

Introduction

Mr. Master of ceremonies, specially invited guests, ladies and gentlemen, good evening, I am Marcus James; founder and Managing Director of Access Financial Services Limited.

My presentation this evening will focus on;

- The different financing options available to the Micro and Small business sector
- The background and performance of Access Financial Services Limited, as an entity providing financing to the sector
- The importance of the MSE sector to the Jamaican economy
- The financial products offered by Access to meet the need of the sector and
- The benefits of choosing a financial entity like Access for your micro and small business financing needs.

I will also provide some tips for micro and small business operators regarding loan applications, and some recommendations to facilitate growth and the efficient operation of the sector.

The History of Microfinance

The practice of micro lending, or micro finance, has been traced to the 18th century when credit cooperatives and charities made loans to young entrepreneurs. A notable example is a fund created by Johnathan Swift, an 18th century Irish novelist and author of Gulliver's Travels, who donated £500 to provide interest free loans to industrious tradesmen who were required to make small weekly payments of a couple shillings.

The modern father of micro lending is Muhammad Yunus, who in 1976 founded the Grameen Bank in his native country of Bangladesh. He was the first micro-lender to use the solidarity lending approach which prescribes that unrelated borrowers form themselves into groups and essentially conduct an analysis of each other and approve their own loans. This approach levers social capital present within the group structure thereby lowering the cost of loan administration and delinquency management. It also facilitates the granting of loans to the very poor without the use of collateral.

As of August, 2007, the Grameen Bank had 2,459 branches covering more than 79,500 villages and serving more than 7.27 million borrowers. The Bank has disbursed in excess of 6.4 billion US dollars since it was formed in 1976 and boasts a rate of recovery in excess of 98%.

The importance of micro-lending was highlighted in 2006 when Muhammad Yunus and the Grameen Bank won the Nobel Peace Prize for their efforts to create economic and social development using a bottom up approach. Additionally Bill Gates, through the Gates Foundation, has formally made investments in microfinance part of the foundations portfolio of investments which are geared at reducing inequities around the world.

Universally, the micro and small business sector is very dynamic. Lending methodologies range from loans granted to individuals to the village banking methodology practiced by the Grameen Bank.

Internationally, micro finance products include micro loans, micro leasing, micro savings and investment products, micro insurance to name a few.

What do Financial Institutions Look for in an Applicant

What do financial institutions look for in their clients? Firstly financial institutions require that clients have an in depth knowledge of the industry within which they operate, and more importantly their business. Typical financial institutions base their lending methodology on some variation of what is known as the three C's of Credit, more specifically:

- (1) Character,
- (2) Capacity
- (3) Collateral.

Character, in my opinion is the most important. It speaks to the integrity of the applicant and their willingness to honor their obligations, including loan payments. If a financial institution believes that an applicant is of unsound character it is likely that the loan will not be approved despite how good the proposal may be or how viable the project. Entrepreneurs or individuals wishing to start their business, or take their business to the next level must ensure that they begin by building and protecting their reputation.

Capacity speaks to the viability of the project or the ability of the business to repay the loan. Financial institutions measure this capacity by examining the cash flows associated with the project while factoring debt repayment requirements. Sensitivity analysis is also conducted to account for potential variations in the business and economic environment. Financial ratios such as leverage and liquidity are used for this purpose.

Collateral is the level of security that is typically offered by the entrepreneur to provide the financial institution with a safety net in the event that the project fails and the loan goes into default. Collateral is typically an asset that is pledged by the borrower that will be liquidated in the event of default on the loan.

Access is different from typical lending institutions in that that our loan products are geared towards the MSE sector and facilitating growth within the sector. Emphasis is therefore placed on a person's history and character, rather than collateral, making it easier for entrepreneurs to access loans and grow their businesses.

Background of Access Financial Services Limited

ACCESS FINANCIAL SERVICES LIMITED is a leading provider of micro and small business loans and personal loans. The company began its operations in 2000 from its head office located at 41b Half-Way-Tree Road in Kingston. The company now employs 52 members of staff and now operates from 7 locations in;

- Kingston
- Montego Bay
- Spanish Town
- Mandeville
- Morant Bay
- Ocho Rios and
- Portmore.

Since inception Access has disbursed in excess of J\$1.1b in loans to over 26,000 clients primarily through its two main loan products MicroBiz and Payroll Express. The graph presented provides an indication of the level of loan disbursements on an annual basis since inception.

Access Business Loan Client Demographic Information

For this presentation we conducted an analysis of our business loans that were disbursed for the past year which revealed the following results.

