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Project: Credit Enhancement Programme for Micro, Small and medium Enterprises (MSME)

Title: Terms of Reference for the Consultancy to draft the Project Completion Report (PSR) for the Credit Enhancement for Micro, Small and Medium Enterprises (MSME)

Borrower/Bid No: 4115/OC-JA

ANNEX A

Jamaica

IFD/CMF

Credit Enhancement Programme for Micro, Small and medium Enterprises (MSME) (JA-L1075)

REFERENCE TERMS

Background

With a population of approximately 2.8 million, Jamaica is a small, open economy, characterized by low growth and high debt and is classified as an upper-middle-income country. Since the year 2000, Jamaica has had an average economic growth rate of 0.8% which is below the 3.6% Latin American and Caribbean average. Sustained fiscal deficits, public enterprise borrowing, and financial sector interventions have contributed to rapid debt accumulation that affects growth. Low growth has further impacted Jamaica's fiscal position and the standard of living (real Gross Domestic Product (GDP) per capita has remained flat since the 1990s). In recent years, the economy has taken measures towards macro-

economic stability, with growth projected at 1.6% in Fiscal Year (FY) 2016-2017 and expected to reach 2.8% by FY 2020-2021. Business-friendly reforms, the continuation of fiscal prudence under the International Monetary Fund (IMF) Stand-By Arrangement and implementation of major infrastructure projects are expected to be growth positive. The Bank of Jamaica (BOJ) is the central bank which is responsible for promoting and maintaining the stability of the Jamaican financial system, supervising the activities of deposit taking financial institutions, as well as providing regulatory oversight for foreign exchange traders and remittance companies. The Financial Services Commission (FSC) provides regulatory oversight to non-deposit taking financial institutions. The sector, which was comprised of seven commercial banks and 36 credit unions, was performing adequately in recent years. As of September 2016, banks' non-performing loans were at 3.0% of total loans with a Capital Adequacy Ratio (CAR) of 14.7%, above the 10% regulatory minimum. The average level of provisioning was high (117.2%) and liquidity stress tests performed by the BOJ showed continued resilience to shocks. Improvements in the country's credit rating and in business confidence indicators have underpinned Jamaica's interaction with the domestic and international financial markets. Interest rates continue to be relatively high, therefore affecting the price and availability of resources for financing to the private sector. This has continued to influence the banks' elevated financial intermediation rate spreads, even though the BOJ has been lowering its policy rates since April 2015. Consequently, credit to the private sector is relatively low in Jamaica (30% of GDP in 2015), when compared to other Caribbean countries such as Trinidad & Tobago (37%), Belize (57%) and Bahamas (72%) (World Development Indicators, 2016). Moreover, when assessing access to finance for smaller firms, the reach of the financial system is estimated to cover less than 10% of all Micro, Small and Medium Enterprises (MSME). Across the Caribbean, MSME are estimated to account for 70% to 85% of the number of firms, contributing between 60% to 70% of GDP and about 50% of employment. In Jamaica, it is estimated that there are about 200,000 formal Small and Medium Enterprises (SME) and between 200,000 to 400,000 microenterprises; although there are no recent official estimates related to the size and composition of the MSME sector. MSME are an important source of jobs in Jamaica, as it is estimated that 82% of the country's workforce are employed by MSME.

The problem. The low levels of finance to the private sector in Jamaica restrict opportunities for MSME to invest in the expansion of their businesses, thus limiting their growth perspectives and the means to improve their productivity. To carry out these investments, MSME require financing. However, MSME face important constraints to obtain this financing, due to: (i) its prohibitive cost; (ii) its unavailability for smaller firms; (iii) its short repayment period (when compared to the time needed to consolidate investment projects); and (iv) its collateral requirements (which MSME cannot provide for sufficiently). As a result, by not being able to improve their low levels of productivity, MSME have lower cash flows, limiting their capacity to repay their creditors and to access new loans

