

APRIL 2013

Staying Connected

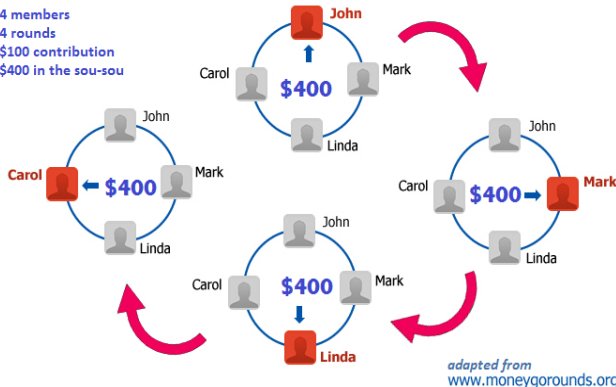
For the Alumni of the ECCB's Savings and Investments Course

YOUR FINANCESYOUR FUTURE

YOUR FINANCIAL NEWS

Susu about Sou-Sou

4 members
4 rounds
\$100 contribution
\$400 in the sou-sou



“We live in a truly networked and interdependent world, united by a global economy. In the past, business and economics were like plays (maybe by the same author) performed in separate theatres to discrete audiences. Their actors and actresses were distinct, and their manner of performance was often influenced by the individual theatre’s tradition. Now the drama takes place on one enormous global stage. The players on this stage are sometimes in competition for the audience’s attention, but movements across the stage are free-flowing, no longer obstructed by obsolete stage furniture. The global stage is a stage of perpetual motion.”

Whither Goes The Future Of Caribbean Businesses In A Borderless Global Economy?

The ECCB Entrepreneurship Course - Cohort II Grenada.

Thirty more persons schooled in entrepreneurship

- ◆ Feature Address by Mr. Lennox Andrews, Economist, General Manager, Communal Co-operative Credit Union, Grenada.
- ◆ Valedictorian Speech by Dillon Johnson.

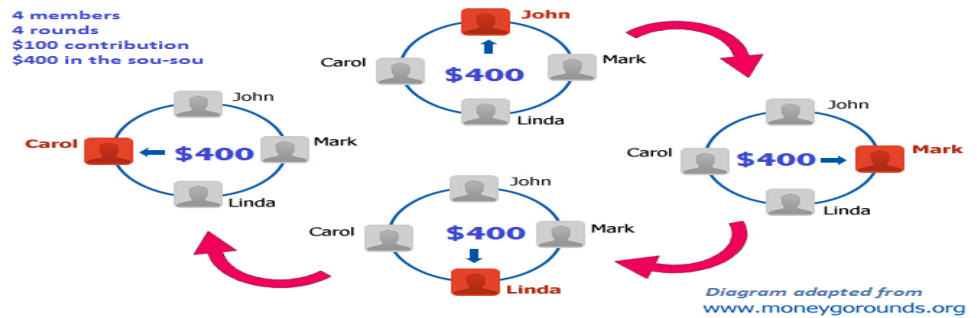


The Next Global Stage

Challenges and Opportunities in Our Borderless World

Kenichi Ohmae

My Susu about Sou-Sou



I am always in debate with my friends and associates about the merits and demerits of sou-sou or partner hand - *This informal savings arrangement where persons pool equal amounts of money for a period and after each period is up one of the members receives the money. This process repeats itself until each member of the group receives that lump sum at least once.*

Why my beef with this old age practice that has been handed down from Mother Africa? The issue is that from a financial perspective the risk-return dynamic operates in the reverse in the sou-sou arrangement. In finance, the assumption of more risk is directly correlated with the opportunity for potentially greater return. In the case of the sou-sou this rule is turned upside down. The person who assumes the least risk i.e. the first person in the sou-sou distribution, gets the highest return; the last person in the sou-sou assumes the highest risk and receives no return on their

savings. How is that conclusion arrived at? Well you do the math. If you are in a sou-sou arrangement and you are the first person to receive the sou-sou, then you receive a 100% interest free loan and you bear no risk. Hurray for you! You could not have received a better deal elsewhere. You risk no money of your own but receive the contributions of all the other persons in the sou-sou. If you are the last person to receive the sou-sou you get a 0% interest savings plan. Certainly, if you are not the one in the front line to receive the sou-sou you may do better by placing your monthly sums in a bank or credit union so that your money can begin to earn interest from the first savings installment. Yes, I have heard all of the reasons why saving solo is hard;

including not having the discipline to make regular on-going savings, the sou-sou provides the discipline. My advice is that you consider having your banker prepare a standing order to deduct a specified amount from your monthly income and place this into a locked savings plan for the period that you want to save. In this way you are saving regularly while maximising the return on your savings.

