

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

FINANCIAL REPORTS

30 JUNE 2021

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

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**REPORT OF THE AUDITORS TO THE MANAGEMENT OF
CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES**

Opinion

We have audited the accompanying financial statements of Credit Enhancement Program for Micro, Small and Medium-sized Enterprises ("Program"), which comprise the Statement of Cash Received and Disbursements and the Statement of Cumulative Investments as at and for the year ended 30 June 2021, and notes to the Program financial statements, including a summary of significant accounting policies. The Program is executed by SBDC Bahamas ("Executing Agency") and financed with funds from the Inter-American Development Bank ("IDB") Loan Contract No. 4846/OC-BH.

In our opinion, the accompanying financial statements of the Program for the year ended 30 June 2021 have been prepared, in all material respects, in accordance with the financial reporting requirements of the contractual clause of Loan Contract No. 4846/OC-BH and the Audited Financial Reports and External Audit Management Handbook for Project financed by IDB.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and specific requirements of the IDB. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Executing Agency in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in The Bahamas, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use

As described in Note 2 of the financial statements, the statement of cash received and disbursements and the statement of cumulative investments were prepared using the "Cash Basis IPSAS: Financial Reporting under the Cash Basis of Accounting" which is a comprehensive basis of accounting other than IFRS but is acceptable in preparing the Program's financial statements based on the Audited Financial Reports and External Audit Management Handbook for programs financed by IDB. Cash basis accounting recognises transactions and acts only when the cash is received or disbursed by the entity, and not when they give rise to, accrue or originate rights or obligations although there was no cash movement. The financial statements are prepared to assist the Executing Agency to comply with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Executing Agency and IDB and should not be distributed to or used by parties other than the Executing Agency or IDB. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Executing Agency - Project Executing Unit ("PEU") is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of IDB Loan Contract No. 4846/OC-BH, and for such internal control as PEU determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the PEU is responsible for assessing the Program's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Program or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Program's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditors' responsibilities for the audit of the financial statements is located in an Appendix to this report. This description forms part of our auditors' report.

A handwritten signature in blue ink, appearing to read 'BDO'.

**Chartered Accountants
Nassau Bahamas
18 November 2021**

APPENDIX TO THE AUDITORS' REPORT

Detailed Description of Our Responsibilities

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Program's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Program to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES

STATEMENT OF CASH RECEIVED AND DISBURSEMENTS
FOR THE YEAR ENDED 30 JUNE 2021
 (Expressed in US Dollars)

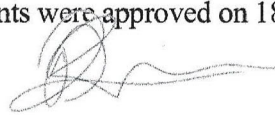
CASH RECEIVED

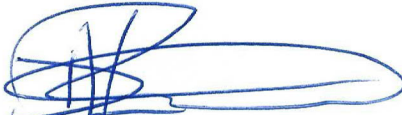
	30 June 2021	
	<u>IDB</u>	<u>TOTAL</u>
Beginning balance	\$ -	\$ -
Activity during the year		
▪ Disbursements (advances, reimbursements, direct payments and reimbursements guaranteed by letter of credit)	<u>2,604,416.44</u>	<u>2,604,416.44</u>
Total Cash Received	<u>2,604,416.44</u>	<u>2,604,416.44</u>

DISBURSEMENTS

Beginning balance	-	-
Activity during the year		
▪ Payments for goods and services	<u>183,232.30</u>	<u>183,232.30</u>
Total Cash Disbursements	<u>183,232.30</u>	<u>183,232.30</u>
Other disbursement disallowed by IDB	<u>14,763.00</u>	<u>14,763.00</u>
Total	<u>197,995.30</u>	<u>197,995.30</u>
AVAILABLE CASH AS OF YEAR END	2,406,421.14	2,406,421.14
Add Realized and Unrealized Gains	<u>9,366.48</u>	<u>9,366.48</u>
TOTAL AVAILABLE CASH AS OF YEAR END	<u>\$2,415,787.62</u>	<u>\$2,415,787.62</u>

These financial statements were approved on 18 November 2021 by:

.....

