



CREDIT GUARANTEE SCHEME FOR SMALL BUSINESSES

PURPOSE OF THE SCHEME

The Credit Guarantee Scheme for Small Businesses is sponsored by the Central Bank of Barbados in an effort to assist small businesses in obtaining adequate security for their loans from credit institutions. The Scheme is designed to offer a substantial degree of protection to credit institutions against possible losses in respect of the credit granted to small enterprises.

Any credit institution desirous of participating in the Scheme may apply to the Central Bank to do so and, upon approval, provide credit facilities to eligible borrowers.

ELIGIBILITY

The borrower may be an individual, partnership, a corporate body, or an association of individuals, and must have the ability to contract loans and other credit facilities.

To qualify as an eligible small business the borrower must **either** be a company incorporated under the Companies Act and approved as a small business in accordance with the Small Business Development Act, 1999-23 **or** meet the eligibility criteria listed below:-

- (a) Gross sales/revenue must not exceed \$2,000,000 per annum.
- (b) Stated or paid-up capital must not exceed \$1,000,000.
- (c) Is majority Barbadian-owned.
- (d) Is not controlled by a business whose reserves and/or capital or non-Barbadian ownership exceeds the limits above.
- (e) For an enterprise engaged in agriculture; acreage under cultivation must not exceed 25 acres.

In addition to the criteria listed above, eligible small businesses should clearly demonstrate a need for financial assistance and/or security. Guarantees will be given on behalf of those small businesses which demonstrate the greatest need in relation to their operating potential.

Eligible small business borrowers must have or make an equity contribution of at least 20% of the loan facility being sought. The borrowers' contribution may be in the form of equity in the business, a cash injection or tangible security with an equivalent net realizable value.

Credit institutions may apply for guarantees not only on behalf of small businesses already established but also on behalf of those about to be established or contemplating expansion.

TYPES OF FACILITIES GUARANTEED

Credit facilities which may be guaranteed include demand loans, term loans, overdrafts, discounts, letters-of-credit, acceptances, payment guarantees, tender bids and contract bonds.

The Central Bank will guarantee short-term as well as medium-term credit facilities. Short-term facilities are guaranteed for a maximum of two (2) years and medium-term facilities for a maximum of seven (7) years.

Short-term loan facilities, up to a maximum of \$80,000, will be guaranteed by the Central Bank where such facilities are for the purpose of meeting working capital requirements, (i.e. for the purpose of purchasing raw materials, fertilizers, trade merchandise, etc. and meeting labour costs and other direct operating expenses). Bids for Government or private contracts which require an initial deposit or bond are also included in such short-term facilities.

The repayment period for working capital may be extended for seven (7) years in cases where the working capital can be classified as “permanent working capital” and is directly related to loans granted for fixed asset purchases.

Medium-term loan facilities, up to a maximum of \$150,000, will be guaranteed by the Central Bank where such facilities are for the purposes of purchasing fixed assets, machinery and equipment. Guarantees will be granted for a period not exceeding the useful life of the assets acquired or for a maximum period of seven (7) years, whichever is shorter. In addition, the Central Bank will guarantee technical assistance loans up to a limit of BDS\$50,000 for any one borrower (i.e within the overall cost of BDS\$150,000 for medium term facilities), where such facilities are for the purpose of market or product research, marketing, product costing, promotion, production/plant layout, accounting and/or information systems, staff training, management/entrepreneurial training, business reorganisation/restructuring or any other relevant areas of technical assistance.

The cost of preparing loan proposals may be included in the principal amount of any loan guaranteed under the Scheme. The maximum amount that may be included for this purpose is limited to \$10,000.

EXTENT OF GUARANTEE

The Scheme offers commercial banks and other credit institutions protection against losses arising from the failure of borrowers to repay their loans. The risks covered under the guarantee are:

(1) Insolvency of the borrower

(2) Protracted default by the borrower.

All advances given under short-term and/or medium-term guaranteed facilities will remain covered. In the event of loss, the Central Bank will indemnify the credit institutions to the extent of 80% of the loss sustained. Thus, credit institutions will only bear 20% of any loss.

The maximum amount of loss to be borne by the Central Bank shall not exceed \$64,000 in respect of short-term loan facilities or \$120,000 in respect of medium-term facilities. However, in the case of a new (start-up) business the Central Bank will guarantee up to 90% of the loan provided there is an equity contribution of at least 20% (i.e of the guaranteed loan) by the borrower and the business has not been in operation for more than eighteen months.

HOW TO OBTAIN A GUARANTEE

Commercial banks and other credit institutions approved by the Central Bank, which are desirous of obtaining guarantees for loans to small businesses, should apply on the prescribed forms, to the Foreign Exchange & Export Credits Department of the Central Bank.

