Document of the Inter-American Development Bank

**The Bahamas**

**Credit Enhancement Program for Micro, Small and Medium Enterprises**

**(BH-L1046)**

**Monitoring and Evaluation Arrangements**

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1. Introduction
   1. **Objective**. The general objective of the program is to improve economic activity in The Bahamas. The specific objective is to enhance access to finance of MSME by providing a credit enhancement facility.
   2. **Components.** The program consists of two components. Component 1 is the Credit Enhancement Facility (CEF) for $22 million. The CEF will provide partial loan guarantees to eligible Financial Institutions (FI) for loans granted to eligible MSME, mentored and vetted by the Small Business Development Centre Bahamas (SBDC). The CEF acts as an incentive to FI to increase their MSME loan portfolio (downscaling) by providing additional security coverage on loans they issue for firms’ investment projects. The partial guarantees will be issued to eligible FI to cover individual loans to be undertaken by eligible MSME. FI will review loan applications, which will be subject to normal lending criteria, and notify SBDC and the applicant within a certain time frame of its interest in providing financing under the CEF.
   3. Component 2, Support to MSME in business advisory services and institutional strengthening of SBDC ($2, 940 million), will support the expansion of SBDC’s technical assistance instruments, which include business advisory services. It has 1,868 firms already registered. Specifically, the loan would cover the following key aspects that confront one of the two main obstacles to MSME financing: i) supporting MSME in creating proper financial records/statements of their business, with services provided from accounting firms or individuals vetted by the Bahamas Institute of Chartered Accountants (BICA) and the SBDC; and ii) supporting firms in developing their business and financial models, which would be implemented with advisors contracted by the SBDC. Also, institutional strengthening of SBDC will be supported. Loan resources will cover the personnel that would support the SBDC in program management and fiduciary aspects. Also, an amount of US$60,000 will be set aside to cover the administrative and monitoring and evaluation cost of the program.
   4. **Executing Agency (EA) responsibilities.** SBDC will act as EA for the operation and will be responsible for coordinating the necessary arrangements for proper execution, which will include: (i) preparation, implementation, coordination of the annual operating plans; (ii) preparation of budgets, project accounting, financial management, reports, and disbursement requests; (iii) preparation of the procurement plan of consulting services; (iv) preparation of technical, progress and financial reports; (v) periodic monitoring and analysis of the program’s activities; (vi) evaluation of the program’s execution; (vii) hiring of the external audit firm and implementation of its recommendations; and (viii) liaison with the project team.
   5. **Monitoring and evaluation instruments.** As part of program’s execution, the following monitoring and evaluation instruments were identified:
      1. **Reports.** The program will be monitored through semiannual reports prepared by the EA and presented to the Bank within 90 days after the close of each semester, measuring progress on the results indicators (for further information see Annex II Results Framework), and the identification of any risk or significant change that cause or may cause delays or difficulties in Program execution, and implementation of corrective measures. Periodical supervision meetings and missions will also be scheduled.
      2. **Financial audits,** which will be carried out annually by an independent auditing firm.
      3. **Ex-post evaluation.** The Borrower, through the EA, will conduct a final report which will be due within 90 days from the date of the last justification of program disbursements. The evaluation will assess the success in accomplishing the program objectives and outcomes based on the Results Framework. This will provide the necessary information for the IDB to conduct a Project Completion Report (PCR) based on the Bank’s policies.
   6. **Information.** The SBDC will compile and maintain all information, indicators and parameters, including all documentation required to prepare the PCR.
2. Monitoring
   1. The purpose of this section is to describe the monitoring arrangements of the program that will be applied throughout the execution in order to guarantee its adequate development and resource utilization. As was previously mentioned, the EA will be responsible of these activities.
   2. Indicators
   3. The indicators to be monitored and registered in the Program Monitoring Report (PMR) are described in the program’s Results Matrix (See Annex II). The monitoring of products indicators will have a semiannual frequency and will be updated in the PMR. Table 1 describes the products and results indicators.

