



LATIN AMERICAN
AND CARIBBEAN
ECONOMIC SYSTEM



Pre-Feasibility Study on the creation of a Regional Guarantee System for SMEs in the Caribbean

Economic and Technical Cooperation

*Seminar on Financing and Guarantees to support SMEs in the Caribbean
Kingston, Jamaica
15 and 16 October 2015
SP/SFGA-PYMES-C/DT N° 2-15*

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Printed in the Permanent Secretariat of SELA, Caracas, Venezuela.

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F O R E W O R D

This document of the Permanent Secretariat of SELA is aimed at the conduction of a Pre-Feasibility Study to create a Caribbean Guarantee System, through a sustainable counter-guarantee mechanism for national guarantee institutions.

The objective is to create a counter-guarantee mechanism that allows for diversifying risks and optimizing financial resources of credit and guarantee institutions in Caribbean countries, and to encourage the creation and consolidation of new National Guarantee Systems for the benefit of the greatest possible number of SMEs.

The first section presents a list of the previous activities carried out on the subject of guarantees in Latin America and the Caribbean. It describes the Guarantee Systems in operation in the region and the lessons learned, that will guide the creation of a Regional Guarantee System for the Caribbean.

The second section analyses the demand for guarantees for SMEs in the region, including State policies to support the business sector and the relevant characteristics of SMEs, as well as the availability and access to financing and guarantees for SMEs in the Caribbean.

The third section considers the financial offer for SMEs in the Caribbean, based on the characteristics of the financial system and the regulatory entities, microfinances, the role of cooperatives and the offer of guarantees for SMEs in the region.

The last section deals with the minimum conditions for the operation of such a system, including general aspects, the proposed organizational structure and the funds required for its operation.

The Permanent Secretariat of SELA wishes to express its recognition to Mr. Sergio Álvarez for his work as a consultant in charge of drafting this study.

EXECUTIVE SUMMARY

The creation of the Regional Guarantee System (RGS) in the Caribbean experiences the need to incorporate into its establishment a series of recommendations that emerge from the experience of such systems in Latin America. In that sense, it has been proven that the market does not always guarantee an efficient credit to SMEs, especially in a context of financial crisis and, for this reason, governments must use the guarantee systems in a universal way or direct them to a specific sector or activity consistent with their government policies. Also, capitalization form and resource origin are crucial in the conformation of different guarantee system or scheme models and it is also convenient to have a counter-guarantee system to redistribute the risk involved in the guarantee activity.

Considering the above references, it is important to note that the English-speaking Caribbean is comprised of a group of countries with cultural and economic diversity, faced with common development challenges such as unemployment and an underdeveloped private sector. Self-employment rates are very high in the region, most being entrepreneurs due to necessity rather than opportunities, which determines the impact they can have on the socio-economic development of the region. Consequently, responsible politicians are constantly challenged to foster the creation of jobs so that the population can meet their basic needs, by generating revenue through the creation of small businesses. This can be an important factor in the reduction of economic marginalization of a large part of the population in this region.

Regarding the role of entrepreneurship, its main features are that local entrepreneurs focus their activities in trade and service sectors, and some family businesses have developed with some success. However, they are faced with limitations due to the lack of resources. There is an informal business sector in a kind of "underground economy", which is not beneficial to economic development. In this context, the Caribbean countries are at a disadvantage in today's global environment, as its comparative advantage in cheap labour or supply of natural resources, has become obsolete in an economy based mainly on knowledge.

As for SMEs, there is no single definition throughout the region although there are efforts to develop a Regional Policy to standardize these definitions. Apart from its contribution to income, employment and exports, SMEs are engines of sustainable growth and development. As a result, they are the backbone of the Caribbean economies and a significant source of employment. However, insufficient statistics on its contribution to economic development limit an effective evaluation of the role they play. In conclusion, it can be said that there is no lack of entrepreneurship in the region, as shown by the number and ingenuity of the people who have established small companies. However, the smaller SMEs frequently need to develop formal agreements to access the necessary inputs in search of improving their competitiveness and viability.

When analysing the financial offer aimed at the SMEs, the main regulatory challenge for microfinance is the case of credit cooperatives, which are of vital importance since they are practically one of the few formal suppliers of microfinance services throughout the region. The challenge of appropriate guidance for prudential regulation and the supervision of savings and credit cooperatives are proposed because of the great variety of approaches found in the various countries of the region.

With respect to the characteristics of the financial offer to the business sector in general. The offshore banking sector is the largest with assets that are equal to, and in some cases excel, the regional GDP, but focus to a large extent in two countries: the Bahamas and Barbados, who have important

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offshore banking sectors, exceeding their respective GDP. Some of the countries in the region also have offshore banking sectors, though on a smaller scale compared to the GDP of the subregion.

Moreover, with regard to the financial offer to SMEs in the Region, the number of microfinance institutions and cooperatives is small, for which reason a large proportion of the population turns to the informal business. In the case of microfinance institutions, there is a variety and of different sizes which have led to some regulatory and supervisory initiatives. However, a large proportion of the countries in the region are in the process of implementing some form of regulation with new tools for financial inclusion for microfinance institutions as well as saving and credit cooperatives. Regarding the credit cooperatives, they have a longstanding presence in the English-speaking Caribbean and are clearly the main institutions that serve the poor people in the Caribbean, that is, those who fall below the scope of the commercial banks. However, savings and credit cooperatives pose serious challenges for regulators.

One of the key aspects of this Study is the evaluation of the minimum conditions to create the Regional Guarantee System in the Caribbean region. We must recognize that, although many countries in the Caribbean region have important sources of income and resources, access to finance continues to be the major problem for improving the competitiveness of the SMEs and there is no fast and constant flow of resources to these business units. With regard to the creation of the Guarantee Programs by the public sector, conditions exist for the initiative to create these programs, emerging from the Caribbean States themselves. So, in the Caribbean Region, there is an unsatisfied demand for financial services and guarantees in the various countries comprising the region. This demand is in various segments; SMEs located in less privileged regions as well as in emerging activities in various sectors. Also, there are several financial needs that require better credit conditions, in accordance with the nature of small businesses.

Considering the conditions stated in the previous point, the operation of the Regional Guarantee System is proposed, based on the following components or actors: i) The countries that will be included within the scope of the Regional Guarantee System will be the member states SELA, namely: Jamaica, Trinidad and Tobago, Barbados, Suriname, Belize, Guyana, Bahamas and Haiti. These countries are also within the scope of the Caribbean Community - CARICOM, thus the possibility of establishing regional policies that favour the development of the SMEs; ii) Central Banks that regulate and supervise the financial sector in each country; iii) The SMEs in each of the mentioned countries; iv) Regulated financial institutions, including some eligible cooperatives; v) The Caribbean RGS, being the new institution that will provide guarantees and/or counter-guarantee credit operations offered by financial institutions to SMEs; and vi) The Regional Guarantee System being proposed as a Trust.

With regard to determining the arrangements for risk management for the Regional Guarantee System, it will be in accordance with the mandate of the regulators in each country, who will establish specific regulations on this subject, also for the new RGS. However, taking into account the experiences in financial areas existing in Latin America, it is expected that the types of recommended and specific risks will be adopted in the financial system of the country that will host the RGS.

The Caribbean RGS will initially offer various types of guarantees through Financial Institutions in the Region. These may be: i) Counter-guarantees for Individual Guarantees in specific Programs supporting SMEs; ii) Credit Guarantees to Suppliers; iii) Guarantee Portfolio; iv) Guarantees for Institutions that have Credit Programs with SMEs; and v) International Guarantees aimed at foreign trade operations.

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In this regard, the following are the main operation indicators for the Regional Guarantee System (RGS):

• Estimated Amount for Microcredit Portfolio for the Caribbean Region	US\$ 244,835,328
• Percentage of participation of RGS in the Microcredit Portfolio for Year 1	18%
• Estimated amount of the Microcredit Portfolio that the RGS will guarantee	US\$ 44,070,359
• Estimated percentage of annual growth of the Microcredit Portfolio	5%
• Estimated percentage of growth of participation from the CGS in the Microcredit Portfolio	2%
• Minimum initial capital for the RGS	US\$ 500,000
• Minimum amount of Regional Guarantee Fund (in Trust)	US\$ 18,000,000
• Leverage rate of the Regional Guarantee System	5 times
• Total amount leveraged for the Regional Guarantee System	US\$ 90,000,000
• Expected loss ratio (honoured)	2%
• Percentage of commissions allocated to the Regional Guarantee System	20%
• Investment in equipment and facilities for the RGS	US\$ 209,400
• Annual administrative and operational expenses	US\$ 828,690
• Internal Rate of Return for the Results Flow to 5 years	17.7%

Finally, the following conclusions and recommendations can be highlighted:

Conclusions:

- In the Caribbean Region, there is an unmet demand for financial services and guarantees in the various countries comprising the region. This demand is in various segments; SMEs located in less privileged regions.
- In the Caribbean Region, the Guarantee Programs are scarce, but there are public institutions in each country, aimed at developing the SMEs that can support the creation of a Regional Guarantee System, to support the financial operations of SMEs in each country of the Region.
- The existing regulatory framework in the Caribbean Region is able to establish the necessary standards for the supervision and regulation of the Regional Guarantee System. Also, there are no difficulties for a new Guarantee Institution, such as the Regional Caribbean System, to be established as an independent legal entity.
- There are conditions for establishing a policy that promotes access to the financing of the SMEs in alliance with the involved actors (public authorities, financial institutions and their organizations, micro and SMEs) in the Regional Guarantee System.

As for the main recommendations, we have the following:

- Initiate contacts with CARICOM, through formal mechanisms established by this regional entity, to present a financial policy project that favour the formation of the Regional Guarantee System for the English-speaking Caribbean Region, as the forging of this System, which will be a powerful tool to facilitate access to credit to more than 250,000 SMEs existing in the English-speaking Caribbean Region.

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- b. Start contacts with the Central Banks of each country in the Caribbean Region involved in this Study, the Caribbean Development Bank, or other Multilateral Financial Institutions to explore the possibility of participating or contributing to the formation of the Regional Guarantee System.
- c. Strengthen the explicit configuration of National Guarantee Systems in each country involved in order to promote the implementation of the future Regional Guarantee.

INTRODUCTION

The old dream of creating a Regional Guarantee System suited to the characteristics of the existing SMEs in the English-speaking Caribbean countries, members of SELA, is also an unpostponable need to promote economic development of this Region. Given the transcendence of this requirement, SELA commissioned the preparation of this Pre-Feasibility Study with the aim of developing the mentioned System, as a counter-guarantee mechanism that allows for risk diversification and optimization of financial resources from the Credit and Guarantee Institutions from the countries in the area and thereby contribute to the consolidation and creation of the respective national guarantee systems.

In order to achieve that purpose, varied data on the issue of demand and supply of financing for SMEs in this Region have been reviewed; and, as financial access is not the only problem faced by these business units, other factors of great influence on the activities of SMEs have been analysed. Also, through a questionnaire developed specifically for this Study, direct information has been collected from various officials involved in the issue of SMEs in the region, in order to contrast it with the documentary information analysed. Also, the policies generated in the countries of the region have been examined in order to channel the development of SMEs, as well as the characteristics of the regulatory and supervisory entities in the financial system, given that assurance systems must necessarily be regulated and supervised, to effectively contribute to their development and consolidation.

Based on the above, it is intended to evaluate the minimum conditions required for the creation of the Regional Guarantee System in the Caribbean Region, taking into consideration, also, important recommendations given by multilateral financial institutions and their own experiences in Latin America in this regard. In that sense, a working model will be proposed for the Regional System, with the participation of various public and private entities, and using existing integration mechanisms in that Region. Also, the modalities of risk management and strategy guidelines to be taken into account for the formation of the Regional System will be proposed. Finally, the minimum requirements of infrastructure and equipment are raised, as well as their economic viability.

It should be noted that in the proposed operation model, the main actors involved have a key role in promoting a Regional Guarantee System in the Caribbean Region, with the conviction that isolated efforts will not succeed in developing such an important financial tool. Instead, there should be an integrated joint effort by those who play an important role in promoting business development of the SMEs as one of the factors for economic and social development of the countries of the region.

I. BACKGROUND

Since October 1991, SELA has promoted studies, discussions and efforts to encourage regional cooperation in the development and strengthening of SMEs in Latin America and the Caribbean, given that the contribution of these business units in generating employment, disseminating innovations and economic integration with other countries is a priority.

In July 2012, in Port of Spain, Republic of Trinidad and Tobago, the Training Course on Guarantee Systems to Support SMEs was held, in which the possibility of carrying out an initiative for creating a regional guarantee system in the Caribbean, which aroused great interest among the participants in this event.

In October 2014, the Permanent Secretariat of SELA, through the SELA-SMEs Programme and the Caribbean Community (CARICOM), organized in Georgetown, Guyana a seminar addressed to government organizations, business associations of SMEs and financial institutions in the Caribbean. Attending at that time were government officials, experts in public policies for the promotion of credit, representatives of business associations, financial institutions in the Region and representatives from various Member States of SELA. The purpose of the meeting was to analyse the possibility of creating a guarantee system for the Caribbean through the study of regulatory, institutional and financial requirements, adjusted to the realities and needs of the region. The necessary measures and recommendations also were presented for the establishment of the Caribbean Guarantee Fund (SELA, 2014).¹

With this close background, SELA commissioned a Pre-Feasibility Study for the creation of a Regional Guarantee System in the English-speaking Caribbean Region, as an important step to financially support SMEs in the region and which lack adequate access to and availability of financing their operations.

II. DESCRIPTION OF GUARANTEE SYSTEMS IN LATIN AMERICA

1. Synthesis of Guarantee Systems in Latin America²

Guarantee systems in Latin America represent a subsystem within the financial system, and are public and financial policies tools of each country. The primary purpose of these systems is to encourage and facilitate access to funding for businesses, especially the SMEs, being regulated and supervised by the financial authority of each country. Also, it can be seen that guarantee systems in Latin America are heterogeneous due to different causes and situations within the context of each country. The two predominant models are: **i)** guarantee societies and **ii)** guarantee programmes. The guarantee societies are of mixed nature (public-private) and guarantee programs are public. Also, the guarantees societies may be societies that may have different legal forms, and have their own resources from shareholders, public or private and operate under the trade regulation, corporate banking or by the legislation of each country.