The commercial banking sector in Jamaica typically does not prioritize MSME, preferring investment opportunities in low-risk instruments (such as government securities) that have low capital allocation. A high perception of risks (mainly due to lack of reliable information), coupled with high levels of informality and the absence of a secondary market for fixed assets, will cause banks to require high levels of collateral to offset their risk-weighting. As a result, access to financing by banks is reduced only to those firms that have the capacity to meet these high collateral requirements. According to the latest Enterprise Survey of Jamaica (PROTEqIN (productivity, technology and innovation) survey for Compete Caribbean, 2014), 30.5% of firms mention access to financing as a major or a very severe obstacle to business operations while the cost of credit was seen as a major challenge by 36.6% of respondents. The survey also shows that while almost 100% of firms have a bank account, only 43% of firms have a bank loan or line of credit. Moreover, less than half of all firms who did not apply for a loan in the last fiscal year, said they did not require one, while the others cited issues such as high cost, high collateral requirement or the expectation that the loan would not be granted. Finally, almost all loans require collateral (80%) and the average value of collateral needed is 175% of the loan amount being sought. Banks usually require land, buildings, or cash, which is particularly onerous for MSME, and do not accept or significantly undervalue equipment or specialized assets in a market of a limited size

The problem that the programme sought to address is the lack of adequate financing for MSME investments to stimulate growth and productivity in Jamaica. More specifically, the programme focused on addressing problems related to the limited collateral capacity of MSME, which has been identified as one of the main reasons preventing them from accessing financing. To put the MSME perspective into context, a market study was specifically commissioned to support the preparation of this programme in order to provide a literature review of the market failure and to obtain data directly from MSME and financial institutions in Jamaica so as to better diagnose the IDB's intervention. As part of the diagnosis, a survey of 96 MSME and 6 financial institutions was carried out to support the study's conclusions.

From the study's findings, 60% of the MSME interviewed responded that access to finance is extremely challenging, being the most commonly identified barrier experienced by those cited in the survey. Most respondents prioritize their personal savings and retained earnings to finance long-term investments, with 34% of MSME interviewed able to significantly use commercial banks and less than 10% able to access microfinance institutions, credit unions and the Junior Stock Exchange (JSE). The lack of usage of external finance sources, however, is not due to a lack of willingness from MSME, as 80% of the respondents indicated that they had sought financing for their businesses. To confirm why MSME demand for financing is not met, the survey focuses on the barriers encountered in accessing finance. The four most common issues identified by respondents in Jamaica as extremely challenging are: (i) the bureaucracy involved in accessing finance is more than desired (62%); (ii) the interest rates are too high (55%); (iii) the firm does not have the type of collateral required by financial institutions (50%); and (iv) the loan terms (other than interest rate are too onerous) (46%). Even more pressing, 79% of respondents identified that these financing challenges had increased in the past four years.

The availability of collateral was a major barrier for accessing finance, as close to 70% of the survey's MSME respondents mentioned that they could not meet the financial institutions' requirement or that the financial institutions significantly undervalued the assets they were able to provide as collateral. In parallel, the financial institutions who responded to the survey also identified collateral as one of the most frequent reasons preventing MSME from being approved for loans, and more specifically 79% of MSME loan applications can only be approved with a collateral or guarantee assistance. The most common difficulty that MSME faced when providing collateral relates to the acceptance of assets from financial institutions. While 59% of respondents owned equipment and machinery to provide as collateral, only 24% believed that these will be accepted as collateral by financial institutions. In contrast, 55%, 68% and 85% respectively of respondents believed that financial institutions would accept motor vehicles, cash and marketable securities, and real estate, respectively, as collateral for a loan, whereas they clearly lack ownership of these assets (39%, 31% and 48%, respectively) to provide to financial institutions as collateral.

Beyond the scope of the current market dynamics, financial institutions have also seen their assignment of capital increase in response to a stronger set of prudential regulations in line with international standards aligning towards the adoption of Basel principles. In response, financial institutions have tended to: (i) prioritize loans to large and well-established companies that carry lesser risk provisions due to their better credit rating; and (ii) prioritize retail loans that are more tolerant to higher interest rates and can therefore absorb the higher risk provisions. As a result, financial institutions have tended to drift away from loans to MSME, given their low tolerance for high interest rates, the difficulty of obtaining suitable financial information and business plans to properly assess their investments projects and sufficient collateral to provide coverage for a loan.

These financing concerns have led Jamaica to develop a series of public policies aimed at improving the access to finance conditions for productive development and more specifically centered on MSME, including programmes developed through the Development Bank of Jamaica (DBJ), the National Export-Import Bank of Jamaica, the Micro-Investment Development Agency, the Self-Start Fund, and the National Financial Inclusion Strategy (NFIS). While these initiatives provide for a good basis for development, further support is needed to foster financing solutions for MSME in Jamaica.

Consulting Objective(s)

Within the framework of the Bank's usual practices at the project completion and closure stage, the overall objective of procurement is to develop the Project Completion Report (PCR) in accordance with the principles and lines adopted in December 2020.

