

**PROJECT NAME:** Using Credit Ratings to Facilitate Financing for Caribbean SMEs  
**PROJECT NUMBER:** TT-M1028

**PROJECT TEAM:** Yongdong Bao (MIF/ATF) and Winsome Leslie (MIF/ATF) – Co-Team Leaders; Tetsuro Narita (MIF/ATF); Ryan Tang (MIF/ATF); Kavita Maharaj (MIF/CTT); Vashtie Dookiesingh (MIF/CTT); Michelle Friedman (MIF/DEU); Trang Ho (MIF/KSC); Brian Muraresku (LEG/NSG); and Hilary Louise Jones (LEG/NSG)

## I. PROJECT SUMMARY<sup>1</sup>

This project will address the problem of SMEs' lack of access to affordable commercial bank credit in Trinidad & Tobago (T&T). Commercial banks in the Caribbean are hesitant to lend to SMEs because of: a) their perceptions of the high level of risk, heightened by: b) the lack of tools at their disposal to adequately price this risk; c) the lack of easily accessible pertinent information on these companies; and d) the inability of many firms to provide information on the business in a format that is easily understood by banks.

Caribbean Information and Credit Rating Services, Ltd. (CariCRIS), the only Caribbean regional credit rating agency, received a MIF equity investment upon formation in 2004 (RG-M1023, MIF-\$300,000).<sup>2</sup> CariCRIS currently utilizes a credit rating tool that was successfully piloted with 25 SMEs in T&T in a previous MIF project (TT-M1023, MIF: \$78,000). The current project seeks to scale this pilot, incorporating lessons learned from the operation to support risk ratings for 60 SMEs and to work with 3 commercial banks<sup>3</sup> to incorporate these credit risk ratings into their loan appraisal process. The use of CariCRIS risk ratings by banks will mean that default risk can be more easily and realistically assessed, increasing efficiency for banks *vis-à-vis* SME lending and increasing access to finance for SMEs, at adequate interest rates. A CariCRIS rating also benefits the SME, as it includes a diagnostic providing guidance on changes that need to be made in terms of risk management. The project will also seek to broaden CariCRIS' range of rating activities, by strengthening its capacity to rate credit unions and other non-bank financial institutions, taking advantage of a favorable legislative environment requiring these ratings. The majority of these financial institutions, in turn, directly provide financing to SMEs.

This project benefits SMEs in T&T and will potentially benefit SMEs elsewhere in the Caribbean, given that CariCRIS is rating companies in the region and the fact that 2 of the 3 commercial banks to be involved in the project are regional. Direct beneficiaries of this intervention will include 60 SMEs, CariCRIS technical staff, its

<sup>1</sup> **4,200 words.**

<sup>2</sup> MIF's participated as an investor in CariCRIS because of a clear need in the region. The established rating agencies were not focusing on the Caribbean because of high transaction costs, due to the small size of the countries and the firms. MIF also gave its support because of the involvement of CRISIL (India's leading rating agency and a S&P company) in the establishment of CariCRIS

<sup>3</sup> Republic Bank Limited, Scotia Bank Trinidad Limited and Intercommercial Bank Limited.

8-member rating committee, the 3 participating banks, credit unions and non-bank financial institutions. The MIF brings value-added to this project by convening these parties in a way which benefits all of them. The MIF also brings technical expertise and lessons and experience from the pilot and other risk rating projects in LAC.

**II. PROJECT CONTRIBUTION TO THE ACCESS FRAMEWORK**

The proposed project will contribute to private sector development, as the SME segment in T&T and the Caribbean contributes significantly to job creation and economic growth. Recent statistics reveal that there are an estimated 18,000 SMEs in T&T, accounting for an estimated 28% of GDP, and roughly 25% of total employment.<sup>4</sup>

This project contributes to the *Innovative Models for Small Business Financing* Agenda by fostering the mainstreaming of a customized SME risk rating methodology among 3 commercial banks, and by building CariCRIS’ capacity for risk-based assessment of credit unions and non-bank financial institutions in the Caribbean, to support improved access to finance for SMEs.

**III. INFORMATION**

|  |  |  |   |       |
|--|--|--|---|-------|
| <b>COUNTRY:</b>                                | Trinidad and Tobago                            | <b>TECHNICAL COOPERATION:</b>            | \$150,000   | 69.8% |
|  |  | <b>INVESTMENT:</b>                       | -   |       |
|  |  | <b>LOAN:</b>                             | -   |       |
|  |  | <b>TOTAL MIF FUNDING:</b>                | \$150,000   |       |
| <b>LOCATION:</b>                               | Trinidad and Tobago                            | <b>COUNTERPART:</b>                      | \$65,000  | 30.2% |
| <b>EXECUTING AGENCY:</b>                       | CariCRIS                                       | <b>COFINANCING (IF AVAILABLE):</b>       | -   | -     |
| <b>ACCESS AREA:</b>                            | Access to Finance                              | <b>TOTAL PROJECT:</b>                    | \$215,000   | 100%  |
| <b>AGENDA:</b>                                 | Innovative Models for Small Business Financing | <b>NUMBER OF DIRECT BENEFICIARIES:</b>   | 60 SMEs, CariCRIS staff and Rating Committee, 3 commercial banks,   |       |
| <b>COMPLEMENTARY BANK OPERATIONS (IF ANY):</b> | None   | <b>NUMBER OF INDIRECT BENEFICIARIES:</b> | 1,000 (estimated) – SME employees and their families; credit unions and other non-bank financial institutions |       |
|  |  | <b>QED SCORE:</b>                        | 6.82  |       |

<sup>4</sup> Kairi Consultants, “Developing Viable Small and Medium Sized Enterprises in Trinidad and Tobago: Challenges and Priorities the Structure, Performance and Networks of SMEs in Trinidad and Tobago”

**IV. PROBLEM DIAGNOSIS**

**Problem Summary:**

SMEs in T&T have consistently identified access to finance as one of the top 5 barriers to doing business.<sup>5</sup> A recent S&P banking industry risk assessment report for T&T reported that unlike their counterparts elsewhere, local banks primarily engage in more traditional commercial and personal lending<sup>6</sup> and have not adopted more innovative products for SMEs. This tendency to avoid perceived “risky lending” has negatively impacted growth and development of the SME segment. Commercial bankers’ perceptions of high levels of risk associated with SME lending are heightened by (i) absence of a structured risk-based approach to assess SMEs, and non-bank financial institutions servicing SMEs; (ii) the “opacity” factor – i.e. the lack of easily accessible and reliable information on firms; and (iii) SMEs’ inability to present information in the formats required by banks.

