



Development Bank of Jamaica Limited

Facilitating economic growth and development

Credit Enhancement Facility Partial Credit Guarantee for SMEs

Presented by Edison Galbraith - General Manager



Seminar on financing and
guarantee systems to support
SMEs in the Caribbean



Kingston, Jamaica, 15 and 16 October, 2015



DEVELOPMENT BANK OF JAMAICA CREDIT ENHANCEMENT FACILITY

Abstract

This presentation provides a discussion of the objectives, challenges and opportunities for using partial credit guarantees to expand access to financing and utilization of financing by micro, small and medium-sized enterprises - from the perspective of the Development Bank of Jamaica.



DEVELOPMENT BANK OF JAMAICA

Economic Growth + Social Inclusion

- Owned by the Government of Jamaica
- Provides loans mainly to Micro, Small and Medium-sized Enterprises (MSMEs) through Accredited Micro-finance Institutions and Approved Financial Institutions (Commercial Banks, Credit Unions)
- Finances large job creating projects - ICT/BPO
- Provides Capacity Building to MSMEs through Business Development Organizations, Vouchers for Technical Assistance and Innovation Grants
- Coordinates the Jamaica Venture Capital Programme
- Undertakes Privatizations and Public Private Partnerships for GOJ

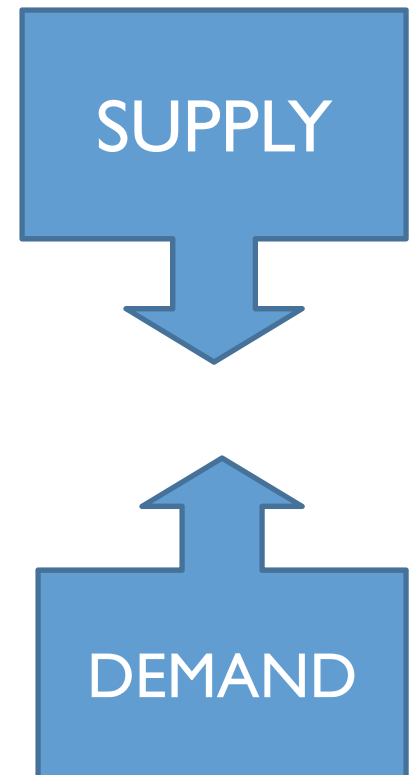
DEVELOPMENT BANK OF JAMAICA

Increasing MSME Access to Finance

Demand-side & Supply-side Initiatives

Capacity + Collateral + Capital

- Dedicated MSME Lines of Credit
- Increase number of MSME Lenders
- Increase Lenders' Appetite for MSME Lending
- Appropriately Structured Instruments for MSMEs
- Collateral Support for MSMEs (CEF Guarantee)
- Flow and Critical Mass of "Bankable" MSMEs
- Capacity Building & TA for MSMEs





ENABLING ENVIRONMENT

Other Supporting Initiatives

- MSME & Entrepreneurship Policy
- Credit Bureau
- Collateral Registry (SIPPA)
- Training Programmes
- Voucher for Technical Assistance
- Business Development Organizations
- Develop Supply Chains & Linkages
- Incubators and Accelerators
- National Business Model Competition
- Innovation Grants
- Angel Investors Network
- Venture Capital Programme
- Junior Stock Market



DEVELOPMENT BANK OF JAMAICA

Increasing MSME Access to Finance

OUTCOMES OF KEY INITIATIVES

- **MSME LOANS:** Since April 2012 DBJ has made 30,623 loans to MSMEs valued J\$10 billion supporting J\$16 billion investments and new 6,424 jobs
- **CEF GUARANTEES:** Since April 2012 DBJ's CEF has provided J\$612 million in loan guarantees through 14 AFIs allowing 217 MSMEs to access J\$1.25 billion in loans
- **CAPACITY:** Since launch in May 2014 DBJ's Voucher for Technical Assistance has allowed MSMEs to access 11 loans valued J\$152 million
- Six (6) of these loans totaling J\$43 million required CEF Guarantees valued J\$26 million



CREDIT ENHANCEMENT FACILITY (CEF)

Overview

- A pilot project launched by DBJ in 2009 with initial capital of J\$250 million
- To improve Access to Finance by Viable SMEs
- Governed by a Board of Trustees
- Guarantee Contracts are between Approved Financial Institutions (AFIs) and the Development Bank of Jamaica Limited (DBJ)
- Supplements MSMEs collateral to meet the financial institutions lending requirements
- Reduces AFIs Risk of Lending to MSMEs
- Shares losses with AFIs on MSME loans on a pari passu basis.



CEF GUARANTEE COVERAGE ON EITHER DBJ or AFI FUNDED LOANS

The maximum guarantee coverage per sub-borrower:

- General SME loans - 50% of loan up to a maximum of J\$15 million
- SME Energy loans - 80% of loan up to a maximum of J\$15 million
- Small loans (J\$6.25 million or less) 80% of loan up to a maximum of J\$5 million
- Guarantees have a maximum term of 10 years



CEF GUARANTEE FEATURES

- AFI may call on CEF to settle guarantee 30 days after issuing demand for payment on defaulting SME
- AFI has the option of rescheduling a guaranteed SME loan on two occasions
- AFI may claim on CEF for two principal installments prior to making final claim
- CEF shares the principal loss on an SME loan on a pari-passu basis with AFI
- AFI shares any recovery with CEF on a pari-passu basis



