



# Seminar on Financing and Guarantee systems to support SMEs in the Caribbean

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*SELA and Ministry of Industry, Investment & Commerce, Jamaica*

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*Financing and Guarantee systems to support Caribbean SMEs*

# Outline

- The overarching business environment
- The Micro Small & Medium Size Enterprise Sector in the Caribbean and LA
- SME in other jurisdictions(SMEs in the OECD)
- Instruments of progressive structural transformation

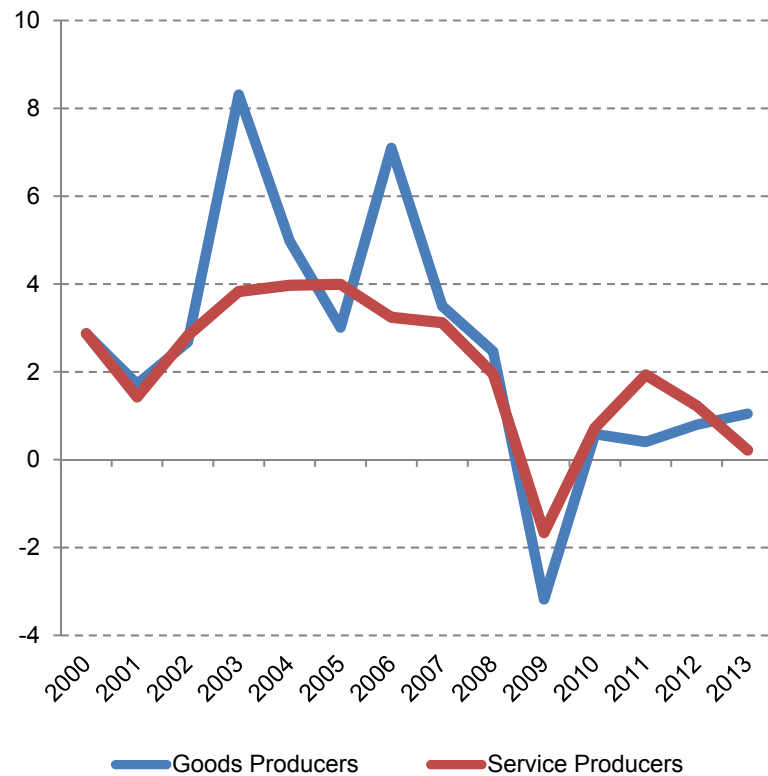


# The overarching business environment

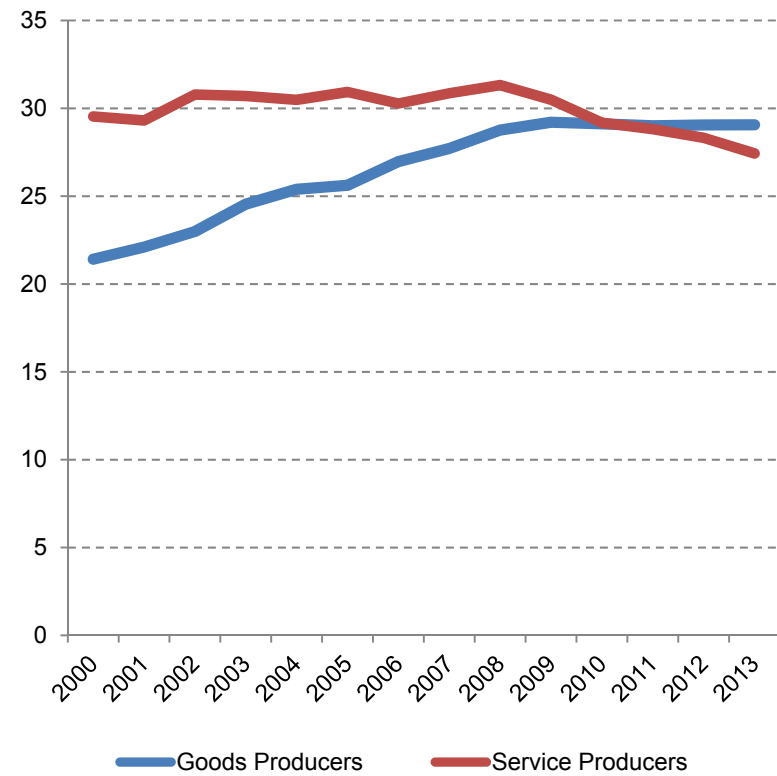
- Low growth
- High public debt /debt servicing costs
- High unemployment especially among the youth and women
- Expanding CA deficit
- Intense fiscal consolidation
- Limited access to external finance