An ECLAC workshop on SME development revealed similar challenges in the Caribbean overall including: (i) inadequate access to financing; (ii) high cost of the SME financing available; and (iii) the need for business development support in areas such as risk management and business planning.<sup>7</sup>

Given these challenges in T&T and in the Caribbean in general, this project will focus on the following central problems:

- (i) The inability of SMEs in T&T to access affordable credit from commercial banks based on the assessment of risk, not on the size of collateral.
- (ii) Challenges in assessing the risks of credit unions and non-bank financial institutions in the new legislative environment, due to regulators’ lack of knowledge and capacity.

**Causes of the Problem:**

- (i) **Information Asymmetry:** Local commercial banks indicate that there is a lack of easily accessible and verifiable information on SMEs.
- (ii) **Lack of Capacity to Present Information Adequately:** SMEs are unable to provide required financial and corporate information and present this to banks in a standardized manner that could be easily analyzed and verified.
- (iii) **No Appropriate Methodology to assess SME risk:** Banks lack the tools to accurately and efficiently assess SME risk.
- (iv) **Lack of Tools to assess risk of non-bank financial institutions:** Credit unions and non-bank financial institutions are important alternate sources of SME finance, however there are no risk tools available for the local regulator to rate them, which might cause a systemic risk.

Classify the problem in one or more of the following categories that most apply:

Market failure  
Institutional weakness

|   |
|---|
| x |
| x |

Skill deficit  
Collective action problem

|   |
|---|
| x |
|   |

<sup>5</sup> World Economic Forum, “ The Global Competitiveness Report 2012-2013”

<sup>6</sup> Standard and Poor’s, “Banking Industry Risk Assessment Trinidad and Tobago (June:2013)

<sup>7</sup> ECLAC, “Report on the Workshop on Boosting SME Development and Competitiveness in the Caribbean” (May: 2009)

Policy weakness/failure  
OTHER:

Lack of appropriate technology  
Explain as needed

**Project beneficiaries:**

The direct project beneficiaries are 60 SMEs in T&T, 3 commercial banks operating in T&T, as well as the staff and Rating Committee of CariCRIS.

Indirect beneficiaries include employees of SMEs, the families of owners and employees, other SMEs besides the 60 beneficiaries, as well as non-bank financial institutions.

SMEs will be eligible for ratings according to the following classification:

**Small:** Annual sales US\$50,000 - \$2.5 million; Employees 6-75

**Medium:** Annual sales US\$2.5 million - \$8 million; Employees 76-175

## V. PROJECT DESCRIPTION

The impact of the project is to increase sales and employment of SMEs in Trinidad and Tobago through support to enhance the financial ecosystem for SMEs. The result of the project is to increase the access of credit-worthy SMEs to diversified financial products by mainstreaming an external and independent credit risk rating methodology for SMEs and non-bank financial institutions.

Banks are reluctant to lend to SMEs because they lack information about them and the high transaction costs of due diligence. When banks include credit ratings in their loan appraisal process, this eliminates much of the research and verification required, thereby increasing efficiency and lowering the cost of a loan.

CariCRIS, the only Caribbean regional credit rating agency, utilizes a credit rating tool that was successfully piloted with 25 SMEs in T&T in a previous MIF project (TT-M1023, MIF: \$78,000). This current project seeks to scale this pilot, incorporating lessons learned from the operation to support risk ratings for 60 SMEs and to work with 3 commercial banks to incorporate these credit risk ratings into their loan appraisal process.<sup>8</sup> The use of CariCRIS credit ratings by banks will mean that default risk can be more easily and realistically assessed, increasing efficiency for banks *vis-à-vis* SME lending and increasing access to finance for SMEs, at lower interest rates. CariCRIS and the IIC have agreed that promising rated companies will be referred to the FINPYME Credit program for possible financing if the banks pass on these firms<sup>9</sup>. The IIC will refer SMEs to CariCRIS as well for ratings.

The CariCRIS rating examines financial, governance, market, industry and operational risk factors, and provides a diagnostic showing the firm the risk

<sup>8</sup> The Bank of Nova Scotia and Republic Bank have provided formal written confirmation that they will utilize the CariCRIS rating as part of their credit assessment for SMEs.

<sup>9</sup> If the IIC finances a participating SME, maintaining the annual CariCRIS rating will be required & will substitute for IIC's normal annual supervision review. CariCRIS estimates that about 25% of the firms to be rated could be referred to the FINPYME loan program, as many firms will find the program's new subordinated loan product attractive.

management improvements needed. The project will also seek to broaden CariCRIS' range of rating activities, by strengthening its capacity to rate credit unions and other non-bank financial institutions, taking advantage of a favorable legislative environment requiring ratings for these institutions.<sup>10</sup>

### **Component 1: Sensitization and Knowledge-Sharing**

This component seeks to provide large-scale sensitization of regulators, lenders (commercial banks, credit unions and non-bank financial institutions), SMEs and other actors on the tools and approaches available for assessment and management of credit risk. The CariCRIS SME rating model has been developed based on the risk rating model utilized by CRISIL, a shareholder of CariCRIS. The experience of CariCRIS with risk ratings so far has shown the value of these ratings to not only support better risk management for financial institutions in providing financing to SMEs, but also as independent and practical business diagnostics and risk assessments for SMEs. This component will increase awareness of : (1) the SME lending methodology based on CariCRIS' rating; and (2) regulation and supervision of credit unions and non-bank financial institutions.