- The majority of our clients fall within the 36 to 45 age group
- 77% of our business loan clientele are female. This is in keeping with international norms as most micro borrowers tend to be female; 97% of the Grameen Banks borrowers for example are female
- The majority of our clients reside in St. Catherine
- 48% of clients own their own home
- 68% of the loans were issued to customers involved in trading
- 94% of the loans provided businesses with working capital support and
- 60% of borrowers had been in business for a period in excess of 3 years

Definition of Micro and Small Businesses

What exactly are micro and small businesses? While the definition of micro and small businesses differ from country to country. The economic and social survey published by the Planning Institute of Jamaica defines a Micro Business as “a business that employs less than ten employees. Micro enterprises carry an asset base, excluding land and building, of not more than US\$10,000.00 and have an annual turnover of less than US\$125,000.00. Small Enterprises carry an asset base, again excluding land and building of between US\$10,000.00 and US\$100,000.00 and have an annual turnover of between US\$125,000.00 and US\$1,000,000.00.”

Typically micro businesses are owner managed and employ between 1 and 2 persons; small enterprises on the other hand are usually registered limited liability companies or partnerships.

Importance of the Micro and Small Business Sector to the Jamaican Economy

Micro and small businesses are considered to be the primary incubator of entrepreneurial talent. MSEs provide a channel for economic activities for numerous employees who have been laid off or made redundant during fiscal tightening or an economic downturn.

Micro and small businesses form the base of employment for most economies throughout the world; they are recognized as making a vital and significant contribution to economic development, the creation of jobs, and they form a critical component of the market economy because of their flexibility, their ability to fill consumer needs rapidly, and their ability to adjust quickly to market forces.

While Fortune 500 companies get most of the publicity in the United States, small businesses, which are defined in the United States, as businesses which employ less than 500 persons, account for 52% of all workers and contribute in excess of 50% of GDP. Institutions with revenues under US\$1m represent 15% of the US economy and firms that employ less than 20 persons account for in excess of 13% of all US workers.

In Jamaica the micro and small business sector accounts for approximately, 33.9% of total employment and 33% of the total GDP. In my opinion these figures are understated as many micro and small businesses operate outside of the official economy and are therefore not captured in government statistics.

Despite the importance of the sector to economic development and job creation, funding for the sector was very limited up until 2000 as traditional financial entities deemed the sector too risky to provide it with loan or equity funding.

Even today the venture capital market in Jamaica is still underdeveloped. In 2000 however, lending institutions such as Access Financial Services were formed with the primary goal of facilitating growth in the MSE sector through the provision of primarily debt financing.

Access Financial Services - Micro Loan Products

Access Financial Services offers a wide range of products that are marketed under the names

- Microbiz
- Megabiz
- Access Cash
- Access Payday
- Payroll Express and
- Access HP

Microbiz

Microbiz is the company's micro business loan product and is available to individuals who operate small and micro business and may be used by the entrepreneur for working capital support or to facilitate the purchase of fixed assets. Loan sizes range from \$5,000.00 to \$350,000.00. Microbiz loans are used by micro entrepreneurs involved in Agriculture, Trading, Manufacturing, and Service sectors.

To qualify for a Microbiz loan applicants should have been operating a viable micro business, for a period of not less than one year. To apply for a Microbiz loan applicants are required to provide the following documentation

- 2 Passport Sized Pictures
- Taxpayer Registration Number
- Valid Identification
- 2 Character Reference Letters
- Utility Bills

Once these documents have been provided the applicant will be called in for an interview with a Credit Officer, after which a decision on whether or not the loan has been approved will be made. If the application is successful then disbursement will take place within a few days after the loan documentation has been executed by the borrower.

Megabiz

Megabiz targets small and medium enterprises involved in light manufacturing, production of business services, agriculture, agro processing and the production of craft items. Loan sizes range from \$350,000.00 to \$3,000,000.00. The interest rate on Megabiz is 10% per annum with a maximum repayment period of 48 months.

To qualify for a Megabiz loan, applicants should have been operating a small business for a period of at least a year and the number of employees should not exceed 50. Loans may be made to new enterprises if :

- The entrepreneur has submitted a feasible business plan
- There are clearly established markets for goods or services to be generated by the enterprise

- The entrepreneur has experience in the business he/she wishes to pursue and
- There is evidence that the entrepreneur has received some level of business management training from a tertiary institution.

It should be noted however, that this facility is not intended to refinance existing loans or to finance petty retail activities.

To apply for a Megabiz loan, applicants are required to provide

- 2 passport sized pictures, Taxpayer Registration Number for both the borrower and the business,
- Business Registration Documents,
- 2 Character Reference Letters, Utility Bills and
- Audited Financial Statements, and a Business Plan with at least 3 years projections.

