



# The Challenges Faced by Financial Institutions in Funding MSME'S

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# The Reality

According to Bloomberg.com, 8 out of 10 entrepreneurs who start businesses fail within the first 18 months...OOPS!

**80% crash and burn.**

Why, and what are the implications of this?





# How Important/Relevant are MSME's?

- **The MSME sector is considered the life blood of any economy; satisfying our day to day needs, providing significant numbers of jobs and contributing to its GDP.**
- **As at December 2013 loans granted to this sector were estimated at roughly 28% of Jamaica's total loan stock of \$334BN as per BOJ figures.**
- **Most large businesses were once MSME's... GraceKennedy, Lasco, Jamaica Broilers, Apple, Dell, Whole Foods Mkt. & Wrigley's**



# So Why are MSME's Underserved by Financial Institutions?

- **Perceived high risks, and high costs associated with this segment especially Micro and Small**
- **Lack of financial and other data which is required for decision making**
- **Insufficient understanding of their needs**
- **Bankers are often cautious, risk averse, traditional**
- **It is easier to lend to larger well established businesses**





But The Truth is...

**Financial Institutions  
Need Your Business.**

# Questions Bankers Typically Ask When You Need Funding:

- **How will these funds impact the business? Will it generate more revenue? Capital Expenditure?**
- **What's your strategy, market (new, saturated, growth), suppliers, competitors?**
- **Who is the chief leader of the business?**
- **Who makes up the management team? How committed are they to the business?**
- **Are we convinced that this is one of the 20% that will succeed?**
- **How are credit facilities being handled now?**



# Questions Bankers Typically Ask When You Need Funding:



- **How will the debt that is required be repaid? May I have your financials? Yes, three years, audited, thank you... And your cashflow projections as well... don't forget the assumptions to your cashflows...**
- **What if this one fails... how can I collect... so what is the security?**





# Questions Bankers Typically Ask When You Need Funding:

- **What will it cost me to monitor and administer this account?**
- **What is the reputational impact if we have to dispose of a family home etc.**
- **What is the cost to recover if there is default – time and money**





# The Challenges Bankers Face

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- **Inadequate equity or personal investment.**
- **Inadequate Planning:** MSME's often believe that the business plan is for the bank. It is your map of what you want to do, where you want to go, who will take you there, how you are going to get there and what will be the results when you get there. Review your plans to see if things are working and if it is not, adjust as required.
- **Weak Credit information:** – this is now being addressed with the credit bureaus.





# The Challenges Bankers Face

- **Inadequate cash in the business for on-going operations resulting in loan delinquencies, overdraft issues.**
- **Inability to receive or verify financial information:**
  - **Financial records and financial projections are vital for us to determine a company's ability to service the debt.**
  - **Very often we find that funds are not even channeled through an account!**





# The Challenges Bankers Face

- **Inadequate Leadership/ Management structure/Succession/ Absentee Business Owners:**
- **Business revolves around one person. He/she had the idea and the skill required but as the business grows the HR, IT, Facilities, Sales etc., become important. The risks in the business now become more than a potential downturn in the economy or the sliding dollar. It's having the right persons in the right positions, managing receivables and payables, servicing the equipment, managing procurement and customer service quality.**



# The Challenges Bankers Face

## General Management Issues:

- **Lack of deep understanding of the industry, the competition, the “next practice”**
- **Inability to Differentiate Yourself**
- **Misunderstanding of cash vs. profits**
- **Poor credit extension practices: receivables management is critical**
- **Rapid expansion**
- **Optimism Vs. Realism**







How Will We Change the  
**Status Quo?**



# How Will We Change the Status Quo?



- **Relationship banking – personalised and advisory service required by this segment**
- **Innovative Product Development – Some of these include:**
- **Internet banking platform – example Global Access at First Global Bank provides a cash management system which affords our customers the ability to move cash easily through the commercial banking sector. This allows them to pay suppliers (employees and creditors) wherever they bank, remotely.**



# How Will We Change the Status Quo?



- **Seek Accounts that suit your needs - Pay as you Go checking account - allows the customer to pay only for cheques drawn on account as opposed to a regular checking account which attracts a minimum monthly fee along with the cost of the individual cheque.**
- **Easy Business loans - This addresses one of the major challenges experienced by Micro and Small companies which face the challenge of the lack of audited financials. Customers are able to access up to \$15M on presentation of current account statements; and up to \$30M on presentation of unaudited/in-house statement... *conditions apply!***



# How Will We Change the Status Quo?

- **DBJ loans – FGB and other Banks continue to work closely with the DBJ to provide financing specifically to this group. They have sought to address the collateral challenges through their partial guarantee facility (The Credit Enhancement Fund) which provides security for facilities to the lower of \$15M or full 50% of the loan amount.**





# The Call to Action

New Things MSME's Can Do

# The Call to Action – New Things MSME’s Can Do

- **Plan for your needs ahead of time – at least one year – do a budget and a plan. Include cashflow projections which show your worst case scenarios. Negotiate with Financial Institutions when you are not “desperate”**
- **Keep accounting records**
- **Put your sales through your bank account**
- **Ask questions of your Financiers**
- **Have financial options... seek out alternate options, always have a back up plan**



# The Call to Action – New Things MSME's Can Do

- **When you have financial challenges – call your Banker**
- **Employ capable persons**
- **Cash is King!! Manage your cashflow**
- **Set aside funds from the daily operations...save**





# The Call to Action – New Things MSME's Can Do

- **Where possible place funds in an interest bearing account**
- **Negotiate overdrafts for emergency needs... as well as day to day operating needs**
- **Manage your financial costs... do online banking... receive your funds electronically... and pay electronically... saves time, improves record keeping, and allows for easy reconciliations.**



# The Call to Action – Things THE BANKS Can Do

- **Creative Financial Solutions that match the needs of the Sector**
- **Offer sound advice and possible options**
- **Improve Responsiveness**
- **Simplify Requirements**
- **Take the time to understand this sector more**





THANK YOU!

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