



## SUCCESS STORY

# Private Sector Engages During Disaster

**A USAID partial credit guarantee with a progressive Jamaican partner institution promotes access to credit after a disaster**



Photo: Althea Spence, USAID/Jamaica

*Karlene Miller with her loan officer, Reginald Hird. After Hurricane Ivan struck Jamaica in 2004, Karlene was able to obtain financing from Jamaican National Building Society through an existing USAID credit guarantee that was quickly restructured for hurricane recovery. She used the money to restock her store and is now planning to expand her business to an adjoining property using small business loans offered by Jamaica National Small Business Loan.*

*"We couldn't have delivered the product on our own. With a good public private partnership like the one we had with USAID, we were able to work together to deliver a social good with commercial viability." Earl Jarrett, JNBS General Manager*

Karlene Miller, the owner of a small grocery store outside Kingston, had been a client of Jamaica National Building Society's (JNBS) small business loan program, operated by Jamaica National Small Business Loan Company (JNSBL), for several years when Hurricane Ivan devastated Jamaica in August 2004. The hurricane ruined her floor and spoiled her inventory, totaling approximately US\$1,500 worth of damage. Using a Hurricane Recovery loan from JNSBL, Karlene was able to borrow more money under more favorable terms to fix the damage and replace the lost stock. Since the hurricane, she has continued to use the small business loans from JNSBL, and has plans to expand her business to an adjoining property. Karlene says that the JNSBL staff really understands her needs: "They are good people. They are always in touch, calling me on the phone to ask me how things are going." It was this customer-driven approach that made Jamaica National such a good partner for structuring a USAID credit guarantee in the face of national disaster.

Jamaica's small business owners like Karlene Miller often face difficulty accessing the credit they need to build their businesses. JNBS, a mutual savings institution, has a commitment to its members that has resulted in a wide range of financial products that enable Jamaicans to save, buy homes, and invest in their businesses. It was this vision that made JNBS an ideal partner for a credit guarantee in June 2004, to enable them to test riskier products. At that time, the guarantee was primarily designed to enable low-income households to pay the costs associated with accessing improved housing. However, when Hurricane Ivan struck just a few months later, USAID and JNBS restructured the guarantee to help those who needed to make the transition from short term hurricane relief to long term livelihood recovery. With the guarantee covering half their risk, JNSBL was able to make their hurricane recovery loans more lenient, extending repayment periods and reducing the interest rate from 1 percent per week to just 7 percent per year.

Having successfully repaid her hurricane loan, Karlene continues to be a client of JNSBL. In addition to the one paid employee she has now, she expects to hire four more to staff her new store next door. Because she was able to obtain financing, even in a time of disaster, Karlene is building her business and Jamaica's economy at the same time.

The JNBS guarantee is a great example of how the interests of the private sector and those of USAID can complement each other to create a partnership that is worth more than the sum of its parts. In creating public private partnerships such as these, USAID encourages private financial institutions to extend credit by mitigating their loss in the event that the loan is not repaid. With up to 50% of a loan guaranteed by the full faith of the US Treasury, partner institutions are more willing to extend credit to borrowers that they might otherwise perceive as too risky. In this way, guarantees encourage sustainable sources of financing in developing countries. Additionally, with a credit guarantee, USAID resources leverage large amounts of private capital. In the case of the JNBS guarantee, for every dollar spent by USAID/Jamaica, approximately US\$35 was made available by JNBS.

According to the General Manager of JNBS, Earl Jarrett, JNBS was interested in a USAID credit guarantee for several reasons. A large factor was that JNBS wanted to expand their services to the poor in inner-city areas, where unemployment and crime are high, and where people have little property to secure a loan. JNBS had already begun making rural microloans and from that experience had learned that although poor, the borrowers were dependable. However, the bank was concerned about the risks of microlending in these urban areas, and was looking for ways to mitigate their risk. A USAID credit guarantee was able to do just that, giving JNBS the impetus it needed to enter a new market.

Everything changed after Hurricane Ivan. Immediately after the storm, JNBS and USAID toured affected areas together to see what was needed. The storm, the largest since Hurricane Gilbert in 1988, had completely devastated communities. In an effort to respond, JNBS did a quick survey to find out what was most needed and came up with a Hurricane Reconstruction Program, composed of several types of financial products. In addition to grants from donors and the government of Jamaica, victims were able to quickly access financing through a remittance card payment system, a mortgage product, and small business loans backed by the USAID guarantee. The Hurricane Reconstruction Program was able to disburse money as quickly as one week after the hurricane. More than 500 loans were issued under this program with USAID's support.

"We were so fortunate to have the guarantee, because it meant we were able to have a complete reconstruction program right after the storm," said Mr. Jarrett. "We were the only ones who were able to respond as quickly as we did, and our business got a lot of visibility. We became known for having the best response, and when Hurricane Dean came in 2007, many financial institutions took the same approach that we took with Ivan. Ours was a historic response from a private sector agency, which was strongly enabled by USAID."

Choosing a good financial partner is of paramount importance in structuring successful credit guarantees. JNBS is a natural partner

for USAID because their core value, "mutual trust leads to mutual benefit," plays out in their everyday operations. USAID was able to provide the temporary safety net that JNBS needed in order to expand to a new sector that they were interested in but considered too risky. Hurricane Ivan, although devastating to Jamaica, was an opportunity for the two partners to jointly use their expertise for the betterment of the country. While the Government of Jamaica and USAID responded to victims with grant money, JNBS addressed the longer term reconstruction needs of Jamaica by using guaranteed loans to make more money available for a longer period of time.

In a disaster situation, there is often an influx of funding and attention from abroad for immediate disaster relief. Indeed, USAID has distinguished itself in numerous countries around the world for quick and compassionate relief in the face of humanitarian emergencies. But resources are also needed to transition from immediate relief to longer term recovery. A USAID credit guarantee can be used in such situations to enable like-minded institutions to offer credit at terms that can be met by those who have lost their businesses. USAID is proud to be able to partner with a progressive institution like JNBS, which sees the viability in financing those who can't obtain credit elsewhere. Through partnerships like this, USAID is harnessing local resources to bring sustainable economic development to host countries.