**TERMS OF REFERENCE**

**CONSULTANCY SERVICES FOR THE DEVELOPMENT OF A PARTIAL CREDIT GUARANTEE SCHEME FOR MICRO SMALL AND MEDIUM-SIZE ENTERPRISES**

**IN THE CARIBBEAN**

* + - 1. **BACKGROUND**

1.01 In 2015, all Caribbean Community (CARICOM) countries became signatories to the United Nations 2030 Sustainable Development Agenda. Micro, Small and Medium-sized Enterprises (MSMEs) are regarded as an important vehicle for achieving the Sustainable Development Goals (SDGs), through their significant role in job creation and reducing poverty and income inequality, especially amongst women and youth.

1.02 The MSME sector is arguably the most important in combating poverty and stimulating economic growth within the Region. Based on a MSME Development Study by the Caribbean Development Bank (CDB)[[1]](#footnote-1)/, it is estimated that between 70 percent (%) to 85% of all enterprises within Borrowing Member Countries (BMCs) are MSMEs and they contribute between 60% and 70% of gross domestic product (GDP). Additionally, MSMEs account for approximately 50% of employment [[2]](#footnote-2)/ in BMCs and an even higher percentage when considering marginalised groups, including women, youth, indigenous groups, and persons with disabilities (PWDs).

1.03 The sustainability of the economies in Caribbean countries remains threatened by the continued impact of the coronavirus (COVID-19) pandemic, but governments remain at the forefront of the fight. They have led with clarity and decisiveness when implementing measures to combat the spread of COVID-19 with means such as travel restrictions, including closing borders, mandatory quarantine, lockdowns, curfews, and social distancing measures all of which have had an adverse impact on the MSME sector. Most countries in the Region had a complete or partial lockdown of their economies from the first quarter of March 2020 to the second quarter of June 2020. This lockdown combined with an already challenging business enabling environment characterised by the high cost of inputs, weak data infrastructure, limited access to quality business support services, high levels of informality, and disparities among disadvantaged groups (women, youths and people with disabilities) is further crippling the MSME sector.

1.04 Financial systems across several of CDB’s BMCs are dominated by commercial banks, and their preferences for extending finance tend to be influenced by lower risk consumer-type investments. Consequently, access by MSMEs to appropriate and affordable finance options along with a conductive enabling environment are essential for MSMEs to operate effectively, spur growth, promote job creation, and facilitate wealth generation. However, access to finance remains one of the binding constraints as outlined in the latest World Bank Doing Business Report 2020, which showed the Caribbean averaging 135 of the 190 countries surveyed with Jamaica having the highest rank of 15 and Suriname the lowest of 181 on the access to credit indicator.[[3]](#footnote-3)/

1.05 Major inhibitors to MSMEs accessing finance in the Caribbean not only relate to their inability to provide acceptable collateral but also an unwillingness to finance business start-ups and a lack of business support institutions such as credit bureaus. In countries such as Barbados and Belize, MSMEs’ collateral requirements can be as high as 180% of the loan amount.

1.06 The ability to meet commercial banks’ collateral requirements is a key deciding factor for MSMEs to access finance. Two reasons for such high requirements are:

1. The absence of a robust secondary market for fixed assets, especially in small markets. Therefore, banks overcompensate and demand high levels of collateral.
2. Central Bank’s prudential regulations stipulate that banks must secure adequate cover (i.e. the collateral) for their loans.

1.07 Other factors affecting regional MSMEs ability to access finance is underpinned by the underdeveloped financial service industry, high cost of financing, and asymmetry of information.

**CDB Response**

1.08 In an effort to address access to finance challenges facing MSMEs, in 1999, CDB established a Micro Finance Guarantee Scheme (MFGS), to provide guarantees to Micro Finance Institutions (MFIs), borrowing from third-party Financial Institutions (FIs) for on-lending to MSMEs. Despite the efforts of the Bank to operationalise this facility it was never utilised by FIs. Subsequent to its establishment, some of the targeted MFIs encountered challenges in sustaining their business models. However, given that access to finance continues to be a binding constraint for MSMEs, the Bank is seeking to repurpose the funding allocated for the MFGS to a Regional Partial Credit Guarantee Scheme (RPCGS)[[4]](#footnote-4) for MSMEs and the institutions supporting them.

1.09 This facility will help to mitigate the risk of FIs lending to MSMEs through the absorption of a portion of the lender’s losses on the loans made, in case of default, typically in return for a fee. The main target group for the Bank’s guarantee funds is micro, small and medium-sized entrepreneurs that are bank worthy and have the necessary repayment capacity but who, for some reason, cannot obtain a bank loan[[5]](#footnote-5)/ without the support of adequate collateral. PCGFs have an important role to play in supporting access to finance but need to be properly designed and operated to achieve financial sustainability.