 Ms. Davinia Bain
 Executive Director
 SBDC Bahamas

.....

 Mr. Darvin Russell
 Program Manager

CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES

STATEMENT OF CUMULATIVE INVESTMENTS
FOR THE YEAR ENDED 30 JUNE 2021
(Expressed in US Dollars)

ITEM	Opening Balance		Movement during year		Balance at 30 June 2021	
	IDB	TOTAL	IDB	TOTAL	IDB	TOTAL
1.0 Credit Enhancement Facility	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2.0 Support to MSMEs with Business Advisory Services and Institutional Strengthening of SBDC Bahamas	-	-	183,232.30	183,232.30	183,232.30	183,232.30
2.1.1 Support to MSMEs (BICA)	-	-	19,900.00	19,900.00	19,900.00	19,900.00
2.1.2 Support to MSMEs Business Advisory Service	-	-	-	-	-	-
2.2.0 Institutional Strengthening	-	-	163,332.30	163,332.30	163,332.30	163,332.30
3.0 Program Monitoring, Auditing and Evaluation	-	-	-	-	-	-
Total Cumulative Investments	-	-	<u>183,232.30</u>	<u>183,232.30</u>	<u>183,232.30</u>	<u>183,232.30</u>
Other Disallowed by IDB			14,763.00	14,763.00	14,763.00	14,763.00
GRAND TOTAL	\$ -	\$ -	<u>\$197,995.30</u>	<u>\$197,995.30</u>	<u>\$197,995.30</u>	<u>\$197,995.30</u>

These financial statements were approved on 18 November 2021 by:

.....
 Ms. Davinia Bain
 Executive Director
 SBDC Bahamas

.....
 Mr. Darvin Russell
 Program Manager

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

NOTES TO THE PROGRAM FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

1. Description of the Program

On 5 August 2020, the Inter-American Bank (IDB) and the Government of The Bahamas (GoBH) signed Loan Contract No. 4846/OC BH for the creation of a Credit Enhancement Facility (CEF or the Program) to primarily assist Micro, Small and Medium-Sized Enterprises (MSMEs) with obtaining credit facilities from financial institutions. The GoBH appointed the SBDC Bahamas as the Executing Agency for the CEF and the SBDC Bahamas assigned management control of the Program to its Program Executing Unit (PEU).

The objectives of the CEF are:

- (a) To increase the availability to funding for MSMEs by providing partial guarantees to financial institutions as an enticement for them providing loans to MSMEs;
- (b) To provide support to MSMEs with business advisory services; and
- (c) To provide institutional strengthening to the SBDC Bahamas and the PEU in particular.

The CEF will receive US\$25 million from the IDB's Ordinary Capital in the form of a Global Credit Loan to the GoBH. The disbursement period is 5 years, and the loan is repayable in semi-annual, consecutive and equal instalments commencing 66 months from the loan contract date (5 February 2026) and shall be fully repaid no later than 25 years from that date, that is 5 August 2045. Of the funds received, US\$22 million will be used for objective (a) and US\$3 million will be used for objectives (b) and (c).

2. Key accounting policies

▪ Basis of Presentation

The statement of cash received and disbursements has been prepared using the cash basis of accounting. This record-keeping modality differs from the International Public Sector Accounting Standards (IPSAS) under which transactions should be recorded as they are incurred and not when they are paid. However, the IPSAS have been applied to these circumstances discussed in the chapter "Cash Basis IPSAS: Financial Reporting under the Cash Basis of Accounting."

**CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL
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NOTES TO THE PROGRAM FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

2. Key accounting policies (continued)

Non- cash transactions

Warranties issued under the guarantee program are considered in effect once the loan agreement is signed and the guarantee letter is issued to the participating financial institution. No cash transfer occurs.

▪ **Monetary Unit**

The Program's accounting records are maintained in US Dollars (US\$), in accordance with the IDB's requirements. However, a majority of the Program's transactions are denominated in Bahamian Dollars (BS\$). These transactions are translated into USD at a rate of BS\$1 = US\$1.

