Credit Enhancement Facility
Partial Credit Guarantee for SMEs

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Abstract

This presentation provides a discussion of the objectives, challenges and opportunities for using partial credit guarantees to expand access to financing and utilization of financing by micro, small and medium-sized enterprises - from the perspective of the Development Bank of Jamaica.
DEVELOPMENT BANK OF JAMAICA
Economic Growth + Social Inclusion

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

Increasing MSME Access to Finance

Demand-side & Supply-side Initiatives

Capacity + Collateral + Capital

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

Other Supporting Initiatives

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

OUTCOMES OF KEY INITIATIVES

- **MSME LOANS:** Since April 2012 DBJ has made 30,623 loans to MSMEs valued J$10 billion supporting J$16 billion investments and new 6,424 jobs

- **CEF GUARANTEES:** Since April 2012 DBJ’s CEF has provided J$612 million in loan guarantees through 14 AFIs allowing 217 MSMEs to access J$1.25 billion in loans

- **CAPACITY:** Since launch in May 2014 DBJ’s Voucher for Technical Assistance has allowed MSMEs to access 11 loans valued J$152 million
  
  - Six (6) of these loans totaling J$43 million required CEF Guarantees valued J$26 million
CREDIT ENHANCEMENT FACILITY (CEF)

Overview

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

The maximum guarantee coverage per sub-borrower:

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

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

• Enterprise Size
  ✓ # of Employees: up to 150 persons
  ✓ Annual Turnover: \( \leq \) J$425,000,000

• Length of time in operation
  ✓ Existing companies 2yrs and over
  ✓ Start-ups operating 1yr and over may access guarantees up to J$5million
  ✓ Start-ups operating less than 1 yr. may be considered eligible at DBJ’s discretion
EVOLUTION OF CEF GUARANTEE

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

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

SECTORAL DISTRIBUTION OF GUARANTEES

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

FUND PERFORMANCE

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

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

SUPPORT FOR THE CEF:
- The World Bank is providing Technical Support to the DBJ to improve the CEF product and Fund operation
- The IDB has also indicated its support for the CEF
- CEF Awarded Merit in 2015 by The Association of Development Finance Institutions In Asia & The Pacific in the SME Development Category
- We look forward to working with SELA
Thank you.

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