

# PROJECT STATUS REPORT (FINAL)

JULY 2017 - DECEMBER 2017

## SECTION 1: PROJECT SUMMARY

**PROJECT NAME:** Using credit ratings to facilitate financing for caribbean SMEs

Project Number: TT-M1028 - Project Num.: ATN/ME-14291-TT

**Purpose:** The result is to increase the access of credit-worthy SMEs to diversified financial products by mainstreaming an external and independent credit risk rating methodology for SMEs and non-bank financial institutions

**Country Admin**

TRINIDAD AND TOBAGO

**Country Beneficiary**

TRINIDAD AND TOBAGO

**Executing Agency:**

Servicio Caribeño de Información y Calificación  
Crediticia

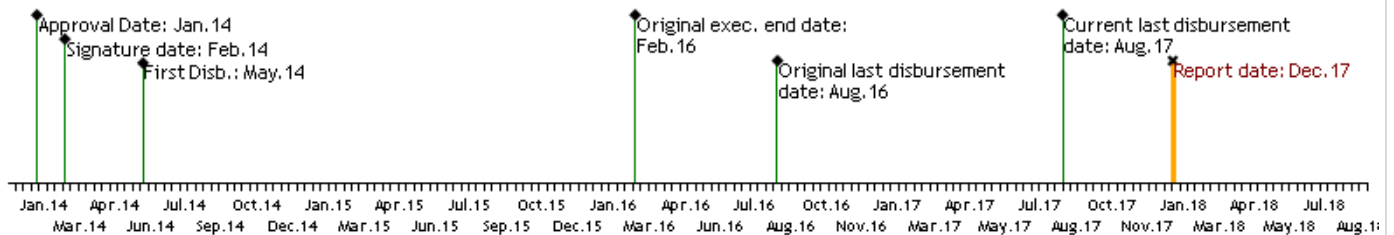
**Design Team Leader:**

VASHTIE DOOKIESINGH

**Supervision Team Leader:**

VASHTIE DOOKIESINGH

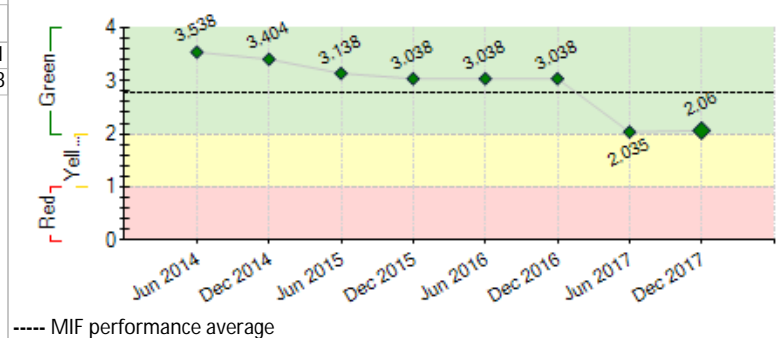
### PROJECT CYCLE



### FUNDS

	Approved	Cancelled	Disbursed
<b>FOMIN</b>	\$150,000.00	\$8,873.39	\$141,126.61
<b>Counterpart</b>	\$65,000.00	\$0.00	\$71,951.88

### PERFORMANCE SCORE



## SECTION 2: RESULTS AND ACHIEVEMENTS

### Performance once project is completed

The project has achieved: (1) Sensitization and knowledge sharing of CariCRIS' SME Rating tool through participation in 3 seminars which were attended by 90-100 SMEs and banking officers. (2) The rating of 16 SMEs. (3) The development of a CariCRIS hosted, web-based SME electronic rating tool to be utilized by credit unions, banks and other financial institutions. This would open up lending the SMEs as the electronic rating tool would allow the lenders to process loan applications in a more efficient, relevant and standardized manner. (4) Skills-building and institutional strengthening at the Executing Agency, with training for CariCRIS' staff provided by an ex-S&P MD. (4) Institutional strengthening of CariCRIS' staff, regulators and risk professionals across the region by exposure to training in (i) Early warning signals in insurance companies (Trinidad, March 2016), (ii) Risk Management in Banks (Jamaica, June 2016), (iii) Early Warning Signals in Banks (Trinidad, October 2016), (iv) Enterprise Risk Management (Barbados, May 2017), (v) Risk Management of Investment Portfolios (Guyana, June 2017), (vi) IFRS 9 Workshop (Jamaica, September 2017) and (vii) Operational Risk Management in Financial Institutions (Trinidad, November 2017)