The implementation and the increasing development of Latin American guarantee systems have favoured the results obtained in the evolution of this activity, that is, the number of SMEs assisted and additionality, understood as the level of credit mobilized for each guaranteed unit. In that

¹ Based on the "Seminar-Workshop on Credit Guarantee Systems in the Caribbean", held by SELA.

² This point is based on information and figures contained in the Final Report of the "Seminar-Workshop on Credit Guarantee Systems in the Caribbean", developed by SELA (2014), and the IDB document "Classification of Guarantee Systems from the Latin American Experience", drafted by Pombo, Molina and Ramirez (2013).

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connection, the systems in Latin America can mobilize more credit, improve credit conditions and strengthen operations of SMEs when participating in public tenders. It is estimated that the activities have grown 10 times in the last decade and practically all territories are attended by guarantee systems.

On the other hand, the public guarantee programs are relevant; however, it is important to note the advance of the mixed private and public systems such as RGS. Moreover, in recent years, entry of the private sector in the guarantee funding and trusts has been confirmed. Mention may be made that there are two groups of guarantee systems: i) a group operating the guarantee coverage, supporting it in its assets and ii) another group that are basically administrators of a guarantee fund or trust and do not support their assets. The latter group dominates in the framework of exclusive public participation. In mixed guarantee systems, support from the State can occur through counter-guaranteeing, with the granting of counter-guarantees to the first-ground guarantee entities.

In Latin America, 63% of the entities has only public resources and 27% has mainly public. This situation so destabilizing, in terms of public participation, has accentuated in recent years. In this context, an important element is the tendency towards the implementation of regulatory and supervisory frameworks, of quality and efficiency in the guarantee systems. In the next few years, it is expected that, in Latin America, development of a guarantee system or scheme may not be possible without its total integration into the financial system of the country concerned.

Meanwhile, sustainability of guarantee systems in Latin America today is based on a philosophy of shared risks with the financial sector, and the average rates of coverage amounts to 60% of the credit. The costs of financial guarantees stand at an average of 2% for study commission and 2.51% in guarantee fee. Prices tend to be differentiated, and certain criteria are applied derived from the assumed risk as the type of operation, the time or the amount. The recipients of the guarantees are usually financial institutions. Other receiving entities are: other financial institutions (27%), other companies and institutions (13%) and the public sector (13%).

One-third of the guarantee systems or institutions are dedicated exclusively to the guarantee activity (30%). The guarantee activity is relevant, higher than 50% of the operator activity, by 20% of the systems, and not relevant in 50%. The beneficiaries are usually SMEs; this policy to access the guarantee will not be implemented in vain to solve the problem of access to financing for microenterprises (83%), small business (93%) and medium enterprises (53%). For this reason, the guarantee systems in the region pay practically no attention to the large enterprise (they barely reach 7%). Moreover, 23% of the guarantee cases are individual and 77% portfolio.

In most of the Latin American countries the existence of a single guarantee entity is mostly observed. In 30% of the cases, the guarantee entities act under a guarantee system, i.e. within a legal framework that promotes the development of homogeneous guarantee entities, while the remaining 70% of the cases are mere individual and independent entities.

The counter-guarantee system allows redistribution of the risk involved in the guarantee activity. However, in Latin America this tool is rarely used so as to channel support to government level. It is notable that in the region 80% of the guarantee systems or entities do not have this tool. Only 20% of the cases have a national counter-guarantee, which focuses on first ground corporate systems, as a national public counter-guarantee on national public entities would make no sense.

Finally, it is important to note that the guarantee itself is not a product for the SMEs. It is a product aimed at the financial entity or entities of the State in Bidding Programs performed by public entities

and it should be understood in the traditional scheme of security, profitability and liquidity. In short, and as a result, it refers to taking the credit to the employer of SMEs, in the best conditions, from guarantee coverage by the national guarantee system.

2. General lessons that should be learned³

Given the characteristics of the guarantee systems in Latin America, as indicated in the previous item and their current level of maturity, some lessons or conclusions can be obtained that can be useful in designing the Guarantee System for the Caribbean Region. The main lessons are summarized as follows:

- a. As other experiences in other countries and other continents, it has been proven that the market does not always guarantee an efficient credit to companies, that is, the international standards of the financial system frequently produce unintended negative effects on the financing of the SMEs and, in a financial crisis context, these effects are accentuated.
- b. Access to finance continues to be the most important problem to improve the competitiveness of the SMEs, because despite the programs implemented in various countries, there is still a fast and constant flow of resources to those business units.
- c. Governments can use the guarantee systems to facilitate access to credit for SMEs in a universal manner or to a specific sector or activity in accordance with their government policies. In that sense, the State has an important role in the implementation of guarantee systems that goes beyond establishing a specific regulation, as it also participates in the creation of the actors operating the guarantees. To some extent, there is the dominance of the public sector in providing resources to the guarantee systems or entities in their capitalization or counter-guarantee systems.
- d. Guarantee systems should represent a subsystem within the financial system, and can be public policy tools that aim to foster and facilitate access to the financing of the SMEs in the best conditions, within a framework of regulation and supervision by the competent financial authority. In that regard, the guarantees provided must be qualified and weighted, in accordance with the characteristics of different realities that are expressed in different economic and social backgrounds, different approaches to public policies or the role of the businessmen themselves.
- e. Capitalization form and resource origin are crucial in the conformation of different guarantee system or scheme models. This form of capitalization by providing public funds determines a specific manner of administration, through the figures of guarantee trusts or funds, performed by an operator, other than the contributor of resources that does not assume the operation risks on his own financial assets.
- f. The predominance of the public sector can lead to reduced participation of beneficiaries in the resources, governance and grant decisions, which distance decision-makers from beneficiaries in the knowledge of their needs.
- g. It is advisable to have a counter-guarantee system to redistribute the risk involved in the guarantee activity. However, it should be noted that this tool is not often utilized to channel financial support at government level, but at first-ground private financial institutions.

³ Based on the Final Report from the "Seminar-Workshop on Credit Guarantee Systems in the Caribbean", prepared by SELA (2014).

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III. ANALYSIS OF THE DEMAND FOR GUARANTEES FOR SMEs IN THE CARIBBEAN

1. State policies to support the entrepreneurial sector and relevant sector characteristics⁴

The English-speaking Caribbean is a group of countries that have a cultural and economic diversity. However, most of them confront huge common challenges of development such as unemployment and an underdeveloped private sector. The self-employment rates in the region are very high, from 15% in Barbados to almost 45% in the Dominican Republic and most of self-employment is found in microenterprises. Most are even more entrepreneurs by necessity than by opportunity, what has an important effect on the transforming impact that these entrepreneurs can have in the socio economic development of the region.

In the case of most countries in the Caribbean region, the weaknesses of the national system of innovation limit the functioning of competitiveness as a systemic phenomenon, and encompass the microeconomic and macroeconomic levels. Therefore, isolated efforts and severe limitations prevail to generate increasing performances on a scale and production linking in the entrepreneurial net of the region.

In that sense, the Caribbean socio-economic reality reflects the difficulties of the countries of the region to develop strategies aimed at the transformation of their defining societies. Nowadays, most of these societies are suffering the effects of a severe drop in national income and a social dislocation. This problem is aggravated even more by the persistent capital flows from the region for foreign debt service.

Therefore, the politicians in charge have to deal constantly with the challenge of favouring the creation of employment so that the population can satisfy its basic needs by means of income generation, through the creation of small enterprises, what can be an important factor to reduce economic marginalization of the population of this region. The current debate is focused in the factors hindering growth and development in the Caribbean region, and the policies that can be designed to increase entrepreneurial culture, and at the same time, spontaneous participation and other resources.

2. General characteristics of the entrepreneurial sector⁵

Even though there has been little research over the essential role of entrepreneurs as a catalyst for the promotion of economic growth and prosperity in the Caribbean, it has been suggested that this is due to structural factors that limit or stimulate the role of the individual in the production process. The local entrepreneurs focused their activities on the zone of the sectors of trade and services, because they had few possibilities of creating wealth through manufacturing production and energy.

Among the essential characteristics of the Caribbean enterprises the following can be highlighted:

⁴ This section analyses which are the general characteristics of the role of the State in promoting the entrepreneurial sector and the emphases given to this sector, taking into account information from the Report entitled "The Role of the Caribbean Entrepreneur in Economic Development – Strategy and Process", drafted by Ramkissoon, N. (2013).

⁵ This section describes the functioning of the entrepreneurial sector, based on information of the Report entitled "The Role of the Caribbean Entrepreneur in Economic Development – Strategy and Process", prepared by Ramkissoon, N. (2013).

- a. The family enterprises have been successfully developed as small and some medium-sized enterprises. They are involved in agriculture, light industry, arts, handicrafts and trade, although limited because resources are scarce.
- b. There exists an entrepreneurial sector within an “underground economy”. Enterprises of this type are informal and avoid paying taxes, being illegal up to a certain point.
- c. In some countries of the Caribbean, State programmes have been established that offer a mix of credit services and support to the financial enterprises aimed at promoting entrepreneurs.

Within this context, the English-speaking countries of the Caribbean are found at a disadvantage in the current global surroundings because their comparative advantage of cheap labour or natural resources wealth has become obsolete vis-à-vis a knowledge-based economy.

3. State policies in favour of SMEs

In reference to the SMEs entrepreneurs, several researchers point out that although they are conscious of the benefits of a well-diversified economy, most countries of the English-speaking Caribbean have most of the SMEs dedicated only to produce different goods and services, and cannot compete with big foreign companies, nor comply with the international regulations and laws with the requirements of quality and environmental regulations demanded.

With respect to opportunities, the service sector is the main area having a competitive advantage for the region. For the politicians in charge, it is a challenge to design well the support in order to obtain the maximum benefit from tourism, culture and entertainment, education services and niches in information and communications technologies, because these offer good opportunities for regional SMEs.

4. Role of government procurement aimed at the SME sector⁶

Public or government procurement has been traditionally conceived as a process associated with the satisfaction of collective needs for the operation of the State. This concept has evolved to be considered as a development tool that allows for the inclusion of vulnerable sectors of society in the economic process in general, and for generating not only expenses for the State, but also for being an important part of the national economy dynamics, with effects on the creation of employment, channelling of investments and productive development.

In 2011, the Caribbean Community (CARICOM) created the Working Group on Public Procurement. In this regard, CARICOM seeks, through the Caribbean Centre for Development Administration (CARICAD), to improve quality of services and promote greater opportunities for participation by using standardized technological tools in the national public procurement systems.

The initiative to establish an electronic Public Procurement System has been in force since 2013, with the purpose of facilitating the process of acquisition of goods, mainly medicines, among the members of this organization. The Caribbean Procurement Institute, established in 2006 in Trinidad and Tobago, has carried out activities and research programmes on public procurement policies in the Caribbean countries. In 2008, this Institute encouraged the creation of the Caribbean Association

⁶ This section is based on information and figures prepared by SELA (2014) in the document entitled “Public procurement as a tool for development in Latin America and the Caribbean Intra-Regional Relations”.

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of Procurement Professionals aimed at boosting professionalization of public officials regarding the national public procurement institutions.

However, there is not any validation of the existence of State Procurement Programmes aimed at SMEs in the Caribbean region.

5. General situation of SMEs in the Caribbean⁷

There is not a unique definition of SME in the whole region, in spite of the efforts that are being made to develop a Regional Policy for SMEs to standardize such definitions. For example, in Jamaica, a small enterprise is defined as one that has from 4 to 10 employees and US\$ 100,000 or less in assets, while in Trinidad and Tobago, a small enterprise must have between 6 and 25 workers and from US\$40,000 to US\$240,000 in assets.

In a presentation entitled "The competitiveness of SMEs in the Caribbean: challenges and opportunities", ECLAC underscored that the importance of SMEs for the Caribbean resides in their contributions of 90% in employment and 70% in GDP in most of the Caribbean economies". Aside from their contributions to income, employment and exports, the SMEs were presented as a driving force for growth and sustainable development.

SMEs are the backbone of the Caribbean economies and a considerable source of employment and taxes. However, insufficient statistics on their contribution to economic development limit a thorough assessment of the economic role they play. A similar situation is shown when trying to quantify the export revenues from SMEs, although it is known that at the Latin America and Caribbean level, SMEs account for more than 95% of the enterprises in the region, but only 13% of them export goods. Also, the exporting Caribbean SMEs tend to do it for a limited number of products to a small number of markets.

Regional SMEs also provide solutions to the social and development projects, such as food security. The SMEs working in agriculture – including honey production in Guyana, shrimp farming in Belize and coffee production in Jamaica – have traditionally played a vital role through the conversion of indigenous raw materials into food and beverage products. Nevertheless, this is an ongoing challenge for the CARICOM Member States, which usually import large amounts of food.

In short, it can be pointed out that there is no shortage of entrepreneurial initiatives in the region, as it is demonstrated by the number and ingenuity of the people working in small enterprises. However, some smaller SMEs need to work towards more formal agreements to have access to the necessary supplies in order to improve their competitiveness and feasibility.

6. Characteristics of the availability and access to financing and guarantees for SMEs in the Caribbean⁸

When dealing with the problems faced by SMEs, four main aspects can be are highlighted. They are: i) Promoting a favourable socio-economic environment for SMEs; ii) Improving the process

⁷ This section has been drafted based on the Coke-Hamilton, P. (2014) research entitled "The Role of SMEs in the Caribbean" and the SELA document (2010) entitled " *Visión prospectiva de las Pequeñas y Medianas Empresas (PYMES). Respuestas ante un futuro complejo y competitivo*".

⁸ Based on information obtained from the document entitled "Report of the Workshop on Boosting SME Development and Competitiveness in the Caribbean", prepared by ECLAC (2009).

of SMEs formation; iii) Supporting the creation of new SMEs; and iv) Proper provision of financial support.

In addition, there are some barriers that entail difficulties to gain access to credit, the lack of business and market intelligence, unsuitable transport and bureaucratic procedures. The regional organizations, and therefore, the governments must continuously search for ways to promote a more favourable environment for the performance of SMEs.