### **Component 2: Expansion of SME Risk Rating Program**

This component will provide 60 SMEs in T&T that are either existing or potential clients of the 3 local commercial banks in the project, an independent CariCRIS rating report to support new or expanded credit at these participating banks. Specific activities to be conducted under this component include: (i) Development of a communications plan and a training session on the use of the CariCRIS rating in the loan appraisal process, targeting key individuals (e.g. loan officers) and risk departments within the commercial banks. This communications plan and the training is intended to ensure the formal endorsement and acceptance of the CariCRIS rating by all bank staff.; (ii) Selection of 60 SMEs from the universe of firms actively seeking new or expanded credit from the 3 commercial banks, to undergo a CariCRIS risk rating exercise, using criteria to be defined by CariCRIS, these banks and the MIF, and based on the SME classification criteria previously highlighted.

A fund will be established with MIF support to partially reimburse prequalified SMEs for the ratings fee, with a preliminary estimate of \$1,000 in co-financing for 40 small enterprises and \$2,000 for 20 medium enterprises. Costs associated with undergoing a rating report are as follows:

Small: US \$1,500-\$2,000

Medium: US \$3,500-\$5,000

It is expected that, through this component, credit-worthy SMEs will receive financing from the banks.

<sup>10</sup> This includes the new Credit Union Act in which the financial activities of credit unions will be brought under the regulatory purview of the Central Bank, and credit unions will be subject to stricter prudential criteria, similar to that applied to banks. The new Insurance Act, now in Parliament in Trinidad, puts in place a regulatory framework that is risk-based.

### **Component 3: Institutional Strengthening of CariCRIS**

This component seeks to address some of the systemic issues associated with supervision and surveillance of credit unions and non-bank financial institutions. CariCRIS is seeking to contract a highly experienced international credit rating expert to assist in: a) capacity-building and institutional strengthening activities with CariCRIS management, technical staff and rating committee members; and b) the development and strengthening of the risk assessment process and procedures for credit unions and non-bank financial institutions. The consultant will also conduct capacity-building activities for the regulators and risk management staff at the non-bank financial institutions in T&T through credit risk workshops arranged by CariCRIS.

### **Component 4: Knowledge Dissemination and Communication**

The objective of this component is to not only document the results of the project for similar interventions in the future, but also to disseminate knowledge about the value of risk ratings to all stakeholders. These stakeholders include the following strategic audiences: SMEs not benefitting directly from the project, commercial banks, credit unions and non-bank financial institutions wanting to expand SME lending, central bank and financial sector regulators interested in more prudent supervision of the sector. The “knowledge gap” in this project is two-fold. First, while CariCRIS is known in the financial sector, many SMEs are unaware of the link between risk ratings and increased prospects for commercial bank financing. Second, stakeholders in the sector need to be educated on the importance of these ratings as a key element in better risk management.

In order to meet the knowledge needs of these stakeholders, an infographic will be developed, showing the value of risk ratings, for SMEs as well as a robust financial sector supervision framework. The project will also host a closing seminar to highlight the results of the project and how these results can be sustained. On an annual basis, CariCRIS will update the Project Fact Sheet (template provided by the MIF), which contains basic information on the project, its challenges, the intervention strategy and results.<sup>11</sup>

#### **MIF or Other Organization’s Experience:**

MIF brings its experience in the region and the lessons from the pilot project, into this operation.

#### **Lessons learned and/or best practices:**

<sup>11</sup> Also note that the knowledge gained in this project about women-owned SMEs will be used to inform the report on Trinidad and Tobago in the WeVentureScope 2014.

In the T&T pilot project, ratings did not directly lead to increased access to finance for the beneficiary SMEs because there was no emphasis on buy-in at all levels from the bank involved. As a result, the ratings were not taken on board and incorporated into the credit decision-making process. The final evaluation of the pilot revealed the following lessons learned which will be incorporated into this project:

- (i) Target SMEs actively seeking credit as beneficiaries of the project.
- (ii) Engage with Board, CEO and senior management team early in the project design process.
- (iii) Ensure bank CEO's endorsement of the use of the CariCRIS methodology applies to all staff, especially loan officers and the Risk Department.
- (iv) Establish timelines for the incorporation of the CariCRIS methodology in the banks' SME loan decision-making process.

## VI. MIF ADDITIONALITY

***MIF Non-Financial Additionality:*** The MIF is recognized as a neutral broker in the region and carries influence in promoting innovative SME financing models that benefit the stakeholders involved. The MIF's convening power is playing a key role in securing the full support of the commercial banks for this project.

In this project, building the capacity of CariCRIS to rate credit unions and non-bank financial institutions will ultimately support the implementation of more prudent supervision of these entities in T&T. Therefore, complementing this project, a seminar will be organized, funded from the SME agenda account, that will convene central bank and banking supervision officials from the Caribbean to learn from LA experiences in promoting credit ratings, similar to the highly successful 2012 MIF seminar in China. T&T could present the improvements made in financial supervision in view of the new legislation requiring credit unions and non-bank financial institutions to be rated.<sup>12</sup> This seminar, convened in partnership with the Caribbean Development Bank will "piggy-back" on a relevant Caribbean event scheduled, such as "Banking on the Future," an annual meeting of Caribbean Central Banks taking place in 2014 in T&T.

***MIF Financial Additionality:*** MIF financing is critical for this project. Outside of government indirect involvement through the new legislation, there are no other entities providing financial assistance to address risk-based issues in the financial sector.

## VII. RESULTS INDICATORS

- (i) # of SMEs rated by the new tool (disaggregated by sex of owner)
- (ii) # of rated SMEs approved for bank loans (disaggregated by sex of owner)
- (iii) # of commercial banks that incorporate CariCRIS credit ratings into their SME loan appraisals

<sup>12</sup> This legislation has come about as a result of the collapse of Colonial Life Insurance Company (CLICCO), and British American Insurance Company (BAICO), major insurance companies in the country, costing the Trinidad and Tobago Government approximately US\$3 billion for a bail-out.

- (iv) # of CariCRIS staff that are able to rate credit unions and non-bank financial institutions

## VIII. IMPACT INDICATORS

- (i) # of jobs created by SMEs that have received loans  
(ii) # of jobs created by SMEs that have been rated but have not received loans  
(iii) % Increase in sales of SMEs that have received loans  
(iv) % Increase in sales of SMEs that have been rated but not received loans  
(v) # of financial products developed by commercial banks targeting the SME segment and utilizing the CariCRIS credit rating  
(vi) # of SMEs that receive new or maintain existing credit lines from banks as a result of being rated.

