

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**THE BAHAMAS**

**ACCELERATE BAHAMAS!**

**(BH-T1071)**

**DONORS MEMORANDUM**

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**PROJECT SUMMARY  
ACCELERATE BAHAMAS!  
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Across the Caribbean region, Micro, Small and Medium Enterprises (MSMEs) are estimated to account for 70% to 85% of firms, contributing 60% to 70% of GDP and about 50% of employment. In The Bahamas, there are close to 23,000 business licenses issued and it is estimated that MSMEs consist of 98% of them and hire 47% of all employees, while contributing between 20% to 30% of GDP. One of the principal constraints to SMEs growth in The Bahamas is lack of access to finance, which has been identified by the entrepreneurs as the second most important obstacle for business growth, after an inadequately educated workforce, and ease of doing business. The businesses surveyed also indicated a need for non-financial assistance, with customer care, technical training and accounting and finance being the most required.

Other constraints to SME growth are high levels of business informality and low capacity for innovation and utilization of technology required to transform these businesses into investment-ready entities with profitable business models. The ecosystem in The Bahamas supporting the development of SMEs can best be described as fragmented and underdeveloped, with several overlapping initiatives and limited coordination amongst the ecosystem enablers. Further, one of the principal constraints to private sector growth is, access to finance, which was identified as the second most important obstacle for business growth, after an inadequately educated workforce, in a survey<sup>1</sup> conducted by the Bank.

This project will contribute to the development of the nascent entrepreneurial ecosystem in The Bahamas through the provision of high-quality business support services, greater access to finance through a multibank Fintech platform, digital skills training, mentorship, and innovation promotion. This project will also support the ecosystem development through the collection and analysis of data on businesses in The Bahamas and bring key ecosystem players together for advocacy and policy recommendations related to entrepreneurship, the ease of doing business, and innovation in the country.

The beneficiaries of this project will be 2,500 SMEs and startups<sup>2</sup>, many of them led by women. The executing agency is the Small Business Development Centre (SBDC) Bahamas, and the project total is US\$1,310,000, of which US\$600,000 will be provided by the IDB Lab through a non-reimbursable technical co-operation.

This project was prepared prior to Hurricane Dorian making landfall in The Bahamas and has been adjusted for greater alignment to the Government of The Bahamas area of focus post Hurricane Dorian, in expediting the recovery of the SME sector. The government has indicated its intention to establish a US\$10 million loan guarantee and equity financing program which will allow SMEs to secure financing up to US\$500,000 to finance the restoration of businesses or the recreation of new businesses. This financing program will be facilitated by through the SBDC.

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<sup>1</sup> Productivity, Technology and Innovation in the Caribbean 2014 Survey (PROTEqIN).

<sup>2</sup> The expression “SMEs and startups” is used to refer to SME’s and those microenterprises that have not enough employees, assets, or sales to be considered an SME but have the potential to growth. The term MSME’s is used to include all micro, small and medium enterprises.

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## ACRONYMS AND ABBREVIATIONS

<b>CEF</b>	Credit Enhancement Facility
<b>DNA</b>	Diagnostic of Executing Agency Needs
<b>FI</b>	Financial Institution
<b>GDP</b>	Gross Domestic Product
<b>IDB</b>	Inter-American Development Bank
<b>IDB Invest</b>	Inter-American Investment Corporation
<b>IDB Group</b>	Inter-American Development Bank Group
<b>IDB Lab</b>	Multilateral Investment Fund
<b>IICA</b>	Inter-American Institute for Cooperation on Agriculture
<b>MOU</b>	Memorandum of Understanding
<b>MSME</b>	Micro Small and Medium Enterprise
<b>SBDC</b>	Small Business Development Centre Bahamas
<b>SME</b>	Small and Medium Enterprise
<b>TC</b>	Technical Cooperation

**PROJECT INFORMATION**  
**THE BAHAMAS**  
**ACCELERATE BAHAMAS!**  
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<b>Country and Geographic Location:</b>	The Bahamas		
<b>Executing Agency:</b>	Small Business Development Centre (SBDC) Bahamas		
<b>Focus Area:</b>	Knowledge Economy.		
<b>Coordination with Other Donors/Bank Operations:</b>	This project complements the Bank's Credit Enhancement Facility (BH-L1046) which provides US\$25 million in partial loan guarantees to eligible financial institutions (FIs) for loans given to SMEs which are unable to meet collateral requirements and who are advised and vetted by the SBDC. It also builds on TC BH-T1070, Strengthening the Institutional Capacity of the SBDC Bahamas, which supports the SBDC's technical, fiduciary and operational capacity to execute its mandate.		
<b>Project Beneficiaries:</b>	2,500 SMEs and startups in The Bahamas with improved capacity to scale their operations		
<b>Financing:</b>	Non-Reimbursable Technical Cooperation:	US\$ 600,000	46%
	<b>TOTAL IDB Lab FUNDING:</b>	US\$ 600,000	
	SBDC:	US\$ 710,000	54%
	<b>TOTAL PROJECT BUDGET:</b>	US\$ 1,310,000	100%
<b>Execution and Disbursement Period:</b>	36 months of execution and 42 months of disbursement.		
<b>Special Contractual Conditions:</b>	Conditions prior to first disbursement will be, to the Bank's satisfaction: (i) Selection of the Project Manager; (ii) establishment of the Steering Committee; (iii) letter of commitment from SBDC Bahamas certifying its counterpart contribution to the project.		
<b>Environmental and Social Impact Review</b>	This operation was screened and classified as required by the IDB's safeguard policy (OP-703) on September 29, 2019. Given the high impacts and risks, the proposed category for the project is C.		
<b>Unit responsible for disbursements</b>	CCB/CBH		