### Comments from the Supervision Team Leader

CARICRIS has piloted a highly innovative SME Credit Rating methodology with the potential to disrupt barriers to SME access to and pricing of bank finance. This tool is available to commercial financial institutions on a subscription basis for use in credit decision making and risk analysis. Despite commitment to use of the tool at executive levels and the clearance of the tool by credit committees of participating banks, the expected level of use has not materialized potentially due to 1. lack of interest in expansion of SME lending 2. reluctance to broaden basis of risk assessment 3. over reliance on cash and premium real estate security. The availability of the on line tool may advance adoption as opposed to earlier model of having CARICRIS conduct the rating. In addition project resources have resulted in significant strengthening of CARICRIS institutional capacity in rating non bank financial institutions given long awaited legislative change mandating rating of credit unions and insurance companies.

### Final evaluation

### Comments from the Supervision Team Leader

Given the limited scope of the project and the mainstreaming of project activities into CARICRIS business operations a separate final evaluation is not warranted

[Final evaluation](#)

## SECTION 3: INDICATORS

Indicators		Baseline	Planned	Achieved	Percentage
<b>Purpose:</b> The result is to increase the access of credit-worthy SMEs to diversified financial products by mainstreaming an external and independent credit risk rating methodology for SMEs and non-bank financial institutions  <b>Classification:</b> Satisfactory	R.1 Number of SMEs that receive new credit lines from banks as a result of being rated (disaggregated by sex of owner)	0	20	1	0 %
	R.2 Number of SMEs rated by CariCRIS (disaggregated by sex of owner)	0	60	16	0 %
	R.3 Number of commercial banks utilizing CariCRIS rating information in their credit assessment process of SMEs	0	3	1	0 %
<b>Component 1:</b> Sensitization and Knowledge Sharing  <b>Weight:</b> 25%  <b>Classification:</b> Satisfactory	C1.11 Media campaign implemented	0	1		0 %
	C1.12 Number of SMEs, regulators and lenders made aware of CariCRIS ratings	0	300	177	0 %
	C1.13 Number of seminars of industry actors (SMEs, lenders, regulators) featuring CariCRIS rating system	0	3	6	0 %
<b>Component 2:</b> Expansion of SME Risk Rating Program  <b>Weight:</b> 25%  <b>Classification:</b> Satisfactory	C2.11 Number of commercial bank staff trained on the inclusion of SME credit ratings into the credit assessment process	0	45	90	0 %
	C2.12 Number of training sessions of loan officers of commercial banks	0	6	3	0 %
<b>Component 3:</b> Institutional Strengthening of CariCRIS  <b>Weight:</b> 25%  <b>Classification:</b> Satisfactory	C3.11 CariCRIS management, technical staff and rating committee members trained by external consultant	0	1	1	0 %
	C3.12 The risk assessment process and procedures of CariCRIS in evaluating non-bank financial institutions is developed	0	1	1	0 %
	C3.13 Number of CariCRIS staff that are trained to rate credit unions and non-bank financial institutions	0	6	9	0 %
	C3.14 Seminars held on risk management and BASEL 2 & 3 implementation for financial institutions	0	3	5	0 %
<b>Component 4:</b> Knowledge Dissemination and Communication  <b>Weight:</b> 25%  <b>Classification:</b> Satisfactory	C4.11 Infographic created	0	1		0 %
	C4.12 Final evaluation conducted	0	1		0 %

Milestones	Planned	Due Date	Achieved	Date of achievement	Status
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### CRITICAL ISSUES THAT HAVE AFFECTED PERFORMANCE

[X] Others, which?: Commercial bank adoption of SME rating tool was slower than expected

## SECTION 4: RISKS

### CRITICAL RISKS MANAGED DURING IMPLEMENTATION

1. A deterioration in economic conditions may weaken business profitability and negatively affect employment and sales.

**Level:** Low

**Responsible:** Project Guest

**Status:** In effect

**Comments:** A deterioration in economic conditions may weaken business profitability and negatively affect employment and sales.

2. Sector Risk: Although banks utilize credit ratings in their credit assessments, this may not lead to an increase in bank financing for SMEs.