3. Available cash balance

On 17 December 2020, IDB approved Disbursement Request Number 1 which represented an Advance of Funds in the amount of \$2,604,416.44. The funds were transferred to account number 100.698.0 at RBC Royal Bank (Bahamas) Limited (RBC).

On 20 April 2021, \$1,996,416.44 was transferred to Colina Financial Advisors Limited (CFAL) to establish an investment management account to support guarantees issued on behalf of MSMEs to financial institutions (FIs). As of 30 June 2021, the following warranties had been issued:

<u>Beneficiaries</u>	<u>Amount</u>
Alvernia Business Consultants	\$ 112,500.00
Drive Green Car Rentals	37,500.00
The Cookie Caterer	56,250.00
Dynasty Café	57,900.69
Rip Tyd Bahamian Craft Beer	158,250.00
Kevco Printing	172,500.00
Discount Distributors	150,000.00
More Play Entertainment	52,050.00
Fowlco Limited	259,000.00
Le Pavillion	139,500.00
Boost Educational Services	67,500.00
Pampered By Promise	33,646.78
Strawd Paper Straws	<u>142,131.07</u>
Total	<u>\$1,438,728.54</u>

**CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL
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NOTES TO THE PROGRAM FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

3. Available cash balance (continued)

The uncommitted balance available for warranties as at 30 June 2021 was \$557,687.90.

The value of the CFAL investment management account as of 30 June 2021 was B\$2,005,782.92 and is comprised as follows:

Initial investments	\$1,996,416.44
Realized and Unrealized Gains	<u>9,366.48</u>
	<u>\$2,005,782.92</u>

The available cash balance as at 30 June 2021 was \$2,415,787.62 and comprised of the following:

CFAL Investment Management Account	\$2,005,782.92
RBC bank account	<u>410,004.70</u>
	<u>\$2,415,787.62</u>

4. Advances pending justification

As of 30 June 2021, the amount pending justification to the IDB amounts to \$1,621,960.84 and is included in the following disbursement requests pending to be processed or expenses incurred and not included in such requests.

Credit Enhancement Guarantee	\$1,438,728.54
Third party advisors (BICA)	19,900.00
PEU Staff Salaries	<u>163,332.30</u>
	<u>\$1,621,960.84</u>

**CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL
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NOTES TO THE PROGRAM FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

5. Advances and justification

Opening balance of advances	\$ --
Advances received	2,604,416.44
Justification of advance	(183,232.30)
Disallowed by IDB (to be replaced by SBDC Bahamas)	(14,763.00)
Increase in CFAL Investment Portfolio value	<u>9,366.48</u>
	<u>\$2,415,787.62</u>

The total payments disallowed by IDB are analysed as follows:

Salary payments made on/or before eligibility	\$ 3,283.00
BICA fees made on/or before eligibility	<u>11,480.00</u>
	<u>\$14,763.00</u>

6. Local counterpart funds

There are no counterpart funds from GoBH designated for the Program.

7. Procurement of goods and services

The procurement of goods is conducted in accordance with the IDB's policies.

<u>Name</u>	<u>Method Type</u>	<u>Amount</u>
Credit Enhancement Guarantee	Non-consulting service	\$1,438,728.54
Third party advisors (BICA)	Non-consulting service	19,900.00
PEU Staff	Individual consultants	<u>163,332.30</u>
Total		<u>\$1,621,960.84</u>

**CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL
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NOTES TO THE PROGRAM FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

8. Disbursements

For the year ended 30 June 2021, there was one disbursement by IDB, an Advance of Funds in the amount of US\$2,604,416.44.

9. Reconciliation between the “Statement of Cash Received and Disbursements” and the “Statement of Cumulative Investments”

Amount disbursed per Statement of Cash Received and Disbursements as of 30 June 2021	183,232.30
Amount disbursed per Statement of Cumulative Investments as of 30 June 2021	183,232.30

10. Reconciliation by Investment Categories between the Program’s records and IDB’s records

Listed below are the Program Investment categories along with the IDB records.

