



Board of Executive Directors

No-Objection Procedure

Expires on 28 August 2019*

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Simultaneous Disclosure

To: The Executive Directors
From: The Secretary
Subject: Bahamas. Loan proposal for the "Credit Enhancement Program for Micro, Small and Medium Enterprises"

Basic Information: Loan type Global Credit Operation (GCR)
Borrower Commonwealth of the Bahamas
Amount up to US\$25,000,000
Source Ordinary Capital

Inquiries to: Fernando de Olloqui (extension 1523) or Navita Anganu (telephone Country Office in Jamaica 876-764-0825)

Remarks: Management has determined that this loan proposal meets the requirements for presentation by No-Objection Procedure, in accordance with Part III, Section 2 (paragraph 3.29 (b)) of the Regulations of the Board of Executive Directors and Part III, paragraph 3.5 of document GN-1838-3.

The Executive Directors are requested to inform the Secretary, in writing, no later than **28 August 2019**, if they wish to interrupt this procedure. If no such communication is received by that date, the attached resolution will be considered adopted by the Board of Executive Directors, and a record to that effect will be made in the minutes of a forthcoming meeting.

Reference: GN-1838-3(6/18), DR-398-18(8/18), GN-2948(2/19)

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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

THE COMMONWEALTH OF THE BAHAMAS

**CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL AND MEDIUM
ENTERPRISES**

(BH-L1046)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Fernando de Ollolqui, IFD/CMF, Team Leader; Navita Anganu, CMF/CJA, Alternate Team Leader; Isabelle Braly-Cartillier, Sebastian Vargas and Alison Arauz, IFD/CMF; Inga Carey, CCB/CBH; Nalda Morales Vasquez and Errolisa McPhee, FMP/CBH; Louis-Francois Chretien, LEG/SGO.

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OEL#3	Operating Regulations
OEL#4	The Financial Sector of The Bahamas
OEL#5	Safeguard Policy Filter (SPF)

ABBREVIATIONS	
BCoC	Bahamas Chamber of Commerce
BDB	Bahamas Development Bank
BEVF	Bahamas' Entrepreneurial Venture Fund
BICA	Bahamas Institute of Chartered Accountants
CBA	Cost-Benefit Analysis
CEF	Credit Enhancement Facility
CRF	Corporate Results Framework
EA	Executing Agency
EIF	European Investment Fund
ESMR	Environmental and Social Management Report
FI	Financial Institutions
FY	Fiscal Year
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IRR	Internal Rate of Return
LAC	Latin America and the Caribbean
MEFD	Monthly Economic and Financial Developments
MoF	Ministry of Finance
MSME	Micro and Small and Medium Sized Enterprises
NPL	Non-Performing Loans
NPV	Net Present Value
OC	Ordinary Capital
OECD	Organization for Economic Co-operation and Development
OR	Operating Regulations
PCG	Partial Credit Guarantees
PCR	Project Completion Report
PEU	Program Execution Unit
SBDC	Small Business Development Centre Bahamas
SME	Small and Medium Enterprises
SMEDA	Small and Medium Size Enterprise Development Agency
TC	Technical Cooperation
UIS	Update to the Institutional Strategy

PROJECT SUMMARY
THE COMMONWEALTH OF THE BAHAMAS
CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL AND MEDIUM ENTERPRISES
(BH-L1046)

Financial Terms and Conditions				
Borrower			Flexible Financing Facility ^(a)	
The Commonwealth of The Bahamas			Amortization Period:	25 Years
Executing Agency			Disbursement Period:	5 Years
Small Business Development Centre Bahamas			Grace Period:	5.5 Years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR Based
IDB (Ordinary Capital):	25 million	100	Credit Fee:	(c)
			Inspection and supervision fee:	(c)
Total:	25 million	100	Weighted Average Life (WAL):	15.25 Years
			Currency of Approval:	Dollars of the United States of America
Project at a Glance				
Project Objective/Description: The general objective of the program is to improve economic activity in The Commonwealth of The Bahamas. The specific objective is to enhance access to finance of Micro, Small and Medium Enterprises (MSME) by providing a credit enhancement facility.				
Special Contractual Clauses prior to the First Disbursement: The Executing Agency (EA) will provide to the Bank's satisfaction, evidence of: (i) the entry into force of an agreement between the Borrower and the EA for the program's execution and transfer of the Bank's loan resources to the EA; (ii) the creation of a Program Execution Unit (PEU) and of the assignment or hiring of its program coordinator, financial officer and procurement specialist, pursuant to the terms of reference agreed to with the Bank; and (iii) the EA's approval of the program's Operating Regulations (OR) in accordance with the terms previously agreed upon with the Bank, and of the entry into force of such OR (¶3.5).				
Exceptions to Bank Policies: None.				
Strategic Alignment				
Challenges ^(d) :	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>
			EI	<input type="checkbox"/>
Cross-Cutting Themes ^(e) :	GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>
			IC	<input type="checkbox"/>

^(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option to request modifications to the amortization schedule, as well as currency, interest rate and commodity conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

^(b) Under the flexible repayment options of the Flexible Financing Facility (FFF), changes in the grace period are possible as long the Original Weighted Average Life (WAL) and the last payment date, as documented in the loan agreement, are not exceeded.

^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, Problem Addressed and Justification

- 1.1 **Macroeconomic context.** After a recessionary period that ended in 2015, economic growth has gradually picked up and is estimated at 2.5% for 2018 and 2.25% in 2019, with projections of 1.5% over the medium term.¹ The recovery reflects firm economic expansion in the United States of America, the main source of tourists to The Commonwealth of The Bahamas and the country's main trading partner. The unemployment rate has fallen from a peak of 14.6% in 2014 and is projected at 8.4% in 2019.
- 1.2 On fiscal matters, public debt has steadily increased to levels of around 57% of the Gross Domestic Product (GDP), although the government has recently implemented measures to decrease the fiscal deficit through lower spending.² The introduction of fiscal responsibility legislation, in addition to cost-cutting measures, raises hopes that the high levels of budget deficit and debt burden will be gradually reduced, bringing greater credibility to the level of fiscal governance throughout the country.
- 1.3 External downside risks include a global economic slowdown and the high exposure and vulnerability to natural disasters, particularly tropical cyclones.³ Factors such as weak fiscal strength owing to its high debt and interest burdens, low economic growth and natural disasters have contributed to The Bahamas' low external credit rating.⁴ On the other hand, it should be mentioned that The Bahamas has reactivated the World Trade Organization accession process with a view to secure membership by 2019, helping to remove barriers to trade, foreign investment and protection of property rights.
- 1.4 **The Bahamian private sector.** Services, including tourism and financial services, represent 78.3% of GDP, while manufacturing generates 19.8% and agriculture 1.9%.⁵ The private sector contributes over 60% of total employed persons and another 16% that are classified as self-employed, thus being the engine of growth within the economy by demanding most of the labor force and supplying its goods and services.⁶
- 1.5 The long-term trajectory of economic growth remains constrained by structural bottlenecks, including issues related to ease of doing business and high energy costs.⁷ Considering productivity performance indicators, The Bahamas is underperforming relative to other Caribbean economies, lowering potential output. Total factor productivity in has been about -1% of GDP on average since 2000 and the contribution of capital to growth has been declining since 2006.⁸

¹ International Monetary Fund (IMF) 2018 Art IV Consultation.

² Ibid. The fiscal deficit reached 5.8% of GDP in Fiscal Year (FY) 2017, however data from the first seven months of FY2018 show a decline in the deficit to 1.6% of GDP versus 2.8% a year before.

³ In the past 50 years, 18 hurricanes have hit the territory of The Bahamas.

⁴ Moody's maintains its rating at Baa3 Negative.

⁵ IDBG Country Strategy with the Commonwealth of The Bahamas (2018-2022) (GN-2920-1), 2018.

⁶ Ibid.

⁷ I. Ruprah and R. Sierra (2016) "An Engine of Growth? The Caribbean Private Sector Needs More than an Oil Change", IDB. Also, Moody's Bahamas credit profile announcement, August 2018. Electricity tariffs are among the highest in the Caribbean, hurting the competitiveness of industry and tourism.

⁸ IMF 2016 Art IV Consultation. Contribution of capital has declined from levels nearly 3% to around 1%.

