

Financing challenges facing SMEs operating in traditional sectors

A DBJ SME CONSULTATION

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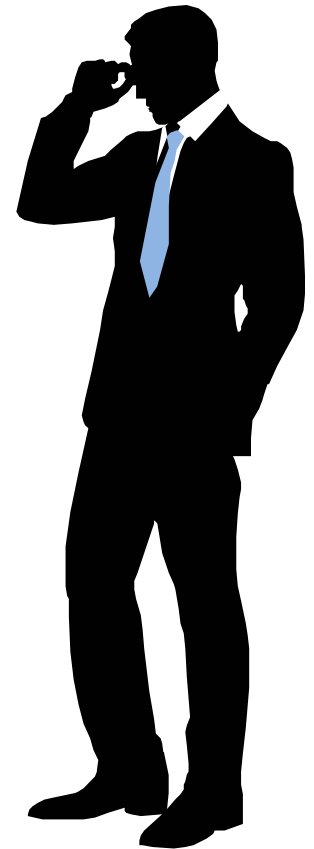
INTRODUCTION

Government has announced an expansive MSME and Entrepreneurship Policy which was envisioned five years ago at the start of the global economic recession. The policy has been developed as part of the remit of the Ministry of Industry, Investment and Commerce (MIIC) and is designed to provide a platform for the development of strategies to create a more viable and competitive MSME and entrepreneurship sector. The policy addresses critical areas such as access to finance/credit, market access for MSME products and services, business support services, training, taxation, innovation and production.

Our sector has had some very trying times, but, with this issue behind us, we now look seriously at the challenges that are ahead, and in a very determined and purposeful way, plan the newly opened pathway to success. However, the first order of business is acquiring *critical funding*.

HARSH STATISTICS FOR MSME STAKEHOLDERS

- **MSMEs have a high failure rate.** An estimated 6,000 businesses are started annually in Jamaica; and a failure rate of approximately 50%.
- **Because the risk is high,** banks are cautious and credit processes are complex.
- **Some MSMEs are content to stay small.** Research shows only a small number ever expand out of this group.
- **Stiff business challenges.** Due to the economic crisis, a deteriorating dollar, a drop of purchasing power among domestic consumers and availability of cheap imports.



ROLE AND IMPORTANCE OF MSMEs

MSMEs play a major role in a country's economic development through their...

- contribution in rural industrialization; rural development and decentralization of industries
- creation of employment opportunities and more equitable income distribution
- use of indigenous resources
- earning of foreign exchange resources
- creation of backward and forward linkages with existing industries
- entrepreneurial development.

MSMEs' CONTRIBUTION TO THE ECONOMY

- Our MSMEs contribute to the creation of wealth, employment, and income generation, both in rural and urban areas, thus, ensuring a more equitable income distribution.
- They provide a continuous supply of ideas, skills, and innovations necessary to promote competition and the efficient allocation of scarce resources.
- In the last five years, the MSME sector accounted for the highest percentage of the registered businesses in the country.
- A significant portion of the total sales and value added in the manufacturing come from MSMEs as well.