With all my criticism of sou-sou, however, there is something to be learnt from the power of group dynamics in a sou-sou. Persons who participate in a sou-sou also talk about the intangible gains derived from being in this informal savings group - the development of group trust, respect, commitment, reliance, leadership, camaraderie, and other

intangibles that one cannot get from a traditional savings account. This savings club model may be one that traditional saving institutions can learn from in building a community of not just savers but investors.

So is sou-sou a good plan for you? You be the judge. As for me, the only number I want to be in a sou-sou is yes, you guessed it - number one.

Notwithstanding my reservations regarding sou-sou, I am always curious as to what could be accomplished with this informal pooled savings plan if the partners in a sou-sou were to extend their vision as to what their pooled resources could collectively accomplish over the medium to long-term. What if instead of focusing on short term goals (targeting consumption), they were to target investments and use the funds amassed to create or purchase a business in which each of them own an equity stake? Then that sou-sou may well be one in which I would be interested. Sou-sou investments anyone? **SLW**

“Whither Goes The Future Of Caribbean Businesses In A Borderless Global Economy?”



It's been said that globalisation has turned economics on its head. Some longstanding conventional theories are no longer applicable .

Case in point is the fundamental economic concept revolving around the demand-supply and supply-employment dynamics. In an economy “with borders”, significant increases in consumer demand usually result in an increase in supply and consequently an increase in demand for labour to satisfy the increased consumer demand. The result is usually more jobs and by extension increased economic growth in the domestic market.

However, in a borderless economy driven by electronic

commerce, a significant increase in consumer demand in a country may have no impact on employment in that country if the bulk of the demand is directed beyond the borders of the domestic economy. *i.e. to a global supplier that bypasses the domestic business infrastructure.* This scenario poses increasing challenges for our economies as it can adversely impact economic activity, job creation and economic growth.

Globalisation and the associated high tech cyber connectivity have allowed us to stay in our homes and shop around the globe for practically everything; from clothing to furniture, cars and groceries, without having to patronise any store in our country of residence.

Consider also that a significant segment of business activity in the region is based on wholesale, retail trade and distribution. Hence, one's ability to bypass these economic segments can significantly hamper the survival of local businesses. It begs the question therefore, "Whither goes the future of our national businesses in a borderless global economy?"

NOTICE

I Am
A Global Consumer.

The second phenomenon is that the Caribbean consumer increasingly sees himself as a global consumer with his allegiance not to national institutions but rather to the most efficient supplier; the most quality-focused supplier; the most service oriented supplier; the most cost-effective supplier. Unfortunately, this type of supplier tends to be found more times than not outside of our Caribbean national borders.

The challenge is not limited

to businesses who trade in goods. National service-based businesses have not been given a free pass to 'Go'. Education, financial, medical care, and communication services – these can all be accessed on the international markets with the click of an app. The more high tech our population becomes, the more global service providers will be positioned as serious competitors to traditional service providers in our national economies.

An increasingly wired global economy will continually reveal the institutional weaknesses of Caribbean business models and the structural weaknesses of our national economies that are shaped in no small part by these businesses.

It follows therefore that if our domestic businesses are to survive and prosper in this global borderless economy they must identify, choose,

and navigate new pathways that focus on high value added business activities that can command significant consumer demand from national and international fronts and deliver these products and services on par with global standards.

Additionally, there is a need to address the structural and strategic requirements to compete effectively in a global borderless marketplace. **Such strategies and structures must allow for effective optimisation of networking channels and the efficient and cost effective procurement and distribution of goods and services worldwide.** In light of the foregoing, one can reasonably conclude, that cross-border strategic alliances have become even more critical in a borderless economy, if national businesses are to survive and prosper. [SLW](#)

When we motivate persons to take positive actions to improve their financial and economic situations, we strengthen our communities.

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Financial Information Month 2013

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Feature Address to the graduates of the ECCB Entrepreneurship Course – Cohort II, Grenada by Mr. Lennox Andrews, Economist, General Manager, Communal Co-operative Credit Union, Grenada.

I wish to begin by saying that I do cherish the request and opportunity to address you, now that you have just completed the course on entrepreneurship. I am indeed moved by the subject matter, that of Entrepreneurship, a subject that has always captured my attention since my University days and so I wish that you may bear with me even though you may find that I have a lot to say.

I was given a draft of the topics that you covered in this course. I considered them to be relevant and practical and I do hope that you would have moved from being a mere recipient of knowledge, to an actor, now that that knowledge is well entrenched in you. I am therefore addressing you as a business person and not as a mere student of business.

