



# **Innovative mechanisms for financing & guarantees for MSMES: CASME**

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**Cooperación Económica y Técnica**

*Reunión Regional sobre Mecanismos Novedosos de Financiamiento y Garantías para las MIPYMES en América Latina y el Caribe*

*Santo Domingo, República Dominicana*

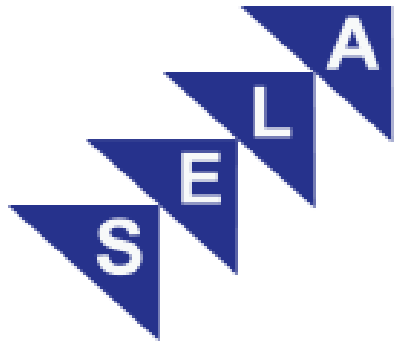
*19, 20 y 21 de abril de 2017*

*SP/RRMNFG-MIPYMES-ALC/Di N° 3-17*

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SISTEMA ECONÓMICO  
LATINOAMERICANO  
Y DEL CARIBE



**CARIBBEAN ASSOCIATION OF  
SMALL & MEDIUM ENTERPRISES INC.**

*Facilitating the Growth & Development of SMEs in the Region*



Presenter: Ethnie Miller Simpson

**"Regional Meeting on innovative mechanisms  
for financing and guarantees  
for MSMEs in Latin America and the Caribbean"  
Santo Domingo, Dominican Republic,  
April 19 – 21**

Objectives:

- i) Identify innovative mechanisms for financing and guarantees in Latin America and the Caribbean, and
- ii) Follow up the agreements reached at the Central American and Caribbean sub regional meetings on financing and guarantees, organized by the Permanent Secretariat

# Background

- Two meetings held by the Permanent Secretariat (El Salvador 2013) and Guyana 2014).
- More recently, in 2015, the Permanent Secretariat conducted two activities to analyze this problem:
  - The “Seminar on financing and guarantee systems to support SMEs in the Caribbean” Jamaica 2015, and Costa Rica 2015 which featured the “Pre-feasibility study on the creation of a Regional Guarantee System for SMEs in the Caribbean and Central America was submitted
- Conclusions of both meetings resulted in useful actions and recommendations to continue strengthening guarantee and financial systems for MSMEs in the Caribbean and Central America

# Today's Objective

- To monitor the achievements made in financing and guarantees in Latin America and the Caribbean,
- To introduce the analysis of innovative financing mechanisms available to MSMEs.
- To assess the regional integration that this type of event promotes,
- To explore the possibility of establishing a Regional Guarantee System for the Caribbean through strategic alliances with other regional organizations that favour its performance, such as CARICOM, CASME and the Caribbean Development Bank, among others.

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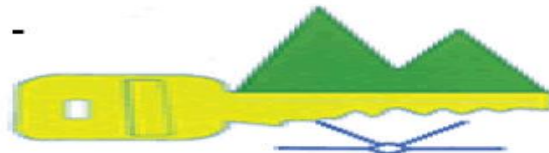


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# NEEDS ASSESSMENT REPORT



## WOMEN IN BUSINESS

Prepared for:

Women Entrepreneurs' Network of the  
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Prepared by:

