



“Implications for Private Sector Productivity and Profitability”

Presentation by
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OPENING REMARKS

- Ladies and gentlemen - a very good afternoon to you all, and a very special good afternoon to the students of the UWI in particular, who are with us here this afternoon.
- It is an honour for me to be here representing The Micro, Small and Medium Sized Enterprises Alliance (The MSME Alliance) and the small-business sector in general.
- The MSME Alliance is a non-profit, umbrella organization, comprised of a wide range of small-business associations across the island and from all sectors of the economy, including:

- ***Agriculture, Fishing & Forestry***
Manufacturing
- ***The Distributive Trade***
- ***Transportation & Logistics***
- ***Public Transportation***
- ***Construction & Mining***
- ***Tourism & Entertainment***
- ***Cultural Industries***
- ***Information & Communications Technology***

- Although I was asked to speak on the topic: ***“Implications for Private Sector Productivity and Profitability”*** of the recently concluded budget presentations, I will limit myself to the small-business sector.
- Indeed, while the MSME Alliance is a proud member of the Private Sector Organization of Jamaica (PSOJ), as you can appreciate, the large member-companies of the PSOJ naturally have different means and methods of dealing with both the positive and negative outcomes arising from the budget, than their smaller counterparts.

MSME ALLIANCE MISSION

- The Mission of the MSME Alliance is to advance the interests of our members; to improve access to financing; and to build technical capacity and enhance the global competitiveness of MSMEs.

We carry out this mandate using several strategies.:

- We lobby the Government to ensure that policy decisions do not adversely affect our members;
- We foster strategic partnerships, both locally and globally;
- We form collaborations to create economies of scale and improve market access for our members.

TEN YEARS OF ADVOCACY

- The MSME Alliance is 10 years old this year, so as you can imagine, a post-debate discussion such as we're having this afternoon, is not new to us.
- As an organization, we've had some pretty strong responses to budgets over the years. If you recall, the 2008-2009 financial year heralded a period of global turmoil and change that had escaped the predictive capacity of every economic and financial guru in the world.

As such, lobbying for the MSME sector moved to the top of our list of priorities.

- We wrote letters to the Prime Minister;
- We had several meetings with various Ministers, including the Ministers of Finance, National Security, and Transport & Works;
- We even engaged in public demonstrations, including a “bawl-out” in Portmore in 2010, to draw attention to the plight of small businesses in the stagnated economy of the day.
- Many MSMEs died under the burden of the recession, worsened by high JPS bills, the new tax measures, high
- bank charges, business closures during the infamous State of Emergency that year, high criminality, especially praedial larceny; among many other, daily challenges.



**MSME Alliance- “Bawl-out” in Portmore
(August, 2010)**

MSME CONSULTATIONS

- In preparing for today's presentation, we did a round-robin of our members and sector-representatives for their initial responses to the budget presentations.
- As you can appreciate, they were primarily attuned to the tax package and what they perceive as the adverse effects it would have on their customers and their businesses.

FUEL TAX

- The Jamaica Gasoline Retailers Association (JGRA) is one of our member-organizations whose member-companies are directly affected by an increase in the tax on fuel. They predict that the increase will have an immediate adverse impact on their working capital as dealers and a significant increase in cost to their customers.
- About \$38 of every litre of fuel sold to a customer, goes to the government as tax. This represents about 40% of each litre sold. The vast majority of motorists do not buy by volume but by price. And at 40% the JGRA says they're at their threshold so anything beyond this, threatens an inflationary effect.
- Also, when oil prices move back up to \$130-\$140 per barrel as was the price in 2014 and not the \$55 per barrel today, it inevitably will have an inflationary effect.

GROUP HEALTH INSURANCE TAX

- The government's intention to impose a consumption tax on premiums in relation to group health insurance is seen as a retrograde step by our members.
- Our members who commented on this measure, said the new tax fails to understand the link between productivity, the economy and an increase in GDP.

TRANSPORTATION & LOGISTICS

- Our member-organizations that are in manufacturing, the distributive trade and public transportation are all adversely affected by the Fuel Tax and the increases in motor vehicle licensing fees.
- Transportation and delivery costs; and the cost of raw materials are two immediate increases that will be passed on to consumers, who will naturally react by reducing their spend.
- There is also the 20% across the board increase in MV licensing fees that our members will have to apply to their business expenses and ultimately, their customers.

CONSTRUCTION AND MINING

- The Incorporated Master Builders Association of Jamaica (IMAJ) – an MSME-member organization, represents about 150 construction entities, employing about 120,000 persons.
- At one point, the IMAJ represented about 10-12% of GDP. Today, as a result of Government policy over the years, businesses in this sector are barely surviving, despite the growth projected for this sector.
- According to the IMAJ, growth is definitely occurring, but it barely involves local construction businesses, as: <quote>***“everything is going to the Chinese.”***<unquote>

- The Government signed a deal with the Chinese to design and build the proposed new Parliamentary building - a virtual insult to our local businesses. And even some companies in the private sector are taking their cues from the Government, giving their projects to the Chinese.
- These deals also adversely affect employment in the sector, as large numbers of work permits are issued to facilitate the Chinese contractors.

BANKING & FINANCE

- The ability to access adequate or serviceable financing has been cited in many studies as the most important factor that determines the survival and growth of MSMEs in both developing and developed countries.
- The MSME Alliance is pleased that the Government has been doing its part in ensuring that loan funds to the sector reach us at rates that keep trending down.
- And recent developments, announced since December 2016, up to and including the Closing Presentation of Finance Minister, Audley Shaw, in the 2017-18 Budget Debate, augur well for small businesses and their ability to access low-cost funding.
- However, we believe that there is much more that the Government can do to reduce or eliminate the bureaucracy attendant on the banking sector.

- It is a large part of the reason for the size of the population of the “unbanked.”
- With a work-force of 1.3M and a tax-payer population of only 500,000, it begs the question: why are there so many persons willing to risk operating outside the formal economy?
- Although the first reason you’ll hear in response to this question is: “too much taxes,” I also know, from my discussions with entrepreneurs in the informal sector, that one of the main reasons for remaining in the shade is the counterproductive burden, vis-a-vis the steps to enter the formal sector.
- Consider the process to register a business:
(many improvements made but process still onerous and intrusive)
- Consider the process to open a bank account:
(many improvements made but the process still onerous and intrusive)
- Consider the capricious nature of bank fees and charges

CONCLUSION

- Over the course of the last 10 years, the MSME Alliance has experienced the good, the counter-productive and the destructive effects of the various policies of successive governments on our businesses.
- Organically, MSMEs have a high failure rate. An estimated 6,000 businesses are started annually in Jamaica, with a failure rate of approximately 50 percent.
- Because the risk is high, banks are cautious to lend, and credit processes are complex.
- It is true that some MSMEs are content to remain small. In fact, research shows that only a small number ever expand out of this group.
- Stiff business challenges, due to macro- economic variables; a reduction in the purchasing power of consumers; and the availability of cheap imports, all contrive to make it difficult for businesses to be productive and profitable.
- However, we do not expect the Government, through its taxation and related policies, to be a hindrance to business and economic growth.
- But while the 2017-2018 Budget is seen as a mixed bag, based on the different perspectives and interests of MSMEs, opportunities are there to be exploited by astute business owners and entrepreneurs.