# Growth rates

**CARIBBEAN GDP GROWTH**  
(Percentage)



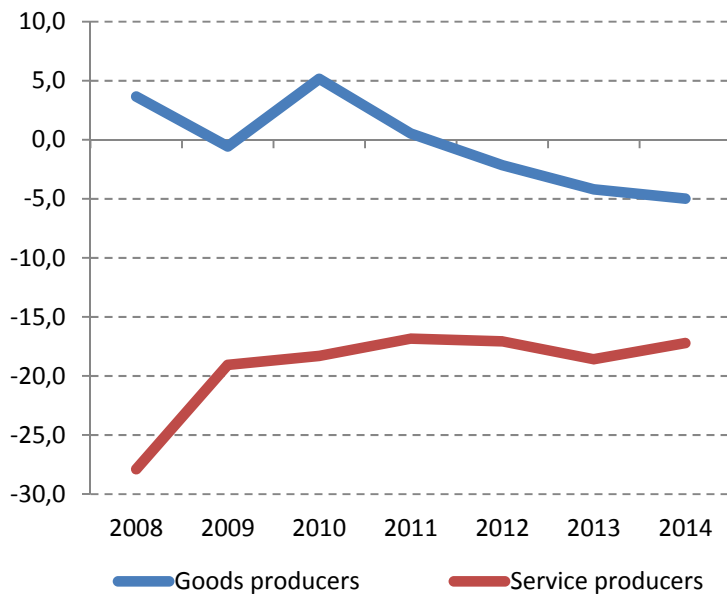
**CARIBBEAN GDP PER CAPITA, PPP**  
(Per cent of US)



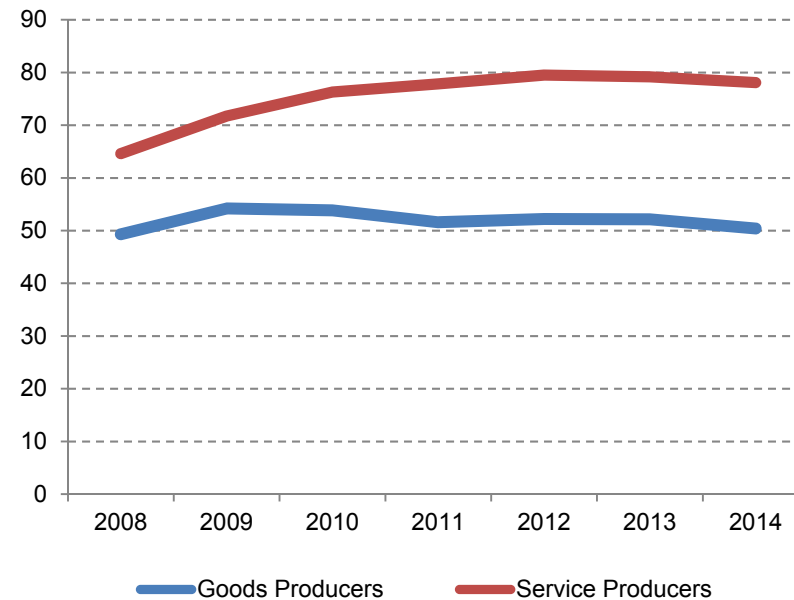
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# Current account deficit and debt