- 1.6 In order to improve productivity and reverse a decline in external competitiveness, the government needs to address structural impediments, particularly an enabling environment for private sector investment. Based on the Ease of Doing Business Index, since 2010 The Bahamas' business environment has lost ground to competitors such as Trinidad and Tobago, Jamaica, Dominican Republic and the East Caribbean Currency Union,⁹ with the worst performing indicators (in terms of score) being low access to credit (30), protecting minority investors (43) and registering property (43).¹⁰
- 1.7 Across the Caribbean region, Micro, Small and Medium Enterprise (MSME) are estimated to account for 70% to 85% of firms, contribute to 60% to 70% of GDP and about 50% of employment.¹¹ In The Bahamas, there are close to 23,000 business licenses and it is estimated that MSME conform 98% of them and hire 47% of all employees, while contributing between 20% to 30% of GDP.¹² This reflects a strong dichotomy between a very small number of large companies in tourism related activities and financial services that make a very significant contribution to economic activity and a large number of smaller firms. According to one study,¹³ most firms tend to have less than 10 employees and engage in wholesale and retail trade and services, such as transport and storage, construction, personal and business services, communication, education and health. The vast majority of agricultural and fishery producers are also small. However, firm-level productivity in The Bahamas is on average 17% lower than the average Caribbean firm.¹⁴ There is low engagement in international trade, with less than 10% of firms both exporting and importing, 15% only exporting and less than 10% only importing.¹⁵
- 1.8 **The financial sector.** The banking sector dominates the domestic financial system, as local insurance and capital markets are not well developed (see [Financial Sector The Bahamas](#)). Six commercial banks,¹⁶ four of which are subsidiaries of foreign banks, lead the sector. The total assets of the commercial banks are estimated at US\$14.8 billion at the end of 2018.¹⁷ The institutions are liquid and well capitalized, with an average capital adequacy ratio of 33.3%.¹⁸ Elevated financial intermediation rate spreads contribute to the overall profitability of the sector, with average loan rates standing at nearly 11%.¹⁹ The prolonged recession produced a high level of Non-Performing Loans (NPL), reaching a peak

⁹ IMF 2018, op cit.

¹⁰ Ease of Doing Business, World Bank 2019. Scores are from 0-100.

¹¹ [Micro, Small & Medium Enterprise Development in the Caribbean: Towards A New Frontier](#). Caribbean Development Bank, 2016.

¹² Small Business Development Centre Bahamas (SBDC). While there is no legal definition for MSME in The Bahamas, the SBDC follows that of the Government's Economic Empowerment Zone Bill (stated under Program Beneficiaries (¶1.48)).

¹³ The Bahamas: A road map for improving the business climate for SMEs. P. Schneuwly, 2007.

¹⁴ I. Ruprah and R. Sierra, op cit.

¹⁵ IDBG 2018, op cit.

¹⁶ Fidelity, First Caribbean, Royal Bank of Canada, Scotiabank, Commonwealth and Bank of the Bahamas. There are two other commercial banks incorporated in The Bahamas which are under regulation and supervision of the Central Bank, but have limited participation, as well as one public financial institution, the Bahamas Development Bank.

¹⁷ Central Bank of The Bahamas.

¹⁸ As of 2017 (IMF 2018, op cit.).

¹⁹ The average for Latin America and the Caribbean is 7.4%, based on IMF data for 2017.

of 16% of total private sector loans in 2014 (concentrated in mortgages), but levels have since been brought down to regional averages of around 9% through restructuring credit measures and loan write-offs, as well as gradual improvements in economic and labor market conditions.²⁰

- 1.9 Notwithstanding the high liquidity and capitalization rates, credit to private sector has been falling, with a decline of 1.6% over 2018,²¹ after annual decreases of 2.2% on average between 2014-2017.²² Large bank intermediation spreads, reflecting a high-risk premium on lending, and weak economic growth, have been factors in low private sector credit growth.
- 1.10 **The problem of access to finance.** One of the principal constraints to private sector growth is access to finance. A survey to MSME in The Bahamas indicates that access to finance was the second most important obstacle for business growth, after an inadequately educated workforce.²³ Only 30% of surveyed firms have a line of credit or loan from a financial institution and less than one-fourth of companies undertaking investment projects in The Bahamas have been funded by private banks.²⁴ The latest Enterprise Survey of The Bahamas²⁵ substantiates these findings by indicating that only 14.6% of firms used banks to finance investments (versus 38% for Latin America and the Caribbean (LAC), at the time) and 78.3% of firms used supplier or customer credit to finance working capital (versus 58.8% in LAC). The need for finance is reflected in another survey²⁶ which indicates that, while only 11% of MSME obtained financing from a bank to start a business, 50% of respondents revealed they required financing to expand their operations. It should be mentioned that these firms also indicated a need for non-financial assistance, with customer care, technical training and accounting and finance being the most required.
- 1.11 Moreover, utilizing a growth diagnostic framework, access to finance appears as one of the key contributors to low investment and entrepreneurship.²⁷ The Bahamas ranks 144th out of 190 countries and 22nd, among borrowing countries from the Inter-American Development Bank (IDB) on an “Ease of Getting Credit” indicator,²⁸ which is based on the absence of an established credit bureau and weak legal rights. Access to credit indicators have consistently worsened from 2010 and it is the worst performing indicator among all Doing Business topics.
- 1.12 Loan application rejection rates are very high in The Bahamas – nearly 85%, comparable to Trinidad and Tobago, but much higher than Barbados (35%), Belize (42%), Jamaica (55%) or Suriname (27%).²⁹ MSME who do not apply for a loan have varied reasons, the most cited being that the firm has sufficient capital and that the size of the loan (28%) and maturity are insufficient (21%).

²⁰ IMF 2018, op cit., and Central Bank of The Bahamas Monthly Economic and Financial Developments (MEFD), December 2018.

²¹ Central Bank of The Bahamas MEFD, December 2018.

²² IMF 2018, op cit.

²³ Productivity, Technology and Innovation in the Caribbean 2014 Survey (PROTEqIN).

²⁴ IDBG 2018, op cit., based on the 2014 PROTEqIN.

²⁵ <http://www.enterprisesurveys.org/data/exploreeconomies/2010/bahamas>.

²⁶ Bahamas Small and Medium Sized Enterprises Needs Assessment Survey, IDB, 2013.

²⁷ IDBG 2018, op cit.

²⁸ World Bank, 2019.

²⁹ PROTEqIN.

- 1.13 Consequently, internal funds or retained earnings becomes the main source of funding for companies. 63% of surveyed MSME finance their working capital from internal funds, 22% from supplier or customer credit and only 10% from commercial banks. While only 38% of firms had invested in fixed assets, 74% of these investments were financed from internal funds and 18% from commercial banks. When the firms obtain a loan, the average interest rate (of approximately 11%) and tenor conditions (less than five years) are deemed not favorable for investment.
- 1.14 Regarding gender, further analysis is required to better understand the Bahamian context. A recent study indicates that The Bahamas has one of the lowest ratios of female-owned businesses in the Caribbean, with less than 20%.³⁰ This study reflects that although access to finance appears to be the biggest obstacle to women-led firms in the Caribbean, there is no specific data on a gender gap in The Bahamas. Another study of three Caribbean countries concludes that there is no gender gap in access to credit by businesses, but there is the need to deepen the analysis of the effect of gender in firms' decision-making processes³¹.
- 1.15 **Obstacles for access to finance.** As mentioned above (§1.8), despite ample balance sheet space, commercial banks are cautious in making new loans and typically do not prioritize MSME, preferring mortgages (that by definition have the collateral required), consumer loans (more tolerant to higher interest rates) or government financing (lower risk and hence less provisions). Observing the sectoral distribution of credit in the banking system, 78% is categorized under personal loans (albeit some of these may include those destined for small business purposes)³² and 12.5% commercial loans. It should be noted that commercial loans have less NPL ratio than other loans (ranging around 6% versus 9% total of the banking system).
- 1.16 The Bahamas financial sector's restraint from lending to MSME stems from two main problems, which substantiate the low risk appetite from the banks and affect the risk premium in the interest rates: (i) the lack of sufficient collateral to provide coverage for a loan; and (ii) lack of information and financial statements of the firms, as well as of business plans that allow a proper assessment of investment projects.³³ The credit constraint was reinforced by the legacy of the prolonged recession and the NPL it produced, however the economic environment has gradually improved.³⁴
- 1.17 Regarding the barrier of lack of collateral, lenders are unwilling to provide credit, particularly to MSME, if there is no guarantee that they will be able to enforce their rights and collect a debt or repossess collateral through a timely and inexpensive process. This is reflected in the country's low score in the Ease of Getting Credit indicator (§1.11). One survey suggests that banks require about 138% of the amount of the loan or line of credit as collateral.³⁵ MSME cannot meet financial institutions' collateral requirements or these institutions significantly undervalue

³⁰ The Gender Gap in the Caribbean: The Performance of Women-Led Firms, Moore, et. al., 2017.

³¹ Definitions Matter: Measuring gender Gaps in Firm's Access to Credit, Piras et. al, 2013.

³² Central Bank of The Bahamas.

³³ These were the reasons cited by banks through interviews by the program team.

³⁴ IMF 2018, op cit.