As business persons I thought that I should address you on the essential elements of doing business, on the business environment, on what you should expect and should do in order to survive and be successful in your business endeavor. In that regard, I would make reference to the market, and its role in resource allocation and on the importance of cost determination in the success of your business. I would also want to share some thoughts on your role as entrepreneurs in our country's economic development, and finally, contraposition your role with that of government.

I start from the theoretical premise that in doing business, the market is the most efficient and the best allocator of resources. By this I mean that the market best determines what your resources should be used for, because in the market consumers register their demand, their taste and preference for a particular good and service. What the producer (the owner of factors of production) has to do, is to use his resources to produce

the goods and services for which consumers have a preference. When this happens, there is the strong likelihood that the goods and services produced would be what people want to consume, and therefore those goods and services would be sold. Your business therefore stands to succeed.

Put differently and simple, if you want to get involved in business, then you should ask yourself this question: what is it that people are buying; if they are buying yams, then use your resources to produce yams; the yams would be sold, as people would be happy since yams is a commodity most desired by them, and it is made available at a price they can afford. This is the concept of Consumer Sovereignty, which in effect means that production takes place in anticipation of demand.

If we see business in this way, then there should be no reason why people should be poor or unemployed. To be employed one simply has to find out what people are consuming and make it available at a price they can afford. The only limitation you have is that of the market itself.

I therefore sometimes tend to blame people for their poverty. In my opinion, people are poor because they choose to be poor, because poverty can be easily overcome. All that is required is to identify what people want to consume, and go and produce that item at a price they can afford. In that way, you earn an income which can be used to meet your daily expenditure needs, thereby helping to eliminate your poverty.

Therefore the first point I want to make to you is that as you go out to do business, make sure that there is a demand for the good or service you plan to produce. It is not a case of producing what you like, but rather what people want and are demanding.

The second point I want to make is that in business, you must pay very close attention to your cost of producing the item. For some commodities, their cost may be hard to calculate, but it gives a clear sense of the financial viability of your business. The cost I am speaking about is your cost of production, which is the

cost of hiring all factors of production and include wages & salaries, interest payment, rent, and profit. This is the opportunity cost; i.e. the cost of keeping you, the producer, in your present line of production; it is the cost for the Economist and not for the Accountant; since Economists consider profit as a cost; as the reward to the Entrepreneur for participating in production.

Now I must make the point that cost of production is not the same as market price. There is the generally accepted view that cost of production must determine the price of a commodity. In a perfect market economy, cost of production does not influence price; it influences supply; in other words, cost of production determines whether or not you would produce the commodity, so that for some commodities, high cost of production is a barrier to production.

Businesses involved in production must get away from the erroneous concept that their cost of production must be the basis for establishing price. I have heard many

businessmen say that if it cost \$10 to produce a commodity, then I should sell for \$15.00 in order to make a profit of \$5. This approach, while considered the conventional wisdom and widely practiced, is conceptually wrong, and is one of the main reasons for the slowness in our economic development. If we allow cost of production to determine price, then we are allowing the consumer to pay for the inefficiency of the producer since the same product may well be produced cheaper elsewhere. It is that inefficiency that slows down the growth of our economy as we produce goods and services of poor quality and whose market price is high.

When determining cost, we should focus not so much on total cost, but more so on unit cost; i.e. the cost of producing one item within a certain time period. It is the unit cost and not total cost that is important in business. Unit cost is the benchmark for determining your profitability relative to the market price for the commodity. Once that unit cost is lower than the market price, then your business will be profitable. It means that

the revenue obtained from the sale of your product will be sufficient to meet all your expenses. To use the economic jargon, to maximize profit, your marginal cost must be less than your marginal revenue.

Another important factor influencing the success of your business is price, and the question is, how is price determined? In a market economy, price is determined by the forces of demand and supply in the market. Price moves with changes in demand and supply; so that when demand is high and supply is low, prices tend to rise; and when demand is low and supply is great, prices tend to fall. If we accept that economic theory, then producers (except in the case of monopoly) must see themselves as price takers and not price makers. They must accept the market price of the commodity as given, and proceed to produce the commodity at a cost which is lower than the existing market price. I repeat, when this happens, the revenue obtained from the sale of your products would be able to meet all your costs and you will be making super profits.

As a producer therefore, you must make every effort to calculate your cost and make sure that it is lower than the price your commodity is sold at in the market.