**Level:** Low

**Responsible:** Project Guest

**Status:** In effect

**Comments:** Banks are still heavily focused on collateral when lending.

3. Sector Risk: There may not be sufficient SME demand to conduct 60 ratings despite the co-payment supplied by the project.

**Level:** Low

**Responsible:** Project Guest

**Status:** In effect

**Comments:** SMEs are very cautious about spending on credit ratings especially as access to credit is not guaranteed even with a credit rating. Demand could be increased if the credit ratings are done as part of a wider project with the Banks or a Guarantee Fund, thereby either removing the SMEs' outlay entirely or assuring credit is forthcoming post-Rating.

**PROJECT RISK LEVEL:** Low **TOTAL NUMBER OF RISKS:** 4 **IN EFFECT RISKS:** 3 **NOT IN EFFECT RISKS:** 0 **MITIGATED RISKS:** 1

## SECTION 5: SUSTAINABILITY

**Likelihood of project sustainability after project completion:** HP - Highly Probable

Project investments in development and awareness raising of the SME rating tool as well as technical capacity building have been mainstreamed by CARICRIS

### CRITICAL ISSUES THAT MAY AFFECT PROJECT SUSTAINABILITY

*[None reported in this period]*

### Actions related to sustainability which have been implemented:

CariCRIS undertook three activities to promote the sustainability of the project's goal – increasing SMEs' access to finance – both for the project's duration and to last after the project. The first activity was to increase awareness of the role and benefits of credit ratings. CariCRIS held 3 seminars with participation of 90-100 SMEs and banking officers. Secondly, CariCRIS hosted 7 Workshops throughout the region meant to increase the capabilities of Regional Institutions: (i) Early warning signals in insurance companies (Trinidad, March 2016), (ii) Risk Management in Banks (Jamaica, June 2016), (iii) Early Warning Signals in Banks (Trinidad, October 2016), (iv) Enterprise Risk Management (Barbados, May 2017), (v) Risk Management of Investment Portfolios (Guyana, June 2017), (vi) IFRS 9 Workshop (Jamaica, September 2017) and (vii) Operational Risk Management in Financial Institutions (Trinidad, November 2017). And thirdly, CariCRIS developed a web-based SME electronic rating tool to be utilized by credit unions, banks and other financial institutions. In Q1 2018, this tool is being marketed across the Region.

[Sustainability Plan](#)

## SECTION 6: KNOWLEDGE

### Lessons learned

1. The development of the SME electronic Rating Tool 'SME eSMART' provides good opportunity to increase the usage of SME Credit Ratings – The tool enables banks to real time rate the SMEs on their own by guiding them through the same comprehensive SME Credit Rating methodology employed by CariCRIS. This is an important achievement of the project and one that can have a lasting and growing impact on the Financial Services sector.

2. The ubiquitous culture of collateral-based lending reduces access to credit for SMEs – More work has to be done to get Regional banks to move towards credit-based lending and away from such heavily reliance on collateral. Anecdotally, many SMEs which have strong credit potential are being turned away from financing because they may be collateral poor. Banks also seems to not give enough cognizance to the fact that collateral only comforts after a default has occurred. Indeed, if the default occurs because of widespread economic downturn, banks may not even be able to realize on the collateral.

3. Co-pay by SMEs could be prohibitive to the demand for SME Credit Ratings – It was difficult to find demand for the originally planned 60 SME Credit Ratings and just 16 were done despite a 50% reimbursement. SMEs expressed concern that though financing may be made available as a result, banks may not be responsive to the Credit Rating in pricing their loan facilities and so were cautious in spending on the Credit Rating. The banks could have used this approach to re-price many of their existing client loan facilities as they became due, leading to a greater demand for the independent ratings and also a more profitable loan portfolio for the banks. Credit Rating projects may be better participated in if offered in partnership with banks and Guarantee Funds so that either (i) financing is appropriately priced at the end and/or (ii) there could be 100% coverage of the SMEs' Credit Rating fees or elimination of risk to banks when lending (in the case of a guarantee).

**Relative to**  
Sustainability

**Author**  
Dass, Wayne

Risk

Dass, Wayne

Design

Dass, Wayne

**Indicate which are the main products of the project, where they can be found, and how they could be "shared" with other entities or similar projects.**

CARICRIS knowledge products available via minimal subscription to company website <https://www.caricris.com/>

### Main products of the project

*[Apr 2014]* SH - CariCRIS Bank training 2014 presentation - post.pptx (Other)

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