PUBLIC DISCLOSURE AUTHORISED

CARIBBEAN DEVELOPMENT BANK

TWO HUNDRED AND EIGHTY-SIXTH MEETING OF THE BOARD OF DIRECTORS

TO BE HELD IN TRINIDAD AND TOBAGO

JUNE 3, 2019

PAPER BD 17/19

THIRD AGRICULTURAL AND INDUSTRIAL CREDIT DEVELOPMENT FINANCE LIMITED – REPUBLIC OF TRINIDAD AND TOBAGO

(President's Recommendation No. 974)

The attached Report appraises a proposal for a line of credit to Development Finance Limited (DFL) to assist in financing the onlending to financially sound small and medium-sized enterprises for agricultural, industrial and/or tourism purposes; and the establishment of an environmental and social management system for DFL.

2. On the basis of the Report, I recommend a loan to DFL of an amount not exceeding the equivalent of ten million United States dollars (USD10 mn) from the Ordinary Capital Resources of the Caribbean Development Bank (CDB) on the terms and conditions set out and referred to in Chapter 7 of the attached Report.

3. Funds are available within CDB's existing resources and/or borrowing programme for the relevant disbursement period.

PUBLIC DISCLOSURE AUTHORISED

CARIBBEAN DEVELOPMENT BANK

APPRAISAL REPORT

THIRD AGRICULTURAL AND INDUSTRIAL CREDIT
DEVELOPMENT FINANCE LIMITED –
REPUBLIC OF TRINIDAD AND TOBAGO

Considered at the Two Hundred and Eighty-Sixth meeting of the Board of Directors – June 3, 2019, Trinidad and Tobago

(BD 17/19)
AR 19/1 TT

Director *Projects Department*	*Mr. Daniel M. Best*
Portfolio Manager *Private Sector Development Unit*	*Mr. Peter A. Blackman*

APRIL 2019

This Report was prepared by an Appraisal Team comprising: Guillermo Aguilar Rios, Operations Officer (Joint Coordinator); Tyrone Jones, Consultant (Joint Coordinator); Ronald James, Economist; Dave Waithe, Senior Legal Counsel; Valerie Isaac and Hopeton Peterson, Environmental Specialists; Ann Marie Chandler, Social Analyst; and Andrea Edwards, Coordinating Secretary.

CURRENCY EQUIVALENT

[Dollars ($) throughout refer to Republic of Trinidad and Tobago dollars (TTD) unless otherwise stated].
USD1.00 = TTD6.8
TTD1.00 = USD0.15

ABBREVIATIONS

ACHAMT&T	-	American Chamber of Industry and Commerce of Trinidad and Tobago
AML/CFT	-	Anti-money Laundering and Combatting the Financing of Terrorism
BATT	-	Bankers' Association of Trinidad and Tobago
BMC	-	Borrowing Member Country
bn	-	billion
BOD	-	Board of Directors
CAR	-	Capital Adequacy Ratio
CBTT	-	Central Bank of Trinidad and Tobago
CDB	-	Caribbean Development Bank
CSO	-	Central Statistical Office
DFI	-	Development Finance Institution
DFL	-	Development Finance Limited
DFLCH	-	DFL Caribbean Holdings Limited
DSCR	-	Debt Service Coverage Ratio
E&S	-	Environmental and Social
ECA	-	Exchange Control Act, Chap. 79:50 of the laws of Trinidad and Tobago
ESMS	-	Environmental and Social Management System
ESP	-	Environmental and Social Policy
ESSP	-	Environmental and Social Safeguards Policy
ESRP	-	Environmental and Social Review Procedures
ExportTT	-	National Export Facilitation Organisation of Trinidad and Tobago
FI	-	Financial Institution
FIA	-	Financial Institutions Act, 1993 of the laws of Trinidad and Tobago
FY	-	Financial Year
FX	-	Foreign Exchange
GDP	-	Gross Domestic Product
GM	-	Gender Marker/Mainstreamed
GORTT	-	Government of the Republic of Trinidad and Tobago
IFRS	-	International Financial Reporting Standards
LOC	-	Line of Credit
MGICL	-	Maritime General Insurance Company Limited
MIS	-	Management Information System
MLCL	-	Maritime Life (Caribbean) Limited
mn	-	million
MOLSMED	-	Ministry of Labour and Small and Micro Enterprise Development
MSE	-	Micro and Small Enterprise
MSME	-	Micro, Small and Medium-sized Enterprise
MTI	-	Ministry of Trade and Industry
NBFI	-	Non-bank Financial Institution
NDS	-	National Development Strategy
NPL	-	Non-performing Loan
OCR	-	Ordinary Capital Resources
p.a.	-	per annum