The third point I want to make to you concerns competition. Competition is important for the success of any business. You must accept competition as a given, do not run from it, but take the necessary steps to ensure that you maintain or increase your market share. Businesses contribute more to economic development when they compete among each other, than if they were producing under conditions of monopoly, where competition does not exist. Monopoly it is argued can lead to an inefficient allocation of resources. There are many advantages to be derived from competition:

- It forces you to adopt the least cost method of production by continuously utilizing the most advanced technology in your production process;
- That same advanced

technology brings with it some positive externalities. I can mention a few:

- i. Output grows faster relative to cost, thereby causing your unit cost of production to fall;
 - ii. The fall in unit cost can lead to greater profit given the existing market price;
 - iii. With your lower cost of production relative to market price, you can exercise some influence on the market price of your commodity to your advantage;
 - iv. The quality of product/output increases with the introduction of advanced technology; and
 - v. Your staff becomes more highly trained and efficient.
- But very importantly, competition drive prices down which benefits the consumer and you the producer as well, provided that your commodity has an elastic demand. By this I mean that a lower price can increase the demand for your commodity and this leads to greater revenue for you.
 - Competition allows you to

develop a competitive edge. That competitive edge could be in your lower price and superior quality; but I must make the point that in contemporary times, your customer service constitutes an important element in your competitive edge. You must ensure that all your customers receive exceptional customer service at all times.

I want you to remember that famous quotation by Edward W. Deming:

“Profit in business comes from repeat customers; customers that boast about your product or service and bring friends with them.”

Therefore, when you are in business, do not be afraid of competition, accept it, embrace it and use it to your advantage.

My fourth point to you relates to the role of the entrepreneur and entrepreneurship in a country's economic development. I see you and I am addressing you as young entrepreneurs, as the new entrepreneurs to shape the economic landscape of this

country in the near future. Quite a lot has been written on the role of the entrepreneur in economic development. The general view is that countries that have developed quickly are those that have an abundance of entrepreneurs; and that countries with few entrepreneurs are those which are slow in developing. In other words, the more entrepreneurs a country has, the greater the chances of it developing faster. This view was long expressed by Joseph Schumpeter, an Austrian Economist who is well renowned for his views on entrepreneurship.

There is also the view that entrepreneurs are not born but are created; in that regard, some countries have programmes aimed at developing entrepreneurship in young people.

Strange enough there is another view that we, former enslaved black people, never developed a culture of entrepreneurship, as we were made to depend on our slave masters for our livelihood. This is unlike the Indian Indentured workers who were made to work on their own and look after their own needs for themselves.

But I am not here to continue with the debate on whether entrepreneurs were born or created; or whether Indians are more enterprising than Negroes. What I feel safe to say is that people must have a desire of wanting to make money, and must be courageous enough to act whenever the opportunity for doing so arises. Making money is a natural human instinct, because Man by nature is greedy; he is greedy because he has to live, and the desire to make money is one way of expressing that greed. In that sense, nothing is wrong in making money, but we must do so decently.

What I also feel safe to say is that people must have an understanding that they are the ones responsible for their own existence and well being and therefore they must be prepared to do things to help themselves without necessarily depending on others. In that regard, I also see entrepreneurship as a response to a certain economic situation. Put it that way, man must live, and to live he has to do whatever it takes, especially when nothing else seems forthcoming. It

is under these conditions that his entrepreneurial or survival spirit is unleashed and this I think is good for any country and for a people. Viewed from that perspective, entrepreneurs are not born but are the products of economic conditions; these persons I would like to refer to as Pure Entrepreneurs.

Schumpeter argued that the economic system called Capitalism, in which resources (land and capital) are largely owned by private individuals and institutions, breed entrepreneurship. So that the more capitalist the society, the more entrepreneurs are likely to emerge.

Schumpeter argued further that innovation and technological change come from entrepreneurs. He believed that these individuals are the ones who make things work in the economy. In his view entrepreneurs innovate not just by figuring out how to use inventions, but also by introducing new means of production, new products, and new forms of organisation. These innovations, he argued, take just as much skill and daring as does the

process of invention. Innovation, by the entrepreneur, argued Schumpeter, leads to the force of “Creative Destruction” as innovations cause old inventories, ideas, technologies, skills, and equipment to become obsolete.

To survive in business my friends, you have to be innovative and creative, always improving on the quality of your product or introducing new ones, for remember, the taste and preference of consumers always change, and you must be ready to meet those changes, otherwise you would be left behind.