To sum up, financing is still an important challenge in terms of costs, availability, scheduling and structure of terms. High interest rates need to be addressed through the promotion of greater market competition. Institutions specialized in risk capital and financial angels are required in stock markets in order to facilitate a larger affordable debt offer and capital financing for SMEs.

IV. ANALYSIS OF THE FINANCIAL OFFER FOR SMEs IN THE CARIBBEAN

1. Characteristics of the financial system and the regulatory entities⁹

Although the regulations and reasonable supervision could be improved in several aspects in the English-speaking countries of the Caribbean region, there can be other factors that have begun to have a considerable impact on micro-finances in this region. Micro-Financial Institutions (MFIs) are in fact non-existent in practice. Also, because MFIs rarely accept deposits, in the English-speaking Caribbean, the regulations and prudential supervision are not an obstacle, because they are not applied, except when there is money being raised from the public.

The main regulatory challenge for micro-finances lies in the savings and credit cooperatives, which are decisively important because they are almost the only formal suppliers of micro-financial services in the Caribbean region. The challenge of a suitable orientation for the prudential regulation and supervision of credit cooperatives is supported by the great variety of approaches that are found in the different Caribbean countries. The social objectives of the savings and credit cooperatives have brought about other challenges for their regulation and reasonable supervision, specifically the opinion that they should be promoted, as well as regulated.

However, combining promotion with regulation leads to possible conflicts between the two subjects, and experience has showed that promotion is usually the most representative activity of the cooperatives. Likewise, the regulatory agencies of credit cooperatives often face an additional problem, typical in all Latin America and a big part of the developing world, which is how expensive it is to supervise in an efficient way.

In addition, if the regulatory approach is focused on the formal guarantee, this creates a significant barrier due to the small size of most micro-credits. In micro-finances, "informal" collateral information is often used, which, although not formally recoverable, provides an important indicator of the lender "nature" as regards reimbursement. In short, there is a mixture of regulatory matters and execution practices that determines the capacity of a credit cooperative (or any MFI) to render micro-financial services on a sustainable basis.

In conclusion, the inadequate aspects of the regulation and prudential supervision are not the only reasons for the slowness of micro-finances to thrive in the English-speaking Caribbean, and it can be worth pointing out briefly which other barriers could be found and what could be done to identify them.

⁹ Based on information obtained in the document entitled "Financial Regulation in English-Speaking Caribbean: Is it Helping or Hindering Microfinance?" by Vogel, R. and Schulz, G. (2011).

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Moreover, it is critical to monitor the degree in which the supervision based on risks is being applied effectively. That is to say that the aim of the regulatory agencies is focused on risks and the capacity of the regulated entities to deal properly with potential risks. This is not a small challenge, given the common temptation of trusting the easier approach to focusing on the presence of a formal guarantee that of course is not so relevant for micro-finance.

Lastly, regarding this subject, it must be highlighted that the regulator does not manage risks in a regulated institution, what it does is to assess the capacity of the regulated entity to manage its own risks.

2. Characteristics of the financial offer to the entrepreneurial sector in general¹⁰

The offshore banking sector is the largest sector in the Caribbean, with assets equivalent to 10.8 times the regional GDP, but it is concentrated to a great extent in two countries. The first one is The Bahamas, because it is the biggest offshore financial centre (OFC) in the region and the biggest fourth OFC in the world after the Caiman Islands (a United Kingdom territory), Hong Kong, and Singapore. The offshore banks represent 98% of The Bahamas' US\$ 598,000,000,000 of the financial sector or 7.22% of The Bahamas' GDP. To put this in perspective, in Singapore the financial system is only 1.5 times larger than The Bahamas financial sector, while Singapore's economy and population are 32 and 15 times greater, respectively. The other country in the region is Barbados, which is another important offshore centre, with US\$47.000 million in bank assets abroad, representing 87% of its financial system or GDP's 1,082%

The financial sector in the Caribbean is big in comparison to the size of the economies and dominated by the banks, although the non-banking financial institutions are becoming increasingly important. The total assets of the financial sector, excluding offshore banks, represent 124% of the regional GDP, the banking system reach around 91%, and the non-banking financial institutions like the credit cooperatives and insurance companies represent the rest. The Bahamas and Barbados have important offshore banking sectors, equivalent to 72 and 11 times their respective economies, outpacing by far the size of the land sector. Some of the countries of the region also have offshore banking sectors, although on a small scale of 45% of the sub region's GDP.

The size of the onshore banking sector varies significantly in the countries. The Bahamas has the biggest banking system, equivalent to 150% of its GDP, while Jamaica is in the other end, with a banking system equivalent to a little less than 50% of its GDP. The ECCU banking sector, as aggregated, amounts to near 176% of the union's GDP. The foreign banks, mainly those from Canada, play a leading role in all the Caribbean, and represent around 60% of the assets of the banking system. The European and American banking are also important, but their activities are focused on the offshore centres of The Bahamas y Barbados.

3. Characteristics of micro-finances within the financial sector¹¹

It is useful to point out some key characteristics of micro-finances that sometimes are overlooked and can be especially important to understand some of the challenges faced by the regulators. The economists (as well as the entrepreneurs) talk about the reason for profit maximization; in turn, for the micro-entrepreneur, the guiding principle that predominates is risk minimization for survival.

¹⁰ Based on the information and figures of the document entitled "Financial Interconnectedness and Financial Sector Reforms in the Caribbean", by Ogawa, Sumiko, Joonkyu Park, Diva Singh, and Nita Thacker. (2013).

¹¹Based on information from the document entitled "Financial Regulation in English-Speaking Caribbean: Is it Helping or Hindering Microfinance?" Vogel, Robert C. and Gerald Schulz (2011).

Risk minimization implies diversification, which also entails that the household of the micro-entrepreneur will have a number of different sources of income in cash to survive, which at the same time makes that essential to be considered by the potential lender to understand the total cash flow of the micro household. In fact, the lenders usually complain about the time and efforts they have to go through going to the house of the micro-entrepreneurs in the preparation of a detailed image of all the cash flows to know how much they can lend and how to structure the loan (for example, the schedule of instalments).

In this context, it is very hard to find other suppliers of micro-financial services, except in Jamaica, where almost all the participants in the MFIs can be found. The same as in most parts of the world, the commercial banks in the Caribbean have remained outside of micro-finances to a large extent, except maybe for some minor incursions by ScotiaBank in its efforts to serve the small and medium-sized enterprise sector, and maybe in a near future by Barola Bank, a newcomer. In fact, the MFIs are very hard to find in the Caribbean, in spite of a thorough search in the various countries of the region.

4. Characteristics of the financial offer for SMEs in the region

As it has been mentioned, the number of micro-finance institutions and savings and credit cooperatives is small, except for some of those sectors where the countries are well developed. This fact is probably related with the loss of trust since such institutions have a long history of bankruptcy and poor management, besides the high interest rates charged on loans. In conclusion, from the offer and demand of financial instruments it can be seen that the use is very limited for savings as well as credit.

On the other hand, the informal sector, unlike the formal financial sector, is willing to accept some types of more feasible guarantees for the poorer sectors (employment, small plots of land, livestock, etc.) Likewise, informal lenders have much more information on the characteristics and behaviour of their clients and vice versa. The relationships between the inhabitants of rural zones and underdeveloped areas are very close: everybody knows about anybody else. Therefore, it is possible to implement social sanctions and censorship that reduce information and transaction costs, and to foster participation in the informal economy of the financial sector.

5. Role of savings and credit cooperatives in the region¹²

As mentioned before, the regulation of credit cooperatives has presented a challenge for most of the countries in the entire world. This is due to the fact that credit cooperatives are implemented for multiple purposes beyond limiting themselves to rendering financial services, which often have social goals, which society considers worth promoting, mostly because they serve people of relative modest means. This has led to the creation of multipurpose cooperatives that offer other services (production, commercialization, health, education, etc.), along with credit.

However, most of the biggest and more important credit cooperatives in the Caribbean have had an employer function, that is, that members of the credit cooperative are limited to the employees of a particular employer (that could even be teachers or other government employees). Nevertheless, they normally limit the growth of the credit cooperative, especially when joining, and it could even result in reduction if the employer ran into problems or just came to a halt. Thus, the credit cooperatives with employer headquarters often began to allow that the close family of a member

¹²Based on information from the document entitled "Financial Regulation in English-Speaking Caribbean: Is it helping or hindering Microfinance?" Vogel, Robert C. and Gerald Schulz. (2011).

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could also become members of the credit cooperative, and as it happened, this was soon expanded to more distant relatives.

The last step in the broadening of the cooperatives portfolio has been the most important –because it allows the self-employed workers becoming members of the credit cooperative. With an employer link, the loans are typically as a consumer or a personal loan, with payroll deductions if they are the favoured means of amortization. With self-employed members, there is a real revolution in the loans as the payroll deductions are no longer relevant for this segment of credit union affiliation, presenting a challenge and also the opportunity to make micro-loans come true. As a matter of fact, in some of the credit cooperatives surveyed the self-employed workers have grown to amount to half of the membership of the credit union.

When a credit cooperative is open to self-employed workers, the nature of the risks must be taken into account by the change of regulator of the credit cooperative. For a credit cooperative with an employer link strictly limited, the greatest risk is found in the employer (a fact that is often overlooked, but that in several cases in the Caribbean is what has given place to the opening of the definition of member bonuses).

Finally, it is necessary to highlight that the Cooperative Leagues of each country demand a duly standardized accounting and are particularly worried in guaranteeing that the required annual audits are carried out by qualified auditors that operate under the corresponding mandates.

V. IDENTIFICATION AND DESCRIPTION OF NATIONAL GUARANTEE SYSTEMS OR SIMILAR SYSTEMS IN THE CARIBBEAN

As it could be seen in the previous sections, there is a group of stakeholders that are present to ease the financial access of SMEs to the financing sources in the market of every country. However, this presence is not necessarily evident as a financial system or as a national guarantee system. In this sense, it is noticeable that in most of the countries of Latin America there is mostly one guarantee entity. In 30% of the cases, these guarantee institutions act under a guarantee system, that is to say, within a legal framework that promotes the development of homogeneous guarantee entities, and the other 70% of the cases are individual and independent entities.

The same phenomena, but weaker, is present in the Caribbean region. However, in the prospect of forming a Regional Guarantee System, one of the factor that can contribute to it is reinforcing the explicit setting of the National Guarantee Systems in every country involved in the future Guarantee Regional System. This will be of great benefit as it strengthens the Regional System.

VI. MINIMAL CONDITIONS FOR THE CREATION OF A REGIONAL GUARANTEE SYSTEM¹³

The minimal conditions that follow are the product of the experience in the creation of public and private Guarantee Systems in Latin America and also in countries with a big presence of SMEs in other regions. In the inventory of these minimal conditions, recommendations from a document prepared by the Task Force Secretariat of the World Bank have also been included. They establish a series of principles that should be respected to have a healthy Guarantee System, in this case for the creation of a Regional System of Guarantees in the Caribbean Region.¹⁴

¹³ Taken from the final report on the Seminar-Workshop on Credit and Guarantee Systems in the Caribbean”, conducted by SELA (2014)

¹⁴ Secretariat of the Task Force. Principles for Public Credit Guarantees Scheme for SMEs. World Bank Group. Washington, USA. July 2015.

Basic conditions are described next:

- a. There are two options to establish a guarantee policy: I) The Guarantee Programmes that are framed within the public system and ii) the Guarantee societies that are usually mixed (public-private). The execution of a guarantee system should follow an alliance among all parties involved: the public sector (that aims to activate SMEs); the financial sector (that can give loans to the SMEs) and the enterprise sector (that can solve their problems to access the loans).

It is noteworthy to mention that Principles 2 and 3 of the WB document mention that the judicial and normative frame must promote mixed ownership of the Guarantee System, in particular, private financial institutions, and guarantee a balanced treatment of minor investors. Likewise, the Guarantee System must have adequate finances to achieve its objectives, and implicit and explicit subsidy must be transparent and publicly known.

- b. It must be noted that, in general, there is an incomplete offer of financial services in the SME sectors that are less attractive, less favoured regions, weaker sectors and emerging activities in various sectors. At the level of SMEs, there must be needs to be covered with better financial conditions, the nature of business and intangible actives; as well as adjusting the micro-credit factor to the phases of the life cycle of credit and entrepreneurship.
- c. Guarantee programmes must be managed if possible by public institutions specialized in the financing or development of SMEs. Among the key factors to start a Guarantee System, we can find its integration into the financial system. Likewise, to consolidate its execution, there are two main factors to be considered: i) a regulatory frame for quality, safety and specific for the activity and ii) full integration of the Guarantee System into the financial system. In this regard, the WB recommends an internal control frame in the Guarantee System to safeguard the integrity and efficiency of its administration and operations. The Guarantee System must be established as an independent legal entity based on a well-defined judicial and normative frame to support the effective execution of its operations and the fulfilment of its goals.
- d. There must be a policy that promotes the financing of the SMEs, and a strategic alliance in which the involved actors (public authorities, financial institutions and their organizations and SMEs) agree about the judicial and operational development of the Guarantee System that satisfies the legitimate interests of all actors
- e. The punctuation and weight of the guarantee is a key factor for the sustainability of the Guarantee Systems. This is completely compatible with the principle pointed out by the WB, in the sense that the performance of the guarantees of the GS must adequately reflect a balance among financial dissemination, additionality and sustainability within the frame of the development level in the financial sector of the country.
- f. Guarantees issued by the Guarantee System must be partial, giving the appropriate incentives to the SMEs that are giving and receiving financing, and designed to guarantee the fulfilment of prudent and relevant requirements. The System must adopt a policy of prices based in transparent and coherent risk to ensure that the guarantee programme is financially sustainable and attractive for SMEs and loaners.
- g. The demand management process must be efficient, clearly documented and transparent, giving incentives for the recovery of non-chargeable loans, and aligned with the legal and regulatory frame of the country of origin. The Guarantee System must adopt a criteria for eligibility and grading that must be clearly defined and transparent for the SMEs, the loaners and the guarantee receptors.

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Likewise, the Guarantee System must have a solid corporative government structure, with an independent and competent board of the elected directors according to clearly defined criteria. It must be subject to demanding requirements for presenting financial reports and it must have externally audited financial states; it must also have an efficient risk management that identifies, evaluates and manages the risks related to the products and services offered. Finally, non-financial information related to its operations must be public.

