

SPEAKING NOTES

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Launch of the 1st MSME Business & Credit Risk Ratings in the
Caribbean

Technology Innovation Centre, UTECH

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GREETINGS

INTRODUCTION

- There are very few occasions that give me as much pleasure as this one, because of the importance of the tool being launched today, to the small business sector in Jamaica.
- For more than 100 years Scotiabank Group Jamaica has seen the development of small businesses as a priority. Every day I meet people that recount the fact that 20, 30, 40 or more years ago it was Scotiabank that believed in them and their dream.
- Nowadays it is very fashionable to say that small business is the engine of growth for the economy. Research in Jamaica and around the world supports this assertion. In today's challenging economic reality, it is even more important that we do everything we can to support the small business sector.

- For this reason, two years ago we established a Small Business Banking Unit to intensify our focus on the sector. Patsy Latchman-Atterbury was appointed Vice President, Small Business Banking; and over the past 24 months she has put together a team of 30 Business Banking Officers across Jamaica, dedicated to servicing our small business customers. We continue to develop new products and services for the sector, and have formed partnerships with organizations, like the MSME Alliance, that are important in helping to expand small business in Jamaica.
- However, when we started the Small Business Banking Unit two years ago, we recognized that it would take more than just new products and services and dedicated Business Banking Officers to really make a difference. We understood that more research was required to identify the specific needs of the sector.

- To address this need, in 2008 we launched the Scotiabank Chair for Entrepreneurship and Development, with a \$32.5 million endowment over 5 years. We expected that the Chair would be instrumental in leading the research, training and capacity building that the sector so desperately needed.
- I am therefore very pleased to be here today at the launch of the MSME Business & Credit Risk Rating instruments; tools which will help to address some of the main challenges facing SMEs.
- I'm also delighted that these tools are the result of collaboration between the private sector, academia and an international lending agency. It is only through this type of group effort that we will achieve the changes we need to grow the Jamaican economy.

Scotiabank's Commitment to the SME Sector

- When Scotiabank launched its Small Business Banking Unit, we decided up front that we needed to approach the small business sector differently than the larger commercial sector.
 - To begin with, we identified and trained Business Banking Officers across our branch network with the skills necessary to understand and respond to the unique needs of small business owners,
 - We implemented a shortened credit adjudication process for most small business loans, recognizing the fact that most small businesses do not have the quality of information of larger enterprises,
 - We launched a Small Business Credit Card product to address the needs of the small business entrepreneur.

- To support our new focus on Small Business Banking, in 2008 we launched “***The Scotiabank SME Development Program***”; a \$400 million fund of lower interest rate loans specifically targeted at the sector.
- One of the more innovative parts of this Program was our \$100 million “**Scotia Running Start**” program to finance new ventures. Traditionally, banks find it difficult to finance new business start-ups due to the lack of historical financial results and difficulties obtaining and evaluating professional business plans.
- With Scotia Running Start, we tried to overcome these challenges through business plan presentations. We now need to evaluate the success of the program, but from it we should gain valuable learnings to help us better assess new business start-ups in future.
- In addition to Scotia Running Start, the Scotiabank SME Development Program included \$200 million of special loans for expansion of existing small businesses and a

\$100 Million provision for members of the MSME. To date we have approved \$ 229 million out of the \$300 million available to non-members of the MSME alliance.

- **Today, with the launch of the Business & Credit Risk Rating tools, I'm happy to announce that we will formally open the \$100 million available to the MSME Alliance based on the ratings programme being launched.**

The Challenge Facing Small Business Today

- Notwithstanding all the initiatives Scotiabank has launched and all the low interest loan programs, the fact remains that a lot of entrepreneurs find it difficult to get access to capital or credit. This is one of the biggest frustrations I hear from Small Business owners when I travel around Jamaica.

- While I acknowledge that we at Scotiabank Group have a lot more we can do to improve access to lending for the sector, there are a lot of real challenges that the Small Business face that are within the control of the sector.
- The reality is that an idea alone, or an entrepreneurial spirit alone, is not enough to ensure the success of a Start-Up Business. A successful Small Business needs;
 - Management and supervisory skills in order that the quality of the product and the level of customer service does not decline when the Entrepreneur grows and hires additional employees.
 - Marketing and Selling skills in order that the business can expand its customer base beyond those friends and acquaintances that typically form the Entrepreneurs initial customers.
 - Financial management skills in order that the Small Business can manage its cash flow to meet its obligations and can prepare proper financial statements to confirm profitability and cash flow.

- Information systems so that the Entrepreneur is able to see where the business is going and what is happening when things don't happen as expected.

The Impact of the Credit Risk Rating Programme

- We expect that the credit risk rating programme that we are here to launch today will go a long way in addressing these challenges. The software will help entrepreneurs to analyse their business in a scientific way, so that they can pinpoint their strengths and weaknesses. This will make things much easier when they approach financial institutions for funding, because loan officers can make decisions much more quickly.
- More importantly, businesses can use the ratings as a guide to identify high risk areas and improve these even before they seek funding.

Conclusion

- We realise that the MSME Business & Credit Risk rating tool represents a major cultural change for SMEs in Jamaica. And like all attempts to change culture, there will be a natural resistance. However we really do not have a choice, if we want to realise the enormous potential in this sector. If we are to grow entrepreneurship we must move from an informal approach to a more structured one, so that we can take advantage of the many funding and development opportunities available both locally and internationally.
- At Scotiabank Group, we remain committed to the development of the Small Business sector in Jamaica. We will continue to invest in our Small Business Banking Unit to ensure;
 - Well trained and equipped Business Banking Officers are available to counsel our Small Business customers,

- A competitive suite of day-to-day banking, savings and borrowing products are available to meet the unique needs of the sector, and
 - An understandable and efficient loan adjudication process is in place to assist Entrepreneurs in accessing credit when it is needed.
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- With today's launch of the MSME Business and Credit Risk Rating tools we are confident that, as a country, we will take an important step forward in supporting Small Business to realize its potential as an engine of growth in Jamaica's productive sector.