ABBREVIATIONS CONT'D

PCR	-	Project Completion Report
PICC	-	Product, Investment and Credit Committee
PLW	-	Project Launch Workshop
PSDPS	-	Private Sector Development Policy and Strategy
PSDU	-	Private Sector Development Unit
ROA	-	Return on Average Assets
ROE	-	Return on Equity
SDG	-	Sustainable Development Goal
SFR	-	Special Funds Resources
SME	-	Small and Medium-sized Enterprise
T&T	-	Republic of Trinidad and Tobago
US	-	United States
USA	-	United States of America
USD	-	United States dollar
Y/Y	-	Year-on-Year

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APPENDICES

(All Appendices refer to DFL unless otherwise stated.)

COUNTRY DATA: REPUBLIC OF TRINIDAD AND TOBAGO

	2014	2015	2016	2017	2018
			(Annual percentage changes)		
National income and prices					
Real GDP	-1.0	1.8	-6.5	-1.9	1.9
Energy	-2.0	-1.4	-10.0	1.0	7.2
Non-energy	-0.7	3.6	-3.8	-3.8	-1.8
of which:					
Agriculture, forestry and fishing	*-9.9*	*25.1*	*-15.3*	*21.5*	*-15.6*
*Manufacturing**	*-3.3*	*0.9*	*-3.4*	*-2.6*	*7.3*
Trade and repairs	*0.3*	*3.6*	*-7.2*	*-11.3*	*-1.2*
Financial and insurance activities	*0.2*	*3.4*	*2.4*	*0.9*	*1.1*
GDP deflator	1.8	-12.6	4.0	5.0	1.2
Consumer prices (headline)**					
End-of-period	8.4	1.6	3.1	1.3	1.0*
Period average	5.7	4.7	3.1	1.9	1.0*
			(in percent of GDP)		
Non-financial public sector (NFPS)					
Central government overall balance	-4.7	-8.1	-12.0	-11.0	-6.0
Of which: non-energy balance	-21.8	-21.4	-18.0	-17.2	-15.2
Budgetary revenue	30.9	29.5	22.5	21.3	25.7
Budgetary expenditure	35.6	37.6	34.5	32.2	31.7
Of which: interest expenditure	1.8	2.2	2.0	2.9	2.9
Of which: capital expenditure	4.9	4.8	2.9	2.2	2.4
Net Public Sector Debt***	39.9	47.8	60.3	62.1	60.9
			(In percent of GDP, unless otherwise indicated)		
External sector					
Current account balance	14.7	7.6	-2.9	10.2	10.7
Exports of goods	55.1	47.1	36.3	43.6	52.7
Imports of goods	29.2	31.0	30.3	26.8	33.1
Capital and Financial Account ****	-0.3	2.1	-6.1	2.6	0.0
Overall Balance	4.8	-6.2	-2.1	-4.9	-2.9
Net official reserves (in USD million)	11,497	9,933	9,466	8,370	7,575
In months of imports	12.9	11.2	10.5	9.7	8.0
			(Annual percentage changes)		
Money and credit					
Net foreign assets	7.6	-7.7	2.3	-9.3	-7.1
Net domestic assets	4.0	46.2	6.5	26.8	20.5
Of which: credit to the private sector	6.7	6.6	3.6	4.9	6.0
Memorandum items:					
Nominal GDP (in billions of TTD)	176.1	160.2	145.0	150.8	158.5
Non-energy sector in percent of GDP	64.6	76.1	83.8	77.5	73.9
Energy sector in percent of GDP	35.4	23.9	16.2	22.5	26.1
Exchange rate (TTD/USD, end of period)	6.38	6.43	6.78	6.78	6.78

Source: Central Statistics Office and Central Bank of Trinidad and Tobago

** Industries and sub-industries reclassified to meet ISIC. Rev 4 standards, which includes petroleum products under manufacturing*

*** Jan-Nov 2018*

**** Fiscal Year*

***** Excludes reserve assets*

**** Fiscal Year*

***** Excludes reserve assets*

	2014	2015	2016	2017	2018
POPULATION					
Population ('000)	1,345,343	1,349,667	1,353,895	1,356,633	1,359,193
Population (Annual % Change)	0.36	0.32	0.31	0.20	0.19
LABOUR FORCE					
Unemployment Rate (%)	3.3	3.4	4.0	4.8	n.a
Male	2.8	2.9	3.9	4.3	n.a
Female	4	4.2	4.0	5.7	n.a
HEALTH					
Life Expectancy at Birth (years)	70.4	70.6	70.7	70.8	n.a
Male	67.0	67.2	67.3	67.4	n.a
Female	74.0	74.2	74.3	74.4	n.a
Mortality Rate, Infant (per 1,000 live births)	25.2	24.5	23.8	23.1	n.a
Human Development Index	0.779	0.783	0.785	0.784	n.a

Source: Central Statistical Office of Trinidad and Tobago, United Nations Development Programme Reports, and World Bank Development Indicators.