³⁵ PROTEqIN. See Compete Caribbean Private Sector Assessment of The Bahamas, 2014. The average for smaller firms in other regions is around 150%.

the assets they are able to provide as collateral, thus increasing the real value of collateral versus the loan amount; this may explain why another survey states that the value of collateral needed is over double of the total loan amount.³⁶ Banks usually require land and buildings, account receivables or cash, which are particularly onerous for MSME and lack ownership of these assets, and do not accept or significantly undervalue equipment or specialized assets in a market of a limited size.³⁷

- 1.18 The lack of information provided by MSME that is required for a loan, including appropriate accounting records, financial statements and adequate business plans, hinders a bank's risk assessment and leads to uncertainty on the project's expected returns and the paying capacity of the borrower. It is also costly for banks to gather the information, increasingly so, the smaller they are. Thus, overcoming information asymmetries becomes a key aspect for access to credit. Moreover, part of the reason collateral is substantial itself derives from the need to offset the risk weighting from lack of specific information on the risks of financing ventures. The most common reasons given by the lender for the rejection of an application for credit are: (i) problems with credit history/report (35%); (ii) incompleteness of the loan application (25%); and (iii) collateral or cosigners unacceptable (16%).³⁸
- 1.19 A specific survey for the program to the banks in The Bahamas confirms that insufficient collateral, poor entrepreneurial skill and lack of credit history as the most important obstacles their institutions face in order to expand its credit portfolio to MSME. When questioned about reasons for credit application denial, the responses were centered on the lack of information and financial statements from the firm, lack of credit history or experience and insufficient collateral or guarantees, as well as lack of own capital of the smaller firms.
- 1.20 **Policy interventions.** The government has been very active in promoting the development of MSME, including the announcement of seven key policy pillars.³⁹ These include: (i) facilitating the environment for complying with regulatory measures, such as in obtaining of licenses and certificates; (ii) fostering a culture of entrepreneurship and innovation with support for curricula-based programs; and (iii) promoting greater linkages between MSME and other domestic and international sectors. The government is also planning an MSME specific law, that would include a national definition of these firms and formalize the institutional support. In regard to improving access to credit specifically, an important action has been the approval of a new credit bureau legislation in early 2018, which is in the process of implementation. Credit bureaus are essential elements of the financial infrastructure that help to reduce information asymmetries, increase access to credit for small firms, lower interest rates, improve borrower discipline and support bank supervision and credit risk monitoring.
- 1.21 Among the government's seven policy pillars, perhaps the most significant action has been the establishment and support of the Small Business Development Centre Bahamas (SBDC), a non-profit company incorporated in May 2018 under the Companies Act, 1992, and launched in September of that year. The

³⁶ World Bank's Enterprise Survey.

³⁷ Substantiated by a survey conducted in 4115/OC-JA, Credit Enhancement Program for SME.

³⁸ PROTEqIN.

³⁹ 2018/2019 Budget presentation.

government owns 100% of its capital and its members are the Bahamas Chamber of Commerce (BCoC), the Ministry of Finance (MoF) and the University of The Bahamas.⁴⁰

- 1.22 The SBDC has the mandate to support the development of MSME and maximize their economic impact by equipping and empowering them to provide employment, create wealth and drive development of a resilient economy. Its current priorities include improving the enabling environment of these firms, increasing their access to finance, and fostering a culture of entrepreneurship and innovation.⁴¹ The SBDC will provide training and capacity building programs for new and existing entrepreneurs to offer necessary support and market research. The center shall be the first contact for MSME in need of information to start up and provide the assistance to established businesses to improve internal operations. The SBDC will offer the following services: (i) business advisory services; (ii) training and entrepreneurial programming; (iii) mentorship and incubation; (iv) advocacy; and (v) access to capital. For the 2018/2019 fiscal year, the government provided US\$1 million to facilitate SBDC operations, US\$4.05 million for loan guarantees (¶1.23) and US\$450,000 in grants for business development to support capital structures when accompanied by a loan or equity investment facilitated by SBDC.⁴²
- 1.23 To improve MSME access to financing, the SBDC created the Credit Enhancement Facility (CEF), which provides partial credit guarantees for financial institutions to provide loans to MSME, in order to compensate for the latter's inability to meet collateral requirements. It is managed through a specific SBDC bank account. Its initial capital is US\$4.05 million, of which US\$1 million has been transferred into the account.⁴³ As of May 2019, three banks⁴⁴ have signed the agreement to participate and the instrument has begun operations with terms similar to those proposed under the program (¶1.38 through ¶1.40). The CEF will build upon a previous government attempt in establishing a guarantee program in the early 2000s that received negligible support from the financial intermediaries due to operational aspects. Particularly, its operating regulations hampered reimbursement of claims to banks in case of loan defaults,⁴⁵ the incentive structure produced moral hazard and there was a lack of advisory support for businesses. In this regard, the CEF will address these issues through its operating regulations, such as including automatic drawdown after a certain period of non-payment, providing only partial guarantees and stressing recovery efforts after a claim, while SBDC will address the required advisory services.
- 1.24 The creation of SBDC is a very important policy initiative for articulating an effective support structure for MSME, both in terms of financial support and technical assistance. It is relevant to mention that one survey indicated that 91% of MSME

⁴⁰ Currently, 9 of its 13 Board members are government appointed. The SBDC is part of a network of similar programs in the United States, Latin America and Caribbean, that has been supported by the United States Government and regional agencies, such as the Organization of American States (<https://www.sbdcglobel.com>). The network has been instrumental in its capacity building.

⁴¹ SBDC.

⁴² The government has targeted the funds on start-ups of impoverished youths of up to the age of 30.

⁴³ This IDB loan program is expected to cover the government's commitment to funding the CEF in subsequent fiscal years.

⁴⁴ Royal Bank of Canada, Scotiabank and Bahamas Development Bank. First Caribbean, Commonwealth and Bank of The Bahamas have shown interest in joining and are expected to do so.

⁴⁵ The process for submitting and substantiating claims was deemed very slow by the banks.

mention that the formal business support structure is ineffective and that 66% would be willing to accept financial assistance if linked to technical support.⁴⁶ The SBDC model is similar to a previous effort, financed by IDB/Compete Caribbean,⁴⁷ to create a Small and Medium Size Enterprise Development Agency (SMEDA). The legislative act that would have created this institution was developed but was not subsequently presented to the Parliament, while the SBDC effort has been broadly supported through budgetary items (§1.22).

- 1.25 The rest of the government support structure for MSME financing includes the Bahamas' Entrepreneurial Venture Fund (BEVF) and the Bahamas Development Bank (BDB). The BEVF, privately managed but funded solely by the government, provides financing to MSME mainly through equity to startup and existing firms. It has US\$4.5 million in active equity investments. The BDB, a wholly owned government institution, has the mandate of promoting economic development in The Bahamas; it has a loan portfolio of over US\$30 million, but has struggled with the quality of the portfolio, with around half being non-performing. It should be noted that the MoF has mandated the SBDC to lead government programs that promote MSME and to coordinate efforts to avoid overlaps of portfolios between other government supported agencies, such as BEVF and BDB, and develop synergies. In this sense, the activities of the SBDC, BEVF and the BDB complement each other and SBDC will extend its business development services and other programs to these other government supported entities to enhance the long-term sustainability of their activities and promote successful entrepreneurs. For the 2018/2019 Budget, the government supported the BEVF with US\$750,000 and the BDB with US\$4 million for MSME loans. Over the next five years, it has committed US\$25 million for MSME financing through grants and guarantee facilities across the various institutions it supports, but particularly the SBDC.
- 1.26 **Program justification.** As mentioned previously, while the financial sector has demonstrated a sound financial standing, characterized by high capitalization, improved asset quality indicators and strong liquidity, it has been lacking in allocating resources to the private sector, and particularly to productive sectors, evidenced by its reduction of credit over time.
- 1.27 The problem that this program will address is the lack of adequate financing for MSME investments to stimulate their growth. More specifically, the program will focus on addressing problems related to the limited collateral capacity of firms, which has been identified as one of the main obstacles to access to finance. This will be achieved through leveraging the existing CEF structure that provides Partial Credit Guarantees (PCG) to support loans to MSME investment projects. It is expected that in the long term, the guarantees supporting MSME investment projects will have a demonstrative effect that will stimulate a higher risk appetite in commercial banks for MSME investment projects and lead to increased financing in this market segment. Also, the program will address the other main obstacle for access to finance, the lack of information and business skills of these firms, by providing the technical assistance they require.

⁴⁶ IDB (2013), op cit.

⁴⁷ BH-CC2003 - Policy and Institutional Framework for Small and Medium Enterprises Development in The Bahamas.

- 1.28 **Demand analysis.** The [demand analysis](#) for the IDB program identifies that the additional supply of financing to MSME will emerge from the existing MSME that demand credit but are currently excluded from the credit market due to high collateral requirements. Based on the estimated total number of MSME in the country and survey⁴⁸ responses on the percentage of MSME that did not receive credit due to financial market constraints, it is estimated that there is at least US\$215 million of total unmet credit demand. The program would expect to support at least 570 investment loans to MSME for a total amount of US\$35.7 million (guaranteed with the amount of CEF resources under Component 1), which correspond to 16.6% of the estimated demand. The potential demand for the CEF is corroborated by interviews and surveys with financial institutions and the BCoC. Banks have confirmed their interest in participating based on the operating mechanism contemplated, which among other issues assures automatic drawdown from the CEF after a certain period of non-payment, and the improved information and skills of the MSME given SBDC support. Furthermore, the SBDC has 3,486 firms already registered, reflecting their strong demand for credit and technical assistance.
- 1.29 **Experience in the region and lessons learned.** PCG funds are a key tool for promoting MSME credit, as witnessed through various programs in LAC⁴⁹ and worldwide.⁵⁰ PCG provide guarantees to groups that do not have access to credit by covering a share of the default risk of the loan. 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.⁵¹

⁴⁸ PROTEqIN.