IDB records

COM-1 Credit Enhancement Facility	--
Business Advisory services	--
Institutional Strengthening	--
Program Evaluation and Auditing	--
	<u>\$--</u>

Program Investment Categories

COM-1 Credit Enhancement Facility	--
COM-2.1 Business Advisory services - BICA	19,900.00
COM-2.1.1 Business Advisory services – Business Advisors	--
COM-2.2 Institutional Strengthening	163,332.30
Programs Evaluation and Auditing	<u>--</u>
	<u>\$183,232.30</u>

**CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL
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NOTES TO THE PROGRAM FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

11. Subsequent events

On 29 July 2021, \$1,500,000 in Credit Enhancement Funds were transferred to the SBDC Bahamas. These funds represent a transfer for investment purposes.

On 4 October 2021, \$2,682,727.89 in new Disbursements were received from the IDB. \$2,141,981.25 of these funds were placed in CFAL's investment management account on 29 October 2021.

12. Opening figures

No opening figures are shown as this is the Program's first year of operations.

REPORT ON THE SYSTEM OF INTERNAL CONTROL

To the Management of SBDC Bahamas (Executing Agency) Credit Enhancement Program for Micro, Small and Medium-sized Enterprises

We have audited the statement of cash received and disbursements and statement of cumulative investments of Credit Enhancement Program for Micro, Small and Medium-sized Enterprises, for the year ended 30 June 2021. The Program is executed by SBDC Bahamas, and financed by the Inter-American Development Bank under Loan Contract No. 4846/OC-BH.

We issued our audit report thereon dated 18 November 2021.

This report complements our opinion on the referenced financial statements.

The management of Credit Enhancement Program for Micro, Small and Medium-sized Enterprises is responsible for establishing and maintaining a system of internal control sufficient to mitigate the risks of financial information misstatements and safeguard the assets of the Program, including construction works and other procured goods. In fulfilling this responsibility, estimates and judgments by Program's management are required to assess the expected benefits and related costs of system of internal control policies and procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are protected against loss from unauthorised use or disposition; transactions are executed in accordance with management's authorisation and in accordance with the terms of the contract, and transactions are recorded properly to permit the preparation of fair and true financial statements. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Program's financial statements for the year ended, we obtained an understanding of the system of internal control, and we assessed control risk in order to determine the auditing procedures for the purpose of expressing an opinion on the Program's financial statements and not to express an opinion on the effectiveness of the system of internal control. Accordingly, we do not express such an opinion.

We noted certain matters that are described in this report, involving the system of internal control and its operation that we considered to be material weakness or reportable conditions under International Standards on Auditing. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the system of internal control that, in our judgment, could adversely affect the ability of the Program to record, process, summarize, and report financial data consistent with assertions of management in the Statement of Cash Received and Disbursements and the Statement of Cumulative Investments.

A material weakness is a reportable condition in which the design or operation of one or more of the specific elements of the system of internal control does not reduce to a relatively low level the risk that significant errors or irregularities in amounts that would be material in relation to the Program's financial statements may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the system of internal control would not necessarily disclose all matters in the system of internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Reportable Condition

As disclosed in Note 3, the unutilized funds of the Program are invested in an investment management account with CFAL and the remainder is maintained in a RBC bank account. The RBC bank account is under the name of the Executing Agency and is restricted to be utilized solely for the Program. In disbursing the expenses, however, we have noticed that payments are being made through a separate bank account of the Executing Agency and will then be reimbursed by the RBC bank account. Until the payment is reimbursed, no expense is being recorded.

The above approach defeats the purpose of maintaining a separate bank account for operating the Program as it is not being utilized upon actual payment of expenses. Consequently, expenses were not recorded in the period of actual payment but only until reimbursed.

We consider this matter as a reportable condition but not a material weakness as defined above.



**Chartered Accountants
Nassau Bahamas
18 November 2021**