Notes: n.a means unavailable.

PROJECT SUMMARY AND LOAN RISK

Financial Terms and Conditions	
Borrower	Development Finance Limited (DFL)
Beneficiary	Development Finance Limited (DFL)
Implementing Agency	Development Finance Limited (DFL)
Disbursement Period	June 30, 2019 to December 31, 2022
Sector Code	24030 Financial Intermediaries

Fund	**Fund Source**	**Amount**	**Amortisation Period (Years)**	**Grace Period (Years)**	**Interest Rate (%)**	**Commitment Fee (%)**
Loan: OCR-USD	Equity and Market Sources	10,000,000	10	4	4.80 variable	0.25
Loan Total		10,000,000				
Total Project Cost:		10,000,000				

Office of Risk Management (ORM) Commentary

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank's Information Disclosure Policy.

Project Outcome and Description:

The expected outcomes of the project are:

(a) Increased viable investments in the productive SME sector;

(b) Improved and inclusive service delivery to SMEs; and

(c) Improved capacity of DFL to manage Environmental and Social (E&S) risks in the project cycle.

The project is a USD10 mn Industrial Line of Credit (LOC) to DFL to assist in providing SME credit to financially-sound and economically viable enterprises to support SME development within key productive sectors targeting both export and import substitution activities.

Gender Marker

	Analysis	Design	Implementation	Monitoring and Evaluation	Score	Code
Gender Marker (GM)	1	0.5	0.5	1	3	GM[1]

[1] Gender Mainstreamed (GM): The project has the potential to contribute significantly to gender equality.

1. INTRODUCTION

LOAN REQUEST

1.01 In May 2018, DFL, a DFI in T&T and an existing client of CDB, initiated discussions with CDB and subsequently requested an LOC in the amount of USD10 mn from CDB for onlending to financially viable SMEs.

RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

Overview

1.02 Macroeconomic fundamentals in T&T are showing signs of improvement, setting a platform for an intensification of economic activity, which would provide growth opportunities for businesses, including SMEs, and the financial sector. Economic activity returned to positive growth with real GDP[2] estimated to have expanded by 1.9% in 2018, following a 1.9% contraction in 2017. The rebound in 2018 was led by Manufacturing (7.3%); Financial and Insurance Activities (6.5%); and Transport and Storage (1.1%). Growth in Manufacturing was driven primarily by expansions in the production of petrochemicals, and the refining of natural gas; a strong recovery in the Food, Beverages and Tobacco Products sub-industry, areas with high SME concentration, also positively influenced Manufacturing's outturn.[3] Inflation, as measured by the retail price index, remained well contained.[4] On an annualised basis, unemployment was estimated to be approximately 4.8% in 2017, the latest year of available data, up from 4.0% in 2016.[5] However, positive GDP output in 2018 is expected to have resulted in an improvement in the employment ratio.

1.03 Reform actions taken by GORTT have resulted in an improved fiscal position, which sets the stage for further positive macroeconomic outcomes. A 17.8% increase in revenue collection combined with a 1.7% cut in expenditure resulted in a narrowing of the overall deficit to 4.0% of GDP in financial year (FY) 2018 compared with 9.1% of GDP in FY 2017. The primary deficit shrunk to 1.2% of GDP from 6.0% over the same time period. Most of the deficit was financed from domestic sources. Net public sector debt was estimated at 60.8% of GDP at the end of FY 2018, down from 62.7% a year earlier. The improvement in debt outstanding is consistent with improvement in fiscal outturns, which resulted in a reduction in borrowing requirements for FY 2018.