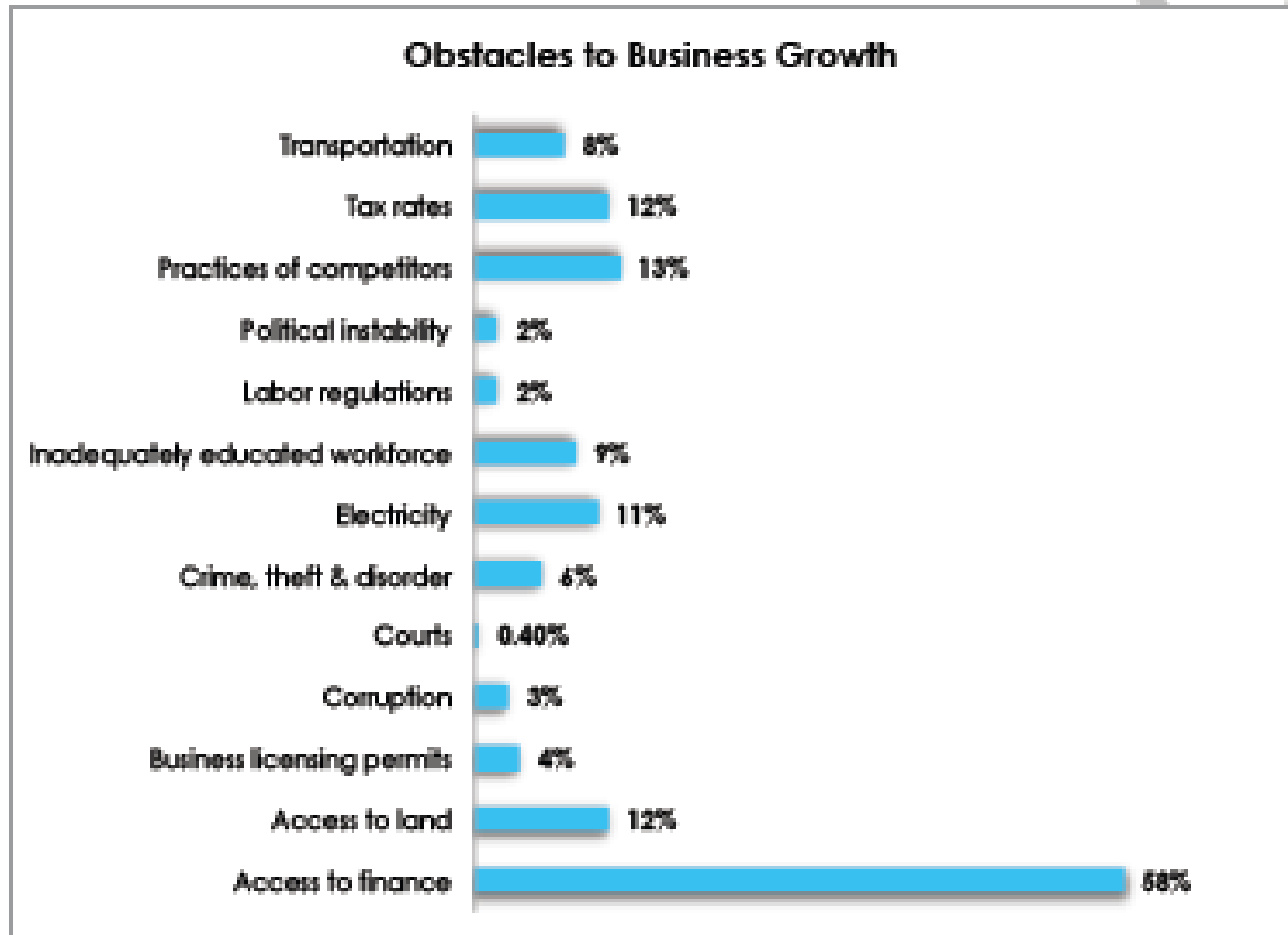
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Corporation  
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# Caribbean Survey

- Conducted region wide entrepreneurship needs Survey
- 571 participants out of the 600 target (please see below):

- ✓ Jamaica - 101
- ✓ TT - 80
- ✓ SVG - 50
- ✓ SLU - 76
- ✓ Bahamas - 75
- ✓ Guyana - 38
- ✓ Barbados - 75
- ✓ Grenada - 76