## I. The Problem

### A. Problem Description

- I.1 After a recessionary period that ended in 2015, economic growth in The Bahamas has gradually picked up and is estimated at 2.25% in 2019, with projections of 1.5% over the medium term.<sup>3</sup> The Bahamas long-term economic growth trajectory remains constrained however by structural bottlenecks, including issues related to ease of doing business.<sup>4</sup> Considering productivity performance indicators, The Bahamas is underperforming relative to other Caribbean economies, as the total factor productivity has been about -1% of GDP on average since 2000, the contribution of capital to growth has been declining since 2006<sup>5</sup> and firm-level productivity in The Bahamas is on average 17% lower than the average Caribbean firm.<sup>6</sup>
- I.2 **Micro, Small and Medium Enterprises (MSME)** across the Caribbean are estimated to account for 70% to 85% of firms, contributing 60% to 70% of GDP and about 50% of employment.<sup>7</sup> In The Bahamas, the private sector contributes over 60% of total employed persons and another 16% that are classified as self-employed, thus being the engine of growth within the economy by demanding most of the labor force and supplying its goods and services.<sup>8</sup> There are close to 23,000 business licenses issued in The Bahamas and it is estimated that MSMEs consist of 98% of them and hire 47% of all employees, while contributing between 20% to 30% of GDP<sup>9</sup>. This reflects a strong dichotomy between a very small number of large companies in tourism related activities and financial services that make a very significant contribution to economic activity and many smaller firms.
- I.3 **Small and Medium Enterprises (SMEs) and startups.** While there is data on the number of business licenses granted, there is no clear data on the categorization of these businesses and no legal definition for SMEs in The Bahamas<sup>10</sup>. According to the 2014 PROTEqIN Survey, which focuses on more formal, established companies, SMEs in The Bahamas comprise 44% of firms, which are medium-sized (20-99 employees) and 36,2% of firms, which are small enterprises (5–19 employees), whereas large firms with more than 100 employees account for 19,7% of established firms. According to another study<sup>11</sup>, most firms in the country tend to have less than 10 employees and engage in wholesale and retail trade and services, such as transport and storage, construction, personal and business services, communication, education and health. In addition, the vast majority of agricultural and fishery producers are also small. The Bahamas is also home for many new

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<sup>3</sup> International Monetary Fund (IMF) 2018 Art IV Consultation.

<sup>4</sup> I. Ruprah and R. Sierra (2016) "An Engine of Growth? The Caribbean Private Sector Needs More than an Oil Change", IDB. Also, Moody's Bahamas credit profile announcement, August 2018. Electricity tariffs are among the highest in the Caribbean, hurting the competitiveness of industry and tourism.

<sup>5</sup> IMF 2016 Art IV Consultation. Contribution of capital has declined from levels nearly 3% to around 1%.

<sup>6</sup> I. Ruprah and R. Sierra, op cit.

<sup>7</sup> [Micro, Small & Medium Enterprise Development in the Caribbean: Towards A New Frontier](#). Caribbean Development Bank, 2016.

<sup>8</sup> Ibid.

<sup>9</sup> While there is no legal definition for MSME in The Bahamas, the SBDC follows that of the Government's Economic Empowerment Zone Bill (stated under the Program Beneficiaries paragraph)

<sup>10</sup> A uniform definition of SMEs is being prepared as part of the draft SME Act

<sup>11</sup> The Bahamas: A road map for improving the business climate for SMEs. P. Schneuwly, 2007.

businesses or startups, which have the potential to become SMEs but not yet formalized<sup>12</sup>. Many of these businesses are registered as sole traders and assume all the responsibility of running all aspects of their business with minimal assistance from employees, who are generally hired to assist with the manufacturing, production or delivery of services, but does not extend to the business management or decision-making processes.

- I.4 **The Entrepreneurship Ecosystem**, therefore, has a dearth of qualified businesses without the skills and ‘know-how’ to adequately scale their operations, as many businesses in this category do not possess adequate record-keeping nor corporate governance structures. Other constraints to SMEs and startups growth are high levels of business informality and low capacity for innovation and utilization of technology required to transform these businesses into investment-ready entities with profitable business models. Further, as there is little to no demographic data available on the businesses in the ecosystem, it is unclear the number of high potential businesses or technology businesses that are operating in The Bahamas, to create targeted programs to support these scalable business models; instead, general support is being provided with no specific emphasis on business model, stage or lifecycle of these businesses. The ecosystem in The Bahamas supporting the development of SMEs and startups can best be described as fragmented, with several overlapping initiatives and limited coordination amongst the ecosystem enablers<sup>13</sup>. There are insufficient training programs and business advisory services to support entrepreneurship and innovation with little to no differentiation between traditional SME and high potential businesses, being provided by a few corporate entities including colleges and universities focused on the ideation stage.
- I.5 **SBDC and the Entrepreneurial and Innovation Ecosystem**. The government has been very active in promoting the development of SMEs, and in this regard, among the most significant actions by the government has been the promotion and investment in the Small Business Development Centre Bahamas (SBDC). The creation of SBDC in 2018 is a key policy initiative for articulating an effective support structure for SMEs, both in terms of financial support and technical assistance. The SBDC is expected to be the first contact for SMEs in need of information to start up and provide the assistance to established businesses to improve internal operations. However, since their launch in September 2018, SBDC received an overwhelming number of requests from SMEs, startups, and aspiring entrepreneurs for various types of support, including advisory services and financing. Nearly 4,000 clients have yet to be served and the SBDC is interested in utilizing technology to make some of their services easily accessible to all registered SMEs and address the main challenges identified for SMEs as well as for startups.
- I.6 **SMEs Access to Finance**. One of the principal constraints to SMEs growth in The Bahamas is lack of access to finance, which was identified as the second most important obstacle for business growth, after an inadequately educated workforce,<sup>14</sup> in a survey conducted. The businesses surveyed also indicated a need for non-financial assistance as an additional constraint, with customer care, technical training and accounting and finance being the most required. Only 30% of surveyed