1.04 In the external sector, the current account surplus grew to USD1,255.2 mn in the first quarter of 2018 from USD759.5 mn in the corresponding period of 2017, on account of higher exports, consistent with the improvements in the tradeable sectors.[6] In 2018, gross international reserves were down to the equivalent of 8.1 months of imports. With considerably lower inflows of oil revenues, the FX market has been tight since 2015, as the demand for FX outstripped the supply. Though the tightness has since eased somewhat, the FX market has not yet normalised. Therefore, a CDB loan to DFL would mean an injection of FX into the economy, which would enable firms engaged in export activities to gain access to long-term financing for expansion and retooling of their operations while also supporting improvement to FX position in the medium run.

1.05 Looking ahead, growth is projected to strengthen in the short to medium term, fiscal and debt conditions being carefully managed will provide conditions for economic stability, once no economic shocks are forthcoming. There are however, downside risks associated with T&T's over-dependence on

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[2] Central Statistical Office (CSO) estimate.

[3] T&T Chamber of Commerce, notes that statistics shows that SME's contribute roughly 30% to T&T's GDP and employed over 200,000 persons; roughly 20% of the active labour force.

[4] Data to September 2018 indicates headline inflation (period average), at 1.0% year-on-year (Y/Y).

[5] Official data is only available up to fourth quarter of 2017.

[6] According to data provided by CSO, over 90% of all products exported from T&T are produced locally.

the energy sector. GORTT has expressed commitment to transition to a more sustainable and competitive private sector led economy - one that stimulates growth through diversification and the development of promising businesses with export potential. Institutions such as DFL, could be well placed to provide financing to support SMEs as they assist in the development of a more diversified economy. Further details on the economic review are outlined in Appendix 1.1.

FINANCIAL SECTOR

Industry Structure

1.06 The financial sector is regulated by CBTT and consists of 8 commercial banks and 16 non-bank financial institutions (NBFIs) that includes merchant banks and finance companies, as defined in the Financial Institutions Act of 2008. The financial sector products and services include local-currency and United States (US)-dollar savings and investment instruments, FX dealings, money market instruments, trade financing products, project financing products, and the floating and underwriting of shares and bonds. Whereas NBFIs such as DFL can accept only term deposits, commercial banks are authorised to accept demand deposits as well, and they are exclusively allowed to make short-term loans for durations of less than one year.

1.07 The financial sector is dominated by an indigenous Bank, which was estimated to have nearly half the market share in 2017. A foreign-owned bank is ranked in second place, with an estimated 20% share of the market's lending business; while another foreign bank leads in the consumer loans and mortgages segments. With less than 1% of the system's assets, DFL is a relatively small operation within the financial sector (Table 1.1), but provides a critical development function through its involvement in long-term lending to the productive sectors, an area where commercial banks tend to have a limited appetite.

TABLE 1.1 TRINIDAD AND TOBAGO - STRUCTURE OF THE FINANCIAL SYSTEM BY TOTAL ASSETS (TTD mn)[7]

	2013	2014	2015	2016	2017
Central Bank	77,405.2	83,479.1	74,701.8	77,159.6	69,493.1
Commercial Banks	125,821.5	133,658.1	134,788.5	138,590.0	137,039.8
NBFIs	9,314.7	9,589.4	9,105.8	9,477.6	8,610.4
Finance Co. & Merchant Banks	5,569.0	5,780.0	6,237.0	6,653.9	6,624.0
of which DFL	433.2	417.0	429.8	465.5	491.9
Credit Unions	11,980	13,310	13,702.9	13,702.9*	13,702.9*
Insurance Companies	45,522.3	52,896.3	48,910.5	47,743.2	49,181.9
Occupational Pension Funds	47,592.3	49,707.0	49,886.0	50,381.6	51,881.3
Development Banks	4,219.6	4,296.4	4,300.0	4,603.7	5,092.7
Thrift Institutions	95.6	99.1	111.7	117.5	126.7
National Insurance Board	26,472.5	26,095.3	25,497.2	26,035.9	27,258.4
Unit Trust Corporation	21,749.5	21,340.0	21,092.0	21,248.0	20,989.0
Deposit Insurance Corporation	2,218.0	2,427.0	2,644.5	2,870.0	3,121.0

Source: CBTT.

*The value for 2015 has been repeated for 2016 and 2017 due to lack of data.

1.08 The financial system is well-regulated and stable; standard financial soundness indicators show that the system is strong. Banks are well-capitalised, with capital adequacy ratio (CAR) reported at 24.3% as at September 2018. Excess liquidity remains a persistent feature of the commercial banking system; cash reserves as a proportion of total deposits were 21.6%, well above the legally required 17% statutory reserve requirement. In the non-bank sector, the liquidity position is also fairly robust, with Liquid Assets-to-Total

[7] Annual data for all entities are only available up to 2017.