1.10 To this end, the Bank has started discussions with regional and international donors to access more resources and possible technical support to supplement work already undertaken in support of PCGS and to support funding for the RPCGS. It is expected that the scheme will be accessible by all MSMEs seeking to access funding from registered FIs that require collateral support and have signed up for the facility. Also, the facility will be used to resource existing national PCGSs with strong, sustainable, and functional business models and infrastructure, while also offering the related capacity building to effectively and efficiently administer such a scheme.

1.11 Within the Caribbean, PCGFs to support small and medium-sized enterprise (SME), access to finance can be found in Barbados, Jamaica, and more recently, the Organisation of Eastern Caribbean States (OECS) member countries, which is at an early stage of implementation. In 2010, the Development Bank of Jamaica Limited (DBJ) established a Credit Enhancement Facility (CEF) to provide additional collateral coverage to accredited financial institutions (AFIs) on loans made to SMEs. Since inception, the CEF has facilitated the issue of $4.53 billion in loans to 402 SME sub-borrowers with 435 guarantees, totaling $1,940 million.[[6]](#footnote-6)/ PCGFs established in Barbados and OECS Member countries, are at an early stage to measure expected results.

* 1. A functional RPCGS will seek to address structural issues with MSME financing such as:[[7]](#footnote-7)/

1. Information Asymmetries.
2. Inadequate or lack of recognised collateral.
3. High transaction costs and high perceived risks.
4. Inadequate MSME finance tools.
5. Crowding out by other credit markets (consumer)
   1. The success of the RPCGS, however, will depend on a number of factors, including:
6. A strong regulatory and supervisory system.
7. An enhanced business climate that includes support systems such as credit bureaus and collateral registries.
8. Transparency and fairness – for example, guarantees are allocated to firms based on a set of standard criteria for qualification and that the system for approval is unbiased and straightforward.
9. Intensive publicity and promotional campaign to explain the utility of the Scheme.
10. Training of FIs on the RPCGS, regarding its policies, operating procedures, governance structures, and assessment procedures.
11. Enhanced capacity building accessible to MSMEs for business support and mentorship.

**2. OBJECTIVES OF CONSULTANCY**

* 1. The objectives of this consultancy are to:

1. develop a framework for supporting existing national PCGS in CDB’s BMCs including resourcing, TA requirements to support the enabling environment and capacity building needs; and
2. design an appropriate RPCGS, with the requisite administrative, operating and risk management structures including, identification of resourcing requirements, legal and regulatory framework, sustainability to plan and linkages with national PCGS in CDB’s BMCs.

**3. SCOPE OF SERVICES**

* 1. The scope of work is understood to cover all the activities necessary to accomplish the stated objectives of the consultancy, including but not limited to the following three (3) components:

**Component 1:**

1. Conduct consultations with relevant departments within CDB, national agencies (governmental and business support), and FIs that will potentially form the ecosystem for establishing and administering the facility.
2. Conduct a detailed review of existing MSME Credit Guarantee Schemes in CDB’s BMCs, including other regional PCGS to understand the lessons learned in setting up existing facilities, identify gaps and possible linkages, ascertain resourcing requirements, assess the enabling environment, including the existence of credit bureau and uptake of each facility. Additionally, the review should include an assessment of those schemes, which were unsuccessful in order to prevent the repetition of past missteps.
   1. This analysis should include clear guidelines for supporting existing national PCGSs with additional financing and the recommended cost of financing.
   2. In cases where the operating enabling environment is less than ideal, the analysis should identify the need for business climate reforms, technical assistance in specific areas such as the establishment of functional credit bureaus to improve efficiency, effectiveness, and sustainability.
3. Conduct a needs assessment analysis in countries without a functioning PCGS.
   1. This assessment should outline effective demand for a PCGS and recommendations on an ideal structure, resourcing requirements, business model, enabling environment, including the existence of a credit bureau, operational, governance structure, and potential stakeholders such as participating FIs, DFIs, Central Banks and Business Support Organisations.

(d) Determine the feasibility of establishing such a scheme by adequately considering expected costs and benefits, and if deemed to be feasible, move to component 2.

**Component 2:**

1. Develop a framework for the MSME RPCGS including:
2. Characteristics of the facility:
   * 1. Target market, partnership with FIs, pricing, risk management, operations, and governance structure.
   1. Operating procedures:
      1. IT requirements, including the development of a TOR for any web-enabled platform to facilitate the effective operationalisation of the RPCGS.
      2. Resourcing metrics for the facility.
      3. Credit limits for countries and FIs.
      4. Qualification requirements for MSMEs and FIs.
      5. Potential linkages with FIs and Credit bureau to ensure the asymmetry of information and risk management.
      6. Implementation Plan for the facility.
3. Outline the legal and regulatory framework to support the operationalisation of a sustainable PCGS.
4. Recourse requirements.
5. Linkages with existing national PCGSs.
6. Sustainability plan.
7. Development of a marketing plan for the facility:
8. This should include separate strategies for engaging FIs and MSMEs
9. Monitoring and Evaluation plan.