## IX. SYSTEMIC IMPACT

It is expected that CariCRIS' ratings of SMEs will contribute to the growth and development of the SME segment, by enhancing the ability to firms to access appropriately-priced financing. Due to the fact that ratings in themselves provide SMEs with an opportunity to understand deficiencies in their business and/or business financial statements, it is expected that the quality of the business skills will increase for SMEs who undergo the rating process, but are rejected on that basis alone.

Through use of CariCRIS' credit ratings, the SME lending processes of financial intermediaries will be strengthened, allowing them to their increase their portfolio of SME financing. While this project is focused on T&T, it will have regional benefits, given that 59% of the rating activities of CariCRIS to date are in the wider Caribbean.<sup>13</sup> Additionally, 2 of the 3 participating banks are regional, so there is strong potential for them to incorporate credit ratings in their loan appraisal process outside T&T as well. Furthermore, it is expected that credit unions and non-bank financial institutions (e.g. insurance companies) in T&T and elsewhere will incorporate this rating system in their operations. There are an estimated 337 credit unions in the Caribbean<sup>14</sup>, and therefore the potential regional market for CariCRIS new rating is significant. Increased use of ratings for SMEs and financial institutions in the region will lead to a more prudent financial ecosystem overall.<sup>15</sup>

## X. BASELINE DATA, MONITORING MECHANISMS AND EVALUATIONS

**Baseline:** The executing agency will establish an agreement with participating organizations to ensure their MIS systems can capture baseline data and track all indicators in the Logical Framework. Some impact indicators cannot be monitored on a semester basis, as banks do not obtain information from the client after the loan has

<sup>13</sup> CariCRIS Report on Ratings April 2013

<sup>14</sup> Caribbean Confederation of Credit Unions consolidated statistics 2012.

<sup>15</sup> Note that based on CariCRIS' conservative projections, the institution should show a profit in 2015-2016, if not before, based on initial rating and surveillance income of new SMEs and credit unions due to this project.



been approved. Therefore this information will be collected on a sample basis during the final evaluation.

**Monitoring:** The executing agency will be responsible for collecting and reporting on all project indicators to the MIF within 30 days of the end of each semester through PSR. The Final PSR will include project results achieved, the sustainability of the project, and findings from the Final Evaluation.

**Evaluation:** The project will be evaluated by an independent consultant 3 months prior to close or when 90% of all funds have been disbursed, whichever comes first. The final evaluation will evaluate project performance against achievement of goals and completion of activities. It will provide lessons learned and recommendations for future similar interventions. Among others, evaluation questions will include: (i) Are SMEs more aware of the link between risk ratings and increased prospects for commercial bank financing?; (ii) Are stakeholders in the sector more educated on the importance of these ratings as a key element in financial supervision?; (iii) How do SMEs that are rated but do not receive loans compare in business outcomes such as employment and sales to those that are rated and do receive loans?; and (iv) Have SMEs that were rated and did not receive loans developed business skills as a result of increased information on their business skills deficiencies? Given the limited scale and scope of the proposed project no impact evaluation is envisaged.

## XI. EXECUTING AGENCY

CariCRIS is the first and only credit rating agency for the Caribbean region. It was established in 2004 in Port of Spain, Trinidad and Tobago, with MIF funding (RG-M1023), to foster the development of the region's capital markets. CariCRIS provides ratings to SMEs, bond issuers, financial intermediaries, public and private corporations, and sovereigns. By the end of 2012, CariCRIS had provided 96 ratings: 47 SME ratings, 39 corporate ratings, and 10 sovereign ratings. T&T represents 41% of the ratings completed, Jamaica, 27% and the rest distributed among other English-speaking Caribbean countries. Institutions rated to date include some of the region's major companies – Sagicor Investments Jamaica Ltd., Goddard Enterprises (Barbados), National Commercial Bank (Jamaica), Trinidad and Tobago Mortgage Finance Company Limited, Republic Bank (T&T) and several Governments in the Caribbean, including T&T, St. Lucia, Barbados and Dominica.

CariCRIS' SME rating measures the SME's business and financial performance and its ability to sustain or improve that performance. The ratings provided to SMEs range from SME 1 to SME 5.<sup>16</sup> Each rating is accompanied by a comprehensive rating report (based on industry, business, management and financial risks) that highlights the firm's key strengths and weaknesses. Credit ratings can also be used as a forerunner or even prerequisite for a listing on the stock exchanges in T&T and Jamaica.

<sup>16</sup> SME 1 (Excellent), SME 2+ (Strong), SME 2- (Strong), SME 3+ (Average), SME 3- (Average), SME 4 (Below Average), and SME 5 (Weak/Vulnerable).

The total paid-in capital upon CariCRIS' establishment in 2004 was \$3,560,000 including \$300,000 from the MIF. At the end of CariCRIS' fiscal year ending March 2011, total shareholder equity was valued at \$519,272. In 2012 CariCRIS received \$1,001,688 in new capital and closed the fiscal year with equity of \$1,164,552.<sup>17</sup> The objective of the MIF's outstanding equity investment is to foster and support the development of Caribbean's capital markets, bridging the large gap that exists in terms of investor information needs and publicly available information and analysis.

The key elements of the CariCRIS governance structure are General Assembly of Shareholders, Board of Directors, and Rating Committee. Mr. Wayne Dass is current CEO. The main shareholders include some of the region's major players, including the Caribbean Development Bank, Central Banks (Barbados, T&T), Scotia Bank and the Development Bank of Jamaica. CRISIL and NCB (Jamaica) are members of the Board. The MIF's initial investment of \$300,000 initially comprised an 8.4% shareholder stake in the company. After it did not participate in the private placement of \$1,001,688 in 2012, the MIF's equity share dropped to 6.6%.

CariCRIS has reduced its annual deficits in recent years and its business revenues have increased. It projects a deficit of \$70,000 in 2014-2015 and positive growth starting in 2015-2016. With further assistance from the MIF through this technical assistance in upgrading its rating capability, it is expected that the deal-flow to CariCRIS will improve significantly, given that SME demand for ratings will increase when banks incorporate ratings into their lending process and given that demand from non-bank financial institutions will increase as a result of new regulations to be passed shortly in Trinidad & Tobago.