Short-Term Liabilities recorded at 67.2% at end September 2018. Banking system NPLs, though still relatively low, increased to 3.3%, from 2.9% at the end of 2017; however, for NBFIs, which include DFL, NPLs nudged down to 4.2% from 4.7% over the same time period.

1.09 During 2018, the basic prime lending rate in the banking system inched up by 25 basis points to 9.25%; its first adjustment since January 2016. Meanwhile, lending rates for demand, overdraft, and term loan facilities remained unchanged at approximately 7.5%. The demand for credit is relatively robust in T&T, as provisional data as at September, 2018, shows that banking system credit to the private sector expanded by 3.5% in September 2018, relative to the outturn at the end of 2017. Non-bank private sector credit was similarly robust, growing at 5.5% over the same timeframe. In terms of the distribution of credit, consumer loans dominate lending from NBFIs, consistently accounting for over 40% of their lending portfolios over the past 5 years. Of note, data as at September 2018, shows that specific sectors of focus for DFL being manufacturing, distributive trade, transport and construction – increased their share of the portfolio for finance companies and merchant banks (Table 1.2), suggesting positive demand for loans from enterprises operating within these sectors. Demand for credit in these sectors generally correlate with the business cycles; therefore, it is expected that as the economic conditions improve the appetite for loan products from these borrowers are likely to rise, presenting DFL with opportunities to increase its lending.

TABLE 1.2: FINANCE COMPANIES AND MERCHANT BANKS: DISTRIBUTION OF LOANS PERCENTAGE OF AVERAGE TOTAL LOANS – (GROSS)

	2013	2014	2015	2016	2017	September 2018
Real Estate Mortgages	0.4	0.3	1.0	1.7	1.7	0.8
Public Sector	10.0	11.0	14.1	17.1	9.7	8.1
Agriculture	0.7	0.8	1.0	0.9	0.8	0.7
Petroleum	1.5	1.1	0.9	0.5	0.2	0.3
Manufacturing	5.3	3.3	5.6	4.2	2.4	3.8
Construction	7.2	9.1	8.2	4.9	5.3	5.6
Distributive Trades	3.1	2.5	2.5	2.1	2.7	3.3
Transport, Communication and Storage	7.2	6.1	4.8	3.9	3.7	3.9
Finance, Insurance and Real Estate	11.5	9.0	8.6	11.7	14.0	14.1
Personal Services	1.8	1.7	1.5	1.4	1.4	1.5
Leasing	8.1	8.4	7.8	7.1	7.2	7.1
Consumer Loans	36.0	37.6	37.6	39.5	45.1	45.3
Miscellaneous	7.2	9.1	6.2	5.0	5.7	5.5

Source: CBTT

Regulatory and Other Developments

1.10 During 2018, there was a range of regulatory developments in the financial sector. Most notable was the issuance in April 2018 of a revised guideline by CBTT on Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT). The revised guideline provides more risk-based and sector specific guidance on the implementation of an AML/CFT framework. CBTT also declared that the International Financial Reporting Standards (IFRS) 9 is applicable for annual reporting periods beginning on or after January 1, 2018. The new standard requires FIs, to make more provisions for asset losses from sectors or areas that are deemed to be high risk. As a result, FIs will need to reassess their product offering and risk management systems, which is likely to lead to tightening of credit scoring and appraisal processes. With respect to the implementation of Basel II/III risk-based capital standards for institutions licensed under the Financial Institutions Act, 2008, CBTT instructed that with effect from April 2018, parallel reporting, that is reporting on the existing Basel I rules and the revised Basel II rules would commence. The implementation of Basel II standards means that FIs are now required to maintain enough cash reserves to cover risks incurred by their operations. As part of the 16 NBFIs supervised by CBTT, these new industry-wide standards and guidelines will also be applicable to DFL. These new guidelines would require DFL to maintain strong risk-based mechanisms and adequate capital to support credit underwriting in its loan portfolio.

SOCIAL/GENDER CONTEXT

1.11 The population of T&T continues to grow. The country's population count from the 2011 population census was 1,328,019, (666,305 males and 661,714 females). This figure represented an increase of 5.2% over the previous census in 2000 of 1,262,366. By 2018, the mid-year population was estimated at 1,359,193, a 2.3% increase over the 2011 census count. The working age population, as a percentage of the overall population, also increased. In 2000, this demographic group represented 67.6% of the population, while in 2011 it grew to 70.4% of an even now larger population. Increases in the proportion of the working age as a percentage of a population can result in threats to achievements in sustainable development, especially where the rate of expansion of income earning opportunities from the economy fails to keep up with the associated rate of growth of labour force participants, and their demands for access to decent work. Limited opportunities for decent work often result in underemployment, unsustainable forms of employment, disenfranchisement and other labour market outcomes that negatively affect the resilience of households, standards of living and citizen security. Further to these threats from natural population increase, in the last two years, gains in the labour force indicators and other social development achievements have been further threatened by the surge of documented and undocumented immigrants, mainly in the productive age groups, into the country from Venezuela.

