

# **SME Development**

---

**Trinidad and Tobago Chamber  
of Industry and Commerce**

**3<sup>rd</sup> Annual Pre-Budget Panel Discussion**

**15 July 2013**

# Current SME Landscape

- SMEs are the engine of growth
  - 18,000 SMEs in T&T
  - Employ 35% of workforce
  - Contribute 28% to GDP
- Growth and development of SME sector critical for economic diversification and sustainable employment
- But the sector faces many challenges

# Major hurdles to growth



- Access to finance
  - Despite highly liquid banking sector, 70% of start-up capital come from personal savings/Only 11% from commercial banks
  - Bias towards mortgage and other fully secured lending
  - Communication gap between SMEs and providers of capital
  - Poor business practices

# Major hurdles to growth (cont'd)



- Limited networks for marketing, and operational and technical support
- From investors' perspective
  - Lack of liquidity is a problem – exit strategy (74%)
  - Lack of research coverage (52%)
  - Differences in accounting standards and or poor quality of financial disclosure (38%)

# Need for a holistic approach



- National SME Policy
  - Clear roadmap for development
  - Facilitates alliances and collaboration with key stakeholders
  - Encourages innovation
- More developed infrastructure
  - Business Incubators
  - Venture capital/Private Equity
  - Angel Investor Network
  - Long term capital

# Improving access to finance for SMEs

- Admission that there is a problem
- Seek out new initiatives to open the channels of financing
  - Tackle existing barriers
  - Encourage alternate sources of funding
- Seek to bridge the gap between providers of capital and seekers of capital