The company has capacity to execute this project, with experienced management and a staff of 15.

## XII. PROJECT RISKS

**Sector Risk:** CariCRIS rating may not be mainstreamed into banks' decision-making process in underwriting SME loans. **Mitigation:** Strategies of CariCRIS include on-going communication with CEOs and senior risk management team of commercial banks, and signing of MOUs with at least 3 commercial banks prior to project implementation. In this regard, consultations among CEOs and senior management of commercial banks have already been completed, resulting in 3 banks confirming their participation and counterpart financing by these banks. They have agreed to formally mainstream the CariCRIS rating into SME credit assessments and financing decisions.

**Sustainability Risk:** The weak financial situation of CariCRIS to date is a concern and its business viability needs to be monitored. Its sustainability as a business depends on increasing revenues from its current target audience, including SMEs, as well as expanding its rating services to include non-bank financial institutions.

<sup>17</sup> CariCRIS audited financial statement 2011-2012.

**Mitigation:** The activities in this project will increase CariCRIS' competitiveness, given the more favorable environment in T&T promoting ratings at the present time. The increased ongoing business expected as a result of this project will foster CariCRIS' sustainability.

**External Risk:** Enacting of new legislation to enforce more stringent financial sector supervisory regulations may be delayed, resulting in lack of buy-in/need from credit unions and insurance companies for risk ratings. **Mitigation and Other Considerations:** While the precise timing for the passage of the legislation in 2014 is not clear at this time, there is very strong support domestically, including within the Government, for this legislation, given the CLICCO collapse and its widespread repercussions in T&T and beyond. It is expected to pass early 2014. CariCRIS' revenues come from its traditional operations and this new line of business is only one part of revenues that will contribute to its sustainability. In a worst case scenario, it can continue with other operations as it awaits passage of this legislation.

### XIII. ENVIRONMENTAL AND SOCIAL ASPECTS

The project will not have negative environmental impacts. The social impacts of the project are expected to be positive because services provided by CariCRIS will increase access to finance among SMEs and services of financial institutions will be expanded for the low-income, non-banking population. It is expected that the project will be classified as category "C."

### XIV. COUNTRY OFFICE COMMENTS

CariCRIS is a strong technical partner with the capacity for successful execution and the credit rating tool for SMEs has the potential to transform approaches to SME credit in T&T and the wider Caribbean. This project will assist CariCRIS in engaging in 2 lines of business, SME ratings and ratings of credit unions and non-bank financial institutions, initially in T&T, which will support this organization's efforts to achieve sustainability. MIF's efforts to sensitize stakeholders to the critical importance of ratings, through this project, as well as a regional seminar, will improve the prospects for CariCRIS' survival over the long-term.

**DIAGNOSIS OF EXECUTING AGENCY'S NEEDS (DNA) - PROCUREMENT SECTION**

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**EXECUTING AGENCY NAME:** CARICRIS

(INSTRUCTIONS: THE COUNTRY OFFICE (W/ SPECIALIST) SHOULD COMPLETE THIS DIAGNOSTIC PRIOR TO THE ANALYSIS MISSION (IN COLLABORATION WITH THE COUNTRY SPECIALIST, OR OPERATIONS ANALYST, OR INTERNAL CONSULTANT, OR EXTERNAL CONSULTANT, AS CURRENTLY CONDUCTED IN EACH COUNTRY OFFICE). THE PROJECT TEAM, DURING THE ANALYSIS MISSION, SHOULD REVIEW THE RESULTS OF THE DIAGNOSTIC WITH THE EXECUTING AGENCY TO IDENTIFY THE AREAS THAT MAY NEED STRENGTHENING. THE AUDITOR WHO WILL PERFORM THE PROCUREMENT AND DISBURSEMENT EX POST REVIEWS WILL ALSO PROVIDE THESE STRENGTHENING ACTIVITIES. THE LINE ITEM TO COVER THESE EX POST REVIEWS SHOULD ALWAYS BE INCLUDED IN THE PROJECT BUDGET (AUBRIC/IMPLY/OPER/PERFORM).)

**ANSWERS EXECUTING AGENCY**

**(A) HIRING OF CONSULTANCIES AND PROCUREMENT OF GOODS AND SERVICES**

| YES | NO | COMMENTS | REVIEW COMMENTS |
|-----|----|----------|-----------------|
|-----|----|----------|-----------------|

**Documentation of Procedures/Norms**

**1 Does the organization have a formal Procedures Manual for the procurement of goods and services and consulting services that includes:**

- A coherent and sequential description of the procurement process for goods and services different from consulting services (definition of requirements and technical specifications, request for quotes, review, selection, contracting, receipt of goods and services, and payment)?
- A reference value amount under which goods and services are procured via direct methods?

• A value amount at which point costs/tenders are compared?

- A coherent and sequential description of the process for the contracting of consulting services (definition of requirements, request for proposals or CVs, review, selection, contracting, receipt of deliverables, and payment)?

• A reference value amount under which contracting of consulting services are procured via direct methods?

• A value amount at which point consultant qualifications are compared?

|     |    |   |   |
|-----|----|---|---|
| yes |    |   | The organization has a documented Accounting & Finance Policy Manual  |
| yes |    |   | Done informally. No documented amount seen in the Manual.   |
| yes |    | TTS 1,000 is the value point                                | Done informally. No documented amount seen in the Manual.   |
|     | no | Our procurement currently addresses only goods and services | Contracting of consultants is not required as the core staff is used for executing projects. Whilst resourcing consultants is not the core staff responsibility there is the capability of them doing it. |
|     | no | Our procurement currently addresses only goods and services | Contracting of consultants is not required as the core staff is used for executing projects. However, there is the ability of proper review and selection of possible contracted consultants.             |
|     | no | Our procurement currently addresses only goods and services | Contracting of consultants is not required as the core staff is used for executing projects. However, there is the ability of proper review and selection of possible contracted consultants.             |

**2 Does the organization have a written code of ethics and/or similar policies which refer to conflicts of interest which includes:**

- Types of violations and corresponding sanctions

• Provisions indicating there is a conflict of interest when hiring family members of directors and staff of the organization