1.12 Despite the country's achievement in managing and maintaining unemployment at low rates of less than 5%, this statistic does not speak to the quality of employment, nor the grave inequalities in the labour market. For young people and women, the unemployment rates remained above the national average. In the last quarter of 2017, the national average rate of unemployment was 4.4%, below the national average for men at 3.9%, but above that national average for women at 5.1 %. During that same period young people, 15-24 years of age, recorded an unemployment rate at 7.5%, at 9.7% for young women, and 6.2% for young men. Disadvantages for women and young people in the labour force persist despite notable accomplishments in post-secondary education. In addition to higher enrollment and education attainment rates for women over their male counterparts, according to the country's 2014 Millennium Development Goal progress report, there was a significant increase in tertiary level participation rates between the period 2004 to 2014. Tertiary level participation rates increased from 15% to 60%, for young people. This increase in tertiary education participation rates was a direct result of a range of GORTT's interventions strategically designed to provide equal opportunities and access to all citizens to acquire knowledge and skills for self-fulfillment and career development. For the efforts of GORTT in education development to truly contribute to national development, the country's labour market must be positioned to absorb its graduates.

1.13 In the context of T&T, youth unemployment is also associated with increased levels of crime and violence. This relationship is attributed to increased participation of especially young unemployed men in illegal, informal sub-sectors and organised or gang related activity. Official crime data from the T&T Police Service, revealed there was a reduction in crime between 2017 and 2018. In 2017, there were 16,042 criminal cases reported or detected, and in 2018, 11,473. Even with this reported reduction, the population continues to feel insecure and threatened as crime levels are still unacceptably high. Further statistics from the country's police service demonstrate that crime/violence has spread outside of the traditional hotspots, now directly impacting a wider cross section of the society, threatening freedom of movement and development.

1.14 GORTT is cognisant that financial inclusion is critical to eliminating the country's identified threats to sustainable development. Inclusive participation in financial systems is a catalyst to inclusive economic growth, diversification of the economy, and social transformation (poverty reduction, advancements in citizen security and resilience. In response, a critical element of Vision 2030: National Development Strategy (NDS) 2016 - 2030, guided by the National Micro and Small Enterprise (MSE) Development Policy seeks to create space for the participation of the poor, young people, women, fisher folk and rural residents in financial systems. Participation of these marginalised groups in financial systems is promoted through small loans, training and general advice in micro and small business development under a series of targeted programmes administered by the National Entrepreneurship Development Company, and the Ministry of Labour and Small Enterprise Development (MOLSMED). Demand for these public sector programmes far exceeds supply. Therefore, platforms created by the non-governmental organisation community and DFL are becoming very critical in advancing financial inclusion.

ENTERPRISE DEVELOPMENT

Business Environment

1.15 T&T's private sector is among the most active in BMCs. GORTT provides significant institutional support to the sector in a number of critical areas aimed at encouraging its growth. GORTT's support to micro, small and medium-sized enterprises (MSMEs) is led by the Ministry of Trade and Industry (MTI), which is leading the drive to position T&T as a manufacturing, business, trade, and financial hub of the Americas. MTI's core responsibility is to grow trade, business and investment, particularly through driving the non-energy sectors of the economy. As the pivotal agency for trade promotion and development, MTI manages and coordinates the trade process to ensure access to international markets for companies registered in T&T. This is closely tied to another critical mandate — the aggressive development of business and industry, which includes the MSME sector. In this regard, MTI is formulating more appropriate industrial and services policies, designed to enhance the capability of the local industrial sector to compete in the global marketplace. Much of MTI's activities are geared towards improving the enabling environment for business, especially through developing the most appropriate legislative and support framework for business and investment activities. MTI is also responsible for stimulating domestic and foreign investment and is working to upgrade the entire framework for attracting investment — the lifeblood of industrial activity.