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<sup>12</sup> These Start Ups have the vocation to reach scale through their business models, unlike subsistence microenterprises with low

<sup>13</sup> Inter-American Institute for Cooperation on Agriculture (IICA) report on ‘The Bahamas’ Entrepreneurial Ecosystem Map’

<sup>14</sup> Productivity, Technology and Innovation in the Caribbean 2014 Survey (PROTEqIN).



firms have a line of credit or loan from a financial institution and less than one-fourth of companies undertaking investment projects in The Bahamas have been funded by private banks.<sup>15</sup> Loan application rejection rates are very high in The Bahamas – nearly 85%, which is much higher than in Barbados (35%), Belize (42%), or Jamaica (55%).<sup>16</sup>

- I.7 The Bahamas financial sector's restraint from lending to SMEs stems from two main problems, which substantiate the low risk appetite from the banks and affect the risk premium in the interest rates: (i) the lack of sufficient collateral to provide coverage for a loan; and (ii) the lack of information provided by SMEs that is required for a loan, including appropriate accounting records, financial statements and adequate business plans, hinders a bank's risk assessment and leads to uncertainty on the project's expected returns and the paying capacity of the borrower.<sup>17</sup> Commercial banks are cautious in making new loans and typically do not prioritize SMEs, preferring mortgages, consumer loans or government financing. Observing the sectoral distribution of credit in the banking system, 78% is categorized under personal loans, even though some of these may include those destined for small business purposes<sup>18</sup>, and 12.5% commercial loans. Regarding the barrier of lack of collateral, lenders are unwilling to provide credit, particularly to SMEs, if there is no guarantee that they will be able to enforce their rights and collect a debt or repossess collateral through a timely and inexpensive process.
- I.8 **Gender.** Regarding gender, further analysis is required to better understand the Bahamian context. Enterprise Surveys<sup>19</sup> conducted by the World Bank in various Caribbean countries in 2010 concluded that more than 50% of businesses in The Bahamas have female participation in their ownership, which is higher than in most other countries in the region, and even in high income OECD countries. However, a more recent study indicates that The Bahamas has one of the lowest ratios of female-owned businesses in the Caribbean, with less than 20%<sup>20</sup>. This study reflects that although access to finance appears to be the biggest obstacle to women-led firms in the Caribbean, there is no specific data on a gender gap in The Bahamas. Another study of three Caribbean countries concludes that there is no gender gap in access to credit by businesses, but there is the need to deepen the analysis of the effect of gender in firms' decision-making processes<sup>21</sup>.
- I.9 **Beneficiaries.** The project seeks to address the lack of access to finance by SMEs and startups in The Bahamas which stems from high levels of business informality, poor record keeping, limited capacity for business management and innovation, and inadequate support provided to these businesses. The beneficiaries of this project will be 2,500 businesses including many companies with female participation in ownership. Most of the business that would benefit from the project will be startups with less than 5 employees and small enterprises with 5-9 employees and will include medium enterprises as well with up to 99 employees, but no large enterprises.

<sup>15</sup> IDBG 2018, op cit., based on the 2014 PROTEqIN.

<sup>16</sup> PROTEqIN

<sup>17</sup> These were the reasons cited by banks through interviews by the program team.

<sup>18</sup> Central Bank of The Bahamas.

<sup>19</sup> <http://www.enterprisesurveys.org/data/exploreeconomies/2010/bahamas?topic=workforce#gender>

<sup>20</sup> The Gender Gap in the Caribbean: The Performance of Women-Led Firms, Moore, et. al., 2017.

<sup>21</sup> Definitions Matter: Measuring gender Gaps in Firm's Access to Credit, Piras et. al, 2013.