VII. EVALUATION OF THE MINIMAL CONDITIONS FOR THE CREATION OF THE REGIONAL GUARANTEE SYSTEM IN THE CARIBBEAN

After presenting above the minimal conditions taken from Latin America's experience and the recommendations from the Task Force of the WB to establish a Guarantee System, it is necessary to review if such conditions are present in the Caribbean Region. In this regard, each point is then examined as follows:

Even though many Caribbean countries have important sources of income and resources, financial access continues to be the main obstacle to improve competitiveness of SMEs and it has been proved that many of the promoted programmes in the region do not have a constant and quick movement of resources to those entrepreneurial units:

- a. Regarding the creation of Guarantee Programmes in the public sector, there are the conditions so that the initiative of creating these programmes comes from the Caribbean States involved. The creation or the reinforcement of Guarantee Programmes in the National Guarantee Systems already present will ease the creation of a Regional Guarantee System, and for that purpose it will be necessary to create an explicit alliance among all the sectors involved in the Caribbean Region; that is: the public sector of the Caribbean countries that wishes to promote the development of SMEs, the financial sector that will give access to credits for the SMEs, and the entrepreneurial sector that can have the opportunity of solving their problems of access to credits.
- b. While there is a judicial and normative framework in the countries of the region, it is necessary to reinforce it in order to promote mixed property of the Guarantee System, in particular, private financial institutions to ensure a balanced treatment towards minor investors. Likewise, it is necessary to create adequate financing sources for the Guarantee System, including explicit and implicit subsidies that must be transparent and publicly known.
- c. In the Caribbean Region there is an incomplete offer of financial services and guarantees in the many countries involved. The demand of services is located in various SMEs sectors in less favoured areas, also in emerging activities in different sectors. Similarly, there are various financial needs that require better credit conditions, according to the nature of the business; and therefore the need for a micro-credit factor adjusted to the life cycle phases of the credit and of the entrepreneurship so as to match the lapse of the performance of the investment with the lapse the financial entity gives to pay the credit.

It is clear that the offer of financial services and guarantees must be supported by an adequate strategy with operative objectives, compatible with the development policies for SMEs.

- d. Despite the fact that in the Caribbean Region Guarantee Programs are scarce, there are public institutions oriented towards the development of SMEs that can support the creation of a Regional Fund operated by a Guarantee Institution, integrating it to the Financial System of the countries of the region and within a high quality regulatory framework with security and specific for the development of the activities' system.

- e. The regulatory framework existing in the Caribbean has the conditions to look for social support and fulfilment of the State policies. Apparently, there are no difficulties for a Regional Guarantee Institution to establish itself as an independent legal entity based on an actual judicial and normative frame to offer the effective execution of its operations and the accomplishment of its goals. Likewise, there are conditions to offer judicial security to the legitimate interests of all actors to integrate the SMEs in the formal financial circuit permanently, so as to favour and ease their access to financing in the best conditions within an internal control frame to safeguard the integrity and efficiency of its management and its operations.
- f. There are conditions to establish a policy that promotes the access to financing for SMEs and a strategic alliance a strategic alliance in which the involved actors (public authorities, financial institutions and their organizations and SMEs) agree about the judicial and operational development of the Guarantee System that satisfies the legitimate interests of all actors.
- g. With respect to the punctuation and weight of the guarantees offered through the Caribbean Region Guarantee System and which are a key factor for the sustainability of the system, this is an element subject to the management process oriented toward getting results in a process of sustainability and competitiveness of the financial sector that offers the Guarantee System within the framework of development of the financial sector of the country.
- h. The issuance of guarantees by a Guarantee Institution, can be clearly established so as to be partial, giving the adequate incentives for borrower SMEs and the loaner institutions. Likewise, guarantees must be designed to ensure the fulfilment of prudent and relevant requirements. It must adopt a policy of prices based in transparent risk and coherent to ensure that the guarantee program is financially sustainable and attractive for SMEs and loaners. All these factors can be designed adequately, relying in the adequate advice and being subject to an adequate process of hiring, with borrower SMEs as well as guarantee institutions.
- i. There are the conditions to design and execute a Guarantee Institution with a corporative government solid structure, an independent and competent board with directors chosen according to clearly defined criteria.

The management process in the demand must be enough, clearly documented and transparent, it must give the incentive to recover unpayable credits, and it must be aligned with the regulatory and legal frame of the country of origin. The new Guarantee Institution must adopt well defined and transparent eligibility and grading criteria for the SMEs, loaners and credit instruments. It must be object of demanding requirements for presenting financial reports and it must have externally audited financial states, it must also have an efficient risk management that identifies, evaluates and manages the risks related to products and services offered. Finally, non-financial information related to its operations must be public.

VIII. PROPOSAL TO CREATE A REGIONAL GUARANTEE SYSTEM FOR THE CARIBBEAN

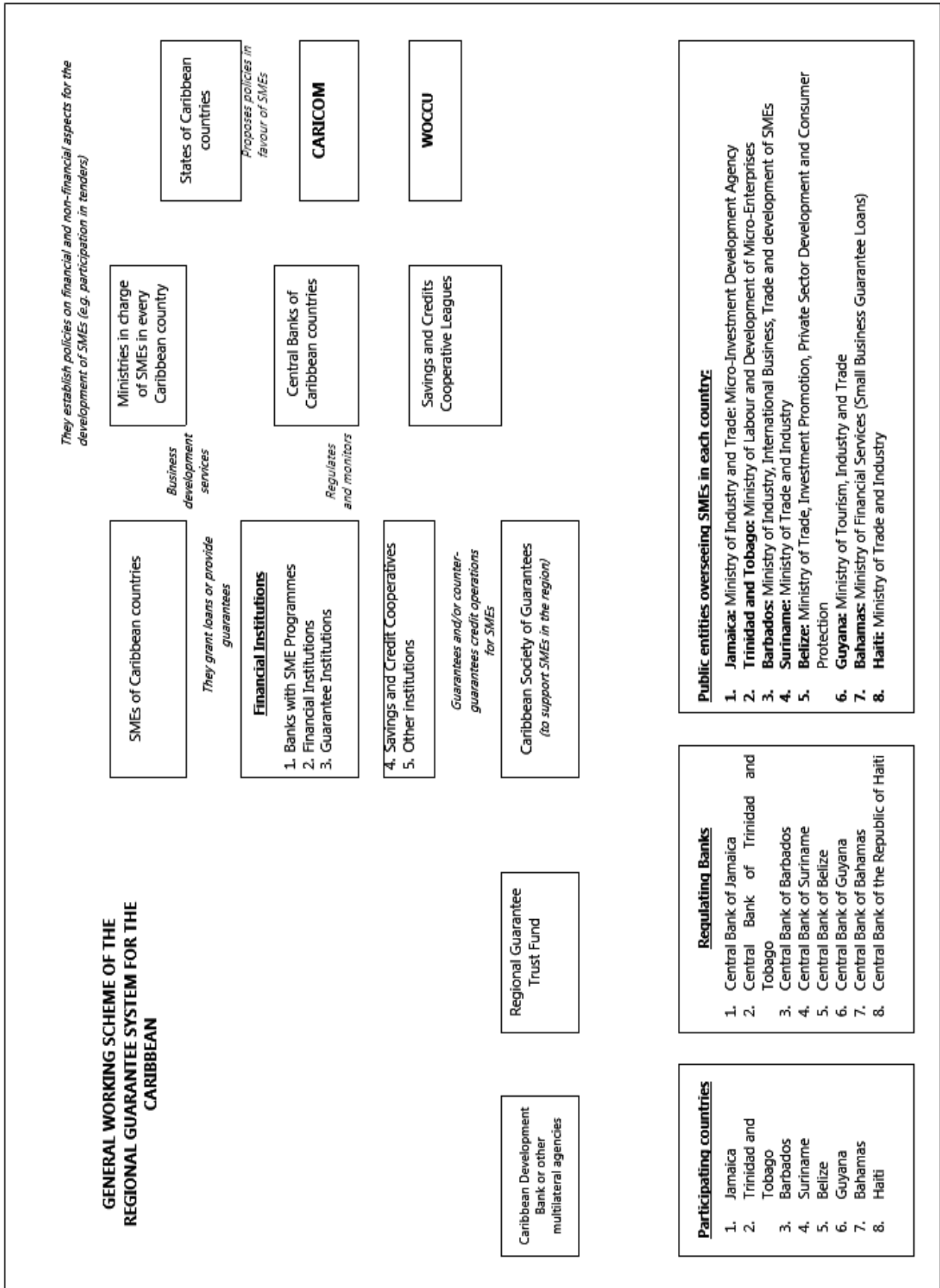
1. General description of the functioning of the Regional Guarantee System for the Caribbean

Taking into account the conditions established in the previous section and in the context of the Caribbean Region, the proposal of the functioning of a Regional Guarantee System is described next, based on the following elements:

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- a. In the first place, the countries covered by the Regional Guarantee System are those within the SELA context, that is to say: Jamaica, Trinidad and Tobago, Barbados, Suriname, Belize, Guyana, Bahamas and Haiti. Each government can establish especial policies to promote the development of SMEs. It is possible that once the System is installed, other countries in the region with similar SMEs problems could participate.
- b. The aforementioned countries are also within the context of the Caribbean Community (CARICOM), that has as main objectives the promotion of the economic integration and cooperation among the members and their main activities are the coordination of economic policies and planning of development. In this connection, CARICOM can propose comprehensive policies oriented towards the development of SMEs in every member state and that can become a framework for the development of SMEs, within the CARICOM regional development policies.
- c. The Central Banks of the aforementioned countries regulate and supervise the activities of financial institutions and establish financial regulations and policies specific to regulate the institutions that offer financial services to SMEs, the following banks are included: i) Central Bank of Jamaica, ii) Central Bank of Trinidad and Tobago, iii) Central Bank of Bahamas, iv) Central Bank of Barbados, v) Central Bank of Belize, vi) Central Bank of Guyana, vii) Bank of the Republic of Haiti and viii) Central Bank of Suriname.
- d. The SMEs that are in each of the countries mentioned and despite their own characteristics, are very similar, especially with respect to the lack of access to adequate financing and business services, as explained in the previous sections of this study.
- e. The financial institutions that are regulated by Central Banks offer loans to the business sector in general and can also offer them to the SME sector. They can be classified as: Commercial Banks, Micro-financial Institutions, Guarantee Institutions and Savings and Credit Cooperatives. About the latter, it is necessary to point out that Cooperatives have greater access to SMEs and despite the fact that in some countries they are not regulated and supervised by the Central Bank, they are often supervised by their own Savings and Credits Cooperative Leagues that function in different countries in the Caribbean Region and that follow the guidelines of the World Council of Credit Unions (WOCCU).
- f. **The Caribbean Society of Guarantees** that will be the next institution that will offer guarantees and/or reinforce credit operations offered by the institutions previously mentioned will have its own capital and will be able to operate the Guarantee Regional Fund. The creation of this society will be governed by the principles and minimal conditions established in point number 6 of this study.
- g. **The Regional Guarantee Fund** can be a trust formed to stand the support policies in guarantees established by the states members of the Caribbean region.
- h. The trust previously mentioned can be created as an initiative of the Caribbean Development Bank, which will have as regional members the countries of the Guarantee Regional System, except for Haiti and Suriname. The Regional Guarantee Fund can be formed with the participation of other sources of financing.

The General Working Scheme on the following page shows the interactions that will be possible after the entry in operation of the Guarantee Regional System, with the participation of all the elements previously mentioned.



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2. **General characteristics for the legal capacity of the Regional Guarantee System for the Caribbean**

This aspect must be studied in detail, so that the Regional Guarantee System for the Caribbean can have the judicial strength it needs, to the extent that its operations cover the various members of SELA. Therefore, the nature of its activities must go according to the nature of activities of financial institutions that will work with this Society. In principle, it could be a public limited company, so that it can also be a company that quotes shares in the stock exchange.

3. **Determining Risk Management Modalities for the Regional Guarantee System**

Taking into account the future characteristics of the Regional Guarantee System for the Caribbean, one of the conditions for functioning, in the context described in item number 7 of this study, will be that of being regulated and supervised by the financial authority that, in this case, will depend on the chosen headquarters for the proposed Guarantee System. In this regard, the regulator will establish the specific normative for risks that will frame the functioning of the Guarantee System for the Caribbean. However, taking into account the experience developed by financial sectors in Latin America and that might be considered universal, it is expected that the type of risks taken by the regulator will be covered by the risks management, as described next:

a. **Credit risk**

In the area of microfinances, credit risk is defined as the possibility of suffering losses due to the inability or unwillingness of debtors or counterparts, or third parties required to fully meet their contractual obligations recorded on or off the balance sheets. Credit risk involves not only the potential loss due to default of the counterpart; it also includes deterioration in the credit quality of the counterpart, or in its guarantee or collateral.

b. **Market risk**

It is defined by the losses stemming from the performance of the variables which determine prices in the financial market. There are three main types of market risks: Interest rates, exchange rates and commodities price risks (gold price).

c. **Interest rate risk**

Structural interest rate risk refers to the potential effect of variations in the interest rate in the market over the financial margin and the economic value of an entity, as a consequence of the mismatch in the temporary structure of expiry and devaluation of assets and liabilities in the balance.

d. **Foreign exchange rate risk**

The foreign exchange rate risk occurs when there is a variation in the value of the local currency which affects the value of assets and liabilities. It must be taken into account that this type of risks is particularly frequent in the Caribbean because of the many different currencies in the region.

e. Operational risk

The operational risk refers to the possibility of losses due to inadequate processes, faults on the staff or on the information technologies, or external events.

f. Liquidity risk management

Liquidity risk management will contribute to ensure the ability to face an increased volume of financial assets and to fulfil short-term duties, which can change with respect to the original plans, due to the fact that some operations, such as refunding cash guarantees, or contracts of uncertain nature, can impact the cash flow after the default of the other party, or in case of unexpected external events.

