

ESTABLISHMENT OF A FRAMEWORK FOR MANAGING PRIVATE SECTOR FINANCING

1. BACKGROUND.

1.1 The Caribbean Development Bank (CDB) is a regional financial institution established in 1969, aimed at fostering economic and social development within the Caribbean region. CDB provides financial and technical assistance for projects and initiatives that contribute to the sustainable development of its client countries. CDB's mandate includes providing loans, technical assistance, and policy advice to its member countries to support development projects, promote economic growth, and enhance regional integration. The Caribbean region faces unique economic challenges, including vulnerability to external shocks, economic diversification needs, and resilience to climate change. CDB's Private Sector (PS) financing framework must address these challenges while promoting inclusive and sustainable growth.

1.2 In this regard, CDB is looking to enhance its institutional capacity by developing a framework that supports its strategic objectives and improves its operational efficiency.

Private Sector Strategy 2023 – 2028 (PSS)

1.3 The PSS seeks to enhance the private sector ecosystems in CDB Client Countries (CCs) by fostering an expanded relationship with the PS, featuring enhanced support from CDB and PS engagement as a key partner in the region's development. These strategic priorities include improving the Business Enabling Environment (BEE), promoting access to finance, and promoting enterprise development through activities in the following focal areas:

- (a) legal and regulatory reforms;
- (b) implementing BEE legal, institutional, regulatory, and infrastructure reforms to enhance the ease of doing business and expand financing options for firms;
- (c) new financial instruments;
- (d) expanding the range of financial instruments available to the market, including de-risking instruments to incentivize lending and unlock excess liquidity;
- (e) direct and indirect financing;
- (f) through exclusive or co-financing arrangements, take direct exposure to PS interventions that demonstrate strong developmental impacts and align with SDGs;
- (g) capacity building; and
- (h) expanding efforts to deliver technical assistance to MSMEs, Business Support Organizations (BSOs), and Financial Institutions (FIs) to enhance the accessibility and effectiveness of new and existing financial instruments and resources.

1.4 The PSS requires the Bank to venture outside its current range of support for the PS, which almost exclusively focuses on intermediary lending, and plays a more direct role in providing Adequate and Affordable Financing (AAAF) for regional firms. The expansion of direct lending and investment activities

will require development and implementation of a comprehensive PS Financing Framework (FF), which includes policy and governance considerations and is rooted in international best practices for PS financing in Multinational Development Banks (MDBs).

2. OBJECTIVE

2.1 This consultancy will be led by the Private Sector Division (PSD). The objectives of this consultancy are to:

- (a) establish, in line with the overarching CDB strategic objectives, clear policies, procedures, guidelines, and governance principles for private sector financing;
- (b) enable effective risk management associated with private sector financing, including financial, operational, integrity/compliance, environmental, and social risks;
- (c) ensure transparency and accountability in private sector financing practices;
- (d) enhance coordination and cooperation among stakeholders involved in private sector financing; and
- (e) Improve efficiency and timeliness of decision-making..

3. SCOPE OF SERVICE

3.1 The consultant is required to undertake all the activities to cover the stated objectives at paragraph 2, including documentary reviews, and consultations with CDB staff, and industry and technical experts. The consultant is also to:

- (a) **Phase I**
 - i. Conduct a comparative review of existing CDB financing policies and guidelines against international best practices for PS financing in MDBs to achieve the following outcomes:
 - (i) outline benchmark policy, guidelines, and governance requirements for an effective FF for PS financing in MDBs.
 - (ii) assess the gaps in the Bank's current FF and recommend modifications for alignment with international best practices for PS financing in MDBs.
- (b) **Phase II**
 - i. In consultation with all relevant CDB stakeholders, draft the required policies and guidelines, and outline governance requirements for review and adoption by the Bank, including:
 - (i) operating guidelines establishing eligibility, documentary, reporting, collateral, and other relevant criteria;

- (ii) operational structure delineating functional areas and authorities within the FF (credit analysis, relationship management, portfolio and problem loan management, approval/review committee(s); and
 - (iii) governance structure and process definitions for financing approval, disbursement, monitoring, remediation, and recovery.
- (c) in consultation with other relevant CDB stakeholders, develop a suite of PS financing appraisal, monitoring, reporting, and training tools, considering operational, risk, legal, and regulatory requirements related to the proposed activity, including but not limited to:
- (i) application form and checklist, including Know Your Client (KYC) – to guide client submissions and ensure all required information is submitted for assessment.
 - (ii) concept note – a short-form overview highlighting key attributes of the proposed project including major financial and non-financial risks, and developmental impact considerations for preliminary internal review, and to inform indicative terms for issuance to the client.
 - (iii) indicative term sheet – non-binding terms and conditions of financing based on preliminary internal review.
 - (iv) appraisal report – detailed credit analysis including a comprehensive risk assessment of the client and project.
 - (v) final term sheet – a binding offer document inclusive of all terms and conditions of lending or investing for review and acceptance by the client.
 - (vi) periodic review – a truncated version of the appraisal report to be presented to the relevant authority at intervals established by operating/risk guidelines.
 - (vii) financial analysis tool pack to enable;
 - (aa) financial performance evaluation, including liquidity, leverage, profitability, efficiency, and coverage ratios.
 - (bb) financial modeling and stress testing, including financial statement projection and Monte Carlo Simulation Capabilities.
 - (cc) other tools determined to be relevant by the consultant and/or implementation team.
 - (dd) Information Technology (IT) assessment, including a gap analysis of current capabilities and requirements for effective portfolio management and reporting in keeping with proposed operating and existing risk framework, policies and guidelines, and legal and regulatory obligations.