**Table 1. Indicators to be monitored**

|  |  |  |  |
| --- | --- | --- | --- |
| **Indicator** | **Description** | **Measurement frequency** | **Source** |
| **Product Indicators** | | | |
| Funds allocated to CEF | This indicator measures the annual allocation of funds to the CEF. The end of project value is the accumulated amount, including the baseline. | Semiannual | SBDC administrative registries. |
| Funds allocated to strengthen the institutional capacity of SBDC. | This indicator measures the amount of funds destined to strengthen the institutional capacity of SBDC. The end of project value is the accumulated amount. | Semiannual | SBDC administrative registries. |
| Number of MSME assisted by SBDC with business advisory services | This indicator measures the number of MSME that are assisted by SBDC with program’s funds. The assistance can consist of (i) the creation of proper financial records/statements and/or (ii) developing of business and/or financial models.  The end of project value is the accumulated value of the three years.  The baseline is zero because this support activities will begin with the current program. | Semiannual | SBDC administrative registries. |
| **Results Indicators** | | | |
| Average percentage growth of revenue of project’s beneficiaries. | This indicator is measured as the difference between the average growth rate of revenue of project beneficiaries minus the average growth of revenue of firm that registered with SBDC but did not receive credit. | Semiannual | SBDC information system. |
| Credit success rate of MSME assisted by SBDC. | This indicator is measured as the percentage of SBDC-assisted firms that received credit by Financial Intermediaries (banks), supported by the guarantee from the Credit Enhancement Facility.  The baseline is zero because at the time of preparation the CEF is not issuing guarantees. | Semiannual | SBDC information system. |
| Annual financing issued to MSME by banks. | This indicator measures the annual disbursement of credit to MSME by banks in The Bahamas. Baseline is equivalent to disbursements issued in 2018. Average program’s annual disbursements are added to the baseline to calculate the target value. | Semiannual | SBDC information system. |

**Table 2. Products annual cost**



* 1. Information gathering and instruments
  2. **Information system.** SBDC maintains an information system with business data of their registered clients (“Growth Wheel”). This system will be expanded to include information regarding the CEF-backed loans that are granted by private banks to MSME registered at SBDC. The resulting database will contain information on revenue, profits, employment, interests, tenor, loan amounts that will be employed for the program’s monitoring and evaluation.
  3. **Users.** The semiannual report users will include the Inter-American Development Bank (IDB), the SBDC and the audit firms.
  4. Presentation of reports
  5. The program will be monitored through semiannual reports prepared by the EA and presented to the Bank within 90 days after the close of each semester, measuring progress on the results indicators (for further information see Annex II Results Framework), and on the fulfillment of the eligibility criteria at project and program levels. Periodical supervision meetings and missions will also be scheduled.
  6. Program financial statements and the eligibility of program expenses shall be audited annually by an independent auditing firm acceptable to the IDB and hired and paid by the SBDC. The firm will report on the eligibility of the program expenses, verify the existence of issued guarantees under the CEF, and carry out physical inspections of the projects guaranteed by the CEF to verify implementation of investments. The program’s audited financial statements will be submitted within 120 days following the close of the EA’s fiscal year in accordance with the accounting standards and principles acceptable to the IDB.
  7. Monitoring coordination, workplan and budget
  8. SBDC will be responsible for programs’ operating and administrative oversight and coordination. Its administrative functions will include: (i) preparation, implementation, coordination of the annual operating plans; (ii) preparation of budgets, project accounting, financial management, reports, and disbursement requests; (iii) preparation of the procurement plan of consulting services; (iv) preparation of technical, progress and financial reports; (v) periodic monitoring and analysis of the program’s activities; (vi) evaluation of the program’s execution; (vii) hiring of the external audit firm and implementation of its recommendations; and (viii) liaison with the project team.
  9. Monitoring and evaluation costs will be covered by the EA. These are included in the SBDC’s institutional strengthening subcomponent.

**Table 3. Monitoring and Evaluation Costs**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Activities** | **2019** | | **2020** | | **2021** | | **2022** | | **Cost (US$ thousands)** | **Responsible** | **Funding source** |
| 1 | 2 | 1 | 2 | 1 | 2 | 1 | 2 |  |  |  |
| Semiannual monitoring reports | X | X | X | X | X | X | X | X | US$40 | SBDC | SBDC-Program budget |
| Financial audits |  | X |  | X |  | X |  | X | US$60 | SBDC | SBDC-Program budget |
| Final evaluation: ex-post cost-benefit and PCR. |  |  |  |  |  |  |  | X | US$15 | SBDC/IDB | SBDC-Program budget |
| Distribution and discussion of Program’s final evaluation |  |  |  |  |  |  |  | X | US$5 | SBDC/IDB | SBDC-Program budget |
| **Total cost** | | | | | | | | | Total: US$120  Monitoring and audits: US$100  Evaluation: US$20 | | |