4. Description of products and services to be provided by the Regional Guarantee System

Services and Guarantees that can be offered by the Guarantee Regional System for the Caribbean to the financial institutions of the region are described as follows

- a. Counter-guaranteeing individual guarantees in specific Support Programs for SMEs in the countries of the Caribbean region

This type of guarantee will secure up to 80% of various programmes where SMEs of different countries in the Caribbean participate and that might comprise:

- i. Guarantees from participation in public and private tenders, from contracts to provision of goods, services and construction, to securing the fulfilment of the duties of SMEs. It is a first-level banking instrument to ensure technical and commercial guarantees.
 - ii. Guarantees from granting bond letters for the SMEs that, under a specific programme, qualify before any financial institution, when applying for a direct loan to any institution of the region, which could be supported by the Regional Guarantee Fund with a bond letter given by the Caribbean Guarantee Society.
- b. Guarantees for Credit to Suppliers

This type of guarantees has as a goal to cover up to 80% for SMEs before companies that supply materials, consumables or final goods, which allow SMEs for complying with their commercial obligations at a lower financial cost than that of a private loan for working capital.

- c. Portfolio Guarantee

This guarantee model will allow SMEs for access to credit and will be developed through a guarantee credit line granted by the Guarantee Regional Institution to banking and financial institutions which are eligible, regulated and supervised, for the financing of fixed assets and working capital for regional SMEs. It is a second-level banking mechanism for guarantees.

Effective covering of the portfolio guarantee of the Guarantee Fund for Small Business in Peru (FOGAPI) reaches 50% of its capital, according to international experiences, it allows for credit risk among financial institutions and Guarantee Regional System to be balanced.

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d. Guarantees for Institutions with Credit Programmes for SMEs

This model will back up 50% to the institutions that have Credit Programs oriented towards SMEs (such as NGOs and other institutions). It will also serve to have access to resources given by financial institutions of the countries in the region or by international cooperation, to be channelled to SMEs groups in certain geographical areas.

e. International Guarantees

This guarantee model is oriented towards the 100% of operations in foreign commerce, through bonds, guarantee bills, or promissory notes supported by financial institutions, or other modalities, which ease and reduce operational costs. This guarantee model supports the exporter receiving the payment for the sold products, and the importer having the necessary documents of the compliance of the conditions agreed with the exporter.

5. **Strategic guidelines for SMEs to achieve penetration into the guarantee market in the Caribbean**

The creation of a Regional Guarantee System for the Caribbean has to comply with a series of steps that have to be properly organized in order to materialize such proposal. The strategy guidelines to achieve this purpose can be classified as follows:

- a. First, it is necessary to note that the creation of a Regional Guarantee System for the Caribbean is of the utmost importance to support the SMEs of the countries comprising this region, and its implementation would be a lot easier if it counts with explicit State policies that favour SMEs development, as part of the economic development that each of the countries involved wish to achieve. It has been proved that one of the key factors that will allow the development of SMEs is the facilitation of their access to proper financing, according to their needs.
- b. In this connection, since tackling this subject is in the best interest of all CARICOM countries, it would be convenient for this organization to be the best suited to propose policies that would favour the development of SMEs in the Caribbean, as this attribution is among its main purposes. The measures to support the development of SMEs can cover several aspects that need to be tackled, such as the support for entrepreneurial services, the SMEs' participation in State tenders and technological aspects, among others.
- c. The measures adopted by each of the States comprising CARICOM are aimed at favouring the development of SMEs, based on the agreements signed by this organization. These measures will be basically aimed at financial services, corporate development services, and participation shares in State tenders. Measures aimed at financial services can be implemented through the Central Banks of each country, and those that are not financial through government bodies in charge of development of SMEs.
- d. In terms of the facilitation of the access to financial services, the measures will be related to the financial institutions, such as banks and financial institutions that are regulated and supervised. In the case of the cooperative savings associations, it has to be specified that this type of institutions has been present in the countries of the region for a long time. They are created by initiative of the population, and in many cases they not only contemplate financial services, but also other services, which make their supervision and regulation more difficult.
- e. However, the nature of the financial services of the cooperative savings associations takes place in an environment of microfinances, although their largest orientation is to offer credits to company employees that work on a fixed income, and not for SMEs that offer services in the market, thus increasing their risks. It is necessary to specify, however, that the cooperative

savings associations, in many countries of the region, have a League of Cooperatives that define their operation in accordance with the principles of the World Council of Credit Unions. In several countries, the Leagues of Cooperatives exercise some kind of supervision of the operation of the affiliated cooperative savings associations. It is possible that there is agreement to set some cooperation points of the Leagues with the Central Bank, for some type of certification of the cooperatives that comply with certain standards of regulation and supervision.

- f. Based on the aforementioned framework, there would be the necessary conditions for the creation of the Regional Guarantee System for the Caribbean, which could be created in trust by the development banking system, for instance, the Caribbean Development Bank, or another type of banking system related to the region, such as the Inter-American Development Bank (IDB), or the World Bank itself.
- g. Likewise, the issuing of the support measures for the SMEs by the States of the member countries would imply the creation of the conditions that would in turn facilitate the creation of the Regional Guarantee System, with its own equity, and that at the same time can be the operator of the Regional Fund of Guarantees. This institution will offer guarantee services to the Guarantee Institutions in favour of SMEs in the region.
- h. It is necessary to specify that the creation and operation of the Regional Guarantee Fund shall be made jointly with a specific Plan clearly stipulating which are the basic conditions to guarantee its operation in the framework of conditions specified on item 7 of this study.
- i. It is possible that a Regional Guarantee System could accelerate the reinforcing of the National Systems of Guarantees of each country, as the SMEs in each country have such requirements.
- j. Also, the creation or reinforcing of the Guarantee Systems in the National Guarantee Systems would facilitate the consolidation of a Regional Guarantee System, and to that end it would be necessary to create an explicit alliance between the sectors involved in the region.

As a result of the analysis of the landscape and of the strategy guidelines contemplated for the creation of the Regional Guarantee System, it would be made with the objective of gradually positioning itself as the main partner of the SMEs of the Caribbean countries, in their process of corporate development, considering that they are an important pillar for the economic development of the Caribbean countries.

Target market

- a. The objective is offering several types of guarantees for SMEs and Financial Institutions of the Caribbean Region, in order to facilitate the financing of their activities under the best conditions of competitiveness.
- b. The Regional Guarantee System will design and implement guarantee services, in such a way that they will be aimed at covering the financing needs of SMEs in specific market segments, in each of the Caribbean countries.
- c. Likewise, it will seek to develop new markets, as it is consolidated in the initial market segments.

Commercial strategy

- a. The purpose of the commercial strategy will be implementing the services of the Regional Guarantee System in the SME market segments present in the different countries of the Region, with the idea of positioning itself as an institution that offers a combination of guarantees that are adequate to the needs or requirements of the SMEs in the Caribbean.

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- b. The services that the Regional Guarantee System will offer will be clearly differentiated from the current offering of consolidation services. The differentiation strategies of the services can be:
- i. Granting of guarantees designed in accordance with the nature and characteristics of the support programmes favouring the SMEs, the twist of the businesses and the level of commercial and corporate productive in each country of the Region.
 - ii. Differentiation strategies will be applied, such as: i) Excellence in quality of service, an attribute that will be the main factor of differentiation; and ii) Swiftiness in the evaluation of consolidation or reconsolidation requests.
 - iii. Corporate development services will be offered to the SMEs, which will be the complementary and efficient offering of the service of guarantees.
 - iv. An important factor of differentiation shall be that it offers low cost consolidation services, as its main purpose is facilitating financing access to SMEs.

With these attributes the idea is to achieve a clear differentiation in the sector of traditional financial services offered to the SMEs in the different countries. The strategy is to be positioned by the quality in attention in guarantee services, offering better services and attending to the financing needs that favour the growth of the SMEs.

- c. A strategy will be put in practice to position the guarantee services in the most attractive market segments, depending on how they adapt to the characteristics of the segment. In the application of this strategy, the aim will be to get better placing of guarantees, as better services are adjusted to the target market and to a lower risk in the operation.
- d. The commercial strategy will be developed in a comprehensive fashion in all areas of the Regional Guarantee System, and will act as a catalyst of the general strategy, and thus the following activities will be carried out:
- i. Continuous evaluation and selection of new market opportunities, and programming of quick actions to gain relevance in the new target markets.
 - ii. Planned promotional campaigns will be carried out, planned according to the different characteristics of the countries of the Region, aiming at a high impact in the management of guarantees for the SMEs and in the Financial Institutions that have financial support programs for these corporate units.
 - iii. Management by segments. A permanent identification of the new needs of the clients will be made, planning actions that would allow for a larger participation and better positioning.
 - iv. As part of the policy of the System, a solid culture of customer services will be promoted. To this end, adequate personnel selection processes will be implemented for the different areas of the System, especially for those that have contact with the customer. Also, the personnel will participate in special training programmes on guarantee services.
 - v. Commissions and interest rates will be based on the amount and also on the time, according to the segments of the market to be attended to. Rates will be progressive, allowing for the encompassing of more market segments.
 - vi. Persuasive advertisement actions will be organized, reinforcing the image of financial institution specialized in guarantees for the SMEs sector.

6. Proposal for the corporate structure of the Regional Guarantee System

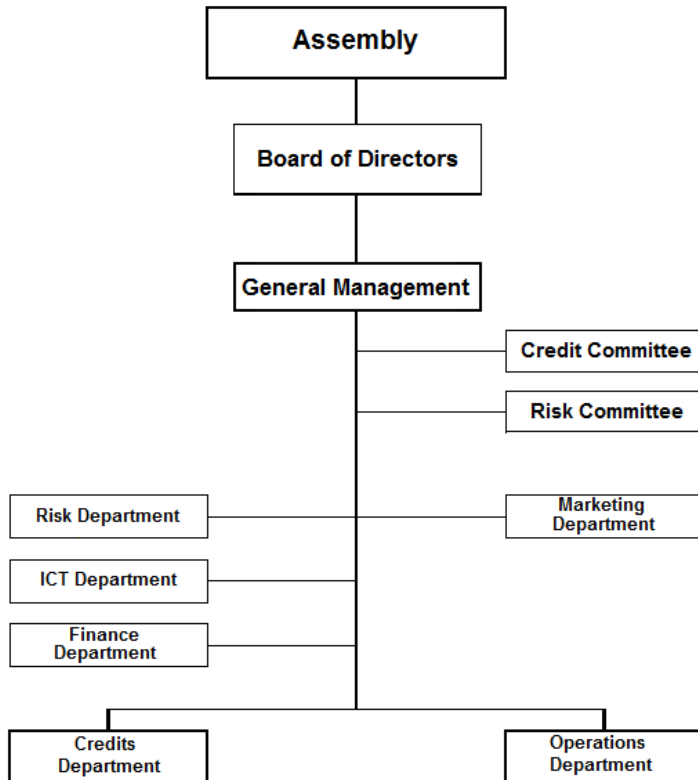
The corporate structure for the Regional Guarantee System is supported by each of the organizational structures of the components of the System, which at the beginning will not suffer much change, at least in the public sector, as in most countries of the Caribbean Region there are already Ministries specialized in the subject of SMEs. In private organizations, it is possible that the banks (for instance), if they deem it appropriate, create departments specialized in the attention of the SMEs, although this will take place naturally due to the sufficient number of operations that justifies it, and also by the very evolution of microfinances in the countries of the Region, and by the very evolution of the sector of the SMEs.

However, in the case of the Regional Guarantee System, the organizational subject starts from zero. It is expected that the operation shall be modern, agile and very competitive in order to facilitate the development of the activities for the benefit of the SMEs and the Financial Institutions with which it is to work. Below are the essential organs proposed for the corporate structure:

- a. Representative or Government body: The Assembly of Associates or Board of Shareholders shall represent the bodies or organizations that are part of the Association, and its participation shall be defined by the Statute and by the legislation of each host country of the System. Approves the management and defines the greater guidelines and strategy of the organization.
- b. The Board of Directors, Board or Administrative Council shall be comprised by 10 Directors or Consultants, which can be representatives of the bodies that participate in the Shareholders' Meeting or in the Partners' Meeting. They can also be summoned independently for their experience or knowledge on the different subjects. Approves the strategy and oversees its execution. Its operation shall be defined by the Statute and the legislation of each host country.
- c. The General Management is the maximum executive level of the Society, it executes the development plans of the Society, and is the ultimate body responsible for the approval and execution of the activities of the Society, and answers to the Board of Directors or the Board.
- d. The Department of Credits shall be responsible for the attention and evaluation of the guarantee requests in the different services offered by the society.
- e. The Department of Operations shall be responsible for materialising the operations approved by the General Management or by the corresponding levels.
- f. The Department of Risks shall be responsible for proposing, establishing and counselling the different areas comprising the corporate structure on the matter of Comprehensive Risk Management, in accordance with the guidelines of the Regulator and Financial Supervisor.
- g. The Department of Finances shall be responsible for all budget and financial management of the Society.
- h. The Department of Information and Communications Technologies shall be responsible for offering all the necessary infrastructure and service facilities for the computer management of the activities performed.
- i. Specialized committees: Credit Committee, Risk Committee, and others.

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General Organization Chart of the Caribbean Guarantee Society



7. Proposal on guidelines for creating Strategic Alliances with other Regional Guarantee Systems in Latin America

As mentioned in item 2.1 of this study, in Latin America several Guarantee System have been consolidated, which have fostered the development of SMEs for several years now. Likewise, there are two levels that serve as articulators for the existing Guarantee Institutions in the region, namely: i) the Latin American Association of Guarantee Institutions (ALIGA) and ii) the Ibero-American Guarantee Network (REGAR).

ALIGA is a non-profit institution promoting development, competitiveness and stability of Guarantee Institutions in Latin America and the Caribbean, in order to consolidate a regional system of guarantees. ALIGA is a pluralistic and representative association intended to be the voice of the common interests that join together the Guarantee Institutions of Latin America and the Caribbean, by promoting the consolidation, extension and use of guarantee systems as a key tool for the development and growth of micro, small, and medium-sized Latin American enterprises.

In turn, REGAR has the objective of serving as a mechanism for coordination, joint action and information management, as well as promoting the transfer of knowledge and best practices between the systems and bodies of Ibero-American guarantees. Every year, REGAR organizes the "Ibero-American Forum on Guarantee and Financial Systems for SMEs", which allows for presenting and discussing the advancements and achievements of the Guarantee Systems and Institutions of Latin American and Caribbean countries, as well as of Guarantee Institutions from Spain and Portugal.