The completion report aims to evaluate the effectiveness, efficiency, relevance, and sustainability of the project as central criteria, as well as the performance of the Executing Agency and the Bank as complementary criteria. In addition, the report aims to draw conclusions and lessons learned.

Scope of Studies

In your work, the Consultant will take into consideration, among others, the following aspects:

- a. Changes in context and revision of assumptions (relevance): Were the objectives and design of the project relevant given the political, economic, and financial context?
- b. Results in terms of products (outputs) achieved (effectiveness): Has the project achieved the expected products and results? Are the final beneficiaries satisfied with the quality and delivery of the services?

c. Impact Results Advice (Effectiveness): How did the project contribute to the scope of the objective?

d. Achievement of performance indicators and objective (efficiency): What has been CEF performance in terms of projected performance indicators and agreed responsibilities with respect to project implementation? Provide information on the problems faced and the measures that were taken to remedy them (whether administrative, operational, financial, political, macroeconomic, etc.).

e. Sustainability: The report should determine the level of sustainability of the project.

f. Lessons learned: Information should be provided on the economic/political/financial conditions to exist, the level of institutional capacity of the executing agency, the required level of participation of the relevant entities, and other factors of success that must be present so that other operations of this nature can be considered in the future.

Main Activities

For the achievement of the previous objective, the contractual will carry out the following activities:

- Collection of relevant information from the semi-annual project reports, Progress Monitoring Reports (PMR), financial reports, interviews, and any other relevant sources of information.
- Description of the structure and evolution of the relevant indicators by analyzing in detail the Results Matrix / Logical Framework and verifying the achievements based on that instrument.
- Evaluation of the project in general, using the Bank's PCR format.
- Identify lessons learned and provide recommendations for future operations to be funded by the IDB by analyzing the sustainability of products and results, as well as prospects for progress in the areas covered by the project.
- Analysis of all the documentation of closure and evaluation of the project, extracting the main conclusions and recommendations that will serve as input sinking of this report.
- The Consultant shall take into consideration and address in its Final Report the comments to the report resulting from the committees, the Office of Strategic Planning and Development Effectiveness (SPD), the Legal Department (LEG), the Office of Financial Management and Acquisitions for Operations (FMP) and other instances of approval of the PCR within the Bank.

Reports / Deliverables

The consultant must present:

- An updated work plan.
- A draft project completion report (PCR).
- The final report, incorporating in the Project Completion Report (RCP) the comments, conclusions and suggestions received.

Payment Schedule

Payments will be made by bank transfer to the account that the Consultant declares at the time of signing the contract, according to the following timetable:

- 15% upon approval of the workplan
- 35% submission of the draft Project Completion Report (PCR).
- 50% once approved by the IDB the Adjusted Project Completion Report. The final Inform approval shall be subject to the resolution of the various instances of approval of the PCR in the internal instances of the Bank.

The costs of mobilization, travel and taxes will be borne by the Consultant.

Ratings

- *Degree/Academic Level & Years of Professional Experience:* University Professional in the area of Economic or Related Sciences, with master's degree and proven professional experience of at least 5 years linked to the design, management and evaluation of projects in the public and private sector. The Consultant shall have a history of the execution of similar projects, with similar projects being understood as those projects in which tasks similar to all or some of the activities required for the execution of the work subject to this call have been carried out.
- *Languages:* English
- *Specialization Areas:* design, management, and evaluation of development projects in the financial sector.
- *Skills:* Interpersonal communication and teamwork, organizational and task planning capacity.

Consulting Features

- *Consulting Category and Modality:* Contractual Products and External Services
- *Duration of the Contract:* from the signing of the contract until 30 June 2023.
- *Workplace(s):* External Consulting
- *Division Leader or Coordinator:* The supervision of the work will be carried out by the Specialist in Financial Operations (IFD/CMF) of the IDB Representation in Jamaica.

Payment and Conditions: Compensation will be determined in accordance with the Bank's policies and procedures. In addition, candidates must be citizens of one of the IDB member countries.

Consanguinity: In accordance with applicable Bank policy, candidates with relatives (including fourth degree of inbreeding and second degree of affinity, including a computer) who work for the Bank as an official or contractual force of the supplementary contractual force, will not be eligible to provide services to the Bank.

Diversity: The Bank is committed to diversity and inclusion and equal opportunities for all candidates. We embrace diversity based on gender, age, education, national origin, ethnicity, race, disability, sexual orientation, religion, and HIV/AIDS status. We encourage women, Afro-descendants, and people of indigenous origin to apply.