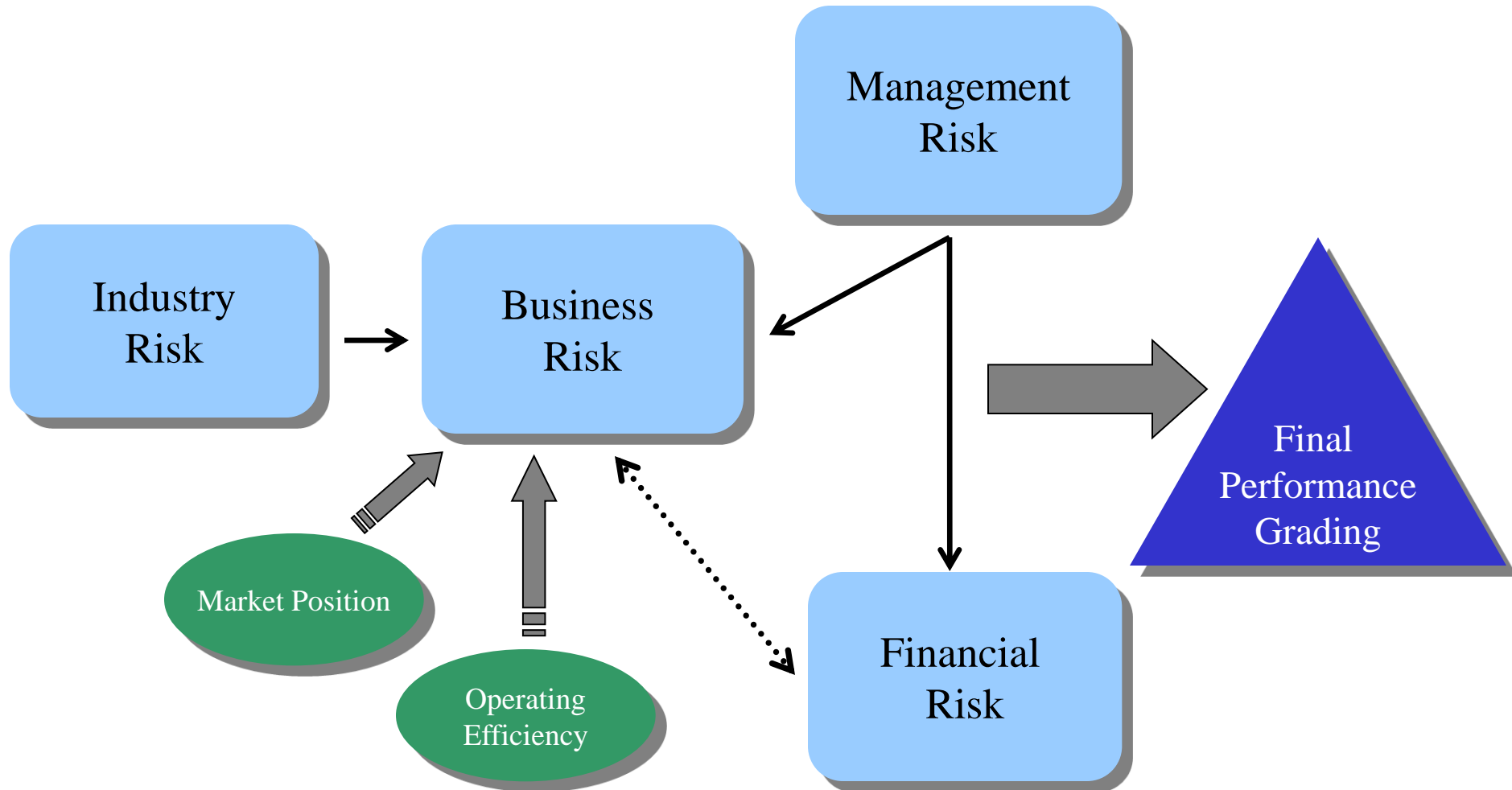
# SME Ratings

– a tool to help bridge the gap



- An effective tool to help SMEs improve their credit profile and become more investment ready for commercial and alternate funding
- Measures the SME's business and financial performance and its ability to sustain or improve its performance
- Each rating is accompanied by a comprehensive credit report that highlights the firm's key strengths and weaknesses