## II. The Innovation Proposal

### A. Project Description

- 2.1. The expected impact of the project is the growth and development of Bahamian SMEs and startups through digital transformation, innovation adoption and access to finance. The expected result of the project is the creation of an effective entrepreneurial and innovation ecosystem in The Bahamas through the provision of high-quality and technology-oriented support services for SMEs and startups.
- 2.2. **The model.** As the first of its kind to provide both advisory services and capital support to businesses throughout The Bahamas, the SBDC will help to shape the underdeveloped entrepreneurial ecosystem by assuming an anchor role and support the coordination of activities of ecosystem enablers while fostering collaboration across the ecosystem for greater impact. The SBDC shall be the first contact for entrepreneurs in need of assistance to grow their businesses and improve internal operations. This will be done through the provision of (i) business advisory services; (ii) training and entrepreneurial programming; (iii) mentorship and incubation; and (v) access to finance.
- 2.3. **Direct support to SMEs and startups.** Engagement with the SBDC includes businesses registering their profiles online as an idea or an existing business and being invited to a 2-week course on entrepreneurship, business components, the SBDC program, and the GrowthWheel development process. Existing businesses are exempted from participating in the 2-week training course and receive advice from an advisor who assesses the needs of the business. If the need is capital, the advisor works with the SMEs to develop a business plan and send to various banks or equity partners for offers. Bids and offers are assessed and the SME chooses which investor would like to receive financing from based on the satisfaction of their offer. Once funding is approved, SBDC assists the clients with all regulatory and financial management set-up, assigns the SME with a mentor, and remotely reviews weekly financials – intervening where necessary.
- 2.4. **Support through Ecosystem Partners.** The SBDC has signed a Memorandum of Understanding (MOU) with an ecosystem stakeholder, Bahamas Agricultural and Industrial Corporation (BAIC) to provide business plan services, including research and feasibility studies to SMEs. BAIC also provides support and advisory services on agricultural and handicraft related projects, the leasing of industrial land and parks for agricultural usage; assistance with market access both domestically and internationally; and the leveraging of regional and international relationships to the benefit of SMEs and startups.<sup>22</sup> SBDC will explore similar partnerships in the provision of support services to SMEs and startups. Here, third party providers will be identified through a call for proposal process and will be vetted prior to engagement.
- 2.5. **Innovation.** The SBDC has adopted the globally recognized US developed SBDC model in the execution of its support program and will build on this infrastructure system by developing a solution that connects three groups of actors, critical to transform the entrepreneurship ecosystem: i) businesses (SMEs and startups), ii)

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<sup>22</sup> <https://thenassaeguardian.com/2019/07/05/baic-signs-mou-with-small-business-development-centre/>

trainers, and business advisors, and iii) funders including Fintech and financial intermediaries that offer digital financial services. The project seeks to improve the effective mobilization of resources by connecting these SMEs and startups with funders through a Fintech solution to improve access to finance, while building the capacity of businesses to qualify for funding through the provision of in-depth digital learning tools to support SMEs and startups throughout the family islands. The platform will also act as a monitoring tool, that will collect information from ecosystem enablers, businesses and investors that opt to use the platform. In the customization and implementation of the platform, SBDC will ensure the responsible collection, storage and use of data, at all times.

- 2.6. **A Fintech platform for the Entrepreneurial Ecosystem.** Bahamian SMEs and startups will be able to engage the SBDC through the platform to connect with financial intermediaries for loans, and investors for equity funding allowing remote interaction, thus avoiding unnecessary travel which is expensive in an island country. Investors who are interested in providing capital to these businesses will upload a company brief including their risk profile and investment criteria and will be vetted and pre-approved by the SBDC and the Financial Regulator. The system algorithm will match investors and entrepreneurs based on the investors risk appetite and investment criteria and notifications will be triggered to both investors and businesses of a match created. Businesses that receive funding will continue to upload key financials and company data to the platform and the assigned SBDC advisor will continue to work with the business to ensure financial milestones and obligations are being met. Data from SMEs and startups will be uploaded considering users' privacy and following the UN data protection and privacy guidelines<sup>23</sup> as well as participating funders' data needed on companies to screen potential investees. For example, banks' funding SMEs usually require number of years in business, and certain financial ratios which may vary for riskier sectors such as restaurants.
- 2.7. This fintech platform will be the first of its kind in the Caribbean with the ability to have a close loop of approved investors fully vetted by the SBDC and the Financial Regulator(s). This solution will assist with the visibility of loan serving as it seeks to improve the corporate governance of the businesses using the platform in their reporting requirements and business management. Additionally, leveraging the IDB Group's Credit Enhancement Facility (BH-L1046) administered by the SBDC, it is expected that private banks and investors utilize this guarantee to reduce their risk and ultimately increase lending to the sector. The fintech capabilities of the platform will enhance the deployment of guarantees from IDB Group's Credit Enhancement Facility (CEF). The CEF also acts as an incentive to financial institutions to increase their SME loan portfolio by providing additional security coverage on loans extended by the FI to SME for projects geared towards growth and development.
- 2.8. **Lessons learned.** The project will apply lessons from the US developed SBDC model. In particular, strategies related to mentoring, advisory services, training and financing support to SMEs and Startups in The Bahamas will be considered. Lessons learnt include : 1) ensure that each SME or startup has a legal structure that is proper to conduct business efficiently, 2) keep companies' projections realistic, not overestimate market size, 3) keep always a compelling pitch deck updated for financing that fits the current and next phases of the company, 4) identify and use the right digital tools, for back office and commercial operations, 5) support good hiring

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<sup>23</sup> <https://www.unglobalpulse.org/privacy-and-data-protection-principles>

practices in the early stages, which might be a key to success, later on in the growth stage, 6) understand and monitor financial statements, identify financial indicators that are used by target funders, 7) improve operations as much as products or services, 8) engage with customers using social media and other digital tools, at all stages of the business and become an expert on the market niches targeted, and 9) research an adequate pricing strategy at all times so products and services are competitive locally and internationally.