In this regard, it would be convenient for the future Regional Guarantee System of the Caribbean to establish links with these entities, with the idea of exchanging experiences in order to accelerate the development and consolidation of the System of Guarantees of the Caribbean, so that the new regional System can establish relations with other similar first and second degree bodies in other parts of the world.

8. Equipment and infrastructure

The equipment and infrastructure required for the operation of the Society of Guarantees of the Caribbean can be grouped according to the following items:

- a. Aspects concerning the physical infrastructure necessary for the operation of the Society
- b. Aspects concerning the necessary Information and Communications Technologies for the agency to operate satisfactorily for the SMEs and Institutions to which it renders guarantee services

In terms of infrastructure, the following shall be considered:

- a. Renting of a proper space with a Meeting Room
- b. Equipment: microcomputers, printers, stabilizers, fixed-line and mobile phones
- c. Furniture: Desks with modules for microcomputer, chairs for desks, chairs for customers, shelves for documents, filing cabinets, safety box, waiting room chairs, and customer service modules

The technological and communication aspects include the following:

- a. A Management Information System, such as ERP (Enterprise Resource Planning), which allows for handling production, logistics, distribution, inventory, deliveries, billing and accounting of the Society.
- b. An Operative Computer System dedicated to the everyday guarantee operations of the SMEs Programs and to the Financial Institutions served by the Society. It is quite likely that this System could be designed *ad hoc*, according to the nature of the services rendered.
- c. A Communications System to virtually interconnect the customer Guarantee Institutions through the guarantee services rendered to them.

These items are detailed in **Annex 4**.

9. Dimensioning of the investment and the funds required for the operation of the Regional Guarantee System

In order to make the calculations for dimensioning the initial investment for the creation and implementation of the Regional Guarantee System, it is necessary that this aspect goes also through the creation and implementation of the Society of Guarantees of the Caribbean, a body that will be created as the articulating axis of the Regional Guarantee System. The elements that have been taken into consideration for the financial economic configuration of the Society of Guarantees are shown on the Annexes of this study. The process and the results of these calculations are presented below (all calculations are expressed in American dollars):

- a. **Annex N° 1** shows each type of guarantee to be offered according to the proposal of item 8.4 of this study, as well as the estimated participation percentages for each type compared

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to the total of guarantees offered to the customer financial institutions of the Society. The percentages of coverage for the Guaranteed Amount for each type of guarantee are also proposed.

- b. The global demand of microcredits for the region has been estimated (US\$ 244,835,328), and for each of the countries involved on the future Regional System with 5% of yearly increase, for a horizon of 5 years. It is estimated that for Year 1 portfolio participation for the Society in Microcredit Portfolio will be 18% (US\$ 44,070,359), with a yearly increase of 2%. This calculation is shown in **Annex N° 7**.
- c. Based on the previous calculation, a minimum capital of \$500 thousand is proposed for the Society of Guarantees of the Caribbean. Likewise, the Microcredits Portfolio for Year 5 is about US\$ 75,328,192. If a leverage level of 5 times is considered, (which is usual as a financial standard), the estimated amount for Year 5 is about US\$ 15,065,638. Therefore, a Regional Fund of Guarantees is proposed with a minimum of US\$ 18 million, which properly leveraged may cover guarantees for a total of US\$ 90 million, aimed at supporting SMEs of the Caribbean region. The corresponding calculation is shown in **Annex N° 6**.
- d. Projections of balances of Amounts Guaranteed by the Society of Guarantees of the Caribbean are shown with a projection of 5 years, taking into account the calculation of participation of each country in the Global Portfolio of Microcredits for the Region. The calculation of the loss ratio is also shown, with a percentage of 2% on the amounts guaranteed. These calculations are shown in **Annex N° 2**.
- e. The calculation of the fees generated by each type of guarantee, for each country and for a projection of 5 years, as well as the participation proposal of the Society of Guarantees of the Caribbean on these fees (80%) can be found in **Annex N° 3**.
- f. According to the calculation made in this Study, the Society of Guarantees of the Caribbean would require an initial Investment of US\$ 209,400, and the calculation of the Administrative and Operational Expenses is US\$ 828,690 per year. The initial investment does not include the Capital (US\$ 500 thousand) or the incorporation costs of the society of Guarantees, which may be considered as pre-operative expenses. The details of these items are shown in **Annex N° 4**.
- g. It is necessary to point out that the feasibility of the Society of the Caribbean as a central part of the Regional Guarantee System depends on it being the operator of the Regional Fund of Guarantees. In this particular case, the approach for the operation and consolidation of the Society of Guarantees is that it shall have a minimum initial participation of 80% of the fees generated by the operation of the Regional Fund of Guarantees. Any amount below this percentage, under the conditions expressed in this Study, would yield negative results for the Society, as it would not contribute to cover the administrative and operational costs required for the operation of the Society of Guarantees of the Caribbean, as the articulating axis of the Regional Guarantee System. The calculations are shown in **Annex N° 5**.
- h. In sum, the following are the results, as the base of the calculations made in this Study (Society of Guarantees of the Caribbean = SGC):

• Estimated amount of Microcredits Portfolio for the Caribbean	US\$ 244,835,328
• Percentage of participation of the SGC in the Microcredits Portfolio for Year 1	18%
• Estimated amount of the Microcredits Portfolio that would guarantee the SGC	US\$ 44,070,359
• Estimated percentage of annual growth of the Microcredits Portfolio	5%
• Estimated percentage of participation growth of the SGC in the microcredits Portfolio	2%

CONCLUSIONS

- a. In the Caribbean Region there is an unfulfilled demand for financial services and guarantees in its countries. This demand exists in several SMEs segments located in less privileged regions, as well as in emerging activities in several sectors. Likewise, there are several financial needs requiring better credit conditions, according to the nature of the businesses.
- b. Although in the Caribbean region the Programs of Guarantees are scarce, there are public institutions in each country dedicated to developing SMEs, and that could be interested in supporting the creation of a Regional Guarantee System, operated by a specialized body, as long as it is integrated into the Financial Sector of the countries of the region.
- c. The regulatory framework in the Caribbean is prepared to properly regulate the Regional Guarantee System. Apparently, there are no difficulties for the new institution of regional guarantee to establish itself as an independent legal body, based on a legal and normative framework currently in force, to offer the effective application of its operations and the achievement of its objectives.
- d. It has the conditions to establish a policy that promotes the access to financing of the SMEs and to generate a strategic alliance in consensus with the entities involved (public authorities, financial institutions and its organizations, micro and SMEs) in the normative and operational development of the Regional Guarantee System.
- e. Also, it is necessary to recognize that the development of activities that promote growth and development of the SMEs is a complicated task, if one is to consider the great number of problems that affect it, the diversity of markets it attends to, the differences in the strategies implemented, and the spreading of its resources and capacities.
- f. As a consequence, the design and application of public policy strategies to support the SMEs in this context shall be oriented at facilitating and promoting the growth of this sector, offering an array of financial instruments that contribute to achieve a substantial improvement of corporate competitiveness.

RECOMMENDATIONS

- a. Start contact with CARICOM, through formal mechanism established by this regional body, in order to present a project of financial policies that favour the creation of the Regional Guarantee System for the English-speaking Caribbean Region, initially with SELA member countries.
- b. The creation of the Regional Guarantee System will be a powerful tool to facilitate access to the financing of over 250,000 SMEs that exist in the Caribbean region in the SELA member countries.
- c. Start contact with the Central Banks of each country of the Caribbean Region involved in this Study, the Caribbean Development Bank, or other Multilateral Financial Institutions to explore the possibility of getting them to participate or contribute to the creation of the RGS. It is necessary to highlight that this financial instrument will facilitate access to financing.
- d. Analyse and discuss with all the actors involved in the future Regional Guarantee System, in order to enrich the scope of this Pre-Feasibility Study.
- e. Reinforce the explicit configuration of the National Guarantee Systems in each country involved in the future Regional Guarantee System.
- f. Carry out a Feasibility Study for the creation of the Regional Guarantee System of the Caribbean, in coordination with the actors involved in the proposed System.

COVERAGE ESTIMATES

CARIBBEAN GUARANTEE SOCIETY

ESTIMATED PERCENTAGES OF GUARANTEED AMOUNTS PER TYPE

TYPE OF GUARANTEE	% per type of guarantee	Percentage of coverage on the guaranteed credit
a. Counter-guaranteeing of individual SME guarantees	40%	80%
b. Guarantees for credits vis-à-vis suppliers	25%	80%
c. Portfolio guarantees	20%	50%
d. Guarantees for Institutions with SME Programmes	5%	50%
e. International Guarantees	10%	100%
Total	100%	

**PROJECTED BALANCES OF AMOUNTS GUARANTEED
ACCORDING TO TYPE OF GUARANTEE
(in US dollars)**

Projection of Guaranteed Amounts – Year 1									
Jamaica	Trinidad and Tobago	Barbados	Suriname	Belize	Guyana	Bahamas	Haiti	Total Year 1	
14%	11%	3%	8%	10%	1%	8%	46%		
2,516,978	1,972,733	457,529	1,325,108	1,780,826	155,263	1,353,404	8,066,302	17,628,144	
1,573,111	1,232,958	285,956	828,192	1,113,016	97,039	845,877	5,041,439	11,017,590	
1,258,489	986,367	228,764	662,554	890,413	77,631	676,702	4,033,151	8,814,072	
314,622	246,592	57,191	165,638	222,603	19,408	169,175	1,008,288	2,203,518	
629,245	493,183	114,382	331,277	445,206	38,816	338,351	2,016,576	4,407,036	
6,292,446	4,931,833	1,143,822	3,312,769	4,452,065	388,157	3,383,510	20,165,756	44,070,359	

TYPE OF GUARANTEES

- a. Counter-guaranteeing (rebonding) of Individual Guarantees for SMEs
- b. Guarantees for Credits to Suppliers
- c. Portfolio Guarantees
- d. Guarantees for Institutions with Programmes for SMEs
- e. International Guarantees

Total Guaranteed Amount

125,849	98,637	22,876	66,255	89,041	7,763	67,670	403,315	881,407
2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

Amount of claims (honouring) on amounts guaranteed
Estimated percentage of honouring

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Projection of balances of guaranteed amounts – Year 2

	Jamaica	Trinidad and Tobago	Barbados	Suriname	Belize	Guyana	Bahamas	Haiti	Total Year 2
	14%	11%	3%	8%	10%	1%	8%	46%	
	2,936,475	2,301,522	533,784	1,545,959	2,077,630	181,140	1,578,971	9,410,686	20,566,168
a. Counter-guaranteeing (rebonding) of Individual Guarantees for SMEs	1,835,297	1,438,451	333,615	966,224	1,298,519	113,213	986,857	5,881,679	12,853,855
b. Guarantees for Credits to Suppliers	1,468,237	1,150,761	266,892	772,979	1,038,815	90,570	789,486	4,705,343	10,283,084
c. Portfolio Guarantees	367,059	287,690	66,723	193,245	259,704	22,643	197,371	1,176,336	2,570,771
d. Guarantees for Institutions with Programmes for SMEs	734,119	575,381	133,446	386,490	519,408	45,285	394,743	2,352,672	5,141,542
e. International Guarantees	7,341,187	5,753,806	1,334,460	3,864,897	5,194,075	452,850	3,947,428	23,526,716	51,415,419

TYPE OF GUARANTEES	Total Guaranteed Amount
a. Counter-guaranteeing (rebonding) of Individual Guarantees for SMEs	
b. Guarantees for Credits to Suppliers	
c. Portfolio Guarantees	
d. Guarantees for Institutions with Programmes for SMEs	
e. International Guarantees	
Total Guaranteed Amount	

146,824	115,076	26,689	77,298	103,882	9,057	78,949	470,534	1,028,308
2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

Amount of claims (honouring) on amounts guaranteed	
Estimated percentage of honouring	

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Projection of balances of guaranteed amounts – Year 4

	Jamaica	Trinidad and Tobago	Barbados	Suriname	Belize	Guyana	Bahamas	Haiti	Total Year 4
	14%	11%	3%	8%	10%	1%	8%	46%	
	3,884,956	3,044,914	706,196	2,045,304	2,748,705	239,648	2,088,979	12,450,338	27,209,040
	2,428,098	1,903,071	441,373	1,278,315	1,717,940	149,780	1,305,612	7,781,461	17,005,650
	1,942,478	1,522,457	353,098	1,022,652	1,374,352	119,824	1,044,490	6,225,169	13,604,520
	485,620	380,614	88,275	255,663	343,588	29,956	261,122	1,556,292	3,401,130
	971,239	761,228	176,549	511,326	687,176	59,912	522,245	3,112,584	6,802,260
	9,712,390	7,612,285	1,765,490	5,113,259	6,871,762	599,121	5,222,448	31,125,845	68,022,599

TYPE OF GUARANTEES
a. Counter-guaranteeing (rebonding) of Individual Guarantees for SMEs
b. Guarantees for Credits to Suppliers
c. Portfolio Guarantees
d. Guarantees for Institutions with Programmes for SMEs
e. International Guarantees
Total Guaranteed Amount

194,248	152,246	35,310	102,265	137,435	11,982	104,449	622,517	1,360,452
2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

Amount of claims (honouring) on amounts guaranteed
Estimated percentage of honouring

**PROJECTED INCOME FROM FEES AND COMMISSIONS
ACCORDING TO TYPE OF GUARANTEE
(in US dollars)**

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TYPE OF GUARANTEES	Projection of Income from Fees or Commissions – Year 2										Total Year 2
	Jamaica	Trinidad and Tobago	Barbados	Suriname	Belize	Guyana	Bahamas	Haiti			
a. Counter-guaranteeing (rebonding) of Individual Guarantees for SMEs	176,188	138,091	32,027	92,758	124,658	10,868	94,738	564,641			1,233,970
b. Guarantees for Credits to Suppliers	110,118	86,307	20,017	57,973	77,911	6,793	59,211	352,901			771,231
c. Portfolio Guarantees	29,365	23,015	5,338	15,460	20,776	1,811	15,790	94,107			205,662
d. Guarantees for Institutions with Programmes for SMEs	7,341	5,754	1,334	3,865	5,194	453	3,947	23,527			51,415
e. International Guarantees	3,671	2,877	667	1,932	2,597	226	1,974	11,763			25,708
Total income from Commissions	326,683	256,044	59,383	171,988	231,136	20,152	175,661	1,046,939			2,287,986