# SME Ratings Framework





# SME Grading Scale

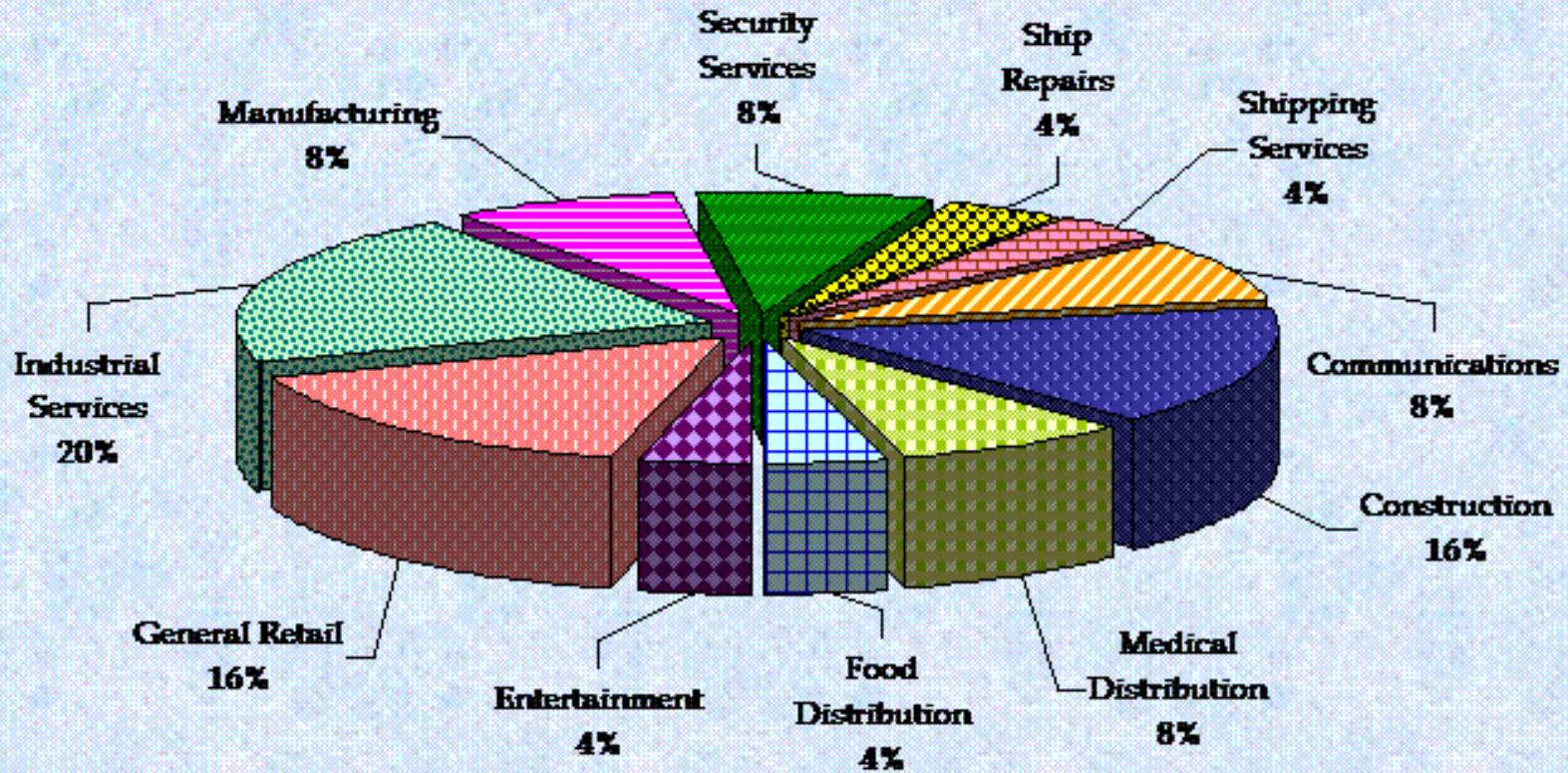


Grade	Definition	Description
SME 1	Excellent	Displays excellent business and financial performance and has excellent prospects for sustaining this performance
SME 2+	Strong	Displays better than average performance with reasonable prospects for improving its performance
SME 2-	Strong	Displays better than average performance with reasonable prospects for maintaining its performance
SME 3+	Average	Displays average performance with reasonable prospects for improving its performance
SME 3-	Average	Displays average performance with reasonable prospects for maintaining its performance
SME 4	Below Average	Displays less than average business and financial performance and has below average prospects for improving or even sustaining its performance
SME 5	Weak/Vulnerable	Displays weak performance and is highly vulnerable with low prospects for maintaining viability

# Pilot SME Ratings Project in T&T



**Distribution of SMEs by Industry**



# Success Stories



- SMEs from the pilot project have been able to use their ratings to:
  - Renew existing credit lines with their bank
  - Access new loans from the bank
  - Negotiate lower interest rates
  - Attract a joint venture partner
  - Negotiate credit from international suppliers
  - Procure new contracts
  - Generally improve business operations

# Risk-based pricing of loans



Grade	Definition	Pricing
SME 1	Excellent	Prime
SME 2+	Strong	Prime + 0.50%
SME 2-	Strong	Prime + 0.75%
SME 3+	Good	Prime + 1.50%
SME 3-	Good	Prime + 1.75%
SME 4	Below Average	Prime + 2.75%
SME 5	Weak/Vulnerable	?? (Prime + 4.00%)

- A SME Ratings Programme supported by the Government can accelerate the diversification effort, strengthen the performance of the sector, create sustainable employment and generate additional foreign exchange earnings



# Explore other new ideas/products/services



- **Are banks best suited for SME lending?**
  - Do we need new financial players tailor-made to boost small businesses
- **No listings yet on the SME Exchange**
  - What do we need to do differently to get the SME Exchange going?
- **Many entrepreneurship programmes**
  - What's the success rate in creating new entrepreneurs?

# THANK YOU

---

Caribbean Information & Credit Rating Services Limited

Contact: Wayne Dass

[wdass@caricris.com](mailto:wdass@caricris.com)

868 681 8002 (mobile)

868 625 3007 (office)