**2.9. Component I: Improving the Quality of Ecosystem Support to Businesses (IDB Lab US\$195,500; Counterpart US\$41,500).**

- 2.10. The objective of this component is to support the development of the entrepreneurial ecosystem in The Bahamas that is conducive to the growth and survival of businesses. Firstly, this component will focus on building the capacity of business advisors through train-the-trainer workshops and certification programs to ensure standardization in the quality and standards of services rendered. The project will facilitate the design of the certification system for advisory services, which will include defining the certification criteria (i.e. preparation, experience, clients' references), and its monitoring system. This will assist in the development and implementation of industry standards for supporting SMEs and startups, thereby creating a marketplace for small business advisory services and third-party services that have gone through a vigorous vetting process. This component will facilitate Call(s) for Proposal(s) for third-party business service providers for services that include marketing, website development, and accounting services, among others.
- 2.11. This component will facilitate the identification of organizations that provide support to entrepreneurs, businesses and the general innovation ecosystem, which spans the public sector, private sector and civil society. This will be followed by the development of a digital directory of these business service providers and key service providers that allow businesses to access the information on the website. The directory will be disaggregated based on types of businesses supported (SMEs, tech and early stage businesses, etc.), business lifecycle, services provided and criteria for engagement. The SBDC has already illustrated this by organizing a council of ecosystem partners that meet regularly to discuss specific issues and collaborative efforts.
- 2.12. Secondly, this component will create a digital framework and strategy that will allow for the consistent recording of data on the businesses operating in The Bahamas in an integrated manner. This will allow for greater analysis of the support required by these businesses and provide an avenue in which the advancement of ecosystem development can be assessed. This information will become critical to the Government of The Bahamas in the development of an SME Policy and improvements towards ease of doing business.
- 2.13. The framework will seek to design the data collection, functionality of the platform and the specification of the technology solution, which includes the: (i) mapping and data collection sources, updates, maintenance and cloud storage, (ii) data analysis and interpretation tools, (iii) data sharing tools for dissemination to the ecosystem, (iv) how digital tools can be incorporated into advisory services, (v) fintech functionalities to connect funders and businesses; and (vi) data on businesses (gender, revenue, number of employees, asset size, etc.). Here, various technological solutions will be explored to determine applicability to the specifications identified prior to acquisition which may require customization before implementation. This would include a) developing the TORs for the platform, b) looking at different solutions implemented in

the region, and c) run a call for proposals and select a provider that could provide the solution.

- 2.14. Finally, this component will promote linkages among business enablers and key ecosystem actors to define their roles in developing a unified approach of support to SMEs across the islands and provide recommendations, based on best practices, on the optimal organization of resources and support to SMEs. This component will also support the Government by providing inputs on the development of an MSME policy and improvements in the business environment for MSMEs. Through ongoing consultation with ecosystem stakeholders, including members of the Small Business Ecosystem Conclave<sup>24</sup>, public and private entities within the ecosystem, the SBDC will make recommendations to the government on elements of the MSME policy in development based on analysis conducted of the data collected.
- 2.15. The expected outputs of this component are: 1) design of the certification system, 2) a Digital Strategy Framework developed, 3) ecosystem directory developed, and 4) a digital solution implemented.
- 2.16. **Component II: Building the Capacity of Bahamian Businesses to Scale (IDB Lab US\$242,000; Counterpart US\$548,000).** The objective of this component is to promote the growth and development of businesses through digital transformation as well as stimulating new businesses to embrace innovation and technology as they grow and scale globally. This component will enhance the quality of business advisory services beyond the assessment of business model, financial model, and action plan but will include the assessment of digital tools to improve management and productivity of these businesses and will be coordinated by a technical expert in the innovation ecosystem. Further, the project will strengthen the mentorship program, to transition from an informal program to a formalize program with monitoring policies (i.e. selection criteria, ethics of mentorship), training and support of mentors and mentees, monitoring of progress, and creating a peer-to-peer mentorship culture.
- 2.17. This component will: (i) design a digital skills training program which includes the development of curriculum and the identification and curation of technical materials and contents including videos already available and making it accessible to all businesses on the website. Here the component will host digital skills training needed for small business to scale in topics that include but is not limited to digital payments, QuickBooks, digital procurement, digital marketing and sales. Implementation of the digital skills training program for startups and SMEs in remote locations will be facilitated through VIMEO PLUS platform (live streaming, chatroom, videos access, and Google Hangouts).
- 2.18. This component will support the development of new innovative business models through collaboration with the universities and centers of excellence, towards the hosting of innovation competitions and events geared towards stimulating innovation in the early stages of business, with a focus on identifying and promoting female-led businesses. The project will create connections between University of Bahamas and other innovation experts within the entrepreneurial ecosystem to promote innovation among new and existing businesses. This includes creating and supporting a student

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<sup>24</sup> A comprehensive group of Bahamian training, support and financing organizations that have been convened by SBDC in 2018 and 2019 to coordinate and streamline operations for a more effective small business and startup ecosystem.

innovation circle, where students will come together to solve problems in The Bahamas. Finally, the project will host a business forum focused on the promotion of technology and innovation in which it will showcase the innovation in the ecosystem while promoting further collaboration with stakeholders in the ecosystem.