⁴⁹ Public Development Banks, Towards a New Paradigm? IDB, 2013.

⁵⁰ Facilitating access to finance: discussion paper on credit guarantee schemes. The Organization for Economic Co-operation and Development (OECD), 2010; and Econometric study on the impact of EU loan guarantee financial instruments on growth and jobs of SMEs, European Investment Fund (EIF), 2019. The latter concludes that guaranteed loans are found to positively affect the growth in assets (19.6 percentage points over the two years after the end of the signature year), sales (14.8 pp) and employment (16.9 pp).

⁵¹ IDB (2013) op cit.

- 1.30 Evidence from different MSME PCG funds in the region (Chile,⁵² Peru,⁵³ Colombia⁵⁴ and Mexico⁵⁵) and outside LAC⁵⁶ show that they have helped firms' access to finance and obtain suitable financing amounts, terms and conditions relative to their needs. These interventions showed generally positive trends in output, sales, investments, productivity employment and survival rates. More specifically, the program will draw on the experience of the more recent credit enhancement programs in the Caribbean supported by the Bank: 4115/OC-JA, Credit Enhancement Programme for Micro, Small and Medium Enterprises, and 3389/OC-BA, Enhanced Access to Credit for Productivity Project. Regarding Barbados, since the launch of the fund in March 2016, the program has disbursed 68% of the loan resources for guarantees to support 60 firms; in Jamaica, since eligibility in March 2018, the program has utilized US\$6 million (30% of the program amount) to leverage US\$16.8 million in loans to 140 SME.
- 1.31 Several lessons are applicable to The Bahamas: (i) focus on supporting medium or long-term investment projects in order to optimize the economic impact, as a general purpose guarantee facility may focus on short-term working capital projects and therefore not achieve the intended objectives;⁵⁷ (ii) maintain a solid capital base available to respond to the outstanding guarantees if called, ensuring a credible scheme on which the participating financial institutions can rely upon in case of claims; (iii) be limited to a partial credit guarantee instrument, so that the participating financial institutions allocate part of their own capital, thus ensuring suitable due diligence, structuring and collateral mechanisms in each guaranteed loan; (iv) provide clear and transparent triggers and processes in the case of applications, claims and collections, so that the participating financial institutions have the specific knowledge of all requirements and can count on specific timeframes to build credibility in the mechanism; and (v) build institutional capacity that is instrumental to properly manage fiduciary, monitoring and accounting duties. Since these programs need to be efficient in order to be marketable to participating financial institutions, it is important to focus on streamlined processes and strong internal controls, as well as to generate a solid monitoring and evaluation function that will both provide portfolio information to guide management decisions and generate a positive demonstration effect to further promote these types of programs.

⁵² 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 N°254, The effect of credit insurance on liquidity constraints and default rates: evidence from a governmental intervention, 2009.

⁵³ 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.

⁵⁴ 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.

⁵⁵ IDB (2013) op cit. A study reveals positive impact on labor productivity and employment.

⁵⁶ For example, EIF (2019), op cit, and in Korea, where a fund has had positive effects on sales growth and productivity (OECD, op cit).

⁵⁷ For example, in Chile beneficiaries registered an increase of 32% in sales and 24% in profits when compared to non-beneficiaries, while in Colombia beneficiaries showed a more modest increase of 6% in sales (due a higher proportion of short-term working capital guarantees).

- 1.32 **Complementarity with other IDB Group operations.** The program will be directly complemented by an IDB Lab⁵⁸ program denominated “Accelerate Bahamas” (in preparation⁵⁹), which will support entrepreneurship and innovation of MSME, including through a Fintech platform (managed by SBDC) to mobilize capital to MSME at various stages of the business lifecycle. It complements the program’s efforts (¶1.45) by providing the platform and digital systems required for the mapping and connectivity of the MSME financing and support ecosystem (that includes firms, investors and SBDC), strengthening among other aspects the operationalization of the CEF. The IDB Lab program will also enhance SBDC’s capacity in delivering business advisory services by improving their acceleration programs and the quality and linkages to service providers. Team members of this program will be included in the IDB Lab operation in order to assure coordination. Another IDB Lab program, which indirectly complements the loan by improving the business climate, is ATN/CO-16734-BH (approved in 2018), Support for Economic Diversification in The Bahamas, that supports the government’s diversification efforts by carrying out in-depth analyses of three growth potential sectors: digital technology and Information and Communication Technology; the sustainable use of oceanic resources (or “blue economy”); and agribusiness.
- 1.33 In addition to the loan, considering SBDC is in its early stages of development and the findings of an institutional assessment prepared as part of program preparation, a Technical Cooperation (TC) is being processed to enhance the SBDC’s Bahamas technical, fiduciary and operational capacity, so as to ensure that the loan’s execution readiness is not hampered by capacity issues. The TC will focus on processes and information system to record, manage and monitor the financial products and services. The information management capacity would permit proper monitoring and evaluation. Other aspects related to developing the financial platform/systems required will be funded by IDB Lab (¶1.32)⁶⁰ and SBDC resources. The processing of guarantees and information management of the MSME, loans and guarantees under the CEF will initially be carried out manually; the development of systems with improved operational efficiency, data management and internal controls will be implemented once there is a larger scale of transactions.
- 1.34 **Alignment with the IDB’s strategies and policies.** The program is aligned with the IDB Group Country Strategy with the Commonwealth of The Bahamas (2018-2022) (GN-2920-1) through the strategic objective “To address information asymmetries, high transaction costs, and access to capital”, as the operation will contribute to improving access to finance of MSME, as well as their capacity building through the SBDC. This operation is included in the 2019 Operational Program Report (GN-2948). The project is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) and is strategically aligned with the development challenges of: (i) Productivity and Innovation through the promotion of productive investments in MSME by enhancing their access to

⁵⁸ IDB Lab is the innovation laboratory of the IDB Group that mobilizes financing, knowledge and connections to catalyze innovation for inclusion in LAC.

⁵⁹ The program has been granted eligibility. It is structured as a non-reimbursable technical cooperation. The SBDC, also known as Access Accelerator in The Bahamas, is the partner for the project.

⁶⁰ The platform is scheduled to operate in the second semester of 2020.

medium and long term financing;⁶¹ and (ii) Social Inclusion and Equality through the access to finance of MSME and consequently their inclusion in financial markets. It is also aligned with the cross-cutting theme of climate change and environmental sustainability (§1.35). Based on an estimate of potential projects financed, according to the [joint MDB approach](#) on climate finance tracking, 5% of total IDB funding for this operation result in climate change mitigation activities. This contributes to the IDBG's climate finance goal of 30% of combined IDB and IIC operational approvals by year's end 2020. The operation is aligned to the Corporate Results Framework (CRF) 2016-2019 (GN-2727-6), as it specifically contributes to the indicators MSMEs financed; and MSMEs provided with non-financial support. The program is also aligned with the Institutions for Growth and Social Welfare Sector Strategy (GN-2587-2), under the Enhancing SME Productivity and Growth component, and the Support to SMEs and Financial Access and Supervision Sector Framework Document (GN-2768-7), in terms of developing risk mitigation instruments and widening the financing frontier for the productive sector.

- 1.35 The program is expected to address gender (§1.14) and climate change and environmental sustainability issues by tracking women-led MSME and energy efficient projects, respectively, in order to develop data on this type of financing and identify existing gaps, with a medium-term view to support further decisions and develop specific strategies. While the program will not focus on any particular economic sector (§1.39), it is contemplated that the CEF include an incentive for loans focused on energy conservation, energy efficiency and renewable energy, as it is one of the main development challenges in The Bahamas (§1.5).

B. Objectives, Components and Costs

- 1.36 **Objectives.** The general objective of the program is to improve economic activity in The Commonwealth of The Bahamas. The specific objective is to enhance access to finance of MSME by providing a credit enhancement facility.
- 1.37 **Components.** The program has two components. The first (and largest) will finance the CEF administered by the SBDC, in order to facilitate access to finance for MSME. The CEF is the primary source of financial support for Bahamian MSME promoted by the government. The second component will finance SBDC's program for advisory and technical assistance to MSME, as well as the institutional strengthening of the SBDC.
- 1.38 **Component 1: Credit Enhancement Facility (US\$22 million).** The program will finance, through the CEF, partial loan guarantees to eligible Financial Institutions (FI) for loans granted to eligible MSME. 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.
- 1.39 Firm eligibility is based on the definition of MSME end-beneficiaries (§1.48). The program will benefit those MSME, either existing or start-up, with viable projects and who are supported with advisory services and vetted by the SBDC, thus making them eligible for the CEF. However, eligibility for CEF support does not suppose a loan will be subsequently granted as financial institutions will undergo

⁶¹ Studies have broadly demonstrated the relationship between a higher level of credit to the private sector (including MSME) and an increase in productivity. A revision of this as well as a general description of financing programs for productive development can be found in the Sector Framework Document - Support to SMEs and Financial Access and Supervision (IDB, GN-2768-7).

their normal credit evaluation processes. Additionally, although MSME that have not previously been granted commercial loans will be prioritized, the project will not restrict support to those that have, as long as they comply with certain aspects, such as the FI debt service ratio requirements. Specific MSME end-beneficiaries of the program will be deemed eligible based on a number of other conditions established in the [Operating Regulations](#) (OR) (§3.4), including being a registered entity to operate as a business in The Bahamas and having the necessary licenses and permits to operate under national law. The underlying loans will not be restricted by economic sectors and projects for capital expenditure will be prioritized, such as purchase of equipment and machinery, expansion projects and the increase in permanent capital.

