

**CREDIT ENHANCEMENT PROGRAMME FOR MICRO, SMALL AND MEDIUM
ENTERPRISES INVESTMENT LOAN**

BETWEEN THE GOVERNMENT OF JAMAICA (GOJ)

AND THE

INTER-AMERICAN DEVELOPMENT BANK (IDB)

Project Name: Credit Enhancement Programme for the Micro, Small
and Medium Enterprises

Cost of Financing: US\$20,000,000 (approximately J\$2.56 Billion)

Funding Agency: Inter-American Development Bank (IDB)

Executing Agency: Development Bank of Jamaica (DBJ)

Date of Signing: September 6, 2017

SALUTATIONS

- ✓ Hon. Fayval Williams
- ✓ Hon. Rudyard Spencer

Inter-American Development Bank:

- ✓ Ms. Julie Katzman (Executive Vice President)
- ✓ Mrs. Therese Turner-Jones (General Manager, Caribbean Countries
Department and Representative, Jamaica Country Office)
- ✓ Other representatives from the IDB

Ministry of Finance:

- ✓ Ms. Darlene Morrison (Financial Secretary (Actg.))
- ✓ Ms. Dian Black (Deputy Financial Secretary (Actg.), Economic Management Division)
- ✓ Staff of Debt Management Debt

Planning Institute of Jamaica (PIOJ):

- ✓ Dr. Wayne Henry (Director General)
- ✓ Other Staff members of PIOJ

Development Bank of Jamaica

- ✓ Mr. Milverton Reynolds - Managing Director
- ✓ Other staff of DBJ

- ✓ **Representatives from the Attorney General's Chambers (AGC)**

Introduction

I am pleased this afternoon to be signing off on an investment loan from the Inter-American Development Bank (IDB) to the Government of Jamaica that will replenish the capital of the existing Capital Enhancement Facility (CEF) administered by the Development Bank of Jamaica (DBJ).

This facility provides partial credit guarantees for Approved Financial Institutions (AFIs) to provide loans to Micro, Small and Medium Enterprises (MSMEs).

The Government of Jamaica recognizes micro, small and medium enterprises as our partners in the mission for job creation, economic growth and prosperity. Therefore attracting, developing and supporting these entrepreneurs form an important component of Jamaica's economic strategy.

Small and Medium-Sized Enterprises account for approximately 80% of jobs in the Jamaican economy and as such are critical stakeholders to the economic growth and development programme.

However, over the years, the MSME sector has identified lack of access to finance, inadequate collateral and high interest rates as posing a major challenge to business development. These barriers restrict opportunities for investment and expansion of businesses thereby limiting their growth perspectives.

The Government is committed to providing the sector with expert guidance and a comprehensive network of resources to aid in their development in the current and evolving economic environment. This includes access to equity and debt capital, a supportive regulatory framework and tax structures that can also give small businesses a boost and better chance of survival.

Our recently launched *National Financial Inclusion Strategy* has set as one of its impact indicators, the goal of achieving an increase in the percentage of total private sector credit extended to MSMEs to 11%, at minimum, by

2020. Achieving this goal requires the creation of an ecosystem for venture capital and the use of non-traditional collateral as security for financial transactions. MSMEs must become bankable, so that they demonstrate to the owners of capital that they are creditworthy. The National Financial Inclusion Strategy requires the delivery of capacity-building programmes to MSMEs by the public sector to improve the bankability of MSMEs.

Objective of the Credit Enhancement Programme

The objective of this Credit Enhancement Programme is to promote productive investments in MSMEs by enhancing their access to financing, particularly medium and long term loans.

The Programme seeks to address the lack of adequate financing for MSME investments to stimulate growth and productivity in Jamaica. Notably, it is complementary to the Economic Growth Council's (EGC) proposal of improving access to finance to the Small and Medium-Sized Entrepreneurs as an initiative which would contribute to delivering 5% economic growth within 4 years.

This Programme is particularly important to the MSME sector as it provides a platform for the development of new and creative industries and increase the number new entrants into the MSME sector by reducing the upfront capital requirements for start-up and strengthen the capital base for existing players thus enhancing the ability to increase their business opportunities.

Specifically, the Programme focuses on addressing problems related to the limited collateral capacity of MSMEs, which has been identified as one of the main reasons preventing the sector from accessing financing. The Credit Enhancement Fund (CEF) provides partial loan guarantees to the AFIs for loans given to MSMEs which are unable to meet AFI collateral requirements. It also acts as an incentive to the AFIs to increase their MSME loans portfolio by providing additional security coverage on loans issued by the AFIs to MSMEs for projects geared towards growth and development.

Notably, Fund has been made more attractive recently by the Bank of Jamaica's decision to reduce the risk-weighting for the guaranteed portion of the loans. This should ensure additional uptake by the AFIs.

The Fund will provide a partial guarantee to Approved Financial Institutions to cover up to ninety percent (90%) of the amount on an individual MSME loan but not exceeding US\$385,000 for a period of up to ten years.

The individual loans eligible for partial guarantees shall be for activities such as agriculture and agrobusiness, business services, construction, energy, manufacturing, retail, tourism, trade and distribution.

Financing of investments related to the purchase of equipment and machinery, expansion projects and the increase in permanent capital all directly related to the MSME's activity will also be eligible for partial guarantees.

Conclusion

The GOJ stands resolute in its commitment to this Programme and welcomes the continued invaluable contribution of the IDB aimed at paving the way for more sustained and inclusive economic growth through robust Public-Private Partnerships that will improve Jamaica's investment climate. Jamaica looks forward to reaping the positive effects of the Programme on the economy and anticipates continued collaboration with the Bank in support of the GOJ's overall growth objectives.