- 2.19. The expected outputs of this component are: 1) formalization of SBDC Mentorship program, 2) development of a 6-module digital skills training program adapted to the needs of SMEs and startups, 3) 4 digital skills training sessions held annually, 4) an Innovation Student club established in partnership with the University of The Bahamas and potentially other universities, and 5) at least one innovation competition held annually, and 6) one business forum held.
- 2.20. **Component III: Awareness-Raising and Stakeholder Engagement (IDB Lab US\$62,500; Counterpart US\$30,500).** The objective of this component is to improve the ecosystem coordination activities, and the roll out of a comprehensive communication strategy, which will include: a) an awareness campaign targeted at existing, new and potential businesses, as well as, public and private sector stakeholders who support businesses, and b) the launch of the Digital Platform for Improved Access to Finance developed in Component II. The component will also facilitate improvements to the SBDC's website to provide digital tools, training material, and valuable information to ecosystem stakeholders, as well as businesses. These tools include (i) the development of a web-based digital calendar to capture the ongoing ecosystem activities. The calendar will be crowd-sourced without the need to have a dedicated person inputting the data and will be accessible on the various ecosystem players' websites. It is expected that this will help to reduce overlapping activities and increase the effectiveness and reach of ecosystem actions; and (ii) the inclusion of chatbot functionalities to enable businesses to easily search for responses and orientation, this includes information on incentives provided by government, directory of business service providers and general support available in the ecosystem to businesses; (iii) links to videos and other content, such as digital how-to-guides. Finally, the project will develop key knowledge products, including a video case study of the ecosystem development journey of The Bahamas and communicate key results of the project and lessons learnt at the closing workshop.
- 2.21. The expected outputs of this component are: 1) a communication strategy developed, 2) a digital platform launched, 3) a digital calendar developed and accessible at SBDC's partners websites, 4) a video case study developed, and 5) a closing event held to disseminate lessons learned.

## **B. Project Results, Measurement, Monitoring and Evaluation**

- 2.22. **Results.** This project will support businesses towards building their capacity and investment worthiness to receive financing while adopting technology to facilitate greater scale. The technological solution will act as a fintech platform that assist with the matching of investors to businesses, administration of the credit guarantee program and tracking and monitoring of businesses, advisory services and ecosystem development. The SBDC will monitor the growth and performance of businesses, including their continued servicing of loans through the platform.
- 2.23. The project is expected to achieve the following results during the implementation period: i) 2,500 SMEs and start up with improved capacity to scale their businesses as a result of advisory, mentoring or training interactions with Accelerate Bahamas - SBDC; ii) 400 businesses receiving financing through the SBDC platform; iii) 95% of businesses engaged with SBDC has improved digital capacity and have incorporated

at least one technological solution in their business; iv) 500 of jobs created by businesses with improved capacity and funding; and v) US\$25 million mobilized<sup>25</sup> to small businesses supported by this project.

- 2.24. **Evaluations.** The IDB Lab will conduct a mid-term assessment to assess the progress and accomplishments of the project and determine whether further actions are required to enhance implementation. Several elements will be analyzed in the mid-term evaluation; (i) the implementation of the technological solutions; (ii) number of businesses receiving funding; (iii) number of businesses uploading financials on the platform. Resources have been allocated for a final evaluation at the end of the project. The final evaluation will use data from the integrated system put in place during the project to document and evaluate the final project outcomes. Key questions that may arise in the review of outcomes and impacts in the final project status report include: (i) How effective was the advisory services and training provided in terms of improving the scalability of businesses? (ii) How effective was the digital technology in terms of cost, efficiency, and outcomes? (iii) How has the revenue and efficiency of businesses improved that adopted technology.

### III. Alignment with IDB Group, Scalability, and Risks

#### A. Alignment

- 3.1. **Alignment with the IDB.** The project is aligned with the Updated IDB Institutional Strategy by supporting social inclusion and equality by addressing gaps in basic services and extending financial services to underserved populations and technical assistance to MSMEs. The project is also aligned with the IDB Country Strategy for The Bahamas (2018-2022) which prioritizes fostering an enabling environment for private sector competitiveness. Specifically, the project will contribute to the CS objectives to reduce information asymmetries, high transaction costs, and access to capital, and to promote innovation and innovative practices in traditional and non-traditional sectors. Specifically, The project has strong synergies with the work of IDB GROUP's IFD/CMF division in the development of BH-L1046 US\$25M Credit Enhancement Facility to provide partial loan guarantees to eligible financial institutions (FI) for loans given to SMEs which are unable to meet collateral requirements and who are advised and vetted by the SBDC and BH T1070, Strengthening the Institutional Capacity of the SBDC Bahamas, which supports the Center's technical, fiduciary and operational capacity to executes its mandate.
- 3.2. **Alignment with the IDB Lab Thematic Areas.** The project is aligned with the Knowledge Economy thematic focus of IDB Lab, which emphasizes on the provision of products and services that solve social and environmental problems and linking the poor and vulnerable to the economic engine driven by knowledge-intensive sectors. The project will take lessons learnt from Jamaica (Jamaica Supporting the Development of an Entrepreneurial and Early Stage Ecosystem in Jamaica -JA-M1033) and Barbados (Catalyzing Regional Innovation & Diaspora Investment in the Startup Ecosystem - BA-T1047), where the Government acted as a catalyst in the development of a vibrant entrepreneurial ecosystem and provided opportunities for greater public private collaboration with the intent that private sector will play a more substantive role in the sustainability of the entrepreneurial ecosystem, ultimately reducing the need for significant government support at all levels. The project will facilitate the development of a pipeline of women entrepreneurs to participate in the

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<sup>25</sup> From the Bank's Credit Enhancement Facility (BH-L1046).