1.16 The National Export Facilitation Organisation of Trinidad and Tobago (ExporTT) is another agency of MTI with responsibility to support enterprise development. ExporTT is charged with generating export growth and diversification in the non-energy goods and services sectors with the objective of developing a sustainable and diversified export sector for T&T. In catering to the needs of all exporters, ExporTT focuses on building internationally competitive firms, improving the business environment, and harnessing the differentiating factors that set T&T exporters apart in the global market place. ExporTT provides a comprehensive range of services to exporters focused on increasing non-energy exports, increasing the number of exporters and delivering value for money.

1.17 ExporTT provides financial assistance through grants to export oriented/import substitution companies for research and development; acquisition of machinery and equipment; and co-financing of marketing costs. Assistance is also provided for businesses to achieve international standards for products and their processing, especially in the food and beverage sector.

1.18 In T&T, MOLSMED also plays a role in the development of policies to guide and to address the needs of MSEs in five categories as set out in its Development Policy 2014–16.[8] These areas are Business Environment; Business Development and Support Services; Market Network; Financing; and Governance

[8] Work is currently ongoing to revise this Policy.

and Advocacy. The focus of the policy is the establishment of a supportive entrepreneurship system, which will respond to and anticipate MSE development needs, in order to achieve greater contribution to national development. MOLSMED, through the National Entrepreneurship Development Company Limited which is a state agency, provides business support services and financing to MSEs.

1.19 Apart from government's support, there are several private sector organisations, which represent the interest of and interact with business enterprises. These include the Trinidad and Tobago Manufacturers' Association; American Chamber of Industry and Commerce of Trinidad and Tobago (ACHAM T&T); Trinidad and Tobago Chamber of Industry and Commerce; and the Bankers' Association of Trinidad and Tobago (BATT). The effectiveness of such institutions to perform roles of negotiators and lobbyists for MSME improvements, impacts competitiveness, growth and the overall development of the private sector. Further details of the mandates of these and operations of these organisations and agencies can be found at Appendix 1.2.

1.20 MSMEs are fundamental to the economic and employment landscape of T&T and are estimated to account for a significant share of economic activity and employment generation although accounting for a smaller contribution to GDP relative to the oil and gas sector. Their small size and limited capital give rise to them being generally labour intensive and often slow to embrace technology. Having a vibrant MSME sector is critical to advancing social and economic development, contributing to poverty reduction aimed at facilitating a more equitable distribution of wealth, facilitating greater skills development and better utilisation of resources. The majority of MSMEs are in the areas of services and light manufacturing.

Issues and Challenges

1.21 There are many supporting agencies for MSMEs in T&T, which give rise to a lack of coordination of activities among such agencies and there are often many instances of overlap. Moreover, many MSMEs remain underserved because of information asymmetry among businesses and service providers relating to the availability of resources for training, incentives, and financing. While the scope of this project is unable to address all of the challenges associated with the enabling environment for MSMEs, it will contribute to enhancing SMEs access to affordable credit financing. It is anticipated that DFL's continued provision of credit to SMEs will ultimately result in increased growth of the productive sectors, employment generation, and foreign exchange earnings.

1.22 There are challenges in determining the number of businesses in T&T that could be classified as an MSME, due to a lack of information, and agreed definitions of what constitutes MSMEs, in part due to a large informal sector and no legal requirement for financial disclosure in T&T. Generally, a small business is one that is independently owned and operated and not dominant in its field of operation. Criteria such as sales volume and the number of employees in the firm are also used in assessing the size of businesses. In T&T, the size of the business' asset base is a major determinant. Thus, the value of a firm's non-property assets such as machinery, equipment and working capital (excluding land and building) must fall between $100,000 and $1.5 mn to be considered small.[9] Table 1.3 outlines the parameters and conditions for defining MSMEs.

[9] Baptiste-Cornelis Therese and Long Wendell (Undated). The Impact of Small Business Enterprises on the Economy

TABLE 1.3: PARAMETERS AND CONDITIONS FOR DEFINING MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES

Type	Conditions	Employees	Assets	Sales
Micro-Enterprises	Owner-managed	1 to 5	<$250,000	<$250,000
Small-Enterprises	Owner-managed	6 to 25	$250,000 - $1,500,000 (excluding real estate)	$250,000 - $5,000,000
Medium-Enterprises	Owner-managed or not owner-managed	26 to 50	$1,500,000 - $5,000,000	$5,000,000 - $10,000,000

Source: CSO MSME Classification.

