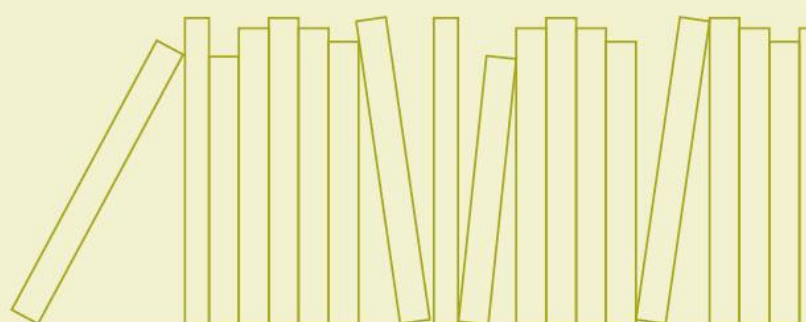


Economic Commission for Latin America and the Caribbean

ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN



Report on the expert group meeting examining trade financing for small and medium-sized enterprises in the Caribbean





Economic Commission for Latin America and the Caribbean
Subregional Headquarters for the Caribbean

An examination of trade financing for small
and medium-sized enterprises in the Caribbean
22 November 2019
Port of Spain, Trinidad and Tobago

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**REPORT OF THE EXPERT GROUP MEETING EXAMINING
TRADE FINANCING FOR SMALL AND MEDIUM-SIZED
ENTERPRISES IN THE CARIBBEAN**

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A. ATTENDANCE

1. Place and date of the expert group meeting

1. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) convened an expert group meeting to discuss the findings of the study “An initial examination of trade financing for small and medium-sized enterprises in the Caribbean” at the ECLAC subregional headquarters for the Caribbean on 22 November 2019 in Port-of-Spain, Trinidad. The meeting was primarily conducted via WebEx.

2. Attendance

2. Representatives from the following institutions participated in the EGM: Chamber of Commerce, Saint Kitts and Nevis; Ministry of Foreign Affairs, Department of Foreign Trade, Guyana; and Ministry of Trade and Industry, Trinidad and Tobago.

3. This meeting was chaired by the Coordinator of the Economic Development Unit of ECLAC subregional headquarters for the Caribbean, Sheldon McLean. The study findings were also presented by Sheldon McLean along with consultant and co-author Don Charles.

3. Agenda

- Welcome remarks and introduction
Machel Pantin, Economic Affairs Assistant, ECLAC subregional headquarters for the Caribbean
- Overview and presentation of the study
Sheldon McLean, Coordinator, Economic Development Unit, ECLAC subregional headquarters for the Caribbean
- Plenary discussion on presentation and study
Sheldon McLean, Coordinator, Economic Development Unit, ECLAC subregional headquarters for the Caribbean
- Closure of the meeting
Sheldon McLean, Coordinator, Economic Development Unit, ECLAC subregional headquarters for the Caribbean

B. OUTLINE OF PROCEEDINGS

1. Opening of the meeting

4. The Economic Affairs Assistant at ECLAC Subregional Headquarters for the Caribbean welcomed and thanked all meeting participants. He gave a brief rationale for undertaking the study and then introduced the two authors.

2. Overview and presentation of the study

5. The EDU coordinator presented a summary of the draft study on “An initial examination of trade financing for small and medium-sized enterprises in the Caribbean”, which sought to explore the reasons for the limited access to finance for this business subsector, as well as present policies intended to treat with

these challenges. The presentation began with an overview of the current macroeconomic situation of the Caribbean, which features high debt and low growth along with a declining trend in private sector loans. This provided the context within which to view the challenges of SMEs in the Caribbean.

6. SMEs face several obstacles which prevent them from obtaining finance that could help expand engagement in international trade. In fact, approximately 87% of the region's SMEs are unable to export their goods and services due to a number of reasons, including lack of access to finance. While big businesses can easily borrow from banks and other established financial institutions, SME's are often unable to access these facilities. Some of the factors that restrict lending include unavailability of physical capital, restrictive lending regulations, macroeconomic weakness and inadequate lending terms.

7. The policy options discussed during the presentation included the implementation of government guarantee programmes, mutual guarantee schemes, the provision of government loans, the reform of the collateral lending system, endorsing the use of the securities market, and encouraging the use of lease financing, microfinancing, and reverse factoring.

8. One notable policy prescription identified during the presentation was the reform of the collateral lending system. Rather than continue the current system where only fixed assets can be pledged as collateral, it was suggested that governments in the region can introduce legislation which allows moveable assets to be used as collateral. This can be complemented by the formation of a registry of moveable assets and a secured transactions framework.