- 1.40 Eligibility conditions for FI to participate in the CEF will be established in the [OR](#), including: (i) be an incorporated entity registered to operate in The Bahamas; (ii) have the necessary licenses and permits to operate under national law; (iii) have signed the General Agreement with the SBDC to participate under the CEF, which delineates the guidelines and responsibilities of the parties; and (iv) be regulated and supervised by a government entity. It is contemplated that the main participants will be banks.⁶² Eligible FI will be responsible for maintaining sound financial performance, the payment of all guarantee fees, and providing periodic reports on outstanding loans guaranteed, delayed or delinquent loan payments, and claims. The OR includes provisions that assures that if a FI exceeds a certain threshold of claims, it would be suspended from program participation. The SBDC will be responsible for reviewing and monitoring the FI eligibility on a periodic basis.
- 1.41 The specific procedures, conditions and requirements of the CEF operations are described in the [OR](#) and follow best practices. 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. Each partial guarantee will not exceed US\$375,000 per individual loan and will provide coverage of up to 75% of the MSME loan amount for up to ten years;⁶³ for certain projects, such as energy efficiency, the coverage may increase to 90% (in which case the partial guarantee would ascend to US\$450,000). The leverage of the fund will increase over time as the program becomes successful and generates increased certainty to the FI. The IDB will not require interest rate pricing on the guaranteed loans, as this will be determined by the FI considering its own pricing model.⁶⁴ A fee for the granting of the guarantee will be charged by the SBDC, supporting the sustainability of the fund. The CEF guidelines sets restrictions on the aggregated outstanding loan amount guaranteed per FI and firms (maximum concentration rules). The OR also includes detailed procedures on guarantee registration and submission of claims and payouts, providing certainty, expediency and transparency to the FI. Also, in case of a claim, the FI will pursue all reasonable efforts to collect the MSME loans and reimburse the recovered proceeds to the CEF in accordance with the rules established in the OR.

⁶² Other intermediaries may include microfinance institutions and credit unions, but on a limited basis.

⁶³ The estimated average loan amount is US\$62,680.

⁶⁴ Interest controls would lead to credit rationing. However, by virtue of having a guaranteed loan, an FI that has a risk-based pricing model would be able to charge a lower interest rate vis-à-vis a non-guaranteed loan of similar characteristics. The IDB will track the evolution in financing conditions in the evaluation.

- 1.42 Disbursements of funds will be made periodically based on revealed demand by participating FI for the partial credit guarantees. The program will apply the standard procedures established by the IDB for monitoring and evaluation of investment operations.
- 1.43 **Component 2: Support to MSME with business advisory services and institutional strengthening of SBDC (US\$2,940,000).** Two subcomponents will be included in order to support the MSME business environment and loan execution.
- 1.44 **Subcomponent 2.1 Support to MSME with business advisory services (US\$2,335,000).** The objective of this subcomponent is to support MSME overcome non-financial barriers that limit their access to credit, by enhancing their capacity to comply with FI requirements. Specifically, it would finance the following key aspects related to overcoming the lack of information and financial statements of firms and of technically robust business plans that allow a proper assessment of investment projects (¶1.18): (i) supporting MSME in creating proper financial records and statements of their business. Based on SBDC findings of data from current registrants, up to 80% of existing firms would require financial statements, which are essential for qualifying for a loan. These support services would be provided by accounting firms or individuals vetted by the Bahamas Institute of Chartered Accountants (BICA) and implemented through a voucher system; and (ii) supporting firms in developing their business and financial models, which would be implemented with advisors contracted by the SBDC. In this regard, after the SBDC does an initial assessment, registered MSME are classified into three tiers: Tier 1 require less than US\$20,000 for their business plan and are not linked to an expansion or innovation project; Tier 2 and Tier 3 apply for a greater amount of resources and require developing a business model for their expansion or innovation project, with the tiers differentiated by their growth rate. These last two are estimated at over 75% of registrants, although this based only on initial screening.
- 1.45 **Subcomponent 2.2 Institutional strengthening of SBDC (US\$605,000).** Loan resources will cover the personnel that will support the SBDC in program management and will simultaneously strengthen SBDC's capacity to deliver results for proper execution of the CEF and business advisory services. For this purpose, a program coordinator, a finance officer and a procurement specialist will be financed throughout the execution of the program.
- 1.46 **Program monitoring, auditing and evaluation.** Additionally, an amount of US\$60,000 will be reserved to cover the monitoring and evaluation cost of the program, including auditing.
- 1.47 It should be noted that the program will not support funding grants or equity to MSME, nor the SBDC's administrative budget. The government has the intended commitment to continue supporting the SBDC Bahamas in the next five years, including with budget resources that would complement the IDB loan resources, as deemed (¶1.25).
- 1.48 **Program beneficiaries.** The end-beneficiaries of the program will be MSME, under the following definition: micro as up to US\$250,000 in sales and 5 employees, small as up to US\$1 million in sales and 20 employees, and medium up to US\$5 million in sales and 50 employees. The program is based on a first-come, first-serve basis and further eligibility is described above.

C. Key Results Indicators

- 1.49 The main impact of the program will be measured by the average percentage growth of revenue of project's beneficiaries vis-à-vis a control group, an improvement in the "Ease of Getting Credit" indicator and a change of total loans to MSME by banks. The expected outcomes will be measured by: (i) average percentage growth of revenue of project's beneficiaries; (ii) credit success rate of MSME assisted by SBDC; and (iii) average non-performing loans rate for the portfolio of loans guaranteed by project's funds. The expected outputs are: (i) funds allocated to CEF; (ii) personnel hired to strengthen the institutional capacity of SBDC; and (iii) number of MSME assisted by SBDC with business advisory services. As part of the efforts to generate data on gender and climate related investments, related milestones will be collected during the disbursement period. For further information, please see Results Matrix.
- 1.50 **Economic analysis.** The [Cost Benefit Analysis \(CBA\)](#) is based on the profile of the typical firm expected to benefit from the partial government guarantee. Based on this profile, the CBA computes the expected change in revenue resulting from the improved access to credit. The central result indicates that the expected Net Present Value (NPV) of the program is US\$25,6 million and the Internal Rate of Return (IRR) is 20%. The sensitivity analysis performed on key variables (such as rate of returns, costs, profits and efficiency) indicates that the program's NPV remains positive for a wide range of scenarios, based on a discount rate of 12%.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

- 2.1 **Origin and use of resources.** The proposed program will use US\$25 million from IDB's Ordinary Capital (OC) in the form of a Global Credit Loan to The Commonwealth of The Bahamas, as the principal use of resources is to supply the market with a guarantee facility that will enable intermediary financial institutions to lend to end-borrowers in multiple sectors. The disbursement period is five years, with demand-based disbursements for the CEF estimated at equal amounts per year, as per similar programs in the Caribbean (¶1.30).

Table 1. Program costs

Investment category	Amount (US\$)	%
Component 1: Credit Enhancement Facility	22,000,000	88.00
Component 2: Support to MSME with business advisory services and institutional strengthening of SBDC	2,940,000	11.76
Subcomponent 2.1: Support to MSME with business advisory services	2,335,000	9.34
Subcomponent 2.2: Institutional strengthening of SBDC	605,000	2.42
Program monitoring, auditing and evaluation	60,000	0.24
Total	25,000,000	100

B. Environmental and Social Safeguard Risks

- 2.2 According to Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), this program does not require classification. Resources from the

program will be used for a guarantee fund to back sub-loans granted by the FI to eligible beneficiaries. Due to the sub-projects small size and the profile of the economy of The Bahamas with a strong predominance of services, we expect this operation to be low risk (FI-3). The application of an extended exclusion list will ensure that only low risk (Category C) projects will be financed with resources from the program. For further information, please see [Environmental and Social Management Report \(ESMR\)](#).