Credit institutions should evaluate loan proposals from small business applicants and indicate the extent of their loan participation to the Central Bank.

Guarantee applications should be accompanied by all relevant documents and evidence supporting the borrower’s financial position and creditworthiness.

Where necessary the borrower should be required to maintain adequate security for the credit facility extended. However, in no case would the lack of adequate security be considered by the Central Bank as the prime reason for refusing a guarantee application.

Credit institutions providing loan facilities to small businesses and which are registered under the Financial Institutions Act may apply to the Central Bank of Barbados for permission to approve loans for guarantee under delegated authority. The maximum limit for loans approved under delegated authority is \$25,000. Special conditions apply to the credit institutions to which this status is granted and to the loans guaranteed.

The following credit facilities will not be eligible for guarantee under the Scheme:

- (i) Any credit facility in respect of which risks have already been covered by Government or under any other scheme.

- (ii) Any credit facility which does not conform to the credit regulation policy of the Central Bank of Barbados.
- (iii) Any credit facility granted to the borrower who had defaulted on any other credit facility made available to him under the Scheme.
- (iv) Any credit facility to refinance an existing debt except where the Central Bank is satisfied that such refinancing has not arisen from default or inability of the borrower to repay an existing debt.

OBLIGATIONS

- **Borrowers:** It shall be the responsibility of the borrower to provide the credit institution with reliable and up-to-date information concerning the business in order that a complete assessment of the financial needs may be undertaken and the appropriate guarantee be provided by the Central Bank.

The borrower must provide the credit institution and the Central Bank with timely reports on the operation of the business as may be required from time to time.

The borrower will ordinarily be required to comply with the terms and conditions of any loan granted to him by a credit institution and must ensure that the repayment schedule, as specified under the terms of the Central Bank's Guarantee, is complied with.

Failure by the borrower to meet any of the abovementioned obligations could result in the revocation of any credit guarantee issued on his behalf by the Central Bank.

- **Credit Institutions:** It will be the responsibility of the credit institutions to ensure that loans granted under the Credit Guarantee Scheme are used for the intended purpose. To this end, the credit institutions should monitor the loans and report to the Central Bank, without delay any misuse of funds guaranteed under the Scheme.

Credit institutions must comply with the terms and conditions of credit guarantees and ensure that the terms on which credit facilities are given do not in any way conflict with the provisions of the Credit Guarantee Scheme.

The Central Bank's approval must be sought for any modifications to credit facilities guaranteed under the Scheme.

Credit institutions will be required to certify that financial and other data submitted to the Central Bank on behalf of borrowers are relevant and adequately represent the current status of borrowers.

Before extending credit facilities to borrowers under the Credit Guarantee Scheme, credit institutions should obtain adequate proof as to the eligibility of borrowers. The Central Bank should be notified promptly of those borrowers who cease to meet the eligibility criteria.

At the end of each month credit institutions will be required to submit to the Central Bank, details of all credit guarantee applications declined during the month.

Enhancements, renewals and extensions of credit facilities guaranteed under the Credit Guarantee Scheme must be submitted to the Central Bank for approval. Requests for such enhancements, renewals and extensions should reach the Central Bank at least seven (7) days prior to the intended effective date.

Credit institutions will be required to take all normal and reasonable steps to deal with borrowers in default and to notify the Central Bank, in due course, of the necessary action taken against such borrowers.

In accordance with the terms and conditions of the Credit Guarantee Scheme for Small Businesses, credit institutions will be required to comply with any directives issued from time to time by the Foreign Exchange and Export Credits Department of the Central Bank of Barbados for the purpose of administering the Scheme.

RATES OF INTEREST AND PREMIUM

The rate of interest on loans guaranteed under the Scheme shall be determined by the individual credit institution. Such rates of interest should be determined after taking into consideration the percentage of the loan guaranteed and the risks associated with the entire loan.

A guarantee premium shall be payable by credit institutions at the rate of 1½ per cent per annum on the highest amount of the facility outstanding at any time during any one calendar quarter. The liability to pay the premium shall be that of the credit institution.

BENEFITS

Small businesses which make use of the facilities provided under this Scheme could derive substantial benefits, including:

- **Adequate security for loans**
- **Increased working capital**
- **Expansion of fixed assets, machinery and equipment**
- **Increased cash flow**
- **Increased sales and profits**
- **Lower rates of interest**
- **Expansion and diversification of operations**
- **Opportunity to employ more people and new skills**
- **New technology**
- **New products**

Similarly, credit institutions which participate in this Scheme may derive several benefits, including:

- **Added protection for loans**
- **New business from new clients**
- **Additional business from existing clients**
- **Lower losses from loan defaults**
- **Better working relationships with small clients**
- **Opportunity to provide advisory services**

Any further queries concerning the scheme should be directed to

The foreign exchange and export credits department

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Tom adams financial centre
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