• Special mention of involvement of family members and/or agency's directors or board members in procurement processes

• Specific functions of a committee that addresses reported violations

|     |  |   |  |
|-----|--|---|--|
| yes |  |   | Code of Ethics contains detailed Insider Trading Policy and Standard of Conduct which staff are required to sign on a yearly basis.                        |
| yes |  |   | No provisions inquired from Nicole who indicated that based on the nature of the business one must be adequately qualified to fit into available positions |
| yes |  |   | Same as above  |
| yes |  | We have the function but not a formal committee | The Senior Management Team will address reported violations. No incidents on record to date  |

**Roles**

**3 Does the organization have written instructions assigning roles and responsibilities for the procurement, administration and oversight of goods and services which includes:**

- Separation of duties when procuring (i.e. the person who receives the goods and services is not the same person who issues payments nor is it the same person who awards the contract, etc.)?
- A line of authority procurement approvals

• A selection committee with qualifications and experience of its members clearly defined

|     |  |  |   |
|-----|--|--|---|
| yes |  |  | Documented in the Accounting & Finance Policy Manual. |
| yes |  |  | Documented in the Accounting & Finance Policy Manual. |
| no  |  | We do not consider this necessary given our small size | Not seen  |

**Systems**

**4** The organization's procurement management system (either automated or manual) allows for supporting documentation to be linked to each stage of the procurement process?

**5** The organization has a contracts management system (either automated or manual) that can track all commitments and links them to corresponding payments?

**6 The organization has a central filing system that includes:**

• A designated secure space with restricted access

• Responsible staff assigned to manage the documents

• Separate files (individual files) for each procurement process of goods and services and contract management

|     |  |                                   |   |
|-----|--|-----------------------------------|---|
| yes |  |                                   | Yes                                     |
| yes |  | We have the capability to do this | Done via Quickbooks accounting software |

|     |  |                         |     |
|-----|--|-------------------------|-----|
| yes |  | We have a secured vault | Yes |
| yes |  |                         | Yes |
| yes |  |                         | Yes |

**Level of Use**

**7 Does the organization have previous experience in contracting consultants and/or procuring goods and services with:**

• National or international donor entities? If yes, list the organizations in the comments section.

• IDB or MIF specifically? If yes, list the projects in the comments sections.

• Does the organization have practices or specific actions to transfer the procurement knowledge/practices to the unit responsible for implementing the project?

|     |  |   |   |
|-----|--|---|---|
| yes |  | IDB   | The role of consultant with Bankers' Association of T&T (BATT) and Institute of Law & Economics Ltd (ILE) being referred to |
| yes |  | MSME Ratings in Jamaica and SME Ratings in Trinidad | MSME Ratings in Jamaica - ILE<br>SME Ratings in Trinidad - BATT   |
| yes |  |   | Yes, significant volume of the consultancy will be done in house  |

**8 For the procurement process of goods and services -distinct from consulting services- does the organization:**

• Research market prices to identify potential providers and to estimate costs of goods and services

• Selects the most economical bid after verifying technical specifications

|     |  |  |  |
|-----|--|--|--|
| yes |  |  | Done informally. Not documented in the Accounting & Finance Policy Manual. |
| yes |  |  | Done informally. Not documented in the Accounting & Finance Policy Manual. |

**9 For the contracting of consulting services, does the organization:**

• Research market prices in the corresponding sector to identify required services and obtain an estimate

• Selects the most economical bid after verifying technical specifications

|     |  |  |  |
|-----|--|--|--|
| yes |  |  | Done informally. Not documented in the Accounting & Finance Policy Manual. |
| yes |  |  | Done informally. Not documented in the Accounting & Finance Policy Manual. |

**10** Does the organization ensure that its personnel is aware of the Code of Ethics and applies it accordingly

|     |  |  |  |
|-----|--|--|--|
| yes |  |  | Standard of Conduct signed by all Staff on a yearly basis. |
|-----|--|--|--|

**11** Does the organization carry out inventories of goods at least once a year

|     |  |  |  |
|-----|--|--|--|
| yes |  |  | The organization does not deal in the trade of goods for resale, however, a count is done for office supplies and fixed asset purchased. |
|-----|--|--|--|

**DIAGNOSIS OF THE AGENCY'S NEEDS (DNA) - FINANCIAL & ACCOUNTING SECTION**

|                               |   |
|-------------------------------|---|
| <b>PROJECT NUMBER:</b>        | TT-M1028  |
| <b>PROJECT NAME:</b>          | Using credit ratings to facilitate financing for Caribbean SMEs |
| <b>EXECUTING AGENCY NAME:</b> | CARICRIS  |

**(B) ACCOUNTING AND FINANCIAL MANAGEMENT**

**Procedures**

**1 The institution has written instructions for:**

- Registration and control of all financial transactions of the entity
- The preparation of financial reports and periodic reconciliations of bank accounts and obligations
- The fulfillment of social and fiscal (tax) obligations.
- The management of funding or resources from the IDB and local counterpart

**ANSWERS EXECUTING AGENCY**

| YES | NO | COMMENTS | REVIEW COMMENTS   |
|-----|----|----------|---|
| yes |    |          | Yes   |
| yes |    |          | Yes   |
| yes |    |          | Yes   |
| yes |    |          | Need to include procedures for funding from IDB resources and expand their ledger accounts. |

**Roles/Internal control Environment**

**2 Within the institution there is a separation of functions for financial and administrative management:**

- With levels of authority and responsibility for financial accounting purposes clearly established and documented
- In the case of financial transactions, it is clearly identified the separation of functions of the staff who authorizes, prepares, registers and pays.

