

JAMAICA
RG-CC2046:-IMPLEMENTATION OF BUSINESS CLIMATE REFORMS IN JAMAICA

ACCESS TO CREDIT FOR PRODUCTIVE DEVELOPMENT

TERMS OF REFERENCE

I. BACKGROUND

Compete Caribbean

Compete Caribbean is a Caribbean private sector development programme jointly funded by the Foreign Affairs, Trade and Development Canada (DFATD) formerly known as the Canadian International Development Agency (CIDA), the United Kingdom Department of International Development (DFID) and the Inter-American Development Bank (IDB). The ultimate goal of this Program is to contribute to the increase in the standard of living and quality of life, and the enhancement of the competitiveness of the 15 independent CARIFORUM countries.

Specifically, the Program will increase: (i) donor harmonization and coherence, and contribute to the development of national and regional private sector development strategies; (ii) the ability of Caribbean governments to promote a competitive, growth-oriented business and investment climate; and (iii) innovation, productivity, value added production, sales and sustainability in key Caribbean clusters and value chains, and product sophistication, productivity and exports of individual firms.

The Financial Services sector in Jamaica

Over the last decade, the Jamaican financial services sector has been struggling to overcome the effects of the country's deep financial crisis of the late 1990s. During this period, the volume of funds available and the willingness of banks and other financial institutions to lend were severely curtailed. Recently, there have been signs of a new dynamism in the credit industry. Lending has increased substantially and there are more lenders competing for clients. The 2015 Doing Business report by the World Bank puts Jamaica ahead of the Caribbean in the access to credit indicator, anecdotal evidence on the ground however indicates that credit access remains challenging. This is particularly the case for Jamaica's MSME sector.

In an effort to improve SMEs access to loan funds, a number of interventions have been experimented with. GOJ has established a *credit enhancement facility*¹ in order to address the collateral deficiency of many SMEs and to minimize the risks to the Approved Financial Institutions (AFIs). However, this is unlikely to be adequate to sufficiently protect loan commitments, given the historically negative experience in Jamaica with non-repayment of government financing.¹ GOJ has also established a credit guarantee fund via the Development Bank of Jamaica but its performance has been yet to poor. The commercial banks themselves have established 'special windows' for SMEs to borrow funds at low rates

¹ See <http://www.jsdnp.org.jm/susAgriculture-agricJA.htm>, re agricultural loans & Klak, Thomas: "What causes Arrears in Government Housing Programmes? Perceptions and the Empirical Evidence from Jamaica", Journal of the American Planning Association, Vol. 58, 1992, re housing loans. See Also: Collister, Keith, "A New Approach to Development Banking in Jamaica" at http://www.eclac.org/cooperacion/noticias/cooperacion/4/13474/Keith_Collister.pdf

of 9% but the requirements remain hindrances. The IDB has also intervened with a number of actions; some of the main ones being: the establishment of the framework for a credit bureau, establishment a secured transaction framework, support for land registry program (LAMP), which has seen a drastic reduction in costs and time of titling, a MIF supported risk-based system being developed to support MSMEs, which were then able to access credit from SCOTIABANK, interventions to support access to credit via the credit unions etc. These, while will a positive impact, need time for their impact to be fully seen as in the case of the credit bureau and secured transaction registry and in the case of the Land Administration and MIF's intervention, scaled up. There is also work on a venture capital or seed capital financing especially for start-ups which face an even greater problem in accessing financing.

Moreover the successes of these interventions are crucial to the GoJ's economic growth strategy as the prosperity and growth of SME's is a key ingredient in stimulating the economy. The growth strategy aims to secure increase in income and employment for Jamaicans and focuses on attracting new investment across the value chain in Agriculture, Tourism, shipping, port logistics, business process outsourcing, energy and manufacturing. The Strategy is underpinned by a raft of fiscal and monetary reforms aimed at creating a stable predictable and resilient macroeconomic environment; structural reforms aimed at strengthening Jamaica's external competitiveness and productivity; strategic public and private investments as well as the maintenance of social stability. The evolution of the country's growth strategy will therefore mandate the creation of dynamic financial products geared to facilitate a diversified economic base premised on global value chains as the pivot of industry. This also provides an opportunity to improve the long term sustainability of SME's by identifying opportunities (i.e. by promoting long term planning capacity and improved business processes), innovations (i.e. through access to new technologies) and job creation.