**TOTAL - 571**

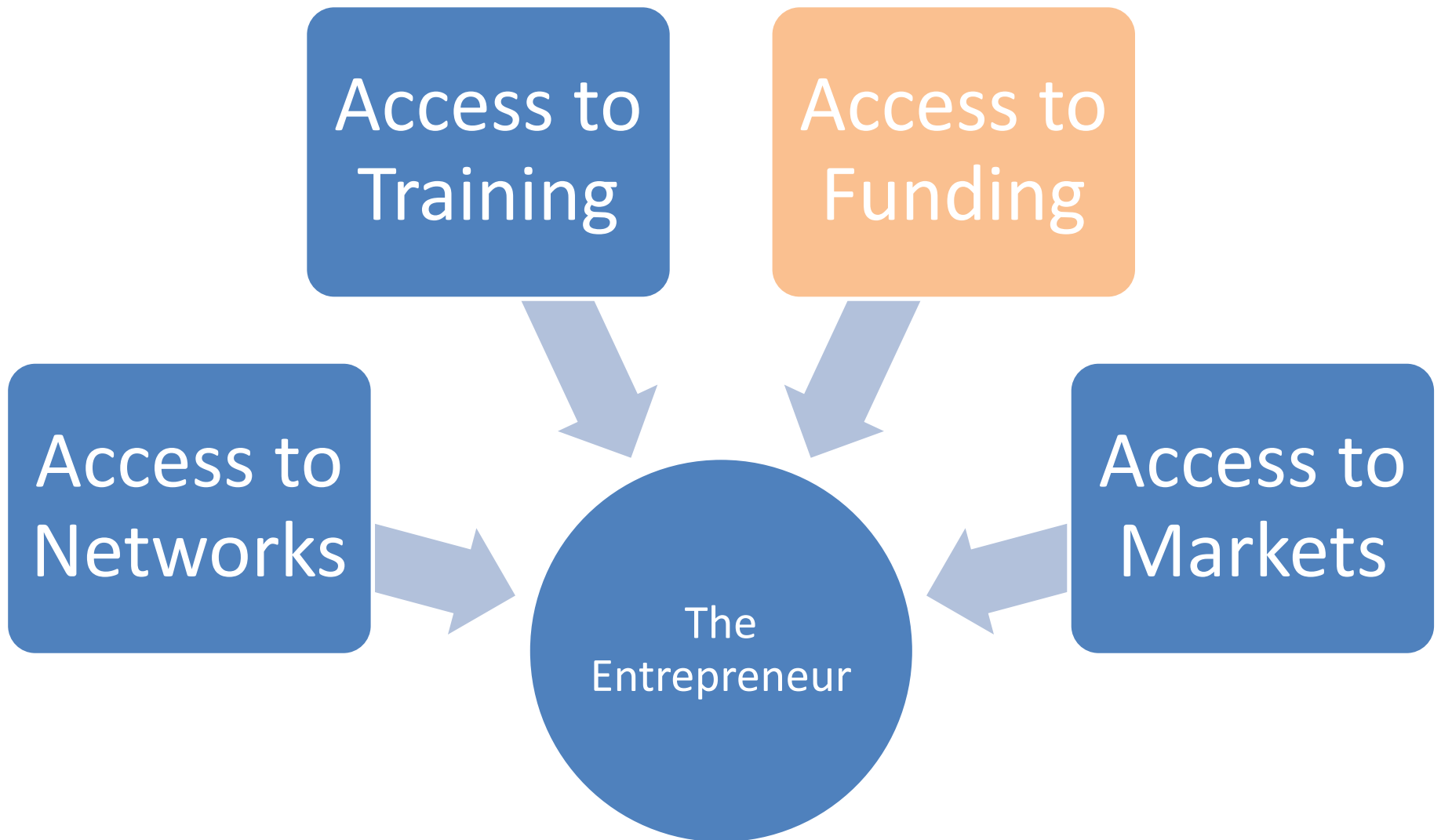


# Top Challenges

- Ability to access Finance 84%
- Information to Financing 77%
- Access to Markets 72%
  - Work Life Balance 72%
- Networking Opportunities 70%
  - Lack of Mentorship Opportunities 70%



POOR CREDIT  
ISSUES



# The Credit Score Issue

## Data for the credit report



**Credit Info Providers**



**Other Data**



# Creditworthiness



## Active Credit Accounts Primary or Joint Debtor

- Arrears history
- Total balances
- Total expenditure
- Total credit limits/exposure
- Collateral

## Terminated Credit Accounts Primary or Joint Debtor

- Arrears history
- Termination reason

## Active Credit Accounts Guarantor

- Responsibility
- Arrears history
- Total liability

## Terminated Accounts Guarantor

- Responsibility
- Arrears history
- Termination reason



## Benefits of Credit Bureaus



- Credit bureaus are critical in helping lenders make faster and more accurate credit decisions
  - Decrease in processing time
  - Lower default rates and higher profitability
  - Lower collateral requirements
  - Lower processing costs
  - Lower monitoring costs
- Credit histories not only provide necessary input for credit underwriting, but also allow borrowers to take their credit history from one financial institution to another, thereby making lending markets more competitive and, in the end, more affordable.