**CURRENT ACCOUNT BALANCE, 2008-2014**  
(Percent of GDP)

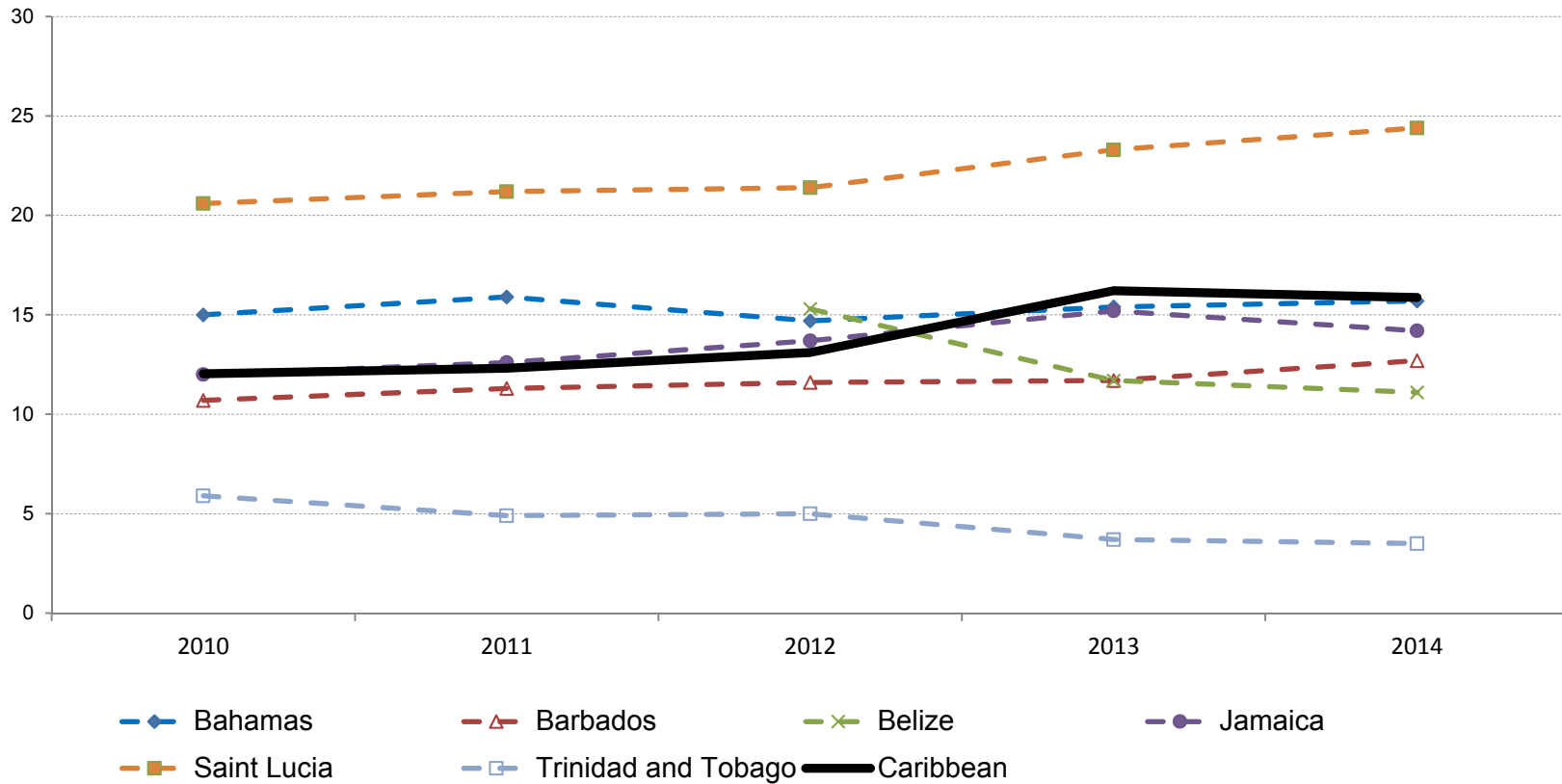


**TOTAL PUBLIC DEBT, 2008-2014**  
(Per cent of GDP)



# Unemployment rates

UNEMPLOYMENT RATE 2010-2014  
(Percentages)



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# The MSME sector in the Caribbean and LA

- The bulk of businesses in LA and the Caribbean are MSME.
- The progressive structural transformation of the economy will rely on this sector for support.