II. OBJECTIVE

This consultancy aims to provide a diagnostic assessment of the current status of SME financing in Jamaica viz the capacity of SME's to access finance; the availability and structure of financial instruments and institutions; and an assessment of policy and institutional interventions needed to fuel SME growth and development. The study will specifically seek to

- Provide some baseline indicators and current status on access to credit to determine whether there has been an improvement in the recent past.
- provide an in-depth analysis of the financial sector in Jamaica; barriers relating to access to credit in general, and specifically with regards to SME financing;
- delineate the methodology and framework for the design of financing products for the SME sector including a review of the intuitions which are servicing the sector with both financial and non-financial products; assess whether there is synergy between existing programs geared to support SME financing identify those which comes under the Government and their effectiveness.
- examine whether financial products are meeting the needs of the productive sector throughout their investment lifecycle (start-up stage, early stage growth stage and maturity stage)
- Examine whether the current financial products provide an incentive for the development of businesses in areas promoted by the growth agenda and if not, how they need to be structured and outline best practice financing strategies geared to business within the creative and other high growth industries
- Identify policy reforms in the sector being undertaken and what remains to be done to be enablers to growth;
- Identify potential mechanisms and activities the Bank could support over the short to medium term.

III. SCOPE OF WORK/ MAIN ACTIVITIES

Undertake desk review and in depth consultations with the all stakeholders (relevant Government entities, commercial banks and other providers of finance, key private sector associations, potential borrowers in totality (and MSMEs as a share of this) to prepare a report on the following:

A. Definition of information for the “base line” situation:

1. Short analysis of Jamaican economy and productivity overall business climate and investments opportunities in Jamaica. This should also look at the sectors and their contribution to the economy and to employment, with attention paid to the emerging sectors and areas such as BPO, animation etc.
2. Assessment of the main criteria for credit access in particular regarding sector development, business plan standards, risk management principles, collateral requirements, corporate governance requirements and social and environment safeguards
3. List any new financial reform planned, undergoing or in the process of being implemented in the system that would assume an impact on the investment and financing environment in Jamaica.
4. Compilation of information and analysis of all sources of current financing of private business, including:
 - Government definition of its term loans (short, medium and long term loans as defined by the Central Bank)
 - Government definition of size of small, medium and large enterprises
 - Government definition of economic sectors, brief assessment of the sectors and their growth potential (eg. (ISIC classification)
 - Financial sector (banks) indicators
 - Capital adequacy ratios
 - NPLs / Loans
 - Provisions to NPLs
 - ROE / ROA
 - Liquid assets / total assets
 - Composition of bank credit (private, public)
 - Estimates of amounts of loans for investment and their share in the domestic financial system in 2011, 2012 and 2013 (on the basis of analyses carried out by the Central Bank or any source of relevant information) for:
 - By short and medium and long term (according to definitions of the Central Bank)
 - By number of beneficiaries distinguished also for small, medium and large companies (according to official definitions)
 - By sector of destination (ISIC classification), 2011-2013.
 - By category of investment (acquisition of equipment, technological modernization, development of new markets, expansion of plant, etc.)
 - Share of credit for working capital and medium- and long-term capital investments

B. Information about market failures and identification of potential areas of prioritization:

5. Identification and analysis of most attractive investments and growth potential sectors that are not being supported because of access to credit, including:
 - Key barriers for the most attractive investments to occur – i.e. payback periods? Performance? Technologies? (which ones are from the point of view of consumer and which of local FIs)
 - Key characteristics of the most attractive sectors (end customer) and growth potential of the sectors (projections)
 - Size of market (number of beneficiaries / MSMEs and investments) and determination of potential additional demand for credit would credit access be enhanced
 - Profitability of projects that would be easier to finance (not so many barriers)
 - Borrowing capacity of targets customers of the main sources of financing used by sector
 - Technological change customer perception.
 - Identify associations that flock to this sector, and measure potential to work with them (availability, barriers, possible channels of communication with members, etc.)
6. Identify and analyze existing government financial instruments and government initiatives (such as the JBDC, MIDAS, the DBJ and EXIM) and their effectiveness with regard to:
 - Guarantee coverage, operation and criteria (eligibility, price, etc)
 - Governance. administrative and institutional set up
 - Regulatory framework and potential to modify existing instruments and / or increase flexibility in criteria's and coverage
 - Capillarity and use (by sectors and current guarantee portfolio)
 - Potential of managing financial instruments through third parties (private or public fiduciaries)
 - Barriers perceived for their use (either by end-user or financial institution)
 - Make recommendations on possible reformulation of these institutional and their products to better meet the financing needs of the SME segment.
7. Identify other non-government financial institutions operating in Jamaica which are serving the SME market and:
 - Current financing practices and risks considered in providing credit
 - Perception by FIs of major barriers that presents the financing of types of investments / projects identified in 3 above (external and internal)
 - Which financial instruments exist or have existed to fund types of projects identified under 3 above
 - Type of risks that would have to be mitigated for FIs to invest in the projects identified in 3 above
 - Potential / exiting FIs' pipeline of projects that could become more attractive if some of the investment risks are mitigated