Access Personal Products

Access Financial Services Limited also provides a wide range of personal loan products that may be used for a variety of personal and business purposes.

Access Cash

Access Cash, Dubbed “cash in a flash”, is a same day service and boasts the quickest turnaround time for matters that require urgent monetary attention. Access Cash allows individuals who have been employed for a period in excess of six months to borrow up to \$60,000.00¹ for a maximum loan term of 6 months.

¹ Conditions apply

Access Payday

Access Payday is also a same day service; it offers the customer an advance until the next payday allowing customers to access up to 60% of his/her net salary. Applicants must be on a monthly pay cycle and should have been employed for a period of at least 6 months.

Payroll Express

Payroll Express is the company's flag ship personal loan product. It allows customers to borrow loan amounts between \$5,000.00 and \$350,000.00. Applicants must be employed for at least 1 year and are allowed a maximum repayment period of 24 months.

Access HP

- Access also offers Hire Purchase through select retailers allowing customers to finance the purchase of consumer items at attractive terms.

Advantages of Borrowing from Access Financial Services

While Access is now classified as a medium size business we began operation as a micro business with 2 employees. The progression allows us to understand the needs of the micro and small business sector and as such we have tailored our products and environment to make operators within the sector feel at home. At Access our loan products provide our customers with the following advantages.

- Competitive interest rates
- Short turn around time

- Access to larger loan amounts compared to similar institutions and
- A comfortable and relaxing non-bank environment.

Claudette an actual Access customer, recently made the following comment. She said “Access has helped me so much and my standard of living has improved significantly. My business has grown and I have been able to put my child through school. If it was not for Access, a lot of things would not have been possible for me. I was able to purchase my road license, two buses and maintain them. I keep going back for more loans and consider myself to be a loyal customer. Access is just great and the staff is so professional and courteous.”

5 Common Mistakes of Micro and Small Business Owners

While statistics vary by industry, generally speaking approximately 60% of all business start ups fail within the first 5 years of operation. For those individuals wishing to start a business or those who are already operating a Micro or Small Business let me offer the following advice. Firstly, avoid known pitfalls. There are common mistakes that micro and small business owners make and steps should be taken to avoid them. Common mistakes include

- (1) Insufficient planning prior to starting the business or to move the business through different stages of the business cycle,
- (2) Poor record keeping,
- (3) Insufficient cash reserves to sustain business operation and growth,
- (4) Lack of Financial Management and
- (5) Poor pricing of services or products.

10 Tips for Micro and Small Business Owners

In order to succeed at any business, Entrepreneurs should follow these 10 tips:

- (1) Research and assess the growth potential within your industry
- (2) control costs and price your services and products appropriately
- (3) Develop and benchmark your performance against a sound business plan
- (4) Don't be afraid to seek advice from knowledgeable sources
- (5) Network in the community and in your industry
- (6) Advertise and ensure that your communication reaches your target market
- (7) Reassess your business needs on a regular basis
- (8) Manage your cash flow and invest excess cash for a rainy day
- (9) Develop a sound business reputation by honoring commitments and
- (10) Dedicate the time and effort needed to ensure that your business succeeds.

Government Initiative necessary to Facilitate the MSE Sector

In my opinion certain initiatives are necessary to facilitate growth of funding to the MSE sector; these include

- The formation of a credit bureau
- A reduction in the cost of stamping and registration of security documents
- An improvement in the timeliness within which matters are resolved in our legal system.

It is my belief that the most important of the initiatives just mentioned is the formation of a Credit Bureau. The primary role of a credit bureau will be to collect and collate personal financial data on individuals from financial institutions that they have relationships with. This will assist financial institutions in assessing the credit worthiness of applicants and their ability to repay loans through an examination of their credit history. Legislation needs to be passed which will allow Banks to share customer information with each other. In 1999 the Jamaica Bankers Association circulated a proposal for the establishment of a credit bureau. In 2001 the JBA

submitted a draft Credit Reporting Bill to the Minister of Finance and Planning; since that time the draft Bill was revisited and circulated. It is hoped that this bill can be passed to facilitate the formation of a Credit Bureau in Jamaica.

Additional Information

At Access Financial Services we have a wide array of attractive loan products available to meet your personal and business financing needs. If you require additional information on Access Financial Services Limited, or the loan products that we offer, you may visit our web site at www.accessfinanceonline.com or telephone toll free 1-888-GET-ACCESS. We also have some of our Credit Officers here tonight who will be willing to answer any questions that you may have.

Thank You