C. Fiduciary Risks

- 2.3 Based on the institutional capacity assessment, and given the recent creation of the Executing Agency (EA), medium risks are present in fiduciary matters. These risks are related to delays in: (i) procurement due to limited experience applying IDB procurement policies and procedures; and (ii) financial reporting due to limitations in personnel applying IDB financial management policies and procedures. As such, there are opportunities to enhance its capacity to carry out its fiduciary duties related to the execution, financial management, internal controls, monitoring and evaluation functions. These risks will be mitigated through Subcomponent 2.2 (institutional strengthening) by contracting a finance and procurement officers, respectively, which will be progressively trained by the Bank.
- 2.4 Additionally, there is medium fiduciary risk of possible delays in implementation due to lack of coordination between MOF, as borrower, and SBDC, as EA. In this regard, the mitigating factor is that SBDC will formalize an agreement with the Ministry of Finance for the program's execution and transfer of the loan resources (Annex III). The OR will have further details of roles, responsibilities, procedures for the organization and coordination arrangements.

D. Other Risks and Key Issues

- 2.5 **Development Risk.** Given the recent creation of the EA, there is a medium risk of weak operational capacity that would lead to lack of effectiveness of the business advisory programs of the SBDC and higher than expected claims to the CEF. This will be mitigated by hiring a program coordinator and a finance officer under Subcomponent 2.2, who will among other tasks periodically monitor the success of the business advisory programs in producing creditworthy MSME and the quality of the loans guaranteed. In this regard, disbursements will be made through advances based on the expression of demand by the participating FI, who will have to maintain the quality of their loan portfolio.
- 2.6 **Monitoring and Accountability Risk.** Also related to the SBDC's early stages is a medium risk of weak monitoring and accountability capacity. This will be mitigated through the institutional strengthening (Subcomponent 2.2), particularly by hiring a program coordinator.
- 2.7 **Fiscal Sustainability Risk.** There is a medium public fiscal sustainability risk that a potential restriction in fiscal policy could result in a lack of operational budget for the SBDC. In this regard, the government has strongly committed to supporting not only the development of the MSME sector through various policies (¶1.20 and budget items (¶1.22 and ¶1.25), but particularly the SBDC. The success of the program will only underscore the government's commitment to the CEF and SBDC beyond the scope of the program. Moreover, the SBDC is strategically planning its financial independence in the medium term through the generation of revenues by charging fees for the provision of services that would cover operating costs.

- 2.8 **Program Sustainability.** The sustainability of the program will be attained by promoting the financial and technical viability of the CEF over the medium term, such as through maintaining revenues through fees, prudential rules that limit claims and increased leveraging over time. In this regard, SBDC has developed a financial model and periodic calibrations will be carried out to assure viability of the CEF. It also assumes that the program will modify commercial banks' perceived risks of attending MSME, hence maintaining demand for CEF resources over the medium term. While government commitment over the next five years supports the sustainability of the SBDC over the life of the program, the planned MSME legislation and financial independence of the SBDC would further institutionalize efforts to sustain the program's results.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation Arrangements

- 3.1 **Borrower and EA.** The Commonwealth of The Bahamas in its capacity as the Borrower will supervise and oversee the execution of the loan through the Ministry of Finance. The SBDC will be the program's EA and will provide the necessary administrative, fiduciary and control mechanisms to maintain an effective administration of the program and the CEF (for further information, please see Annex III Fiduciary Arrangements).
- 3.2 **Execution and administration.** The agreement between the MoF and SBDC (§2.4) will ensure the proper execution of the Program as stated in the Loan Contract and the OR. The MOF will delegate responsibilities accordingly and establish the guidelines that will enable SBDC to operationalize and execute the Program. The MoF, through SBDC (§1.25), will coordinate any interinstitutional arrangements with other government programs that promote MSME, such as BEVF and BDB, although they do not have direct involvement in project execution,⁶⁵ with aims to achieve synergies.
- 3.3 The Program Execution Unit (PEU), comprised of a program coordinator, financial officer and procurement specialist, will be responsible for coordinating the necessary arrangements in SBDC for the program's execution, including: (i) preparation, implementation, coordination of the annual operating plans; (ii) preparation of budgets, program 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) the liaison with the Bank.
- 3.4 The [OR](#) will establish the provisions related to the program's execution, the program coordination responsibilities, the partial guarantees' characteristics, CEF's operational guidelines, the eligibility criteria for MSME and FI, environmental and social requirements, as well as the fiduciary obligations of the SBDC, including monitoring and evaluation. It also includes rules pertaining to the CEF account and use of resources. In this sense, available resources within the CEF will be invested

⁶⁵ The only case being the use of the CEF by BDB, in which case they would follow the rules established for all FI.

prudentially and proceeds from these investments will be maintained within the CEF during the program's disbursement period. The SBDC will not be able to modify the OR without prior written consent from the IDB.

- 3.5 **Special contractual clauses prior to the first disbursement of the financing.** The EA will provide to the Bank's satisfaction, evidence of: (i) the entry into force of an agreement between the Borrower and the EA for the program's execution and transfer of the Bank's loan resources to the EA; (ii) the creation of a PEU and of the assignment or hiring of its program coordinator, financial officer and procurement specialist, pursuant to the terms of reference agreed to with the Bank; and (iii) the EA's approval of the program's [OR](#) in accordance with the terms previously agreed upon with the Bank, and of the entry into force of such OR. The first condition is necessary in order to delegate execution and program management responsibilities and transfer the Bank financing, through a legal instrument, from the borrower to the SBDC (a non-public entity, ¶1.21). The second condition will ensure that the PEU and its dedicated key personnel are in place to execute the program. The third condition is also essential as the OR will establish all the provisions and rules related to the program (¶3.4)
- 3.6 The Bank will have the right at all times to inspect the execution of the program financial statements and the eligibility of program expenses shall be audited annually by an independent auditing firm acceptable to the IDB, 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.
- 3.7 Program disbursements shall be made based on a pipeline of guarantees under the CEF submitted to the SBDC by the FI in accordance with the requirements and procedures stipulated in the OR. For the purpose of the justification of expenditures for the subsequent advances of funds, the object of the expenditure will be the partial guarantees issued under the CEF, in accordance with the eligibility criteria provided for in the OR.

B. Summary of Arrangements for Monitoring Results

- 3.8 **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 and on the fulfillment of the eligibility criteria at project and program levels. Periodical supervision meetings and missions will also be scheduled.
- 3.9 The Borrower, through the EA, will conduct a final evaluation report which will be due within 120 days after final disbursement. 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.
- 3.10 **Evaluation.** The [Monitoring and Evaluation Plan](#) contemplates an ex post cost-benefit analysis for the program evaluation that will be based on follow-up information of project's beneficiaries that will be collected during its execution. The

analysis will update the calculations done in the ex ante analysis presented in the CBA of the program.

- 3.11 **Information.** The SBDC will compile and maintain all information, indicators and parameters, including all documentation required to prepare the PCR.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Climate Change and Environmental Sustainability	
Country Development Results Indicators	-Micro / small / medium enterprises financed (#)* -Micro / small / medium enterprises provided with non-financial support (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2920-1	To address information asymmetries, high transaction costs, and access to capital.
Country Program Results Matrix	GN-2948	The intervention is included in the 2019 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability	Evaluable	
3. Evidence-based Assessment & Solution	9.3	
3.1 Program Diagnosis	3.0	
3.2 Proposed Interventions or Solutions	3.6	
3.3 Results Matrix Quality	2.7	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	1.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	8.5	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	6.0	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury. Procurement: Information System.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The Bahamian economy has been on a declining growth path of about -1% of GDP since 2000. Firm-level productivity in The Bahamas is 17% lower on average than that of the typical Caribbean firm. A lack of investment leading to productivity gains is even more prevalent in firms of small size. In the Bahamas MSMEs conform 98% of firms and hire 47% of the work force. The financial sector is liquid and well capitalized, but high NPLs oscillating around 9% have impeded financial deepening. Credit to the private sector has been declining at an average of 2.2% since 2014. A survey to MSMEs in Bahamas shows that access to finance is the second most important obstacle for business growth. Only 30% of surveyed firms have a line of credit from an established financial institution. Only 11% of firms surveyed have obtained financing from a bank for investment, but 50% claim to require it. The Bahamas ranks 144th of 190 countries, and 22nd among IDB's borrowing countries, on the Doing Business Ease of Getting Credit index. Loan application rejection rates are very high, standing at 85% as compared to 35% in Barbados, 42% in Belize and 55% in Jamaica. Collateral requirements are high, with assets undervalued, standing at over 100% of the loan size. Banks cite insufficient collateral and loan applications with scarce information as main reasons for failing to extend credit. In this context, the general objective of the program is to improve economic activity in the Bahamas. The specific objective is to enhance access to finance for MSMEs by providing a credit enhancement facility (CEF). The CEF will provide partial loan guarantees for loans granted to eligible MSMEs by financial intermediaries; thus directly helping to mitigate a firm's lack of collateral as a barrier to credit. The program will also finance advisory services for MSMEs to strengthen their business skills and proposals. The program's Results Matrix adequately captures benefits such as for example an improvement in the country's ease of getting credit score and the success rate of MSMEs assisted by the Executing Agency in going to market and successfully obtaining credit. The economic analysis shows the project will be of net benefit to society. At closure, a reflexive analysis will be conducted to assess results as well as an ex post cost benefit analysis.