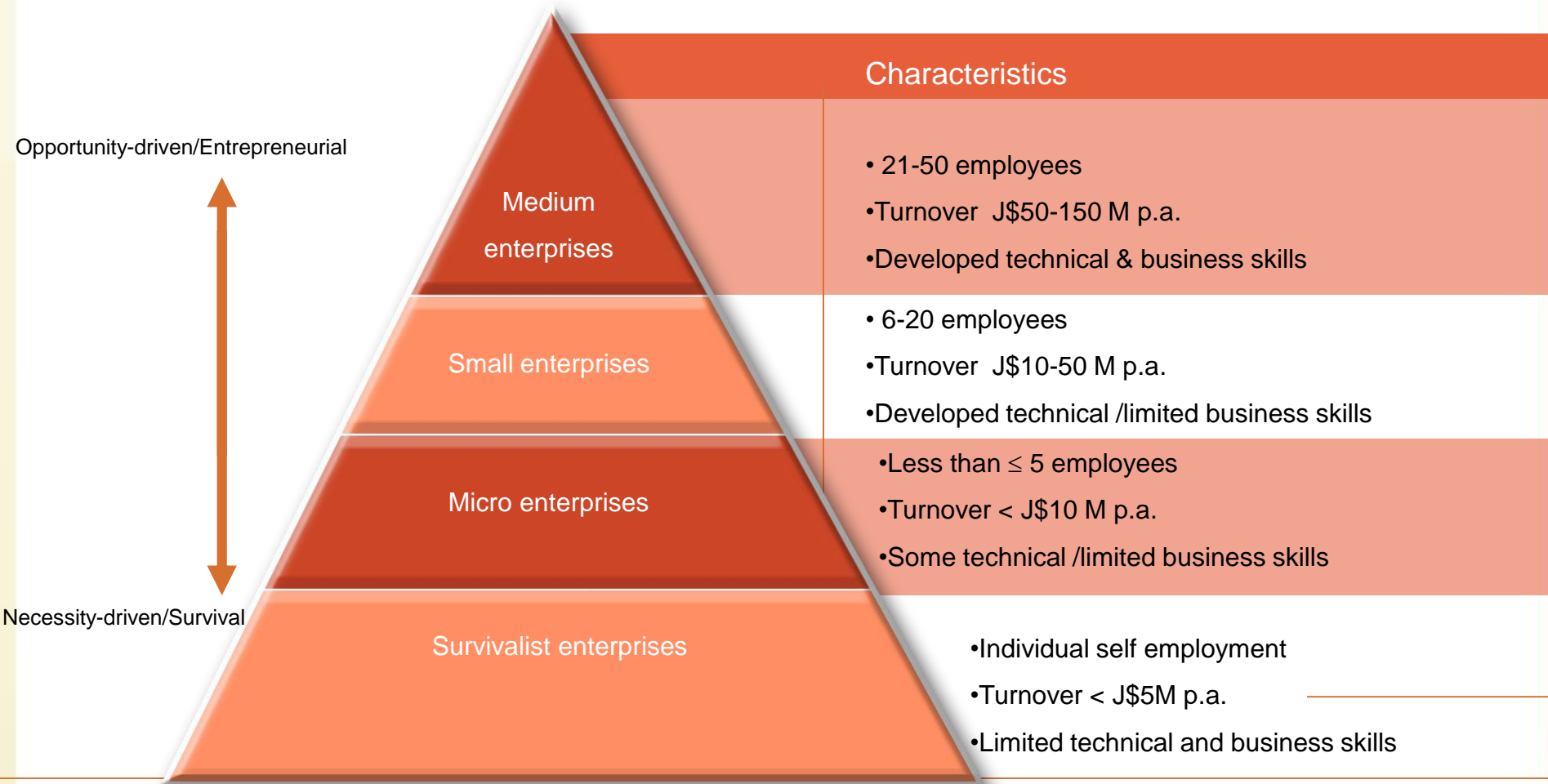
MSMEs believe that Banks

- charge too much
- are excessively risk-averse
- have high collateral requirements
- lack risk capital
- are insufficiently transparent
- behave inconsistently

