

SME HIGH LEVEL SYMPOSIUM

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What institutions do we need to develop?

I've been here a fair while and I don't make any claim to have all the answers and I won't try to be too prescriptive but what I would like to go through are some of the challenges that everybody knows that we've faced and to talk about some of the, perhaps, quality tiff areas that we would look to in financial institutions. Dispensing development finance for SME's and some of the quantitative or the types of instruments that are required.

The question was what institutions do we need to develop? Clearly, quite a large expansive analysis or framework for analysis, so I would just focus it on that particular question.

We have very small markets. We have markets where the inter-connectivity is less, I think, than most people would desire on all levels. Everything from:-

- the need for a high speed internet;
- the frequency of transport;
- the types of transport that are available;
- telecommunications.

There are lots are things that could need improvement. And, of course, competition, to some extent I can make the analogy with Europe except, of course, the countries are much larger but, again, this need, if everybody can view, if there's a benefit in regional integration then you'll move towards it.

If you consider you're in competition, you can do better than the next guy. If you stay on your own, then you will stay on your own because it's in your own interest.

The other big thing in the Caribbean is you're subject to natural hazards. Don't matter how well organized you are, if you get hit by a hurricane that has a serious impact on your business.

I think when we were talking on the earlier question, "Are SME's in the Caribbean sustainable?" I think Anthony Pierre went through, "What are the qualities in an SME that you need to assure they are going to survive?", and when we look at SME financing institutions, I guess we take a similar sort of framework. You know, what they need to be sustainable because we want to finance sustainable institutions and they have to be sustainable, whether they're delivering equity, venture capital, whether they're just providing lending or whether they're providing something in between.

So, what do we need? Well, the first thing I think we need are institutions that have a good capital base. I think that's essential because they are exposed to higher risks in the region to some extent and the business sector that they're addressing.

The need to be technologically savvy and the need to have a good know-how and it's particularly that that is key to a successful SME financing. This ability to, at least, have some sort of seamless access to the service provisions that are needed by SME. It needs to be really quick. The need to monitor your clients; that need to recover when there are problems. It's not something that you can just let go. You have to be on top of it.

- The need for independence of thought;
- The need to be free from political interference;
- The need to be free from persuasions of local business elites, and special interests groups.

It needs to be efficient, it needs to be profitable. It needs to have sufficient absorption capacities. Can it actually cope on the small levels? And that means, particularly, staffing and its training has to be good, has to have quality people, has to have people that are well-trained, and I think,

generally, the institutions have to be focused. We mentioned this before. We cannot be everything to everybody. We have to focus and be good and to what you're good at.

It doesn't mean you have to be narrowly focused. As far as we're concerned, we prefer to have, where possible, we like at least the sub bridge approach. Some of the larger countries, there you can have your works. The population is sufficiently large. But, if we can give institutions that have a network that reaches beyond individual countries, we would see a lot of strength in that. There's a possibility of seeing what has happened in other countries. Learning the demonstration impacts of what works. We have a couple that we think work quite well.

In Trinidad, clearly, we have DFL. In the Dominican Republic, we have some really successful SME financing, and I think if we can take institutions and encourage them to spread their success then that is one of the things that we would like to encourage.

What type of actual funding should they be providing? Well, we heard of the need for equity. We heard of the views expressed there. It's a very specialized institution. I don't think we can mix them.

I think we've heard of the need for plain lending. We've heard of the need for trade finance, leasing, factoring, and working capital financing. I think these are some of the basics. I think we actually need to concentrate on some of the basics.

We need institutions that understand the aspects of local business culture but at the same time, what I think is terribly important, goes back to Prakash's comments. We need institutions that can actually look forward, in the same ways that SME's have to look forward because we're clearly in a changing world.

The preferred access to markets in Europe is dying. We have energy prices that are shooting through the roof. We have countries that are heavily dependent on oil imports.

It's not only the clients that have to consider what's happened but it's the financial institutions that are lending to them that really have to use their crystal ball as much as they can, to imagine what the Caribbean is going to be like.

- What are its strengths?
- What are its weaknesses?
- What are the opportunities?
- What are the threats?

The simple swat test:-

- Where are we going?
- What are the options?

That need for the financing institutions to be able to look ahead, I think, is really key.

There's another problem in the Caribbean and that's just information and the problem of pricing SME's with limited information available.

So, what would I like to see grow? I would certainly like to see, I haven't thought so much of SME ratings. If that's possible, I would like to hear more about it but I would like to see Credit Registries. I would like to see the information available. I would like to see debate on whether it should be public or private. I would like to see more sub-regional financing institutions rather than national ones.

I think, probably, we would like to see more private sector involvement and, particularly, at this sub-regional level, where we think that maybe the private sector is in a position to judge what is going to be successful because that's what we need; to be sustainable, you need portfolios that are solid.

- We need institutions with good portfolios.
- We need institutions that are best placed to make a judgement in a changing market.

Thanks very much.