IDB Lab supported WeXchange forum, thereby aligning with the cross-cutting development area of gender equality and diversity. The project is also aligned with the following SDGs: (i) SDG 5 (Achieve gender equality and empower all women), (ii) SDG 8 (Decent work and economic growth), (iii) SDG 10 (Reduce Inequalities).

## B. Scalability

- 3.3. The SBDC is the first of its kind to provide national support for Bahamian SMEs providing advisory services and access to various forms of financing across the archipelago of islands and will take the lead role in developing the early stage entrepreneurial ecosystem. The only other national programs that support entrepreneurship are the Ministry of Youth, Sports, and Culture's Self-Starter Programme, which provides up to \$5,000 grants to aspiring entrepreneurs aged 18-30 to start businesses. There is also The Bahamas Agricultural and Industrial Corporation that provides entrepreneurial training and grants to support business ideas. A few other private entities and foundations also provide grants and small business advisory services on a smaller scale. The Government of The Bahamas has placed significant priority on the SMEs to become the engine of growth in the economy and have allocated US\$25M to the SBDC for the next 5 years to support SMEs. The pilot project will leverage IDB Lab's knowledge of ecosystem development to show proof of concept towards continuous support from its three main partners, The Government of The Bahamas, University of The Bahamas, and The Bahamas Chamber of Commerce. The SBDC will also seek opportunities to partner with local and international private sector entities with the intention that various elements of the project will be adopted and scaled by these entities.

## C. Project and Institutional Risks

- 3.4. **Low adoption of the Technology by Investor** The risk with executing this project, is that the technological solution and risk metrics may not be compatible with that of the Investors, and SMEs may be unwilling to disclosing their financial and operational information to SBDC based on its government affiliation. **Mitigation and consideration:** A robust training and sensitization component will be included in the project to build the capacity of advisors, investors and SMEs.
- 3.5. **Development of technology can be a costly endeavor** and could negatively impact on the timeline of the project. **Mitigation:** SBDC will explore existing technology, before going the route of technology development, that would mean exploring mechanisms of paying for the use of technologies provided por expert partners, as opposed to incur in costly or lengthy technology developments. Also, whenever inhouse technology development is needed, SBDC will focus on customization, development and or testing process, stakeholders will be engaged to ensure the optimization of the system's utility for its target audience.
- 3.6. **Institutional Risks:** Based on the completion of the DNA, SBDC has scored as medium risk as it relates to procurement of goods and services accounting and financial management and technical and monitoring capacity. SBDC is a relatively new entity and is also executing the IDB Credit Enhancement Facility (CEF) program which will provide additional strain on the human resources and capacity of the entity. To mitigate risks related to procurement and fiscal management, the Procurement and Fiduciary Specialist hired under BH-T1046 to support the IDB CEF Program will provide support to this TC and IDB Lab resources will be utilized to hire a specialist



project administrator to assist with the reporting and coordination of the project. This resource will support the Technical Expert which will also be procured by IDB Lab resources. This support will also be supplemented by ex-ante review of all procurements within the first year of execution.

#### IV. Instrument and Budget Proposal

- 4.1. The project has a total cost of US\$1,310,000 of which US\$600,000 (46.0%) will be provided by the IDB Lab, and US\$710,000 (54.0%) by the counterpart.

##### Technical Cooperation Budget

Project Categories	IDB Lab (US\$)	Counterpart (US\$)	Total (US\$)
Component 1: Improving the Quality of Ecosystem Support to Businesses	195,500	41,500	237,000
Component 2: Building the Capacity of Businesses to Scale up	242,000	548,000	790,000
Component 3: Awareness-raising and Stakeholder Engagement	62,500	30,500	93,000
Project Administration (Executing Unit costs)	75,000	90,000	165,000
Mid Term and Final Evaluation (if applicable)	10,000	-	10,000
Ex Post Reviews	10,000	-	10,000
Contingencies	5,000	-	5,000
<b>Grand Total</b>	<b>600,000</b>	<b>710,000</b>	<b>1,310,000</b>
<b>% of Financing</b>	<b>46.0%</b>	<b>54.0%</b>	<b>100%</b>

#### V. Executing Agency (EA) and Implementation Structure

##### A. Executing Agency(s) Description

- 5.1. **Small Business Development Centre (SBDC) Bahamas**, a non-profit company incorporated in May 2018 under the Companies Act, 1992, and launched in September of that year. Its Members are The Bahamas Chamber of Commerce (BCoC), the Ministry of Finance (MoF) and the University of The Bahamas. The government owns 100% of the capital. The creation of SBDC is a key policy initiative for articulating an effective support structure for MSME, both in terms of financial support and technical assistance. The center was created to guide the development of the entrepreneurial ecosystem and fill the funding gaps through the provision of advisory services and capital support for SMEs on every island in The Bahamas. The SBDC has the mandate to maximize the economic impact of SMEs by equipping and empowering them to provide employment, create wealth and drive development of a robust and resilient economy. For the 2018/2019 fiscal year, the government provided US\$1 million to facilitate SBDC operations, US\$4.05 million for loan guarantees and US\$450,000 in grants for business development to support capital structures when accompanied by a loan or equity investment facilitated by SBDC.
- 5.2. The SBDC is based on the US SBDC model, the main source of technical and managerial assistance for SMEs to promote growth, innovation, productivity and revenue for small businesses through improvements to their business administration. The Bahamas Development Bank, a wholly owned government institution, will be a