The consultant is encouraged to recommend all tools that in its expert opinion will support the activities in (c) above.

3.2 In addition, the consultant must provide technical expert advice on the following:

- (a) risk analysis and pricing, including Obligor Risk Ratings (ORR), Risk-Adjusted Rate of Return (RAROC), and other best practice metrics for appraising financing opportunities.
- (b) the human resource capacity to effectively implement the proposed FF and recommend optimal resourcing and training to close identified gaps.
- (c) a mechanism for monitoring and evaluating the effectiveness of the FF following its implementation.

3.3 The scope of services is understood to cover all activities necessary to accomplish the objectives of the consultancy, whether a specific activity is cited in these Terms of Reference (TOR) or not. The consultant will ensure that Environmental Social and Governance (ESG) and gender-inclusive principles are embedded into the FF.

4. REPORTING REQUIREMENTS

4.1 The reporting schedule for the services to be undertaken under phase I of this Project is set out below. The consultant(s) shall provide CDB with electronic versions in Microsoft Office suite of each of the following reports, prepared in English:

- (a) within five (5) business days of an inception meeting with CDB personnel to discuss the project's scope, implementation, roles and responsibilities, and timelines, the consultant will submit an Inception Report covering the following:
 - i. Work plan and schedule for undertaking the consultancy.
 - ii. Stakeholder consultation plan.

CDB will provide comments on the Inception Report within three (3) business days of receipt. The consultant shall incorporate those comments in a final Inception Report and submit it to CDB within two (2) business days after receipt of comments. (10)

- (b) An Interim Report highlighting key findings and recommendations within twenty-five (25) business days after acceptance of the Inception Report. CDB will provide comments on the Interim Report within five (5) business days of receipt. The consultant shall incorporate those comments in a final Interim Report and submit them to CDB within five (5) business days after receipt of comments. (35)
- (c) A draft Final Report, not later than five (5) business days from acceptance of the final Interim Report, detailing findings and recommendations. (5).
- (d) The consultant shall incorporate CDB's feedback into a Final Report and submit it to CDB within five (5) days after submitting the draft final report. (5)

5. GOVERNANCE

5.1 A Steering Committee, composed of senior representatives of the Private Sector Division, the Office of Risk Management, Legal, Finance, Social Sector Division, Environmental and Sustainability Unit, and the Director Projects Department will be meeting monthly to discuss the progress of the consultancy and provide guidance when required.

5.2 Stakeholder consultation plan. A stakeholder consultation plan will be drafted at the outset of the consultancy to ensure all relevant stakeholders are identified and involved in this important strategic initiative.

6. IMPLEMENTATION ARRANGEMENTS

6.1 It is expected that phase I of the consultancy will be executed over two (2) calendar months. The consultancy may be a combination of onsite and remote work.

6.2 The implementation arrangements for phase II will be negotiated at the time of awarding the consultancy.

7. QUALIFICATIONS AND EXPERIENCE

7.1 The consultant must be a financial services firm with an established record of excellence in providing financial, risk, and legal advisory services. The assigned personnel must demonstrate strong competency in development finance and the financial services sector, with expertise in financial operations, credit risk assessment and management, investment valuation, portfolio and remedial management, and inter alia, collateral valuation. In addition, a strong understanding of the Caribbean region, including its socioeconomic, gender, developmental, and environmental landscapes and its financial markets is highly desirable.

7.2 The Consultant should therefore be a firm or a qualified consortium of firms with demonstrated international experience, including expertise within the private sector strategy, designing private sector products/ financial instruments, and knowledge of existing standards and principles for private sector finance instruments.

7.3 The Consultant should also have proven experience working in similar geographies, preferably the Caribbean and/or emerging market economies, focusing on private sector sustainable finance for governments, public, and/or multilateral funding institutions. The Consultant should have knowledge of and exposure to the Caribbean financial sector, strategy, and policy development, with an understanding of the socio-economic aspects of the banking sector in the Caribbean.

- (a) The Consultant must be able to propose a team of experts that demonstrates its capability to successfully carry out all aspects of the ToR.
- (b) The Consultant is highly encouraged to propose a gender-diverse team, including staff with extensive local knowledge.
- (c) The Consultant can partner with subcontractors to strengthen the team's Caribbean regional expertise and presence and to facilitate data collection, local coordination, and stakeholder consultations.