**3 Does the institution have an internal auditor or other personnel responsible for internal controls?**

**4 Does the workload of the staff assigned to the financial-accounting area allow him/her to absorb tasks related to the management of an additional project?**

|     |  |   |  |
|-----|--|---|--|
| yes |  |   | Size of the organisation does not permit the separation into Finance Manager and Accountant. |
| yes |  |   | Yes  |
| yes |  | Whilst we do not have an internal auditor, internal controls are monitored and reviewed on an on-going basis by the Manager, Finance & Administration | Yes it is the responsibility of the Finance Manager  |
| yes |  |   | Yes  |

**Management Systems**

**5 The institution has an accounting system that allows you to:**

- Generate project financial statements (Statement of Cash Flows and Statement of Accumulated Investments) and other similar financial reports that are required by the IDB
- Identify, monitor and control transactions by funding source
- Conduct transactions in local and international currency

**6 The institution has a filing system that includes:**

- Secured physical space
- Personnel assigned the responsibility for managing the documentation
- Referencing and identification of supporting documentation.

|     |  |   |   |
|-----|--|---|---|
| yes |  |   | Yes                                     |
| yes |  | our accounting software provides for this | Yes                                     |
| yes |  |   | Yes                                     |
| yes |  |   | Yes, US\$ is their functional currency. |

**Grade of use/experience**

**7 Are all financial transactions, including the obligations/commitments recorded at the time of its occurrence?**

**8 Each payment is accompanied by supporting documentation?**

**9 Does the institution have audited annual financial statements with unqualified opinion?**

**10 Does management take action in due course on the observations and recommendations of the auditors or others in charge?**

**11 Has the entity prior experience in financial management of resources from:**

- National or international donors. If yes, list the organizations in the comments section
- IDB or MIF specifically? If so, list the projects in the comments section
- On the management in IDB-MIF projects
- On the staff with experience in IDB-MIF projects

|     |  |  |  |
|-----|--|--|--|
| yes |  |  | Yes  |
| yes |  |  | Yes  |
| yes |  |  | Yes, year ended March 2013 audit report seen |
| yes |  |  | Yes  |

|     |  |   |  |
|-----|--|---|--|
| yes |  | IDB   | Not directly with the IDB but indirectly through the Bankers' Association of T&T (BATT) and Institute of Law & Economics Ltd (ILE) |
| yes |  | MSME Ratings in Jamaica and SME Ratings in Trinidad | Employed as a consultant for MSME Ratings in Jamaica - ILE<br>SME Ratings in Trinidad - BATT                                       |
| no  |  | But we have the capability in-house to do this      | Yes given the nature of the project.   |
| no  |  | But we have the capability in-house to do this      | Yes given the nature of the project.   |

**DIAGNOSIS OF THE AGENCY'S NEEDS (DNA) - TECHNICAL AND MONITORING SECTION**

**PROJECT NUMBER:** TT-M1028  
**PROJECT NAME:** Using credit ratings to facilitate financing for Caribbean SMEs  
**EXECUTING AGENCY NAME:** CARICRIS

**(C) TECHNICAL AND MONITORING CAPACITY**

- 1 Does the Institution have previous experience in the area or subject matter of the proposed initiative? If yes, please indicate in the "Comments" section the number of similar projects executed in the last five years and results achieved.
- 2 Does the Institution have staff with relevant experience in the activities and the subject matter of the project?
- 3 Does the Institution have an acceptable degree of legitimacy (recognized capacity or authority) among the beneficiary group (e.g. entrepreneurs, associations and communities)?
- 4 Does the Institution have a strategic plan which is updated periodically (annually, bi-annually or every 3 years)?
- 5 Does the Institution have an annual operating plan which is updated periodically?
- 6 Does the current institutional Annual Operating Plan include details regarding activities, corresponding indicators, defined roles and responsibilities for staff, timing and an itemized budget?
- 7 Does the Institution have sufficient information about the beneficiaries to enable them to develop baseline data?
- 8 Does the Institution have tools or systems (electronic or manual) in place to evaluate the results of its projects?
- 9 Do the tools or systems allow the monitoring of: (i) Activities (completed activities); (ii) Outputs (specific products); (iii) Outcomes (impact on the beneficiaries)?
- 10 Do the tools or systems generate reports reviewed by management or other staff tasked with monitoring projects?

**ANSWERS EXECUTING AGENCY**

|  | YES | NO | COMMENTS                    | REVIEW COMMENTS  |
|--|-----|----|-----------------------------|--|
|  |     | No |                             | The Institution has experience in Ratings as it is their core business. It has not been involved directly as a PEU with the IDB to date. |
|  | Yes |    |                             | Yes  |
|  | Yes |    |                             | Yes  |
|  | Yes |    | Needs updating now          | Reviewed the Private Placement Memorandum dated Aug-11 containing the strategic objectives of the Institution.                           |
|  | Yes |    |                             | Seen actual performance compared to budgeted figures in monthly Management Accounts, prepared by the Finance Manager.                    |
|  | Yes |    |                             | Monthly Management Accounts Roles and responsibilities are fixed   |
|  |     | No |                             | The actual project will provide the necessary information  |
|  | Yes |    | We can easily develop these | Yes, the Ratings Committee   |
|  | Yes |    | We can easily develop these | Yes  |
|  | Yes |    | We can easily develop these | Yes  |

**DIAGNOSIS OF THE AGENCY'S NEEDS (DNA) - KNOWLEDGE MANAGEMENT AND STRATEGIC COMMUNICATION SECTION**

**PROJECT NUMBER:** TT-1028  
**PROJECT NAME:** Using credit ratings to facilitate financing for Caribbean SMEs  
**EXECUTING AGENCY NAME:** CARICRIS

**(D) KNOWLEDGE MANAGEMENT AND STRATEGIC COMMUNICATION**

**Strategic Priorities / Knowledge and Communications Technical Capacities**

1 Does Knowledge Management appear explicitly in the mission, organizational priorities and strategic priorities of the Executing Agency?