**Component 3:**

1. Develop a PCGS training programme including training manuals for FIs administering the facility in countries and CDB staff managing the RPCGS.
2. Conduct one regional capacity building training for FI administering the facility in BMCs.

Gender issues will be strategically incorporated in the capacity-building training modules to be delivered by the consultant.

4. **REPORTING REQUIREMENTS**

* 1. The Consultant will be required to submit an electronic copy to CDB of the following reports:

1. **Inception Report:** Within two (2) weeks of signing the contract, the consultant will submit an Inception Report. The report should outline:
   1. The proposed methodology for the consultancy.
   2. Work breakdown structure, including times for the deliverables and risks and risk mitigation matrix.
   3. Summary of inception meeting with CDB staff on the project.
   4. Scope of works outline, including initial findings.

Comments to be provided by CDB within one (1) week of submission.

1. **Draft Report 2:** Within six (6) weeks of signing the contract, the consultant will submit a report on the national and regional MSMEs Credit Guarantee Schemes within CDB’s BMCs. The report should include deliverables for items listed under Section 3.01, Component 1 of this TOR. Comments to be provided by CDB within one (1) week of submission.
2. **Draft Report 3:** Within nine (9) weeks of signing the contract, the consultant will submit for feedback and approval by the project steering committee (PSC) with CDB, the draft structure for the MSME PCGS in accordance with Section 3.01, Component 2 from of this TOR. This report should also include any proposed digital platform to be used to facilitate the coordination and implementation of the facility. Comments to be provided by CDB within two (2) weeks of submission.
3. **Training Agendas and Material:** Within eleven (11) weeks of signing the contract, the consultant will submit for approval draft agendas and training material for the PCGS Training module for FIs in accordance with Section 3.01, Component 3 of this TOR. Comments to be provided by CDB within one (1) week of submission.
4. **Final Report:** Within thirteen (13) weeks of signing the contract, the consultant will submit a final report, including the final version of all documents produced in accordance with Section 3.01 of this TOR. Comments to be provided by CDB within two (2) weeks of submission.
5. **IMPLEMENTATION ARRANGEMENTS** 
   1. The consultant will report to the MSME Development Coordinator in the Technical Cooperation Division, which will provide overall direction and guidance, and approval of deliverables. CDB’s project coordinator will establish an Advisory Team of principal stakeholders from the Operations area of CDB for this consultancy. The Group will provide feedback on the scope of work, work plan, findings, and draft reports.

5.02 CDB will facilitate the work of the consultant and will make available all secondary studies conducted by the Bank that are related to the Project. CDB’s MSME unit will also assist with the arrangement of all meetings/training and local logistics support.

5.03 It is estimated that this consultancy will require 40 person-days, to be carried out over a period not greater than three (3) calendar months. It is expected the consultancy will commence on August 10, 2020, and the submission of the final report on October 12, 2020.

**6.** **QUALIFICATIONS AND EXPERIENCE**

* 1. The Consultant should possess the following qualifications and experience:

1. A post graduate degree in Economics, Business Administration, Finance or any other related subject areas.
2. Experience in the design and operationalisation of a credit guarantee scheme.
3. Experience in addressing the thematic areas identified, particularly private sector development, small and medium enterprise development, development finance institution practices.
4. Knowledge of development issues in the Caribbean and small island developing states, including the context of poverty and vulnerability, private sector development, development finance institutions, and gender equality.
5. Ability to integrate qualitative and quantitative data.
6. Strong report writing and presentation skills, ability, and experience in communicating concepts using non-technical language to diverse audiences.
7. Fluency in English.

1. / Ibid. [↑](#footnote-ref-1)
2. / Ibid. [↑](#footnote-ref-2)
3. <http://documents.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf> [↑](#footnote-ref-3)
4. / A credit guarantee is a financial product that a small entrepreneur can access as a partial substitute for collateral when applying for a loan and is a common form of government intervention. It is a promise by a guarantor to pay all or part of the loan if the borrower defaults, as it provides third-party credit risk mitigation to lenders with the objective of increasing access to credit. [↑](#footnote-ref-4)
5. / Assuming banks are willing to lend to MSMEs and are risk-averse investors that consider only risk free or speculative prospects with a positive risk premium. Bodie, Kane, and Marcus - Investments (6th Edition). [↑](#footnote-ref-5)
6. / <https://s3.amazonaws.com/ran-s3/dbankjm.com/wp-content/uploads/2020/05/20142546/DBJ-Annual-Report-2017-18.pdf> [↑](#footnote-ref-6)
7. / Carmen Gomez- Trigg - The Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC) (June 2019) [↑](#footnote-ref-7)