RESULTS MATRIX

Project Objective:	The general objective of the program is to improve economic activity in the Commonwealth of The Bahamas. The specific objective is to enhance access to finance of MSME by providing a credit enhancement facility.
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EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline Year	End of Project (2024)	Means of verification	Observations
<u>IMPACT #1: IMPROVED ECONOMIC ACTIVITY OF THE BENEFICIARIES</u>						
Average percentage growth of revenue of project's beneficiaries vis-à-vis a control group.	%	0	2018	6	SBDC information system	<p>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.</p> <p>The baseline equals zero because at the baseline there is no difference in growth between both groups.</p> <p>Note: According to data from the SBDC information system, the baseline value of sales, in US\$, is US\$130,312.</p>
Ease of Getting Credit Score	Number	30	2019	35	World Bank Doing Business Report	<p>This indicator is a component of the Ease of Doing Business indicator. It aggregates measures of credit information sharing and legal rights of borrowers and lenders. It is expected that the program will contribute in the long run to this indicator. This indicator is measured every year by the World Bank.</p>
Three-year annual average change of total loans to MSME by banks	US\$ million	-20	2018	-10.5	SBDC information system	<p>This indicator measures the three-year average annual change in disbursements of credit to MSME by banks in The Bahamas. The indicator is in US\$ and not in percentage change.</p> <p>Baseline is equivalent average annual change in total credit to MSME for the period 2015-2018. The target value will measure the average annual change for the years 2022, 2023 and 2024.</p> <p>Average program's annual disbursements plus the expected credit from repayments are added to the baseline to calculate the target value. Since the trend of credit issuance to the private sector has been negative in recent years, including the baseline year, it is expected that the program at the very least will collaborate to reduce the annual decline in financing.</p>

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline Value	Baseline Year	End of Project (2024)	Means of verification	Observations
<u>OUTCOME # 1: ACCESS TO FINANCE ENHANCED</u>						
Average percentage growth of revenue of project's beneficiaries	%	2.2	2018	4	SBDC information system	<p>This indicator is measured as the average annual growth rate of revenue for the beneficiaries of credits guaranteed by project's funds. The baseline is equal to the baseline growth rate estimated in the Economic Analysis. Once the first cohorts of beneficiaries are known, the baseline will be adjusted accordingly.</p> <p>For the final evaluation, a before and after analysis of this indicator will be carried.</p> <p>Note: According to data from the SBDC information system, the baseline value of sales, in US\$, is US\$130,312.</p>
Credit success rate of MSME assisted by SBDC	%	0	2019	24	SBDC information system	<p>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 (CEF).</p> <p>The baseline is zero because at the time of preparation the CEF is not issuing guarantees.</p> <p>The numerator consists of the expected number of MSME assisted and vetted by SBDC that will receive a loan. The denominator includes MSME that receive assistance for financial statements and/or business models (see product indicator). It should be noted that the value is less than 100 due to factors such as not all assisted MSME are expected to apply for a loan and the amount of CEF funds available is limited.</p> <p>The measurement of this indicator will be done for the first cohorts of project's beneficiaries so that enough time is left for the outcomes to materialize before the end of execution period.</p>

Indicators	Unit of measure	Baseline Value	Baseline Year	End of Project (2024)	Means of verification	Observations
Average Non-Performing Loans (NPL) rate for the portfolio of loans guaranteed by project's funds	%	7.5	2018	6	SBDC information system	<p>This indicator is measured as the ratio of total NPL to total loans of the portfolio generated by the guarantees issued by SBDC using project's funds.</p> <p>The baseline is an average of the NPL rate at the end of 2017 and 2018.</p> <p>It is expected that the project will improve this ratio to the target value of 6% for the beneficiaries.</p>

OUTPUTS

Outputs	Unit of measure	Baseline Value	Baseline Year	2020	2021	2022	2023	2024	End of project (2024)	Means of verification	Observations
Component # 1: Credit Enhancement Facility (CEF)											
Funds allocated to CEF	US\$ millions	1	2019	4.4	4.4	4.4	4.4	4.4	22	SBDC administrative registries	This indicator measures the annual allocation of funds to the CEF. The end of project value is the accumulated amount, including the baseline.
• Milestone: Guaranteed women-owned MSME loans by the program ¹	%	NA							NA	SBDC administrative registries	The goal is to generate data on gender gap on access to credit.
• Milestone: Guaranteed MSME Energy Loans by the program	%	NA							5	SBDC administrative registries	The goal is to generate data on climate change loans.
Component # 2: Support to MSME in business advisory services and institutional strengthening of SBDC											
Personnel hired to strengthen the institutional capacity of SBDC	US\$ thousands	0	2019	3	0	0	0	0	3	SBDC administrative registries	This indicator measures the number of personnel hired each year to strengthen the institutional capacity of SBDC. It is expected that the three specialists will be hired in the first year.

¹ Evidence on this issue is not conclusive so we consider relevant to monitor how the program behaves on this.

Outputs	Unit of measure	Baseline Value	Baseline Year	2020	2021	2022	2023	2024	End of project (2024)	Means of verification	Observations
											The end of project value is the accumulated number of hirings.
Number of MSME assisted by SBDC with business advisory services	Number	0	2019	393	493	743	743	743	3,115	SBDC administrative registries	<p>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.</p> <p>The end of project value is the accumulated value of the three years.</p> <p>The baseline is zero because this support activities will begin with the current program.</p>

FIDUCIARY ARRANGEMENTS

Country: The Commonwealth of The Bahamas
Project Number: BH-L1046
Name: Credit Enhancement Program for Micro, Small and Medium Enterprises
Executing Agency (EA): Small Business Development Centre Bahamas (SBDC)
Prepared by: Nalda Morales and Errolisa McPhee (FMP/CBH)

I. SUMMARY

- 1.1 The Small Business Development Centre Bahamas (SBDC) will be the EA for the captioned program. The project team conducted an institutional capacity assessment covering planning, executing, and control areas, to determine its level of development and associated risks and propose appropriate mitigation actions. The fiduciary team consider the risk is Medium. SBDC is open to adopt the recommendations to establish and develop the necessary capacity for a successful implementation of the program.
- 1.2 For the purposes of execution of the program, it has been agreed that a Program Executing Unit (PEU) will be established within SBDC, properly staffed amongst others with specialized fiduciary as well as planning and monitoring personnel, under the leadership of a Program Coordinator. This PEU will maintain close coordination with the different stakeholders, following the implementation and coordination arrangements established in the OR. These Regulations will assist to ensure clarity of roles, responsibilities, and procedures applicable for program execution. IDB's procurement policies and procedures will be applied.

II. EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 The Constitution of The Bahamas is based on the Westminster Model and dates to 1973. The Cabinet constitutes the executive branch and has general direction of the government. The Constitution authorizes the National Assembly to make laws by passing bills, including approval of government's budget. In addition to its constitutional functions, the National Assembly has established a Public Accounts Committee to maintain oversight of the government's financial matters. The Constitution also states that there is an Auditor General who is independent of both government and the National Assembly.
- 2.2 Public Financial Management is defined in the Financial Management and Audit Bill (2010 and 2013 amendment). The Bill outlines the functions of financial officials, budget administration, control over expenditures, bank accounts, accounts and audits, as well the external control exercised by the Auditor General. The fiscal year is inter-annual, going from July 1st to June 30th.
- 2.3 In 2010, the country initiated a reform of the national public procurement system, undertaken by the MoF. This reform effort is still underway, and the country's public procurement systems are not yet recommended for this program as of today. MoF maintains a close oversight of project implementation by channeling all

disbursement requests to the IDB and stays involved particularly in major issues regarding project implementation.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The results of applying the institutional capacity assessment resulted with room for improvement for project execution. The Bank is processing a Technical Cooperation to enhance the SBDC's technical, fiduciary and operational capacity, focusing on its operational flow, processes and information systems, while the program is approved. Considering this assistance and the commitment of the borrower and the executor with the action plan to mitigate the risk associated with the execution, the risk is medium. Therefore, the successful implementation of the program would require the hiring of appropriate specialized staff for the PEU, with full time dedication to the program and continued training provided primarily by the Country Office, which is contemplated under Subcomponent 2.2 of the program.
- 3.2 A kickoff workshop to present and apply bank standard planning instruments is deemed necessary.