**ANSWERS EXECUTING AGENCY**

**YES NO COMMENTS REVIEW COMMENTS**

|     |  |                                  |     |
|-----|--|----------------------------------|-----|
| yes |  | Included in our Vision Statement | Yes |
|-----|--|----------------------------------|-----|

2 **Does the Executing Agency have the human and financial resources to...**

- Develop the knowledge products planned for the project
- Develop the communication and dissemination activities planned for the project

|     |  |  |     |
|-----|--|--|-----|
| yes |  | We will leverage our internal software to develop the required databases | Yes |
|-----|--|--|-----|

|     |  |  |     |
|-----|--|--|-----|
| yes |  | We will leverage our internal software to develop the required databases | Yes |
|-----|--|--|-----|

**Previous Experience in Knowledge Management and Communication**

3 In its prior experience in implementing projects, has the Executing Agency develop a communication and knowledge management strategy that is explicitly designed and documented, identifying audiences, products and channels and with an associated budget?

|  |    |  |    |
|--|----|--|----|
|  | no |  | No |
|--|----|--|----|

4 **If the answer to previous question was affirmative, continue with the next two, Otherwise go to the next set of questions.**

- Through the implementation of knowledge management strategy and strategic communications, has it achieved the expected changes in behaviour in strategic audiences (government agencies, other donors, business associations, financial institutions, etc)?
- As part of a communication strategy, has the Executing Agency developed knowledge products, such as case studies, infographics, websites, videos, audiovisual, methodological guides, project sheets, and/or technical publications?

|  |  |  |    |
|--|--|--|----|
|  |  |  | No |
|--|--|--|----|

|  |  |  |    |
|--|--|--|----|
|  |  |  | No |
|--|--|--|----|

**Recognition among Interest Groups**

5 Does the organization have contacts with the main audiences which it would hope to influence through the results of the project, such as government agencies, donor communities, financial institutions, and/or business organizations?

|     |  |  |     |
|-----|--|--|-----|
| yes |  |  | Yes |
|-----|--|--|-----|

6 Does the organization have positioning and recognition among the key audiences which it would hope to influence through the results of the project, such as government agencies, donor communities, financial institutions, and/or business organizations?

|     |  |  |     |
|-----|--|--|-----|
| yes |  |  | Yes |
|-----|--|--|-----|

7 **Has the Executing Agency been invited to participate in seminars, forums or other events on the theme of the project....**

- on a local or national level?
- internationally?

|     |  |  |     |
|-----|--|--|-----|
| yes |  |  | Yes |
|-----|--|--|-----|

|     |  |                 |     |
|-----|--|-----------------|-----|
| yes |  | through the IDB | Yes |
|-----|--|-----------------|-----|

## SECTION 1: PROJECT SUMMARY

|  |  |
|--|--|
| <b>PROJECT NAME:</b> Using credit ratings to facilitate financing for caribbean SMEs | Project Number: TT-M1028                   |
| <b>DESIGN TEAM LEADER:</b> Winsome Leslie  | <b>DEU OFFICER:</b> FRIEDMAN, MICHELLE LEE |

## SECTION 2: QED DETAILS

|  |   |
|--|---|
| <b>1. MIF Strategic Development Objectives Dimension</b>   | <b>5.2</b>  |
| <b>Relation to the Agenda's Objectives</b>   |   |
| 1.1. There is a causal relation between project objective and the agenda's objective.  | True. (Score: 2)  |
| 1.2. The project has potential for scalability after execution.  | High potential. (Score: 2)                              |
| <b>Specific benefits for women</b>   |   |
| 1.3. The project has specific benefits for women.  | Project without specific benefits for women. (Score: 0) |
| <b>Specific benefits for the environment</b>   |   |
| 1.4. The project has specific benefits for the environment (GHG reduction, water savings, conservation, biodiversity).   | No environmental impact identified. (Score: 0)          |
| <b>Relation to the MIF's Objectives</b>  |   |
| <b>Target 1: Private Sector Development</b>  |   |
| 1.5. Innovation  | True. (Score: 2)  |
| 1.6. Creating Markets and Adding Market Players  | True. (Score: 2)  |
| 1.7. Entrepreneurship  | True. (Score: 2)  |
| 1.8. Building Private Institutional Capacity   | True. (Score: 2)  |
| 1.9. Technology & Human Capital  | True. (Score: 2)  |
| 1.10. Higher Standards of Corporate Governance   | True. (Score: 2)  |
| 1.11. Strengthening Legal and Regulatory Framework   | Ambiguous. (Score: 1)                                   |
| 1.12. Development of financial institutions and financial markets  | True. (Score: 2)  |
| 1.13. Improved access to basic services  | False. (Score: 0)                                       |
| <b>Target 2: Targeting the poor</b>  |   |
| 1.14. The project will be implemented in a region with a high incidence of poverty (poverty map resources <a href="http://mif.iadb.org/poverty/home">http://mif.iadb.org/poverty/home</a> ) or target beneficiaries from the poor strata | Indirect impact on poverty. (Score: 0)                  |
| <b>2. Additionality Dimension</b>  | <b>8.0</b>  |
| 2.1. MIF non-financial contribution is critical for developing the project.  | True. (Score: 2)  |
| 2.2. MIF financial contribution is critical for developing the project (there is little or no alternative funding)   | True. (Score: 2)  |
| 2.3. MIF participation will mobilize counterpart funding that otherwise won't be available.  | False. (Score: 0)                                       |
| 2.4. MIF participation will likely improve project structure by providing technical advice, institutional credibility and/or lessons learned/best practices from other MIF projects  | True. (Score: 2)  |
| 2.5. MIF participation will likely strengthen the institution(s) directly involved with the project  | True. (Score: 2)  |
| <b>3. Project Diagnosis Dimension</b>  | <b>8.5</b>  |
| <b>Diagnostic of the problem</b>   |   |
| 3.1. The problem or need that the project attempts to address has been clearly identified in consultation with stakeholders (borrowers, executing agencies, male and female beneficiaries, other interested parties)                     | Compliant. (Score: 2)                                   |
| 3.2. The causes of the problem, their interrelationships and magnitudes are clearly identified   | Compliant. (Score: 2)                                   |
| <b>Proposed Solution</b>   |   |
| 3.3. The proposed solution is logically connected and related to the magnitude of the  | Partially compliant. (Score: 1)                         |



|  |                       |
|--|-----------------------|
| problem  |                       |
| 3.4. Relevant lessons learned from previous similar interventions in this country or other country (PSRs, ASRs, mid-term evaluations, final evaluations or other evaluation document) are taken into consideration | Compliant. (Score: 2) |
| 3.5. Evidence is provided as to the effectiveness of the intervention proposed based on experience in other settings, or previous experience in the same setting   | Compliant. (Score: 2) |

|              |            |
|--------------|------------|
|              |            |
| <b>TOTAL</b> | <b>7.2</b> |