And my fifth point brings me to the role government can play in fostering entrepreneurship and in helping you to grow as entrepreneurs, the engine of economic transformation. We in Grenada as in many other countries have the erroneous view that the role of government is to create jobs for its people. This view is so entrenched that it

presents itself as a National Consciousness, so much so that the taking of political power hinges on a party’s ability to convince a people that it will provide jobs for them. Let me say this, the fundamental role of government in an economy is not to create jobs, but to correct the failure of the market in providing public goods; i.e. those goods and services which the private sector will not produce, because of their non-excludability and non-rivalry characteristic.

Government can create jobs only to the extent that it has been called upon to provide public goods; but government cannot create jobs for the whole labor force; it simply does not have the means to do so. Job creation in a jurisdiction like Grenada lies in the hands of the private sector who own the means (land and capital) to create jobs. What government has to do is to create the conditions for the private sector to use its resources and generate jobs.

Government’s role therefore can best be described as a Facilitator and Regulator of economic activities. But the real generator of economic

activities (and of jobs) is you the people, the entrepreneur, who have ideas, who is prepared to take risk, to utilise your limited resources, to produce a good or service for which there is a demand in the market. It is precisely in that process of resource utilisation or production, that job creation takes place. Obviously, therefore the more businesses we have operating, the more jobs will be created.

I am therefore happy for you; 30 of you well schooled in business undertaking. I see you as the new entrepreneurs, the new business leaders who would design and shape the course of the economic landscape of Grenada in the near future. I see you as the new generators of wealth, as the new providers of jobs, as the new drivers of economic activities, as the new millionaires of Grenada. But more importantly, I see you, with your business example, as the driving force that can change a National Consciousness from a dependency on government, to independence on oneself for the

generation of wealth and for the continuous growth and economic transformation of Homeland.

Today you are 30, we need 30,000 more. But to achieve that, at the national level we have to teach our children Mathematics and English, not History, not Law, but Engineering. When I was in University, I was amazed that the Chinese students were all studying Engineering: chemical, mechanical, electrical. They studied only Physics, Chemistry and Mathematics. Where is China today in the World? China's development priorities for the period 2013-2018 are as follows:

- **Alternative Energy**
- **Energy efficiency**
- **Environmental Protection**
- **Biotechnology**
- **Advanced Information Technology**
- **High-end Equipment Manufacturing and New Energy Vehicles: all electric cars.**

Is there a priority for History or Law in Grenada? But we are still giving students scholarships to study History and Law. Think about this;

What would Grenada have been like if all of us were Historians? In my opinion, we would all be by the roadside, hungry and 'cursing' Bismarck and Napoleon for our Grandfathers back pay. But what would Grenada have been like, if we all studied Engineering? Perhaps we might still have been by the road side, but this time building bridges, constructing homes, or researching the by-products of nutmeg or cocoa; or finding a cure for witches' broom disease which destroys our cocoa.

Therefore, if each and every one of you can tomorrow open your own business and utilise the principle of creative destruction to expand and grow that business, then unemployment will cease to exist, poverty will be no more, and government will collect enough money from taxes and non taxes to create public goods and maintain law and order. In other words, economic growth and social stability will be achieved because of the people; and in my mind, you with your business acumen represent the pioneers of that new paradigm. **Thank You.**



Opportunity

Valedictorian Speech by Dillon Johnson

“Small opportunities are often the beginning of great enterprises.”

A successful business man wrote; **“Don't wait for extraordinary opportunities. Seize common occasions and make them great. Weak men wait for opportunities; strong men make them.”**

It is my hope that we all feel justified in having seized this opportunity.

I procrastinated about attending the ECCB entrepreneurship course, I doubted the depth of the course and what possible value I would receive for the cost (EC\$150), and I am

sure I'd be speaking for everyone when I say I was pleasantly surprised how comprehensive, dynamic and informative these modules in fact were.

As with many of us who sat this course, it is our intention to some day own or operate our own successful business. As aspiring businessmen and businesswomen, it is imperative that we employ the investigative method and analytic practices as outlined in the modules we studied. The success of your business depends on a well put together business plan and

the better execution of that plan. Along with success comes a reputation for wisdom.

I implore you to seek sound financial advice, shop the market and when the opportunity presents itself capitalize on it. Allow me to encourage each group to give consideration to the ideas which were born out of the group sessions and attempts to start a partnership. For we have not just made new friends but also potential business partners.

Congratulations are in order for not just you my fellow graduates, but also for the facilitators and mentors alike and I wish every one great success in your endeavours.



Some of the graduates pose with Mr Osmond Drake, one of the course facilitators (front row, blue shirt); Mr Lennox Andrews, Guest Speaker; and Mrs Linda Felix Berkley, ECCB Representative, Agency Office, Grenada (far right).