1. Evaluation
   1. Evaluation Questions
   2. Given the program’s characteristics, its scale and the unfeasibility of doing field surveys, an impact evaluation with sufficient sample size, proper control group and a rich set of control variables is unlikely to be implemented. However, the type of administrative information and beneficiaries’ basic economic data that is going to be collected by SBDC during programs execution will allow an ex-post cost-benefit analysis to be performed. Hence, the evaluation questions will be the following:
      1. Which is the economic value, attributable to the program, that was generated due to an increase in beneficiaries’ revenue?
      2. Was the targeted success rate (in terms of loan approval by banks) of MSME that received assistance by SBDC the expected?
      3. Did the program contribute to the expansion of the MSME loan portfolio of banks in the Bahamas?
   3. Existing knowledge
   4. Partial credit guarantee funds are a key tool for promoting MSME credit, as witnessed through various programs in LAC[[1]](#footnote-1). They can be effective by resolving market failures related to the asymmetry of information between the financial institution and its client, and the moral hazard caused by customer behavior, as well as the lack of legal and institutional framework to secure financial transactions and ensure compliance with financial contracts. As for business advisory services and other technical assistance to MSME, empirical evidence suggests that the use of these non-financial services along with credit programs produces a positive contribution to profits and access to longer-term loans and leads to a greater likelihood of timely payment by debtors[[2]](#footnote-2).
   5. Evidence from different MSME guarantee funds in the region (Chile,[[3]](#footnote-3) Peru,[[4]](#footnote-4) Colombia[[5]](#footnote-5)) show that they have helped obtain suitable financing amounts, terms and conditions relative to their needs. These interventions showed generally positive trends in investment, productivity, employment, and revenues. For example, the impact evaluation carried for Chile’s Fondo de Garantía para Pequeños Empresarios (FOGAPE) found that beneficiaries from these guarantees had, on average, 6% higher sales and a higher 4% profit[[6]](#footnote-6). Similarly, the impact evaluation for Colombia’s Fondo Nacional de Garantías (FNG) found that the sales of beneficiaries grew 8% more on average that their counterfactual[[7]](#footnote-7). A more recent impact evaluation for credit guarantees programs for SME in Europe found that, after two years of treatment, the sales of the beneficiaries rose by 14,8 percentage points above the control group[[8]](#footnote-8).
   6. Results Indicators
   7. Key results indicators are described in Table 1.
   8. Methodology
   9. **Ex-post Cost-Benefit**. The ex-post evaluation will employ the same cost-benefit model used in the ex-ante Economic Analysis of the program, but, this time, the projected and estimated data will be replaced by actual data gathered from project’s execution (for the corresponding years of the timeline present in the model).
   10. Similar to the ex-ante analysis, net benefits will arise from increased sales expected as a result of the investments realized due to the program. In the ex-ante analysis, an improvement of cost in the long run also contributed to the benefits. Although these costs reductions are not expected in the short run (during project’s execution), the ex-post analysis will look for possible improvements in costs that can be included in the calculations. For a detailed description of the cost-benefit model see the Economic Analysis of the project.
   11. Table 4 describes the variables present in the ex-ante and ex-post analysis, as well as other results indicators that are not explicitly modeled but are related to the others, and that are necessary for the efficiency assessment that will be done in the Project Completion Report (PCR).

**Table 4. Ex-ante and Ex-post variables**

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable present in Ex-ante Cost-Benefit** | **Variable Present in Ex-post Cost-Benefit** | **Related results indicator** | **Means of measurement** |
| Expected increase in sales of MSME that benefit from the program. | Actual sales of MSME that benefit from the program. | Average percentage growth of revenue of project’s beneficiaries.  Credit success rate of MSME assisted by SBDC. | This information will be collected through SBDC follow up surveys to registered MSME. Every time that a firm register with SBDC they answer a survey that contains questions about revenues, profits, employment, among others. These MSME commit themselves to answer follow up surveys after they conclude the training, and after they obtain (if they do) credit. This commitment also holds for MSME that do not manage to get approved for credit, hence providing the counterfactual data for the cost-benefit analysis. |
| Expected reduction in costs of MSME that benefit from the program. | Actual costs of MSME that benefit from the program | Since this variable is expected to be affected only on the long-run, i.e. beyond the years of execution of the project, it is not present as a result indicator. However, for the ex-post analysis, actual cost data will be used, and the analysis will reflect the effects of the real evolution of this variable.  Credit success rate of MSME assisted by SBDC. | Same as previous variable |

