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Sistema Econômico
Latino-Americano e do Caribe

Système Economique
Latinoaméricain et Caribéen

Final Report on the Training Seminar on guarantee systems to support SMEs

Intra-Regional Relations

*Training Seminar on guarantee systems to support SMEs
Port of Spain, Trinidad and Tobago
9 and 10 July 2012
SP/SCSGPYMES/IF-12*

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I. RAPPORTEUR'S REPORT

1. In compliance with the Work Programme of the Permanent Secretariat for the year 2012, Activity II.2.3 "Analysis, consultancy and design of public policies to support financing and guarantee systems for SMEs," the "Training Seminar on guarantee systems to support SMEs" was held in Port of Spain, Trinidad and Tobago, on 9 and 10 July 2012.
2. Participants included delegations of the following Member States: Barbados, Jamaica, Suriname and Trinidad and Tobago; representatives of regional organizations: the Association of Caribbean States (ACS), the Caribbean Community (CARICOM), the Organization of Eastern Caribbean States (OECS) and the Latin American and Caribbean Economic System (SELA). The list of participants is included in Annex N° II.
3. The event was aimed at gaining knowledge about and disseminating the progress made in the creation of innovative instruments for financing SMEs in the Caribbean region; encouraging the development of new initiatives, both institutional and instrumental, for financing and providing guarantees to SMEs in the region; and promoting the training of officials and businessmen for the creation and implementation of guarantee systems. The agenda, documents, speeches and presentations are posted on SELA's Web site at www.sela.org.

II. DEVELOPMENT OF WORKS

4. Speakers in the opening session included Alfonso Múnera, Secretary-General of the Association of Caribbean States; and Germán Caires, Head of Projects, on behalf of Ambassador Jose Rivera Banuet, Permanent Secretary of SELA.
5. Ambassador Múnera highlighted the significant role played by the Association of Caribbean States (ACS) in facilitating dialogues on certain topics, stressing the importance of those that have a social impact. In addition, he noted the significance of the SME issue for the organization, in particular a project on women in productive activities, which describes the woman of the region as one that plays the role of head of household and micro entrepreneur. Finally, he expressed his appreciation for the joint work done by the ACS and SELA and invited both organizations to continue such efforts, with the collaboration of other institutions.
6. Mr. Caires said that this Seminar on guarantee systems to support SMEs is part of the efforts made by SELA to stimulate the capacity building of institutions in charge of SMEs and actions to increase the access of this sector to financing in the Caribbean region. He said that the main objective of a guarantee system is to improve the competitiveness of SMEs and eliminate disparities in access to financing, improve credit channels and integrate them into the formal financial system.
7. Dr. Ariadna Pérez, Director of Trade of ACS, made a presentation on the activities of her organization, noting that SMEs in the Greater Caribbean region have been identified as the major engine behind the economic and social development. They have the potential to create and increase job opportunities and companies that greatly contribute to employment in the region. He said that 95% of manufacturing, trading and service enterprises in the region are SMEs, which represent 32% of employment in Belize. Small-sized companies in CARICOM account for 45% of the created jobs.

The obstacles and challenges for the development of SMEs in the Greater Caribbean region include the lack of policies on this sector, the absence of a legal framework and

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the lack of development strategies at the national level, limited technology and poor infrastructure, among others.

8. Mr. Wayne Dass, representative of the Caribbean Information and Credit Rating Services Limited (CariCRIS), explained that this institution is aimed at developing an integrated Caribbean capital market as a single economic space, setting high levels of analysis for financial decision-making, in order to reduce the information gap among the countries in the region. He added that the credit rating assigned by CariCRIS is an assessment of an entity's or SME's creditworthiness relative to other similar entities.

The CariCRIS regional scale rating compares an entity's creditworthiness to all debt-issuing entities in a defined Caribbean region. CariCRIS also offers a national scale credit rating where the comparison set is all debt-issuing entities in the financial markets of a single nation. Ratings aim to provide a regionally relevant risk assessment of entities and the debt that they issue within a wider context of an analysis of economic trends and financial developments. This will significantly improve an investor's ability to compare sovereign and corporate credits in the region.

9. Dr. Leela Ramoutar, private sector specialist at the Caribbean Community (CARICOM), noted that the composition of SMEs in the region is unknown and no Member State of this organization is aware of the amount of small-sized companies and the activities they carry out. Some sectors have greater needs, and the technical assistance could be more effective if these needs and sectors are known.