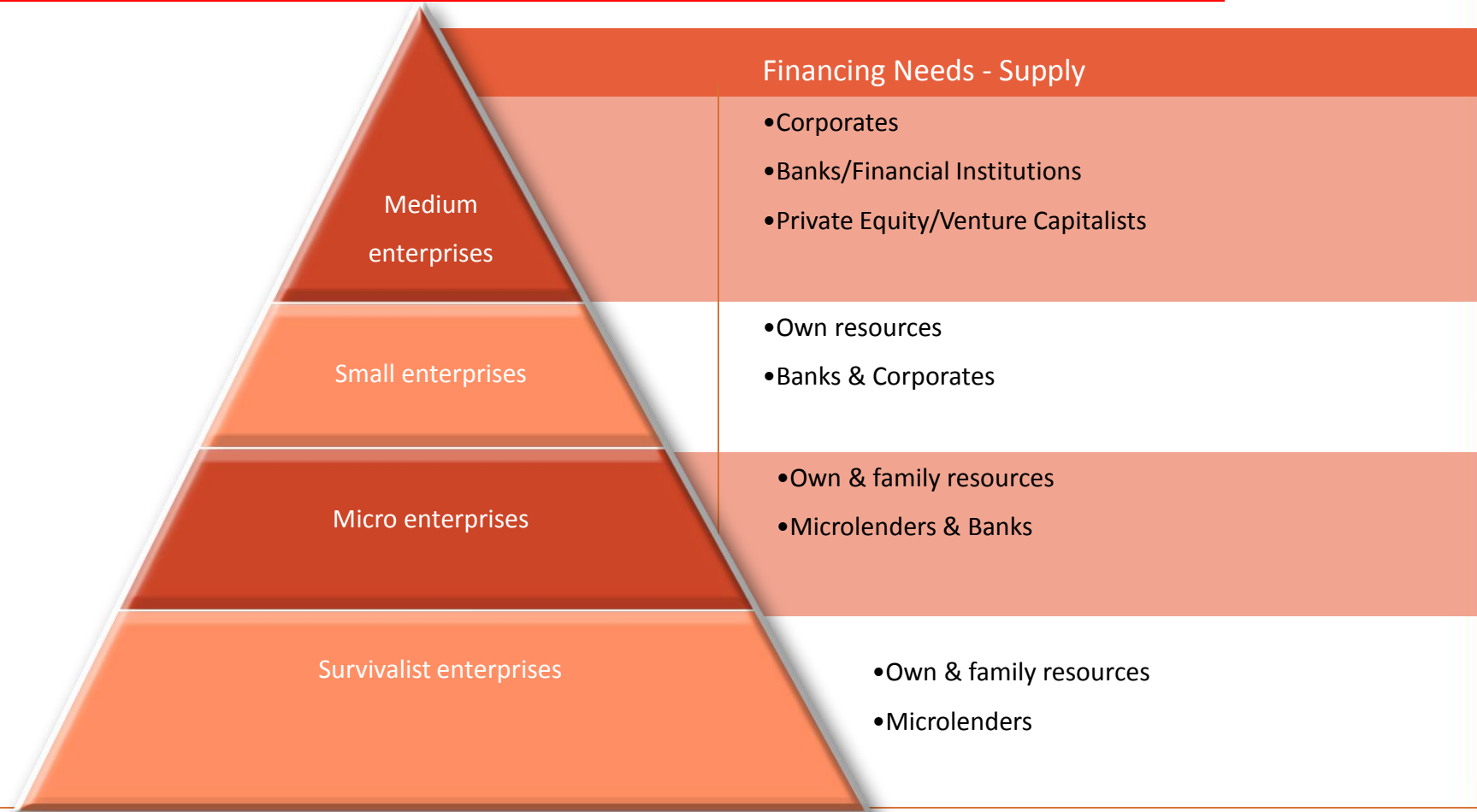
...and that banks need to:

- Improve efficiency by applying latest information technologies
- develop standard financing products
- identify profitable market segments
- find solutions to problems caused by lack of collateral
- extend product portfolios