Table 1. Fiduciary risks and recommended mitigation actions

Risks/weakness	Action recommended	Compliance by
Delays in procurement due to limited experience applying IDB procurement policies and procedures. Expected as medium, after applying mitigation actions evolving to low.	Hiring of a Procurement Specialist under the PEU. The Bank will offer a progressive training plan to procurement staff in the PEU and explain acceptable bidding methods. This specialist will consolidate the overall procurement plan. Supervision of procurement will be conducted in ex ante modality. See special contractual clause prior to the first disbursement, in the main document (3.5.ii).	Program startup date, required in loan contract.
Delays in financial reporting due to limitations in personnel applying IDB financial management policies and procedures. Expected as medium, after applying mitigation actions evolving to low.	Hiring of a Financial Management (FM) Specialist under the PEU. The Bank will offer progressive financial management training for the PEU staff. The training will also incorporate financial planning. This specialist will consolidate all financial program information and reporting. The FM specialist is expected to set up supplementary tracking of expenses for project reporting and comply with internal control requirements (i.e. QuickBooks or similar). See special contractual clause prior to the first disbursement, in the main document (3.5.ii).	Program startup date required in loan contract.
Delays in implementation due to lack of coordination between MOF and SBDC. Expected as medium, after applying mitigation actions evolving to low.	SBDC will formalize a legal document with the Ministry of Finance stating the mechanism and conditions for the transfer of the loan resources, including SBDC responsibilities. Also, the OR will have further details of roles, responsibilities, procedures for the organization and coordination arrangements with MOF for execution of the program.	Program startup date required in loan contract.

IV. FIDUCIARY ARRANGEMENTS FOR PROCUREMENT EXECUTION

- 4.1 Procurement for the proposed program will be carried out in accordance with the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-9), and with the provisions established in the loan contract and these procurement fiduciary arrangements.
- (i). **Procurement of Works, Goods and Non-Consulting Services.** The contracts for Works, Goods, and Non-Consulting Services¹ generated under the program and subject to International Competitive Bidding will be executed using the Standard Bidding Documents (SBDs) issued by the Bank. The processes subject to National Competitive Bidding (NCB) will be executed through the bidding documents based on the above-mentioned standard documents and satisfactory to the Bank. The technical specifications review during the preparation of the selection process is the responsibility of the program sector specialist.
 - (ii). **Selection and Contracting of Consultants.** The consulting services contracts generated under this program will be selected and contracted using the Standard Request for Proposals issued by the Bank, when advertising at the international level and a document satisfactory to the Bank when advertising at the local level. The terms of reference review for the selection of consulting services is the responsibility of the program sector specialist.
 - (iii). **Selection of Individual Consultants.** Contracts of individual consultants will be carried out using procedures per Section 5 of Policies GN-2350-9. Posting of opportunities for individual consultant contracts may be advertised internationally or locally in order to attract qualified individual
 - (iv). **Training.** Training will be provided to the SBDC staff in charge of the financial management and procurement execution prior to starting activities and based on the Annual Operations Plan (AOP).
 - (v). **Recurrent Expenses.** The program contains coverage of recurrent expenses that are required to start and maintain the program during execution and will be financed by the program within the annual budget approved by the Bank and Bahamas Financial Parameters. Among those identified there is funding for hiring consultants to assist the PEU in program management and supervision, monitoring and evaluation costs identified in the cost structure. These personnel are necessary to ensure proper staffing of the PEU to carry out the program activities and are consistent with Country Financing Parameters. Additionally, the program will cover the salary/stipend of trainers currently employed by SBDC in order to carry out the training aspect of component two as proposed. Any new consultants hired after the signing of the loan will adhere to the bank's project procurement policies.

¹ Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (GN-2349-9) paragraph 1.1: The services different to consulting services have a similar process as procurement of Goods. The exchange rate considered was 1 US dollar = 1 BS dollars.

Table 2. Thresholds (US\$)

International Competitive Bidding Threshold *		National Competitive Bidding Range ** (Complex Works and non-common goods)		Consulting Services
Works	Goods	Works	Goods	International Short List
≥3,000,000	≥150,000	150,000 – 3,000,000	50,000 -150,000	≥200,000

* When procuring simple works and common goods and their amount is under the International Competitive Bidding thresholds, Shopping may be used.

** When procuring complex works and non-common goods with amounts under the NCB range, Shopping shall be used.

Note: The established threshold amounts for ex post review is applied based on the fiduciary capacity of the EA and can be modified by the Bank if the level of capacity varies.

4.2 To access the complete procurement plan, click [here](#).

V. MAIN PROCUREMENT ACTIVITIES

Table 3. Main procurement activities

Activity	Procurement Method	Estimated Date	Estimated Amount US\$
Firms			
Annual Project Audit	Least Cost Selection	Annually	60,000
Individuals			
Project Manager	Comparison of Qualifications - National Individual Consultant	2019-2023	320,000
Financial Officer	Comparison of Qualifications - National Individual Consultant	2019-2023	240,000
Procurement Officer	Comparison of Qualifications - National Individual Consultant	2019	45,000
Advisors	Comparison of Qualifications - National Individual Consultant	2020-2023	1,500,000

VI. PROCUREMENT SUPERVISION

6.1 The supervision method for procurement execution will be established ex ante until the PEU procurement expert has gained experience observing and executing Bank policies, procedures, and use of standard bidding documents. The ex post modality may be recommended by the Procurement Specialist to the Team leader in accordance to outcomes of supervision visits, if appropriate evidence is presented to demonstrate capacity to perform under the ex post supervision modality. Supervision visits will be performed at least every 12 months and as indicated in the program supervision plan. When ex post review is recommended, the supervision visits will be performed jointly with supervision visits.

VII. FINANCIAL MANAGEMENT

- 7.1 The financial management for the proposed program will be carried out in accordance with The Financial Management Policy for Bank-Financed Projects (OP-273).
- 7.2 **Programming and Budget.** Each year during its budget call, the Budget Department of the MOF sends out its circular including the required forms to be completed. The Borrower has committed to allocate, for each fiscal year of program execution, adequate fiscal space to guarantee the unfettered execution of the program, as indicated in the corresponding Annual Operations Plans (AOP).
- 7.3 **Accounting and Information Systems.** The national accounting system will be partially used. As the government accounting system does not provide enough details of program financial execution, it will be necessary to maintain auxiliary records at the PEU level, under the responsibility of a financial specialist, to fully comply with IDB requirements of internal control and records.
- 7.4 **Disbursements and Funds Flows.** SBDC will be using Advances of Funds as their preferred method to receive loan resources. Advances of funds will be processed based on a financial plan. For this purpose, the Treasury Department agrees to establish a Special Account at the Central Bank of The Bahamas, denominated in US Dollars. These accounts will have exclusive use to cover for program expenditures.
- 7.5 The PEU commits to maintain strict control over the utilization of loan resources to ensure the easy verification and reconciliation of balances between the EA's records and IDB records (WLMS1 Summary Report). Other methods of disbursement such as reimbursements and direct payments will be considered on a case by case basis.
- 7.6 The program will provide adequate justification of the existing Advance of Funds balances, whenever at least 80% of said balance has been spent; if necessary, a lower percentage may be considered following the criteria established in the revised Financial Management Guidelines. When used, advances will normally cover a period not exceeding 180 days and no less than 90 days.
- 7.7 Supporting documentation for Justification of Advances and Reimbursement of Payments Made will be kept at the office of the PEU. Copies of the support documentation only in the case of direct payments will be sent to the Bank for processing. Disbursements' supporting documents may be reviewed by the auditors as part of the financial audit.
- 7.8 To request disbursements from the Bank, the EA will present the following forms and supporting documents:

Table 4. Type of Disbursement

Type of Disbursement	Mandatory Forms	Optional forms/ information that can be requested by the IDB
Advance	Disbursement Request/ Financial Plan/The reconciliation of the balance of the previous advance of funds.	List of commitments physical/financial progress reports

Type of Disbursement	Mandatory Forms	Optional forms/ information that can be requested by the IDB
Reimbursements of payments made	Disbursement Request/ Financial Plan/The reconciliation of the balance of the previous advance of funds.	List of commitments physical/financial progress reports
Direct payment to supplier	Disbursement Request/ Acceptable Supporting Documentation may include invoices and acceptance of completion of works and/or delivery of goods and services to satisfaction of SBDC/The reconciliation of the balance of the previous advance of funds.	List of commitments physical/financial progress Reports/Evidence that goods/services have been satisfactorily received

- 7.9 **Internal Control and Audit.** The internal control capacity is estimated to be low. To the extent possible, the internal audit unit will provide oversight to the program.
- 7.10 **External Control and Reporting.** The government is given the option to use the services of the OAG to conduct the external control of the program. A private eligible audit firm will run the external audits if the use of the services of the OAG were not possible.
- 7.11 **Financial Supervision Plan.** Financial, Accounting and Institutional Inspection visits will be performed at least annually, covering the following: (i) review of the Reconciliation and supporting documentation for Advances and Justifications; (ii) compliance with financial and procurement procedures; (iii) review of compliance with the lending criteria; (iv) conducting ex post Review of Disbursements; and (iv) follow up on audit work plan and audit recommendations. Financial Supervision will be developed based on the initial and subsequent risk assessments carried out for the program. To the extent possible, the Fiduciary Specialists will join administration missions and other project supervision activities.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Bahamas. Loan ____/OC-BH to the Commonwealth of the Bahamas
Credit Enhancement Program for Micro, Small and Medium
Enterprises

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Commonwealth of the Bahamas, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Credit Enhancement Program for Micro, Small and Medium Enterprises. Such financing will be for the amount of up to US\$25,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2019)