
Less than 250	6%

37% of the companies were founded less than five years ago. 19% were started between six and ten years ago. 44% of the companies are in business for more than ten years.

² The total budget of Curaçao is 1.9 billion guilders.

They operate in the following branches of the economy:

What branch do you operate in?	
Base	52
Agriculture, fishing and mining	0%
Manufacturing	2%
Electricity, gas and water	0%
Construction	12%
Trade	12%
Hotels and restaurants	2%
Transport, storage and communication	4%
Financial intermediation	17%
Real estate, renting, business activities and other services	29%
Education private	4%
Health and social work	2%
Other community, social and personal service activities	17%

92% of the companies rate the government policy on SME from average to bad. Only 8% rate the SME policy as good or excellent.

How do you rate the government policy regarding SME?	
Base	49
Bad	43%
Average	49%
Good	6%
Excellent	2%

How do you rate the government policy regarding SME?			
	Less than 10	Less than 50	Less than 250
Base	43	2	3
Bad	44%	0%	67%
Average	49%	100%	33%
Good	5%	0%	0%
Excellent	2%	0%	0%

Only 6% of the companies rate the service level of the government as good or excellent. A recent example of this: On the 20th of June 2014 the Economic and Social Council of Curaçao reports to the government that the introduced cash registers are too complicated for SME.

6. How do you rate the government service?	
Base	50
Bad	50%
Average	44%
Good	4%
Excellent	2%

6. How do you rate the government service?			
	Less than 10	Less than 50	Less than 250
Base	44	2	3
Bad	50%	50%	67%
Average	43%	50%	33%
Good	5%	0%	0%
Excellent	2%	0%	0%

63% of the companies grade the labor market from average to good.

Only 6% of the companies state that it is easy to obtain financing for their projects. 47% declare that it is difficult to almost impossible.

8. How hard is to finance your investments?				
	Less than one year	Between one and five years	Between six to ten years	More than ten years
Base	2	16	10	21
Difficult	50%	25%	20%	24%
Easy	0%	6%	0%	14%
Average	50	38%	70%	38%
Almost impossible	0%	31%	10%	24%

84% of the companies desire an internet payment solution.

9. Do you wish an internet payment solution?				
	Less than one year	Between one and five years	Between six to ten years	More than ten years
Base	2	17	10	19
Yes	100%	76%	80%	79%
No	0%	24%	20%	21%

This is peculiar given the fact that Curaçao is leading in internet³.

6. Conclusions, Discussion and Recommendations

This is an exploratory case study on SME in Curaçao. Initial brief conclusions are drawn. Obviously a study like this has its limitations, but given the state of research in this area in Curaçao it is relevant. Concerning SME it appears that Curaçao is staying behind, compared to the rest of the world and the region. Paradoxically SMEs might contribute to solving the low economic growth, increase exports and reduce the high unemployment of 13% and youth unemployment of 37%. This SME policy solution is more sustainable than what seems to be the current strategy: to start a big infrastructure project, starts the construction of a new much needed hospital and another hotel. A combination of both strategies is probably the more sustainable.

The survey confirms the statements made by the Central Bank. Curaçao needs to reform the labor market; the capital market and administrative barriers must be taken away.

It is clear that over 90% of the SMEs are dissatisfied with the current SME policy. The policy in place might explain why Curaçao is behind. Another factor is the poor government service. These two factors combined might indicate that SME is not a real priority in the economic policy. The service provided by government regarding

³ <http://www.amigoe.com/curacao/195248-curacao-top-in-de-regio>.

permits, taxation and social security is an obstacle.

According to the SMEs there is room for making the labor market more flexible.

It is difficult to finance SME project and there is no internet paying solution for these companies. This indicates that SME is also not a priority for the banking sector. The fact that SMEs want to have an internet paying solution is an indication that they want to export but without this solution it is difficult.

Up to now the SME policy in Curaçao is only on paper. Further research focusing on entrepreneurs is important. I suggest having in depth interviews with entrepreneurs and policy makers to understand the way they think and behave.

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