partner to this project. The institution was created to promote industrial, agricultural and commercial development, facilitate participation in approved economic enterprises, stimulate and enhance the economic development of the country and finance economically viable projects. Other partners of the project are The Bahamas' Chamber of Commerce and the University of The Bahamas. The SBDC has also formed networking linkages for women entrepreneurs, such as the United States Embassy's Academy for Women Entrepreneurs. These networks can also assist in assessing the ecosystem and extrapolating data on women owned businesses in The Bahamas.

- 5.3.** The other players in the MSME ecosystem includes The Bahamas' Entrepreneurial Venture Fund (BEVF) and The Bahamas Development Bank (BDB). It should be noted that the MoF has mandated the SBDC to lead government programs that promote MSME and to coordinate efforts to avoid overlaps of portfolios between other government supported agencies, such as BEVF and BDB, and develop synergies. In this sense, the activities of the SBDC, BEVF and the BDB complement each other and SBDC will extend its business development services and other programs to these other government supported entities to enhance the long-term sustainability of their activities and promote successful entrepreneurs.
- 5.4.** The SBDC, in addition to The Bahamas Investment Authority, Ministry of Finance, Department of Inland Revenue, and Department of Environmental Health will also assist the Government of The Bahamas in its Special Economic Recovery Zones for East Grand Bahama and Abaco post Hurricane Dorian, which will help to facilitate the rapid restoration of commerce in the affected areas to fulfill the government's core objectives.<sup>26</sup> East Grand Bahama and Abaco have been designated as special economic recovery zones for an initial period of three years and provides businesses with tax exemptions and benefits. The government indicated its intention to establish a US\$10 million loan guarantee and equity financing program which will allow SMEs to secure financing up to US\$500,000 to finance the restoration of businesses or the recreation of new businesses. This financing program will be facilitated by through the SBDC.

## **B. Implementation Structure and Mechanism**

- 5.5.** The SBDC will establish an executing unit and the necessary structure to execute project activities and manage project resources effectively and efficiently. The SBDC will also be responsible for providing progress reports on project implementation. Details on the structure of the execution unit and reporting requirements are in Annex V in the project technical files.
- 5.6.** The SBDC will create an advisory committee to govern the project implementation, manage risks and address challenges. The Steering Committee will comprise of the existing member of the Conclave (Appendix A) A representative from the IDB Lab may attend meetings upon invitation to provide input and advice on changes that may be necessary to strengthen impact and achievement of project results as well as to foster connections with IDB Lab's technical partners in the region supporting knowledge sharing and regional scaling. The project advisory committee will convene on a quarterly basis or more often as necessary, to assess project progress, risks and

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<sup>26</sup> <https://thenassauguardian.com/2019/09/23/abaco-and-east-grand-bahama-designated-special-recovery-zones/>

take strategic decisions required to support achievement of results. Other members may be added to the Steering Committee upon implementation of the Project.

## **VI. Compliance with Milestones and Special Fiduciary Arrangements**

- 6.1. Disbursement by Results, Fiduciary Arrangements.** The Executing Agency will adhere to the standard IDB Lab disbursement by results, Bank procurement policy<sup>27</sup> and financial management<sup>28</sup> arrangements as specified in Annex VI and VII, and any future policies and procedures.
- 6.2. Results-based disbursement.** The Project will be monitored by the Country Office of The Bahamas. Monitoring will be undertaken in accordance with the performance and risk management policies (fulfilment of milestones) established by the IDB Lab formerly MIF in April 2008. Project disbursements will be contingent upon verification of the achievement of milestones (pre-determined outputs critical to achievement of the development objectives). Achievement of milestones does not exempt the Executing Agency from the responsibility of reaching the results matrix indicators and project's objectives.
- 6.3. Financial Management and Supervision.** The SBDC will establish and be responsible for maintaining adequate accounts of its finances, internal controls, and project files according to the financial management policy of the IDB Lab. For the procurement of other goods and contracting of consulting services, the Executing Agency will apply the IDB Policies (GN-2349-9 and GN-2350-9). The Executing Agency, which is a private entity, will use the private sector procurement methods specified in Annex 1 of the Operational Guidelines for Technical Cooperation Projects (OP-639).

## **VII. Information Disclosure and Intellectual Property**

- 7.1. Information Disclosure.** This document contains confidential information related to one or more of the ten exceptions to Access to Information Policy and will be initially treated as confidential and made available only to Bank employees. This document will be disclosed and made available to the public upon approval.
- 7.2. Intellectual Property.** All work financed by the IDB Lab and the results obtained under the Project will be the intellectual property of the IDB. The IDB will grant a non-exclusive and free license to the Executing Agency, including the rights of dissemination, reproduction and publication in any medium of any product. The dissemination, reproduction and publication must indicate that it has been financed by the IDB Lab.

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<sup>27</sup> Link to the Policy: [Procurement of Works and Goods Policy](#)

<sup>28</sup> Link to the document [Financial Management Operational Guidelines](#)