* 1. The result indicator associated to the annual financing issued to MSME by banks does not relate directly to a variable in the cost-benefit model. However, it will be important for the efficiency evaluation of the program at the time of elaboration of the Project Completion Report.
  2. **Counterfactual scenario.** The counterfactual scenario will be constituted by the MSME that were technically assisted by SBDC but were unable to secure a loan from a bank. Since these firms will sign a commitment to answer follow up surveys by SBDC, it is expected that information on sales and costs will be gathered for this group.
  3. **Information gathering.** Information will be collected through SBDC follow up surveys to registered MSME. Every time that a firm register with SBDC they answer a survey that contains questions about revenues, profits, employment, among others. These MSME commit themselves to answer follow up surveys after they conclude the training, and after they obtain (if they do) credit. This commitment also holds for MSME that do not manage to get approved for credit, hence providing the counterfactual data for the cost-benefit analysis. The follow up survey is expected to be collected in the fourth year of project execution.
  4. **Cost and benefits calculations.** Programs net benefit will be calculated by aggregating all sales of beneficiaries and subtracting their aggregated costs. Then we will the subtract from this benefit the corresponding aggregated one to the non-beneficiaries MSME that were registered and monitored by SBDC. For the years going forward the execution period, projections will be used based on the observed trends during the first four years.
  5. Workplan and evaluation budget
  6. The schedule of monitoring and evaluation activities are presented in Table 3. Monitoring information will be collected semiannually, with the follow-up survey to MSME expected to be completed during the last year of execution. Costs associated to these activities consists of survey to MSME, processing of administrative data, and labor time employed by SBDC and IDB staff.
  7. Personnel costs will be covered by operation budget included in the component of institutional strengthening. IDB personnel costs will be covered by CMF administrative budget. The institutional strengthening component will further reinforce SBDC capacity to execute all the task and compromises detailed in this monitoring and evaluation plan.
  8. The results from the final evaluation will be disseminated by the IDB and the EA including all the necessary information (as long as there is no classified information) that would allow the interpretation and replication of the results. These results should be available not after 18 months after the evaluation’s conclusion.
  9. The project’s team will invite SBDC to organize dissemination seminars among organizations potentially interested in the results, such as government organizations, educational institutions and international organizations. At the same time IFD/CMF will promote the dissemination of results through internal seminars.

1. Public Development Banks, Towards a New Paradigm? IDB, 2013. [↑](#footnote-ref-1)
2. Ibid. [↑](#footnote-ref-2)
3. OECD, op cit. and IDB (2013), op cit., based on evidence from Larraín and Quiroz, “*Estudio para el fondo de garantía de pequeños empresarios*”, 2006, and Drexler, et.al., The effect of partial credit guarantees on the credit market for small businesses, 2008. These studies reveal not only credit additionality but a positive effect on firm output. Also, see Llisterri et al, “*Sistema de garantías de crédito en América Latina: orientaciones operativas*”, IDB, 2006; and Central Bank of Chile Working Papers Nº254, The effect of credit insurance on liquidity constraints and default rates: evidence from a governmental intervention, 2009. [↑](#footnote-ref-3)
4. IDB (2006), op cit.; Larraín (2006), op cit.; Alvarado and Galarza, *“Los fondos de garantía para el acceso al crédito en Perú: alcances y limitaciones*”, Peruvian Center of Social Studies*,*2002. [↑](#footnote-ref-4)
5. Arraíz, et al., Partial credit guarantee and firm performance: evidence from the Colombian National Guarantee Fund, IDB - Office of the Evaluation and Oversight, 2012. The study finds that firms that gain access to credit backed by the guarantee fund are able to grow in terms of both output and employment, using funds mainly for working capital. [↑](#footnote-ref-5)
6. Drexler, et al, op cit. [↑](#footnote-ref-6)
7. Arraíz, et al, op cit. [↑](#footnote-ref-7)
8. Bertoni, F., Brault, J., Colombp, M., Quas, A., Signore, S. (2019), “Econometric study on the impact of EU loan guarantee financial instruments on growth and jobs of SMEs”, European Investment Fund, Working Paper 2019/54. [↑](#footnote-ref-8)