4.45%

Average Percentage of Commissions from Income / Guaranteed Amount

Percentage of Commissions for the Regional Guarantee Fund	65,337	51,209	11,877	34,398	46,227	4,030	35,132	209,388			457,597
Amount of Commissions for the Regional Guarantee Fund	261,346	204,835	47,507	137,590	184,909	16,121	140,528	837,551			1,830,389
Amount of Commissions for the Caribbean Guarantee Society	326,683	256,044	59,383	171,988	231,136	20,152	175,661	1,046,939			2,287,986
Total Amount of Commissions											

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	Projection of Income from Fees or Commissions – Year 4									
	Jamaica	Trinidad and Tobago	Barbados	Suriname	Belize	Guyana	Bahamas	Haiti	Total Year 4	
a. Counter-guaranteeing (rebonding) of Individual Guarantees for SMEs	233,097	182,695	42,372	122,718	164,922	14,379	125,339	747,020	1,632,542	
b. Guarantees for Credits to Suppliers	145,686	114,184	26,482	76,699	103,076	8,987	78,337	466,888	1,020,339	
c. Portfolio Guarantees	38,850	30,449	7,062	20,453	27,487	2,396	20,890	124,503	272,090	
d. Guarantees for Institutions with Programmes for SMEs	9,712	7,612	1,765	5,113	6,872	599	5,222	31,126	68,023	
e. International Guarantees	4,856	3,806	883	2,557	3,436	300	2,611	15,563	34,011	
Total income from Commissions	432,201	338,747	78,564	227,540	305,793	26,661	232,399	1,385,100	3,027,006	

4.45%

Average Percentage of Commissions from Income / Guaranteed Amount

Percentage of Commissions for the Regional Guarantee Fund	86,440	67,749	15,713	45,508	61,159	5,332	46,480	277,020	605,401
Amount of Commissions for the Regional Guarantee Fund	345,761	270,997	62,851	182,032	244,635	21,329	185,919	1,108,080	2,421,605
Amount of Commissions for the Caribbean Guarantee Society	432,201	338,747	78,564	227,540	305,793	26,661	232,399	1,385,100	3,027,006

TYPE OF GUARANTEES
a. Counter-guaranteeing (rebonding) of Individual Guarantees for SMEs
b. Guarantees for Credits to Suppliers
c. Portfolio Guarantees
d. Guarantees for Institutions with Programmes for SMEs
e. International Guarantees
Total income from Commissions

Percentage of Commissions for the Regional Guarantee Fund
Amount of Commissions for the Regional Guarantee Fund
Amount of Commissions for the Caribbean Guarantee Society
Total Amount of Commissions

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TYPE OF GUARANTEES	Average Percentage of Commissions	Conditions
<p>a. Counter-guaranteeing (rebonding) of Individual Guarantees for SMEs</p>	6%	Annual Conditions on Guaranteed Amount
<p>b. Guarantees for Credits to Suppliers</p>	6%	Annual Conditions on Guaranteed Amount
<p>c. Portfolio Guarantees</p>	2%	Annual Conditions on Guaranteed Amount
<p>d. Guarantees for Institutions with Programmes for SMEs</p>	2%	Annual Conditions on Guaranteed Amount
<p>e. International Guarantees</p>	1%	Flat fee by ranges

**REQUIRED INFRASTRUCTURE, EQUIPMENT AND FURNITURE
FOR THE CARIBBEAN GUARANTEE SOCIETY**

INVESTMENTS	Main headquarters	
	Amount	Quantity
a) Appropriate premises		
· Facilities and conditioning	20,000	
· Advertising panels	5,000	
SUB TOTAL	25,000	
b) Equipment:		
· Microcomputers	15,000	8
· Printers (Ink Jet)	1,600	8
· Voltage stabilizers	600	8
· Cell phones	1,600	8
SUB TOTAL	18,800	
c) Furniture		
· Desks with built-in microcomputer module	2,400	8
· Armchairs for desktops	1,600	8
· Desks chairs for visitors	1,000	16
· Shelves for documents	3,200	8
· Cabinets for filing documents	3,200	8
· Safety box	8,000	1
· Waiting chairs sets	1,000	3
· Swivel chairs for cashiers	200	1
· Modules for customer service	10,000	3
SUB TOTAL	30,600	
d) Information and Communications Technologies		
· Management Information System (ERP)	50,000	
· Computer Operating System	60,000	
· Communications System	25,000	
SUB TOTAL	135,000	
GENERAL TOTAL IN US DOLLARS	209,400	

60**ADMINISTRATIVE AND OPERATIONAL EXPENSES FOR THE CARIBBEAN GUARANTEE SOCIETY**

(Annual expenses in US dollars)

ITEM	Amount
<input type="checkbox"/> Rental of premises	48,000
<input type="checkbox"/> Staff salaries plus labour benefits	540,000
<input type="checkbox"/> Directory expenses	60,000
<input type="checkbox"/> Services from third parties	36,000
<input type="checkbox"/> Electric power and water supply	3,600
<input type="checkbox"/> Telephone service	4,200
<input type="checkbox"/> Cellular phone service	1,200
<input type="checkbox"/> Taxes and licenses	2,400
<input type="checkbox"/> Repair and maintenance expenses	1,800
<input type="checkbox"/> Miscellaneous supplies (Office supplies)	2,400
<input type="checkbox"/> Promotion expenses	18,000
<input type="checkbox"/> Training expenses	3,000
TOTAL EXPENSES	720,600
Unforeseen expenses (15%)	108,090
ANNUAL TOTAL EXPENSES	828,690

PROJECTED CASH FLOW FOR THE CARIBBEAN GUARANTEE SOCIETY
(in US dollars)

	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
Initial investment	209,400					
1.- INCOME						
Fee income						-
Fees for individual guarantees rebonding	1,057,689	1,233,970	1,425,235	1,632,542	1,857,017	7,206,453
Commissions for guarantees for credit to suppliers	661,055	771,231	890,772	1,020,339	1,160,636	4,504,033
Portfolio guarantee fees	176,281	205,662	237,539	272,090	309,503	1,201,076
Guarantees for institutions with SME programmes	44,070	51,415	59,385	68,023	77,376	300,269
International Guarantees	22,035	25,708	29,692	34,011	38,688	150,134
Other income						-
TOTAL INCOME	1,961,131	2,287,986	2,642,624	3,027,006	3,443,219	13,361,966
2.- DISBURSEMENTS						
Administrative and operating expenses	828,690	828,690	828,690	828,690	828,690	4,143,450
Claims (Honouring)	881,407	1,028,308	1,187,696	1,360,452	1,547,514	6,005,378
Commissions for the Regional Guarantee Fund	392,226	457,597	528,525	605,401	688,644	2,672,393
Other disbursements						-
TOTAL DISBURSEMENTS	2,102,323	2,314,596	2,544,911	2,794,543	3,064,848	12,821,221
3.- BALANCE OF THE MONTH	68,208	(26,609)	97,713	232,463	378,371	750,145
5.- ACCUMULATED BALANCE	68,208	41,598	139,311	371,774	750,145	

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	Period	
Investment of assets and administrative expenses	(209,400)	0
Net returns (Commissions - RGF Commissions - Administrative expenses)	(141,192)	1
	(26,609)	2
	97,713	3
	232,463	4
	378,371	5

TIR **17.7%**

VAN CALCULATION

VAN **107,379**

**CALCULATION OF THE REGIONAL GUARANTEE FUND
AND PATRIMONY OF THE CARIBBEAN GUARANTEE SOCIETY
(in US dollars)**

	Year 1	Year 2	Year 3	Year 4	Year 5	Total Annual Average
Balance of the guaranteed amount per year	44,070,359	51,415,419	59,384,809	68,022,599	77,375,706	60,053,778
Minus claims or honouring per year	881,407	1,028,308	1,187,696	1,360,452	1,547,514	1,201,076
Net Guaranteed Amount	43,188,952	50,387,110	58,197,113	66,662,147	75,828,192	58,852,703
Proposed Patrimony of the Caribbean Guarantee Society	500,000	500,000	500,000	500,000	500,000	500,000
Plus Average Commissions for Guarantees backed by Patrimony	22,250	22,250	22,250	22,250	22,250	22,250
Condition: The Society's Patrimony is used as first choice						
Estimated amount used from the Regional Guarantee Fund	42,688,952	49,887,110	57,697,113	66,162,147	75,328,192	58,352,703
Leverage Level	5	5	5	5	5	
Amount from the Regional Fund without Leverage	8,537,790	9,977,422	11,539,423	13,232,429	15,065,638	11,670,541

Estimated Amount for the Regional Guarantee Fund

18,000,000

**ESTIMATION OF THE MICROCREDIT PORTFOLIO IN THE CARIBBEAN
(in US dollars)**

Country	Population (1)	Variation %	GDP (millions) (1)	Variation %	Per Capita Income (1)	Variation %	N° of SMEs (2)	Microcredit Portfolio(2)	Variation %	Average Credit
Jamaica	2,715,000	17%	11,690	16%	4,300	4%	30,818	34,958,033	14%	1,134
Trinidad and Tobago	1,341,000	8%	26,536	36%	20,338	21%	15,222	27,399,075	11%	1,800
Barbados	279,912	2%	6,148	8%	24,015	25%	3,177	6,354,569	3%	2,000
Suriname	551,000	3%	2,812	4%	7,050	7%	6,557	18,404,272	8%	2,807
Belize	335,188	2%	2,800	4%	8,412	9%	5,643	24,733,692	10%	4,383
Guyana	801,194	5%	2,788	4%	4,500	5%	2,478	2,156,430	1%	870
Bahamas	368,000	2%	9,228	13%	27,394	28%	4,177	18,797,277	8%	4,500
Haiti	9,800,000	61%	11,056	15%	1,153	1%	183,597	112,031,979	46%	610
	16,191,294	100%	73,058	100%	97,162	100%	251,669	244,835,328	100%	

Sources for estimates:

- (1) Information from Wikipedia at 15 Aug. 2015
- (2) Data from FOMIN Microfinances in Latin America and the Caribbean, Sep. 2013
- (3) Portfolio estimates for Trinidad and Tobago, Barbados and Bahamas were prepared by the Consultant

ESTIMATION OF THE PORTFOLIO FOR THE GUARANTEE SOCIETY

(in US dollars)

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Amount of Microcredits for the Caribbean	244,835,328	257,077,094	269,930,949	283,427,496	297,598,871
Annual Percentage Increase in the Microcredit Portfolio	0%	5%	5%	5%	5%
Participation percentage of the Guarantee Society	18%	20%	22%	24%	26%
Total amount of Credits backed up by the Guarantee Society	44,070,359	51,415,419	59,384,809	68,022,599	77,375,706

RESULTS OF SURVEYS

1. Which is the predominant model of guarantee institutions in your country?

Institutions	CREDIT SYSTEMS	GUARANTEE SYSTEM
Grand-Anse Saveurs Tropicale / Grand-Anse Chamber of Commerce	OTHERS: They are private micro-structures controlled by credit banks or semi-private entities financed by international institutions. But they apply prohibited fees (up to an annual 40%)	International Cooperation
CASRI (NGO) and International Development Consultant	Private Credit Entities	Through other private credit entities
Caribbean Export Development Agency	Private Credit Entities	Through banks
Competitiveness Unit Suriname	Private Credit Entities	Through the State
CASME	Private Credit Entities	Savings and Credits Cooperatives, through other private credit entities
Suriname Business Development Centre	Public Credit Entities, Private Credit Entities, International Cooperation	Through banks, through Public Guarantee Programmes

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2. Demand for Financing and Guarantees for SMEs

INSTITUTIONS												
Grand-Anse Savours Tropicale / Grand-Anse Chamber of Commerce	COUNTRY	HAITI	CASRI (NGO) and International Development Consultant		Caribbean Export Development Agency		Competitiveness Unit Suriname		CASME		Suriname Business Development Centre	
			COUNTRY	GUYANA AND CANADA	COUNTRY	BARBADOS	COUNTRY	SURINAME	COUNTRY	JAMAICA	COUNTRY	SURINAME
Are growth and consolidation of SMEs foreseen in your country's development plans?	Yes		Yes		Yes				Yes			Yes
Which percentage do SMEs contribute to GDP?	50%-53%						N/A		50%			4%
Which is the percentage of SMEs in the business sector?	0.85						N/A		90%			52.90%
Are there public entities aimed at promoting the development of SMEs in your country?	Yes		Yes		Yes		Yes		Yes			Yes
Is there any legislation that allows or encourages the coordination of SMEs with large companies in your country?	Yes		No		Yes		No		No			Yes
Are there procedures for subcontracting of SMEs by large companies in your country?	Yes		No				No		No			No
Which is the estimated percentage of SMEs working under subcontracting?							N/A		No			
Does your country have specific legislation to promote the participation of SMEs in Government procurement?	No		Yes		Yes		No		No			No
Which is the percentage of participation of SMEs in Government procurement?	%		%		%		N/A		Unknown			60%
How do SMEs finance their government procurement contracts?	X		X		X				X			X
1.- Self-financing												
2.- Advanced payments from buyer									X			X
3.- Bank financing			X		X				X			X
4.- Financing from suppliers												X
5.- Others	X											
Which economic sectors have the largest shares in State Procurements?	1-Equipment		Construction				Infrastructure		Construction			
	2-Services		Roads and Infrastructure				Construction					
	3-Education (non-official)		Supplies				Energy					