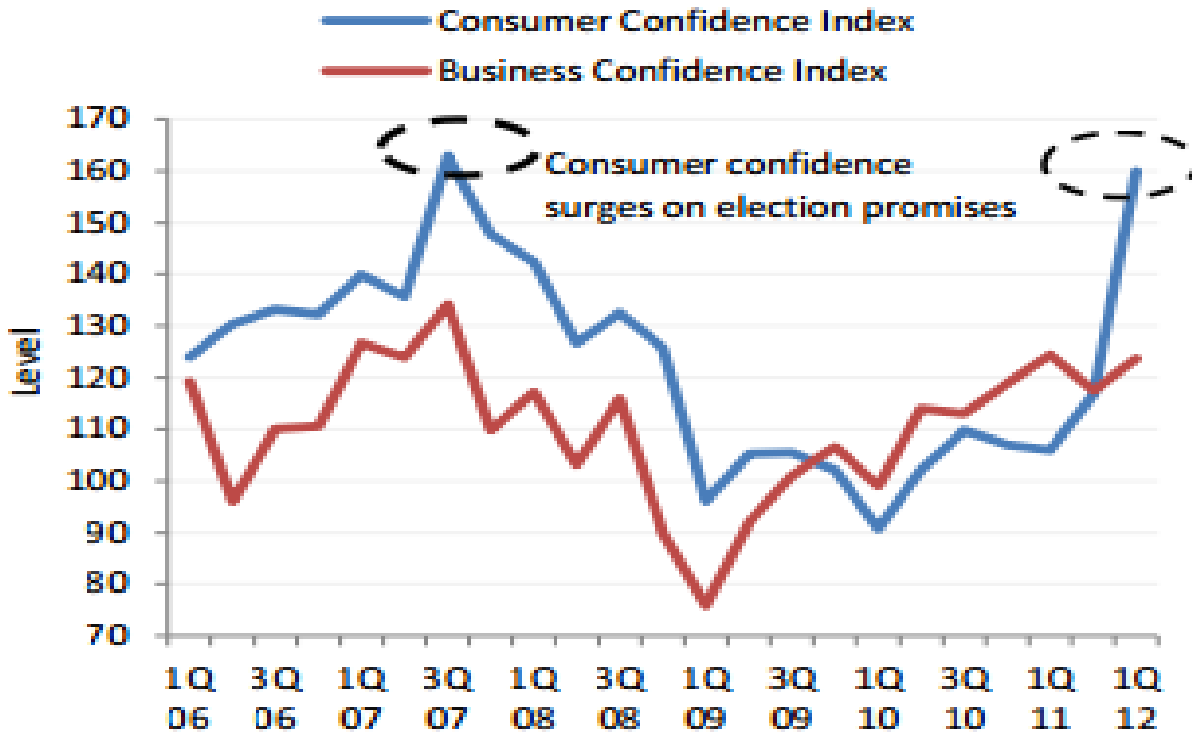
MSME Financing Landscape



MSME Financing Landscape ...Supply



MSME Business Confidence Index

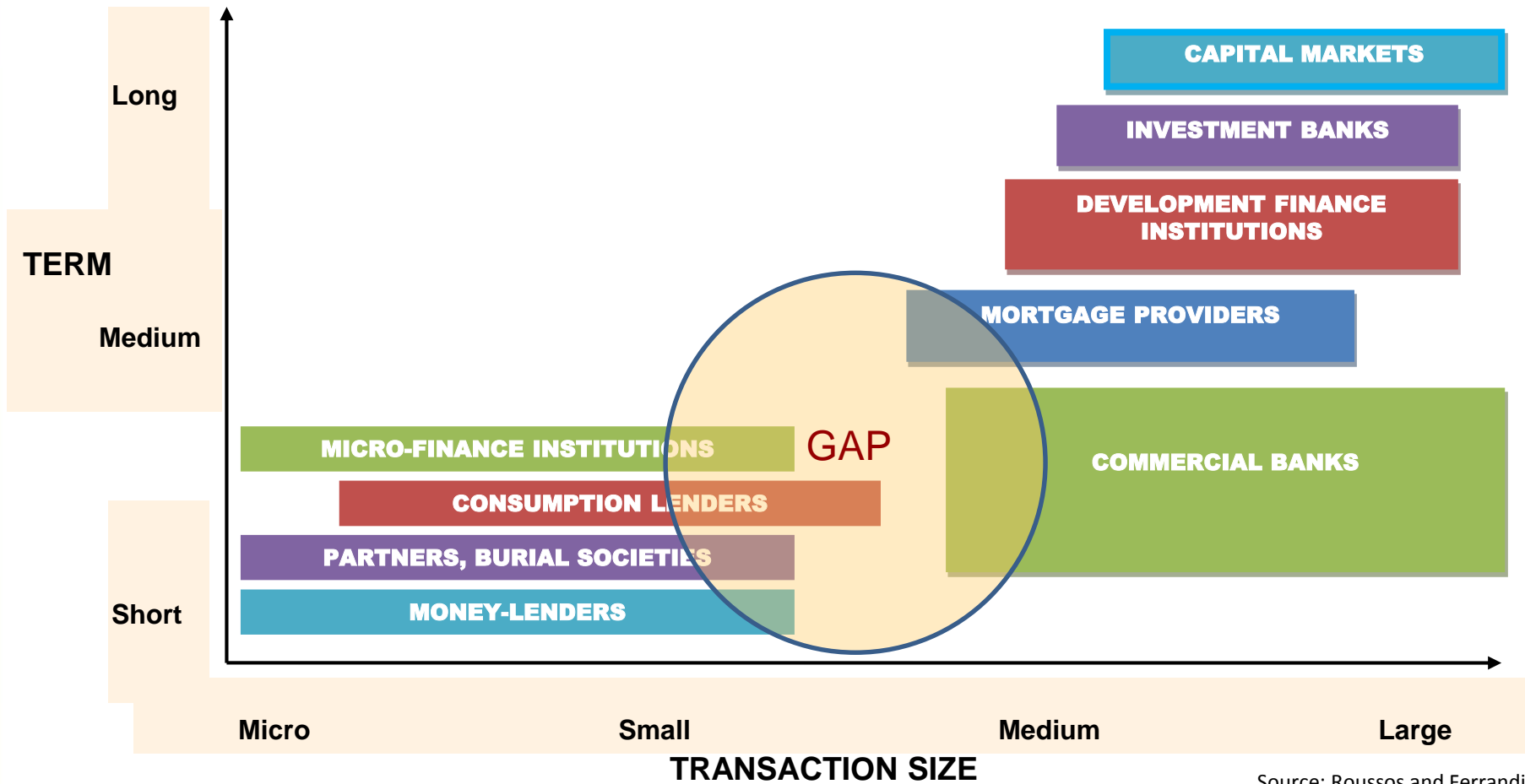


** Data points for 3Q 11 and 4Q 11 not shown

Source: Media, SUL

- Business Confidence among owners and managers of Jamaica's MSMEs remains fragile.
- The country is still recovering from the effects of the global economic crisis and the future looks negative in light of the harsh fiscal measures under the IMF.
- The main concern expressed by both businesses and consumers is the high level of unemployment which prevails.

MSME Financiers



Source: Roussos and Ferrandi (2008)

Role of DFIs in financing SMEs

- State-owned **development finance institutions** exist in order to address **specific market failures**, by taking **higher levels of risk** (lower return for a specific level of risk), “**crowding in**” the **private sector** and moving on to **new neglected territories** once the gaps have been narrowed.
- DFIs have to **balance** their development focus with commercial reality because they have to be **financially sustainable** in the long term. This has implications for their investment criteria, **pricing**, portfolio mix, risk management, systems and **skills**.
- Rather than just driving volume, DFIs have to focus on the **sustainability of the enterprises** they support, not only to preserve their own sustainability but also to ensure that the **jobs created are sustainable** and the **entrepreneurs supported thrive**, thus contributing to general economic prosperity.

Bridging the Gap

- ❑ Create a One-Stop-Shop for MSMEs to access services (business registration, tax clearance certificates etc)
- ❑ Promote business linkages between MSMEs and large corporations towards integration into national and global value chains
- ❑ Business incubation
- ❑ Strong networking amongst entrepreneurs
- ❑ Conducting regular training seminars for creating awareness and capacity building of SME entrepreneurs

Concluding Remarks

Global trends and national development processes have transformed the role of the MSME sector into that of a catalyst for the growth and development of small business enterprises which are so vital to a country.

If Jamaica is to extricate itself from the current fiscal situation, long-term, job creation is required to reduce the structurally high unemployment rate which is currently more than 12%. To maintain the confidence of the consumer class and improve the mood of businesses, not only will the necessary government reforms need to be fully implemented with urgency, but Jamaica's MSME sector must, without a doubt, be empowered to become an effective factor in Jamaica's economic recovery.

For Jamaica's sake.....HELP US SUCCEED.

THANK YOU VERY MUCH.