CEF GUARANTEE ELIGIBILITY CRITERIA

- Enterprise Size
 - ✓ # of Employees: up to 150 persons
 - ✓ Annual Turnover: ≤ J\$425,000,000
- Length of time in operation
 - ✓ Existing companies 2yrs and over
 - ✓ Start-ups operating 1yr and over may access guarantees up to J\$5million
 - ✓ Start-ups operating less than 1 yr. may be considered eligible at DBJ's discretion

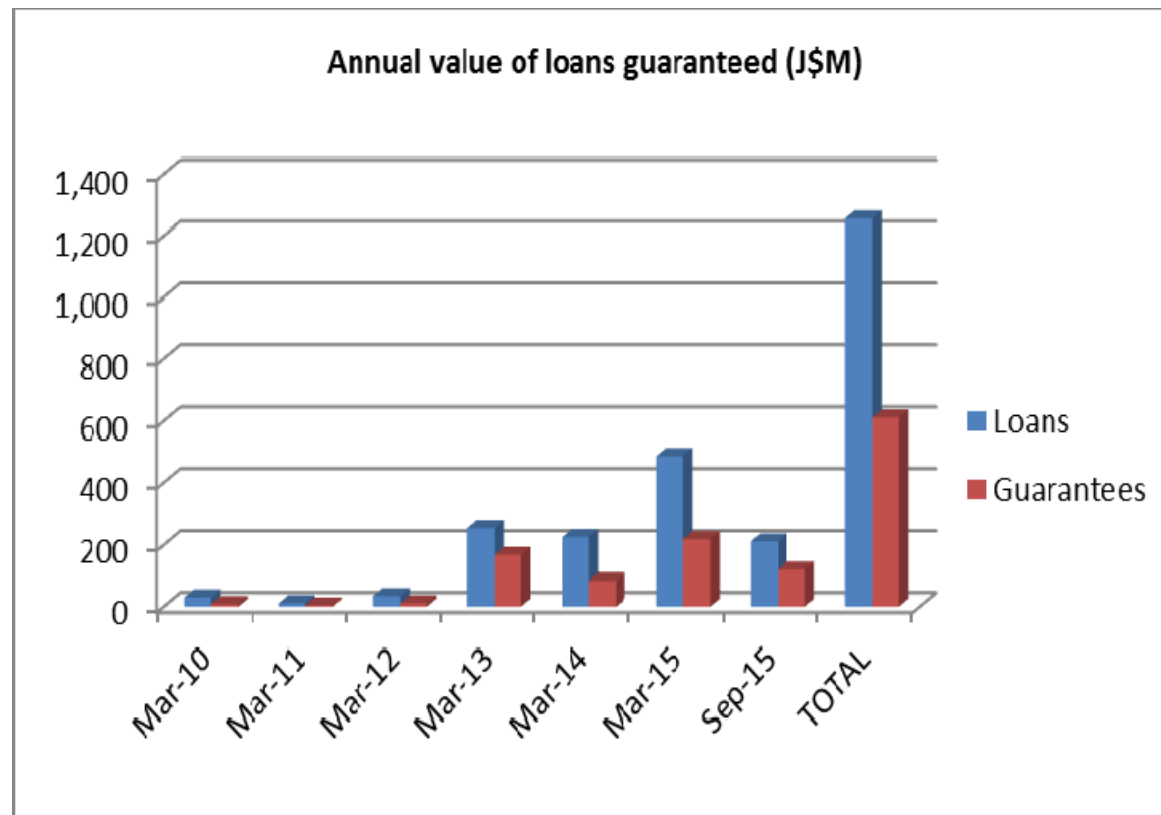


EVOLUTION OF CEF GUARANTEE

- Guarantee was not initially publicized to MSMEs (citing moral hazard) - but is now marketed directly to MSMEs
- Guarantee initially only covered DBJ loans through AFI - but is now open to AFI funded loans
- AFI initially had to exhaust all recovery options - but can now claim on CEF 30 days after default by SME
- Coverage increased from J\$5M to J\$15M
- Tenor increased to 10 years from 5 years
- Rescheduling allowed by AFI
- Payment of arrears by CEF allowed
- Start-up qualifying age reduced from 24 to 12 months
- 80% coverage up to J\$15M allowed on Energy loans
- 80% coverage allowed up to J\$5M on small loans

CEF GUARANTEE OUTCOMES

- CEF has provided guarantees valued J\$612 million allowing 217 MSMEs to access J\$1.25 billion in loans
- Utilized by fourteen (14) AFIs.





CEF GUARANTEE OUTCOMES

SECTORAL DISTRIBUTION OF GUARANTEES

- Agriculture received 135 of 217 guarantees and accounted for 32.3% of the total value guaranteed.
- Services accounted for 40% with 53 guarantees issued
- Manufacturing 19.9%
- Distribution 5.7%
- Agro-processing 2.1%.

FUND PERFORMANCE

- To date, claims on the CEF have amounted to J\$6.3 million
- Initial J\$250 million fund has grown to over J\$400 million.



CEF GUARANTEE OUTLOOK AND SUPPORT

FUTURE CONSIDERATIONS INCLUDE:

- Establishing the CEF as a standalone Fund
- Use of technology to improve processing and analytics
- Increasing capital to expand guarantees
- Multiple Trusts to segregate risks
- Reinsurance to leverage fund
- Portfolio versus Individual loan guarantees
- Risk pricing of Guarantees (AFI, Sector etc)
- Central Bank treatment as secured loan and Reserves

SUPPORT FOR THE CEF:

- The World Bank is providing Technical Support to the DBJ to improve the CEF product and Fund operation
- The IDB has also indicated its support for the CEF
- CEF Awarded Merit in 2015 by The Association of Development Finance Institutions In Asia & The Pacific in the SME Development Category

- We look forward to working with SELA

Thank you.

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