Furthermore, she said that most SMEs cannot access the services presented by CariCRIS, since they are informal. Certain mechanisms should be raised to change the mentality of companies that wish to remain informal or create an advantageous environment so that they turn to the formal sector. As for credit guarantees, four member countries have programmes similar to a guarantee scheme or provide some sort of financial assistance to SMEs, namely: Jamaica, Trinidad and Tobago, Barbados and Suriname. These countries have second level funds and schools of angel investors.

To carry out a programme of this nature, it is possible to count on the support of Latin American countries, but such an initiative must be launched by our member countries. Thus, it is essential for those States to be aware of this subject.

10. Dr. Lynette Holder, representative of the Barbados Small Business Association (SBA), pointed out that the problem of funding for SMEs is not the availability of resources, but access. The laws of Barbados were amended in 2006 to provide greater incentives to the sector, a surplus has been reported in the past 10 years and financing conditions have improved. However, technical assistance and advice are required to address the lack of access to financing. Barbados has over 11,000 small enterprises, but requires a greater stimulus to research, competitiveness and innovation.

The Government established funding windows and agencies to provide capital to micro enterprises. As regards the private sector, there are companies that offer financial assistance and credit cooperatives.

11. Dr. Edward Chin-Mook, President of the Caribbean Association of Small and Medium Enterprises (CASME), presented a Programme for the Development of Small Business, submitted in 2006 to the Ministry of Industry and Trade of Jamaica. He explained that there are many sources of funding, but very little distribution of resources.

12. Dr. Mauricio Beltrán, representative of the National Guarantee Fund (FNG) of Colombia, delivered a presentation on the background, experiences, lessons learned, operation, advantages and features of this Colombian guarantee fund. The FNG is the entity through which the Government aims to facilitate access to credit for micro, small and medium-sized enterprises by granting guarantees. The FNG does not provide loans to the agricultural sector, because it already receives the financial support from the Agricultural Guarantee Fund, administered by Finagro. Guarantees cannot cover 100% of risks, only 50% of them.

To access the guarantee of this Fund, the concerned company or person must go directly to the financial intermediary that will receive their credit applications. There is no need to make any procedure with the FNG. Locally, the Fund operates through regional guarantee funds.

The guarantee is a legal act that derives from a primary obligation of a debtor to a Bank, whereby the guarantor undertakes to pay totally or partially the guarantee obligation if the debtor defaults or something happens that make the obligation enforceable. The retro-guarantee is the legal transaction by which a guarantor cedes totally or partially the risk, in order to reduce or mitigate possible loss.

13. Dr. Edgard Coquis, representative of the Guarantee Fund for Loans to the Small Industry (FOGAPI) of Peru, made a presentation on public procurement and guarantee systems. The Promotion of Competition Law establishes that public institutions should schedule no less than 40% of its contracts with micro and small-sized companies (MSEs) on those goods and services these companies can provide. The participation in public procurement reached 55.43% in 2011. He stressed the importance of structuring a national network for the provision of a better service in conjunction with the regionalization and decentralization processes of the country.

Finally, he said that the unsatisfied demand for guarantees for MSEs refers not only to bank credits, but also to the non-banking field (participation of suppliers in public procurement and guarantee programmes). Thus, the national or domestic legislation on guarantee systems should provide for the support to financing needs, so that such enterprises could play a leading role in the economy and access to higher income in compliance with the requirements of the State, first investor and buyer of goods, services or works.

14. Dr. Pablo Pombo, Technical Secretary of REGAR, made a presentation on public policies to support guarantee systems, pointing out their importance within the framework of a comprehensive policy for small-sized enterprises. Public policies should promote access to funding on a permanent basis. These systems are used by more developed countries and can be heterogeneous depending on the different realities and economic and social environments or approaches to public policies and the role of employers.

The diagnosis of credit access problems shows that the Basel international regulations produce unwanted effects and affect in particular SMEs, generating competitive inequality. There must be a strategic alliance and full consensus among the agents involved in the development of the legal and operating framework of the guarantee system (public authorities, financial institutions and SMEs). At the macro level, there are some problems to solve, such as the unwanted negative effects of international rules of the financial system, failures in the operation of institutions and the reduction of the banking activity in the context of the crisis. At the intermediate level, there is an incomplete offer in less attractive areas, disadvantaged regions and weakened sectors. At the micro level, it has been stressed the need to improve the conditions for accessing

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credit, factors related to the dimension of credit and life cycles of the company's growth that must be taken into account.

15. Afterwards, Dr. Pombo made another presentation on trends, prospects and challenges of guarantee schemes in Latin America, highlighting the relevant role of the States in their implementation and development by creating guarantee programmes and coexisting with the major and recent momentum of private participation schemes, including the beneficiaries of mutual guarantee societies.