3. On the country's economic offer to SMEs

	INSTITUTIONS											
	Grand-Anse Saveurs Tropicale / Grand- Anse Chamber of Commerce		CASRI (NGO) and International Development Consultant		Caribbean Export Development Agency		Competitiveness Unit Suriname		CASME		Suriname Business Development Centre	
	COUNTRY	HAITI	COUNTRY	GUYANA AND CANADA	COUNTRY	BARBADOS	COUNTRY	SURINAME	COUNTRY	JAMAICA	COUNTRY	SURINAME
<i>How is the availability of financing for SMEs in your country?</i>												
<i>No financial credit offer for SMEs</i>												
<i>There are only public offers for financing SMEs</i>												
<i>There are financial offers from private credit institutions</i>	X				X			X				X
<i>There is a mixture of public and private financing offers for SMEs</i>			X		X			X		X		X
Which financial institutions provide financing to SMEs?												
1.- Banks												
2.- Savings and Credit Cooperatives	X		X		X			X		X		X
3.- Private money lenders					X			X		X		X
4.- Self-Financing	X		X		X			X		X		X
5.- Others	X		X					X		X		
	Economic Sector	%	Economic Sector	%	Economic Sector	%	Economic Sector	%	Economic Sector	%	Economic Sector	%
	1. Trade		Agriculture									Agriculture
	2. Services											Women owners of SMEs
	3. Education											Service Sector
	4. Agriculture											
SMEs and the regulating entity of the financial system												
The regulator promotes support from the financial system to SMEs	No		No					Yes				No

INSTITUTIONS												
	Grand-Anse Saveurs Tropicale / Grand- Anse Chamber of Commerce		CASRI (NGO) and International Development Consultant		Caribbean Export Development Agency		Competitiveness Unit Suriname		CASME		Suriname Business Development Centre	
	COUNTRY	HAITI	COUNTRY	GUYANA AND CANADA	COUNTRY	BARBADOS	COUNTRY	SURINAME	COUNTRY	JAMAICA	COUNTRY	SURINAME
It oversees all credit institutions supporting SMEs	Yes		Yes					Yes		Yes		Yes
It sets forth special rules to promote financing for SMEs	No		No					No		Yes		No
It controls the greatest risks for SMEs	Yes		No					No		Yes		No
It provides financial information for SMEs			No					No		No		Yes
It knows of the financial problems of SMEs	Yes		Yes					Yes		No		Yes

5. Characteristics of Guarantees for SMEs in the Caribbean

		INSTITUTIONS											
		Grand-Anse Saveurs Tropicale / Grand-Anse Chamber of Commerce		CASRI (NGO) and International Development Consultant		Caribbean Export Development Agency		Competitiveness Unit Suriname		CASME		Suriname Business Development Centre	
		COUNTRY	HAITI	COUNTRY	GUYANA AND CANADA	COUNTRY	BARBADOS	COUNTRY	SURINAME	COUNTRY:	JAMAICA	COUNTRY	SURINAME
What types of guarantees do SMEs use in your country?													
Please checkmark as appropriate													
1.- Credit Portfolio Guarantee		X			X								
2.- Surety Letter													
3.- Suppliers Warranty							X						
4.- Other guarantees													
Please specify which other guarantees		Personal property											
Which financial institutions offer guarantees to SMEs in your country?		Personal property											
Please checkmark as appropriate													
1.- Banks											X		
2.- Savings and Credit Cooperatives										X			
3.- Municipal Savings and Loans Institutions													
4.- Other financial institutions													X
Please specify which other guarantees		International institutions such as the IDB on certain occasions for specific projects, or only FDI for a State agency for the benefit of a few companies.		The Government's Agency to support small enterprises		Central Bank of Barbados		The National Development Bank				Development bank	
Financial institutions offering guarantees to SMEs in your country.													
Are they well coordinated?		No		Yes		Yes		Yes		Yes		Yes	
Is there a formal National Guarantee System?		No		No		Yes		Yes		Yes		No	

INSTITUTIONS												
Grand-Anse Saveurs Tropicale / Grand-Anse Chamber of Commerce	COUNTRY	HAITI	CASRI (NGO) and International Development Consultant		Caribbean Export Development Agency		Competitiveness Unit Suriname		CASME		Suriname Business Development Centre	
			COUNTRY	GUYANA AND CANADA	COUNTRY	BARBADOS	COUNTRY	SURINAME	COUNTRY	JAMAICA	COUNTRY	SURINAME
Which services should be offered through the National Guarantee System or the Regional System for the Caribbean?												
Please checkmark as appropriate		X										
Guarantee Services for credit operations by financial institutions to SMEs in your country		X			X	X		X				X
Business Development Services for SMEs			X		X	X			X			X
Training services as regards financing for companies and guaranteees					X	X		X	X			X
Providing information on markets in order to promote an SME business with potential for development			X			X		X	X			X
Please specify other characteristics			Affiliating the regional guarantee institution to another one specialized in financing SMEs in order to make credits accessible and optimize the formalization of SMEs									

7. Additional remarks

INSTITUTION	ADDITIONAL REMARKS
Grand-Anse Saveurs Tropicale / Grand-Anse Chamber of Commerce	<p>Since 2013, the Ministry of Commerce of Haiti works on the structural reform of the business sector. It has conducted a physical count of all existing enterprises in the country. It is also developing decentralized public structures in order to promote the formalization and the reinforcement of enterprises through improved competitiveness.</p> <p>Thus far, some figures are unavailable at the level of the Ministry, in view of the informality that has traditionally characterized the sector.</p> <p>However, a private structure is still missing, which could be more efficient than the Chamber of Commerce, especially at the technical level, in gathering all the members of the business sectors for improving dissemination and implementation of business development techniques.</p> <p>In the case of Haiti, we believe that the creation of such an Institute could help optimize the performance of financing for SMEs.</p> <p>Note: In the last part of the second group of questions, the space corresponding to "informality" does not admit the "X".</p> <p>Note: The reinvigoration of the structural work is carried out at all levels of the public institutions. But thus far, it has not been easy to obtain detailed figures.</p>
CASRI (NGO) and International Development Consultant	
Caribbean Export Development Agency	
Competitiveness Unit Suriname	
CASME	<p>For the sustainability, relevance and cultural reasons, no regional system must incorporate monitoring of franchises to the national Guarantee System, or the creation of a new market niche in the financial sector, as was the case with microfinancing.</p> <p>Factoring: Special mobile banking platform dedicated to those SMEs which will be members of the Regional Caribbean System (in order to provide working capital from the credit line). The business model will be similar to that of a credit card, but using the mobile platform.</p> <p>Virtual Controller: Delivered via a cloud-based accounting software, using the technology to monitor and provide guidelines to SMEs in real time through smart phone and PC applications.</p> <p>Business Development and Facilitation Unit: This product will deal with matters not related to finances, and which will focus on issues concerning growth and development for SMEs, by country and by sector, similar to the model of Export Consortiums of UNIDO, in order to promote sales at the national, regional and international levels.</p> <p>CASME wishes to express its gratitude to SELA for the opportunity to participate in this survey and even hopes to undertake pilot projects in two or three of our countries, to show that CARICOM does have solutions to overcome poverty and to encourage entrepreneurs in the region.</p> <p>Finally, it should be noted that the greatest risk to our efforts will be the political processes at the national level, so we must make sure to mitigate such risk by taking advantage of the CARICOM General Secretariat.</p>
Suriname Business Development Centre	

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8. Contact Information at Institutions

		Institutions				
	Grand-Anse Saveurs Tropicale / Grand-Anse Chamber of Commerce	CASRI (NGO) and International Development Consultant	Caribbean Export Development Agency	Competitiveness Unit Suriname	CASME	Suriname Business Development Centre
Name	Pierre Guld Mezile	Franklyn Harvey Grenada in Eastern Caribbean, and Canadian	Robertha Reid Barbados	Kenneth Foe-A-Man Surinamese	Audrey Salmon Jamaican	Winston Wielson
Nationality	Haitian	International Director, CASRI; Managing Director, Participant Consultants	Senior Advisor - Office of the Executive Director	Deputy Executive Director	CASME	Surinamese Manager Research and Strategic Planning
Position	PDG / Member	Guyana and Canada	Barbados	SURINAME	Jamaica	Suriname
Country	Haiti	Guyana and Canada	Barbados	SURINAME	Jamaica	Suriname
E-mail	pguld11@gmail.com	vpfrank1@rogers.com	rreid@carib-export.com	kenneth.fan@suriprint.com	audrey.salmon@gmail.com	wwielson@sbc.sr
Telephone	(509) 37 72 30 49	1-613-228-2808	1(246) 436-0578	5878814043	8768202716	597-499010
Skype	gougoul111	grenstandrews1		kennethfoeaman	maenella	winston.wielson

PROPOSED GENERAL POLICIES BY TYPE OF RISK

1. Credit risk

In the area of microfinances, credit risk is defined as the possibility of suffering losses due to the inability or unwillingness of debtors or counterparts, or third parties required to fully meet their contractual obligations recorded on or off the balance sheets. Credit risk involves not only the potential loss due to default of the counterpart; it also includes deterioration in the credit quality of the counterpart, or in its guarantee or collateral.

General policies applied to this type of risk

- a. Credit Risk Management. This policy will be focused on the customer, grouping up all the risks related to each individual contractor or economic group, according to their activity areas.
- b. Identifying and Measuring Risks. This task will be carried out by gaining knowledge about the customer, taking into account the economic sector to which it belongs, its debt level in the financial system, and its risk rating. In order to minimise credit risk, policies for granting guarantees will be implemented where the basic guidelines will be established to efficiently evaluate a client, following criteria to measure its payment ability measured by its cash flow, in order to ensure credit recovery.
- c. Management and Valuation of Portfolios. This policy will be applied periodically by means of an analysis and evaluation of portfolios, through a review of the customer's economic and financial situation, its economic sectors and its arrears.
- d. Diversification of the Credit Portfolio. An appropriate diversification of the loans and credits portfolio shall be made according to: economic sectors, geographic area, products and currency, in order to minimise credit risk and prevent deterioration in the quality of the guarantee portfolio.
- e. Portfolio Classification. This task will be carried out by the Risk Department. As an independent body, it will be responsible for evaluating and classifying the loan portfolio. The evaluation and classification of the debtor will allow for assessing the credit risk involved in its credit operations, so as to set forth the provisions to cover such credit risk.
- f. Monitoring of Clients. Those clients whose ability to pay back shows signs of a negative evolution shall be an essential part of risk management.
- g. Recovery. The integral credit risk management cycle will be completed with the recovery of unpaid obligations.

2. Market risk

It is defined by the losses stemming from the performance of the variables which determine prices in the financial market. There are three main types of market risks: Interest rates, exchange rates and commodities price risks (gold price).

General policies applied to this type of risk

- a. Market Risk Management. The Risk Control Department will monitor and control market risk rankings. Market Risk Management includes a set of policies and processes aimed at identifying, measuring and controlling the risks derived from uncertainties about the evolution of markets. In general terms, Market Risk Management should be aimed at creating value for the institution, limiting possible losses in the rankings as a result from adverse changes in relevant market variables.

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3. Interest rate risk

Structural interest rate risk refers to the potential effect of variations in the interest rate in the market over the financial margin and the economic value of an entity, as a consequence of the mismatch in the temporary structure of expiry and devaluation of assets and liabilities in the balance.

General policies applied to this type of risk

- a. Interest Rate Risk Management. A sensitivity analysis by variations in market interest rates is expected to be carried out, in order to calculate the impact of interest rates variations on the projected annual financial margins. Based on the economic value, an estimation is made of the effect of variations in interest rates on the current value discounted from expected future flows. The internal limits on interest rates will be implemented, so that the gains in risks do not affect the effective net worth or the equity value at risk.
- b. Term matching of assets and liabilities. A reasonable matching of deadlines for assets and liabilities operations must be sought. It is necessary to count on credit lines granted by solid financial institutions at preferential rates which can be used in case of mismatches in conducting operations. The matching of assets and liabilities is critical for measuring the sensitivity of changes in interest rates, which could bring about problems in the valuation of assets and liabilities.

4. Foreign exchange risk

The foreign exchange rate risk occurs when there is a variation in the value of the local currency which affects the value of assets and liabilities. It must be taken into account that this type of risks is particularly frequent in the Caribbean because of the many different currencies in the region.

General policies applied to this type of risk

- a. Foreign Exchange Risk Management: This type of risk will be measured by the compliance with the limits on the foreign exchange position set out by the regulation applied in every country in the Caribbean. An attempt will be made to maintain a reasonable currency matching in terms of their profitable assets and their affordable liabilities. For this purpose, it is important to take into account that financing and operations in foreign currency are at the same proportion as the placements that are made in the same currency, so the effect of the foreign exchange rate risk can be much smaller.

5. Operational risk

Operational risks refer to the possibility of losses due to inadequate processes, faults on the staff or on the information technologies, or external events.

General policies applied to this type of risk

- a. Operational Risk Management: The Risk Department will support and assist other areas of the institution in order to carry out a good and comprehensive risk management. For this purpose, it will keep its independency from the Business Units. The integral management of operational risks will minimize significant losses that may result from failures in systems, internal and external events and persons. Suitable management processes and control shall be put in

- effect, consisting of internal rules that allow personnel to clearly understand their functions, how they should be carried out, and what is the inherent control to prevent such risks.
- b. Information Technologies: Activities will be implemented in order to strengthen security aspects with a view to applying technologies to strengthen controls and improve the operation of the informatics and communications infrastructure.
 - c. As regards failures in public services, natural disasters, attacks and criminal acts, a Contingency and Business Continuity Plan will be implemented.
 - d. There must be Adequate Insurance Policies against all type of eventualities in order to protect the assets and personnel of the institution.

6. Liquidity risk management

Liquidity risk management will contribute to ensure the ability to face an increased volume of financial assets and to fulfil short-term duties, which can change with respect to the original plans, due to the fact that some operations, such as refunding cash guarantees, or contracts of uncertain nature, can impact the cash flow after the default of the other party, or in case of unexpected external events.

General policies applied to this type of risk

- a. In order to cover liquidity risks, enterprises must comply with the legal conditions required by the regulations of the host country, and achieve a reasonable matching of their profitable assets and their affordable liabilities, both in time frames and currencies.
- b. Attempts will be made to obtain surplus levels of liquidity, in order to monetize assets, always balancing risks and profitability.
- c. It is absolutely necessary to count on credit lines granted by solid financial institutions at preferential rates, which can be used in case that mismatches accumulated in the development of operations occur.
- d. There should be policies and procedures for managing liquidity risks that are duly approved by the competent authority and comply with all the requirements and standards of the regulating authorities.

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