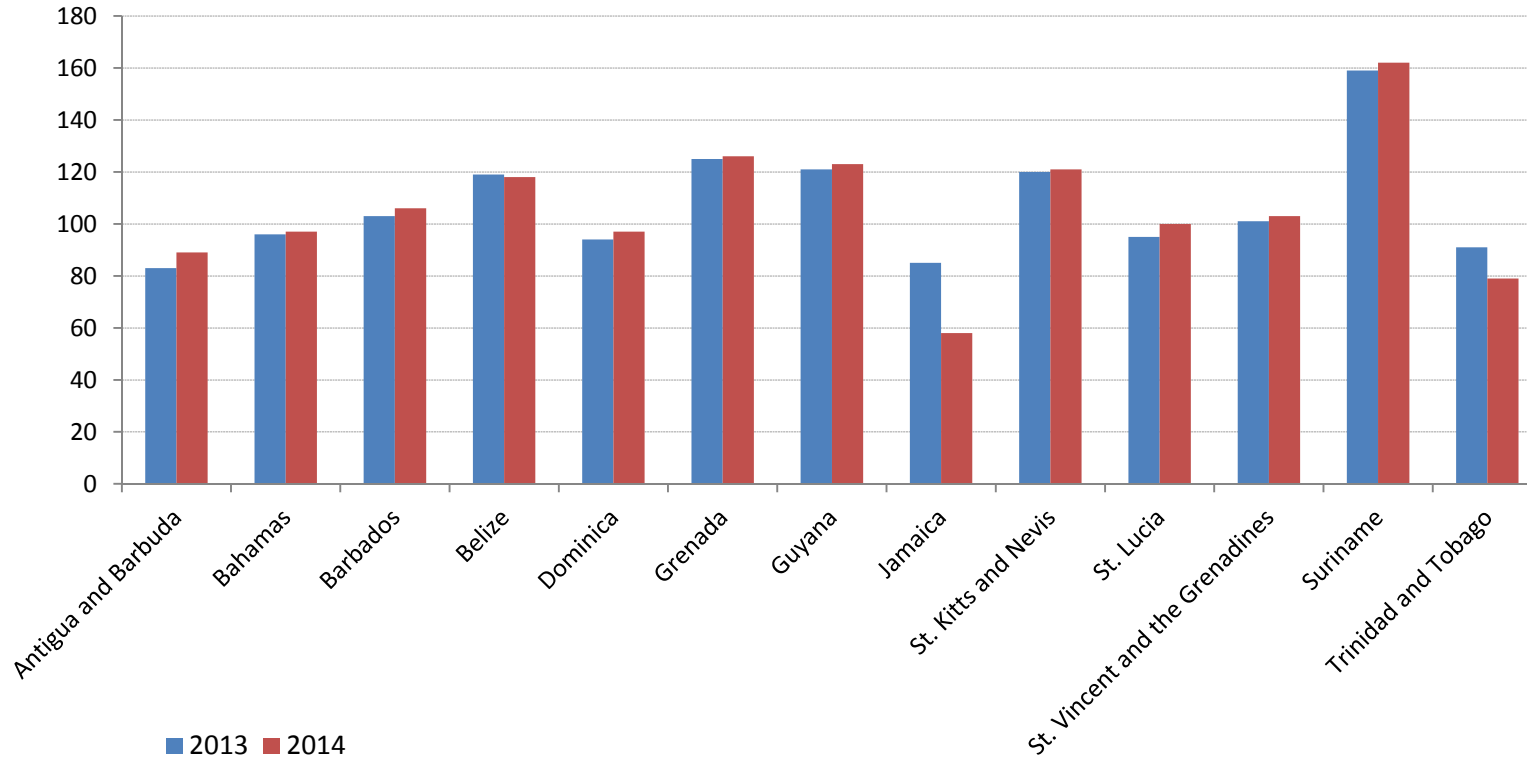
# The Micro Small & Medium size Enterprises sector in the Caribbean

- The MSMEs make up nearly 90% of the production structure, and absorb between 40% and 80% of the total workforce.
- They are constrained by the structural rigidities and incentives which support BAU.



# Doing business index

EASE OF DOING BUSINESS INDEX RANK FOR CARIBBEAN COUNTRIES, 2013-2014



Source: World Bank World Development Indicators Database

# Challenges

- The lack of diversified markets and the need to create new export activities in an environment that is increasingly competitive.
- The need to engage in regional and global value chains and to gradually move up these chains
- The need to access high quality labour and the upgrade the technical capacity of firms

# Challenges

- The need to access credit at reasonable costs
- The need to improve energy efficiency and use more renewable energy
- The ability to produce goods and services in a sustainable manner as countries pursue the SDGs



## Export intensity of SMEs in the OECD based on OECD study(2010)

25% of SMEs had exports during 2006-2008

44% of SMEs had some level of FDI, exports, subcontracting or international technical cooperation).

7% of SMEs have some form of technological cooperation with a foreign partners(FP):7% contractor to a FP; and 2% are active in FDI.



# Instruments of progressive structural transformation

- Quality of Labour issues
- Managerial issues
- Logistics issues including customs facilitation
- The financing gap (excessive demand vs the credit rationing hypothesis).
  - (a) Regional Development banks
  - (b) Private banks
  - (c) Credit Guarantee Systems

# Advantages of CGS

- Reduce credit risk to the lender
- Reduce the problem of under collateralisation
- Innovative approach to underfunding
- Address the limitation of short term finance
- Financial and economic additionality/ & challenges



# Advantages of CGS

- Help in individual assessment of loans by established relationship between borrower and lender. They address information asymmetries/inadequate or lack of collateral/perception of high risk.
- Help to spread risks if CGD operate across many sectors and improve financial markets

# CGS structure

- CGD typologies-private (direct and indirect mutuality)/public/mixed
- Financing in light of issues facing the Caribbean
- Regulatory structure
- Suitability of CGS to the environment – appropriate design

# Evidence

- Positive impact on financial additionality and induces higher growth rates
- Effective countercyclical tool for SME financing
- Impact on “intensive margin” rather than “extensive margin”. CFE/SME(2012)1/FINAL
- Caribbean can benefit from appropriately designed CGSs



Gracias

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