The trend towards the implementation of quality and efficient regulatory frameworks has increased. In addition, a gradual and inexorable integration of guarantee schemes has been reported in the financial system in terms of specific quality regulations, in line with Basel II, and efficient monitoring. A growing need has also been identified for future recognition of guarantees in risk mitigation effects and their impact on the mitigation of own resources and provisions to financial institutions, as well as national counter-guarantee schemes in guarantee entities. Finally, he mentioned some entities, such as CAF and the MERCOSUR Guarantee Fund, which are boosting supranational counter-guarantee initiatives.

16. Dr. Edgard Coquis, representative of the Guarantee Fund for Loans to the Small Industry (FOGAPI) of Peru, made a presentation on the management model for a public-private guarantee institution. He pointed out that among the main financing difficulties for SMEs are a short-term credit supply and demand market, which does not allow asset renewal funding; the little information and knowledge of the sector as a result of the lack of accounting information; a high informality of the sector (in Peru, only 25% of SMEs are formal), among others. The models presented referred to individual guarantees, portfolio or global guarantees for SME loans and intermediate guarantees.

Finally, he noted that the problems of the sector in Latin America have similar characteristics. Therefore, it is necessary to consolidate a guarantee and counter-guarantee system for Latin America that offers the guarantees required by MSEs in our region. This challenge means greater competitiveness for their benefit. The Latin American Association of Guarantee Institutions (ALIGA) must be an entity that provides accreditation to standardize quality criteria for MSEs.

17. Dr. Sandhia Khedoe-Bharos, Director of the Ministry of Finance of Suriname, pointed out that her Government has taken some measures to facilitate financing, such as the establishment of the National Bank, the Bank of Agriculture, the Investment Fund, the Micro Credit Fund and the Suriname Business Forum. The guarantee fund in Suriname was created in 1979, managed by the National Development Bank and is aimed at almost all sectors. Since 1993, it is fully operative, supporting enterprises that do not meet bank requirements.

18. Dr. Tiffany Marquez, on behalf of Development Finance Ltd (DFL) of Trinidad and Tobago, said that this company aims to grant loans to small and medium-sized enterprises, especially in the process of globalization and internationalization, and is promoting the entrepreneurial spirit among entrepreneurs.

She considered this course of the utmost importance, since DFL will be involved in two guarantee programmes in the near future. The first is a public lending programme that offers guarantees to SMEs that design tourist projects only in the island of Tobago. This project is undergoing the design phase. The second programme under development

involves the Business Development Company, which will provide guarantees to small-sized enterprises.

19. Dr. Wayne Robertson, Director of the Ministry of Industry and Trade of Jamaica, noted that SMEs in his country face challenges to access financing. The law on SMEs in Jamaica offers the possibility of exploring, without compromise, the various options that guarantee schemes provide, especially for exporting and innovative enterprises. Innovation is considered an important aspect for economic growth and development. In addition, the Jamaican representative referred to the possibility of testing a pilot programme for guarantees in the Caribbean region.

20. Dr. Lynette Holder, Director of the Barbados Small Business Association, said that the Caribbean region has not devoted the time that other countries did to establishing these systems decades ago, and stressed the urgent need to take measures to speed up the implementation of a guarantee system in the region.

21. Dr. Sandhia Khedoe-Bharos, Director of the Ministry of Finance of Suriname, expressed the need for representatives of all the countries in the Caribbean region to participate in upcoming activities of this type.

22. In this connection, a CARICOM representative suggested the conduction of a CARICOM-SELA meeting, with the participation of all Member States, to propose the pilot programme for guarantees with the technical assistance of SELA.

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III. CONCLUSIONS AND RECOMMENDATIONS