3. Plenary discussion

9. During the plenary discussion, participants raised a number of issues, starting with the need for market intelligence. SMEs often find it difficult to start exporting or to expand exports due to several obstacles such as regulatory requirements, technical standards, phytosanitary measures and logistic requirements. Therefore, market intelligence is important to take advantage of the opportunity provided by several trade agreements. It should be considered as a public good and distributed free of charge, as it can be very costly for SMEs.

10. Lack of knowledge about available financing options is another challenge. In Guyana, there are at least two to three government schemes for SMEs to get access to financing, but SMEs are not fully aware of those schemes. For example, Guyana has an initiative to deal with collateral issues with government involvement, but the initiative has not been successful due to the lack of understanding on SMEs side.

11. Participants pointed out a number of measures to increase access to finance in a few countries that were not captured in the study. In Saint Kitts and Nevis, the Central Bank will start a partial credit guarantee scheme next year which will provide working capital. In Trinidad and Tobago three financial interventions geared towards export-oriented firms, were brought up: (1) ExporTT provides grant fund facility for export-oriented MSMEs to acquire capital equipment and inputs. The target sector was expanded to include financial services, maritime sectors, aviation, fish and fish processing, software design, agriculture and agro-processing and manufacturing subsectors; (2) The government also has TT\$2 million co-financing facility to support firms with non-tariff issues such as product registration and product testing; and (3) there is also a TT\$500 thousand research and development facility to help exporters use innovative technology and develop innovative products or innovative production systems.

12. The tendency in commercial banks towards risk aversion hinders their ability to meaningfully engage SMEs and collect data necessary to make lending decisions. High opportunity cost of SME lending is another constraint, because commercial banks can easily invest in less risky investment opportunities such as T-bills, bonds, car loans or mortgages. The meeting suggested to expand the coverage of credit rating to

SMEs, so that commercial banks can get proper indicator of investment risk of SME lending. In order to reduce moral hazard in a government guarantee scheme, credit history should be shared between banks. Trinidad and Tobago has that arrangement but it was suggested to investigate if this was common in the rest of the Caribbean.

13. Participants reminded the authors that credit unions also play an important role in providing financial resources to SMEs because it is much easier to get loans from credit unions this subsector. Group lending was raised as an important mechanism to assist members in satisfying collateral requirements and lowering default risk. The meeting considered the example in Bangladesh of the Grameen Bank which provides micro finances to groups of borrowers. The groups are liable for the loan and act to ensure that the individuals repay loans.

14. Emphasis was made to include details on the use of technology to enhance trade for SMEs. It was noted that technology offers an opportunity to improve innovation in trade, boost ability to export, assist with collation and cross-referencing of market information, reduce bureaucracy and provide solutions to the issues associated with de-risking. An example of successful use of technology for facilitating trade financing is the company WiPay, particularly the opportunities they offer for settlements of payments.

15. It was suggested that it would be important to explore mechanisms for tapping into the Caribbean diaspora to secure financing for SMEs to fill the financing gap not satisfied by commercial banks. The benefits of such financing can be two-fold as it offers diaspora investors higher rates of return while providing essential financing opportunities for SMEs. Diaspora investment mechanisms that can be explored include the issuing of diaspora bonds, offering stock exchange facilities for SMEs open to the diaspora, and joint ventures between diaspora investors and SMEs. One limitation in using diaspora bonds as a mechanism for raising SME funding is the high minimum investment threshold which has the potential to limit the investor pool.

16. An explanation of the data collection methodology used for identifying main sectors of SMEs was requested and it was suggested that the paper use a consistent definition of SMEs, since definitions differ from country to country. Participants also mentioned that reference should be made to the informal economy, since a significant number of SMEs operate in the informal sector. This impacts access to financing, tax revenue and a number of other issues. Participants also pointed out gender considerations. They referred to a study by the Inter-American Development Bank, which found that women-owned businesses have more difficulty accessing finance and are more likely to fail. Given the challenges experienced with trade in goods, greater focus should be placed on developing trade in services among SMEs. A recent example of this would be the hosting of international events such as CARIFESTA, which could offer more opportunities for the service SMEs.

4. Closing remarks

17. The coordinator of the EDU of ECLAC thanked participants for their contribution and asked them to email any further information or comments they may have. He then concluded the meeting.

Annex I**LIST OF PARTICIPANTS**

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