## A credit score is just a number



- CreditInfo Jamaica is using a scale from 250 to 900
- Similar scale to US FICO score but Jamaican data and scores
- 645 is a very slightly lower risk than 644
- 644 is a very slightly lower risk than 643
- According to statistics
- (though CreditInfo is using an expert model until history of Jamaican performance is available)



# Using a Credit Score



- Each Risk Grade has an associated Accept Rate and Bad Rate
- Lower Risk = lower Bad Rate and lower Accept Rate
- Though different for each institution
- Average loss per Bad and average profit per Good enables optimal cut-off

Risk Grade	Score From	Score To	Description	Action
<b>A1</b>	740	900	Very LOW Risk	Accept
A2	725	739	Very LOW Risk	
A3	710	724	Very LOW Risk	
<b>B1</b>	695	709	LOW Risk	
B2	680	694	LOW Risk	
B3	665	679	LOW Risk	
<b>C1</b>	642	664	Average Risk	Refer
C2	620	641	Average Risk	
C3	599	619	Average Risk	
<b>D1</b>	575	598	High Risk	Reject
D2	560	574	High Risk	
D3	530	559	High Risk	
<b>E1</b>	380	529	Very High Risk	Reject
E2	271	379	Very High Risk	
E3	250	270	Very High Risk	



# The Mutual Guarantee Company / Society

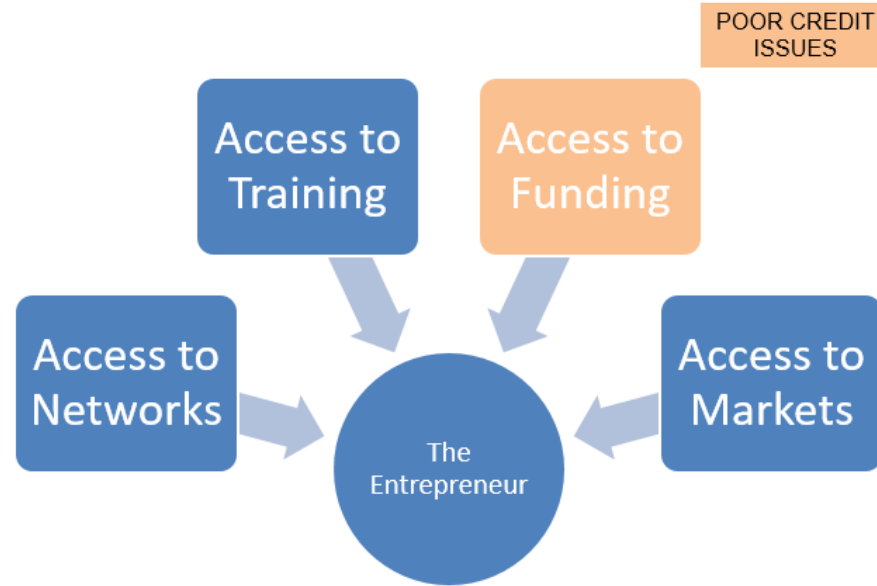
- A public-private partnership that will morph into a regional initiative
- Regulatory Framework that can be adopted and tweaked to represent the Caribbean reality (many proven examples currently exist in Europe)
- Operational Framework – A ‘credit union for businesses’
- Membership – Businesses not individuals

# The Model

## THE OFFER

- Provide funding
  - Provide Credit Assessment & Monitoring
  - Provide Capacity Building
  - Provide Access to markets, sales support and business development
  - Provide access to Associations and Networks
- **REQUIREMENTS**
- Membership to Businesses only

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## OUTCOMES

- Improve credit scores & standing
- Improve and increase SME revenue and general business performance



# Next Steps?

- Collaborative Approach to establish a Regional Guarantee System for the Caribbean through strategic alliances with other regional organizations that favour its performance, such as CARICOM, CASME and the Caribbean Development Bank, among others.
  - Research assistance to template, track and monitor the performance of a pilot (*Is there a private entity willing to spearhead this initiative? Public interest in collaborating?*)
  - Assessment of the regulatory framework this pilot requires (*Would regional Caricom governments be willing to adopt those new considerations?*)
  - Possible counterpart funding by governments, donor agencies etc