1. Access to financing remains the greatest problem hindering competitiveness of SMEs. Despite the programmes implemented in the countries of the region, there is not a swift and constant flow of resources to SMEs.
2. Participants from Caribbean countries expounded on the experiences gained in recent years as regards facilitating access to credits for SMEs, the current situation and the prospects for development and consolidation of mechanisms to overcome limitations. In this connection, they highlighted some examples of SMEs financing in Barbados, Jamaica, Suriname and Trinidad and Tobago, countries which have had or have second level funds, angel investors and other special banking programmes.
3. Based on the presentations made by invited experts, it was noted that guarantee schemes are a subsystem within the financial system, so they are financial and public policy instruments in the countries. The objective of such subsystems is to encourage and facilitate access to financing for enterprises under the best conditions, and they remain subject to regulations and supervision by financial authorities.
4. The guarantee scheme should be integrated into the financial system and its warranty should be recognized (qualified and weighted), with its characteristics being defined by the various realities, diverse economic and social environments, different public policy approaches and/or the role of employers, since they are instruments for economic promotion and support. Guarantee schemes can be used by governments to facilitate access to credits universally or to a specific sector or activity in line with government policies.
5. During the debates, participants analyzed the possibility of undertaking an initiative for a Caribbean guarantee system. In this regard, experts recommended establishing a regional Caribbean system and evaluating whether such system should be of a public or mixed public-private nature.
6. The representative of Jamaica recommended drafting a document for implementing a guarantee system in the Caribbean and distributing it among the member countries of CARICOM for discussion. Such document should include detailed information about the regional and international best practices, the challenges associated with the system and an analysis of costs and benefits in order to establish a policy. In addition, it is necessary to create a technical working group to coordinate the whole process. The regulatory framework of the guarantee scheme could be incorporated into CARICOM's regional policy on SMEs. Finally, the representative of Jamaica recommended establishing a pilot programme in the region and monitoring its performance for a period longer than one year, so that decisions can be taken in order to implement such programmes at the regional level.
7. Similarly, some participants – such as the representative of the Caribbean Association of Small and Medium Enterprises (CASME), and the representatives of Barbados, Haiti and Suriname – showed interest in the need for SELA, along with other international

and regional agencies, to coordinate training activities and to draft a feasibility study which accompanies the implementation plans of pilot programmes within the region.

8. For this initiative, participants underscored the need and importance of involving the public sector which, along with the private sector, can promote the creation of such a system. The institution in charge of the system could be a ministry, a public entity or a group of people consisting of public and private entities, who should outline an action plan and an institutional schedule for the system.
9. In order to attract funds and capital from donors for the creation of the guarantee system, some participants pointed out that actions must be taken to identify potential donors.
10. In organizing the next meeting, CASME shall invite organizations of small and medium-sized enterprises in the Caribbean and other relevant institutions for financing SMEs. In addition, the CARICOM shall invite its Member States to submit the proposal for this initiative.
11. Participants expressed their gratitude to the Permanent Secretariat of SELA, the Association of Caribbean States and the experts from Colombia, Spain and Peru who participated as speakers, for their efforts to conduct this seminar. Similarly, they recognized the support of the Trinidad and Tobago International Financial Centre, which contributed to the success of this important activity.

A N N E X I

Agenda

Day One: July 9, 2012

- 8:30** **Opening of the Event**
- 9:30** **Experiences of ACS in international consultation, cooperation and coordination of actions.** Association of Caribbean States (ACS)
- 9:45** **Developing SME Characteristics in the Region.** Caribbean Information & Credit Rating Services Ltd (CARICRIS)
- 10:30** **Refreshments**
- 10:45** **I PANEL: Finance, the major constraint to SME Competitiveness.** CARICOM, OECS, Caribbean Association of Small and Medium Enterprises (CASME) and Barbados Small Business Association.
- 12:15** **Questions and Answers**
- 12:30** **Lunch**
- 14:00** **Management model for a guarantee society and for a guarantee fund system.** Mauricio Beltrán, National Guarantee Fund (FNG) of Colombia.
- 15:00** **Questions and Answers**
- 15:15** **Refreshments**
- 15:30** **Access to the State's purchases through a guarantee system.** Edgard Coquis, FOGAPI.
- 16:30** **Closing session for the day**

Day Two: July 10, 2012

- 8:45** **Magisterial Conference on prospects and challenges for guarantee systems in Latin America.** Pablo Pombo, Ibero-American Guarantee Network (REGAR)
- 10:00** **Refreshments**
- 10:15** **Conference on public policies for guarantee systems.** Pablo Pombo, Ibero-American Guarantee Network (REGAR)
- 12:00** **Questions and Answers**
- 12:30** **Lunch**

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- 14:00 **Management model of guarantee institution or mixed public/private capital.** Edgard Coquis FOGAPI.
- 15:00 **II PANEL: Public Policies to support SMEs in the Caribbean Countries.**
Trinidad and Tobago International Financial Centre, Ministry of Finance of
Suriname, Ministry of Industry and Commerce of Jamaica.
- 15:45 Questions and Answers
- 16:00 Refreshments
- 16:30 **III PANEL: Conclusions and recommendations discussion.** CARICOM, OECS,
ASC, CASME, Pablo Pombo and the Government of Trinidad and Tobago
- 17:00 Closing session

A N N E X I I

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