- Perception of existing government financial incentive instruments (DBJ/EXIM Guarantees and MSME lines of credit)² and what specific changes and improvements could be undertaken to improve these
- Perception of how a new guarantee mechanism or other second tier vehicles could do to promote better risk management and unlocking investments
- Potential areas for improvement of operations and capillarity of the financial system

C. Proposal on potential mechanisms and interventions for Government consideration:

8. Make proposals on institutional design and financial structuring of a second tier financing mechanism (i.e. guarantee mechanism) regarding:
 - Whether it should be a new standalone mechanism (and why) or could be a revision/expansion to existing mechanisms identified in 4 above
 - What specific governance and administrative / management requisites it should consider, including what institutional enhancements the proposed institution would need to consider or what options for setting up an administration / SPV supervision exist.
 - What kind of criteria and coverage it should have to:
 - Support investment in most attractive areas identified under 3 above
 - Address perception and constraints identified in 5 above
9. Make a proposal of potential improvements the government could steer to the Financial Markets for improvements/ enhancement.

IV. DELIVERABLES

The deliverables expected from the Consultancy include:

- (a) A brief inception report and work plan with a schedule of activities
- (b) A draft report on the baseline on access to credit; sector analysis of local financial sector and private sector investment opportunities; barriers relating to the high growth sectors in Jamaica, and identification of financial mechanisms and vehicles which the Government can promote in medium and long term to enhance credit access and investments.
- (c) A final report on the results of the consultancy covering the topics elaborated in A, B and C above. This report should include the recommendation of potential public – private financial vehicles / mechanism which the Bank can finance to meet the needs identified.

V. PAYMENTS

Payments will be made as follows:

- Fifteen percent (15%) upon approval of the inception report and work plan with a schedule of activities contract with 10 days of signing the contract.
- Forty percent (40%) upon approval of the draft report (deliverable b above) by the 5th week of the consultancy
- Forty five percent (45%) upon submission and acceptance of the final report by end of the 8th week.

² For medium enterprises the interest the personal line of credit should not be considered but the line of credit for the business.

VI. COORDINATION

The technical and administrative responsibilities of this consultancy will be coordinated by Navita Anganu of the Jamaica Country Office. Administrative responsibility of this consultancy will be coordinated by Michael P. Hennessey, Operations Senior Associate (IFD/CTI and Compete Caribbean's Operations Coordinator).

VII. CHARACTERISTICS OF THE CONSULTANCY

Type: Individual consultant. External Product and Services (PEC).

Duration: 40 days within 3 months, commencing on December 15th, 2014

Work Location: The consultant's place of work and Jamaica.

Qualification: The Consultants working on this assignment should have

- An advanced degree in Economics, Finance, Public Policy, Public or Business Administration or a related discipline.
- At least 10 years' experience in the area of private sector development and financial sector, including experience in the Caribbean region.
- Excellent knowledge of the public and private sectors in Jamaica.
- Excellent communication, organization, and program management skills.
- Previous experience working on similar regional or international operations is preferable.

Language: Fluency in written and spoken English is required.

Payment and Conditions of Employment: Remuneration will be determined in accordance with Bank regulations and criteria.

Consanguinity: Individuals with relatives working for the IDB within, and including the fourth degree of consanguinity and the second degree of affinity are not eligible for employment as staff or contractual. Candidates must be citizens of a member country of the Inter-American Development Bank.

Diversity: The IDB is committed to diversity and inclusion and to providing equal opportunities in employment. We embrace diversity on the basis of gender, age, education, national origin, ethnic origin, race, disability, sexual orientation, religion, and HIV/AIDs status. We encourage women, Afro-descendants and persons of indigenous origins to apply.