LINKAGE OF PROJECT TO CDB'S SECTOR STRATEGIES AND POVERTY GOALS

1.23 CDB's Private Sector Development Policy and Strategy (PSDPS) reiterates that the development and transformation of the private sector is an essential pillar for achieving sustained economic growth and poverty reduction throughout the Region. It is expected that a private sector with increased financing opportunities would create quality jobs for a growing working population, generate incomes and supply an expanded range of quality goods and services at competitive prices.

1.24 In this context, PSDPS aims, among other objectives, to:

(a) improve private sector operations by enhancing the inclusiveness and accessibility of finance;

(b) foster the development of private sector organisations along with capital and financial market institutions, which encourage inclusive private sector development; and

(c) increase the flow of direct long-term loans to private enterprises in BMCs, including private infrastructure providers.

1.25 The proposed project is consistent with the abovementioned CDB's strategic objectives and it is also directly linked with the Sustainable Development Goal 8 (SDG-8)[10] core theme of "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all" and indirectly related to several other goals such as SDG-5 on achieving gender equality and economic empowerment of women and SDG-9 on supporting industry, innovation, and infrastructure.

1.26 In the 2017−21 Country Strategy Paper – T&T, approved by its Board of Directors (BOD) on December 8, 2016, CDB listed one of the outcomes of the strategy as "increased productivity, competitiveness and economic diversification;" and identified potential areas for CDB's assistance including LOCs to DFIs for onlending to MSMEs.

[10] https://sustainabledevelopment.un.org/sdg8

2. REVIEW OF THE OPERATIONS OF DFL

BACKGROUND

2.01 DFL was originally established in 1970 as a state enterprise known as the Trinidad and Tobago Development Finance Company with a mandate to develop key economic sectors. In 1995, DFL was reorganised as a private limited liability company registered under the Companies Act, and later under the Securities Industry Act (2012) as a reporting issuer and an underwriter. DFL has been granted authorised dealer status under the Exchange Control Act and can accept fixed deposits in addition to grant credit facilities and otherwise deal in foreign currency transactions. It is licensed under the Financial Institutions Act 2008 to carry out the classes of business listed below:

(a) acceptance/confirming house;
(b) finance housing;
(c) leasing;
(d) merchant banking;
(e) mortgage lending; and
(f) financial services.

2.02 Prior to its recapitalisation in 2011, DFL was a subsidiary of the company, DFLCH and it was the most successful in the group. DFLCH had emerged from a previous restructuring of the operations of DFL, whereby its various operations were transferred to newly created companies within the group. DFLCH then became the parent company of a group of subsidiary companies with operations across the Caribbean including T&T; Saint Lucia; St. Vincent and the Grenadines; and Guyana. These companies provided services that included microfinance lending, equity investments, and project financing. These various companies were not all profitable and losses were incurred.

2.03 In 2010, DFLCH approached the Ministry of Finance and Maritime General Insurance Company Limited (MGICL) and Maritime Life (Caribbean) Limited [(MLCL) (the "Maritime companies")][11] for a capital injection, as without an injection, the Group could not have continued to execute its mission and mandate to finance development projects. In September 2011, GORTT invested $30 mn in the form of 5% Redeemable, Convertible Preference Shares in DFL, while the Maritime companies invested $50 mn on the same terms and conditions. The Board of DFL, on the advice of the Company's attorneys, recommended that a nominal value of $1 be placed on each share. This capital injection was followed by financial and organisational restructuring.

2.04 In 2012, both GORTT and the Maritime companies agreed to convert 30 mn each of their Preference Shares to Ordinary Shares using a share value of $1 per share, with the Maritime companies retaining the option to convert their remaining 20 mn shares at a later date. After conversion of the 60 mn Preference Shares to Ordinary Shares, the ownership structure is approximately evenly divided between GORTT and the Maritime Group as shown in Table 2.1.

[11] A group of financial companies whose principal activities are in the area of insurances.

TABLE 2.1: DISTRIBUTION OF OWNERSHIP OF DFL AS AT DECEMBER 31, 2018

Owner	No. Ordinary Shares	% Ownership
DFLCH	300,393	0.50
GORTT - Minister of Finance (Corporation Sole)	30,000,000	49.75
MGICL	20,000,000	33.17
MLCL	10,000,000	16.58
Total Ordinary Shares	**60,300,393**	**100.00**

2.05 Following the recapitalisation in 2011, a new management team was appointed and a new strategic approach was adopted. The operations of some subsidiary companies ceased, and their loans were absorbed by DFL. This transfer of underperforming assets led to DFL having to make provisions for doubtful assets and consequently eliminated its retained earnings after asset write-downs, even though the company was profitable every year. Since 2011, one of the priorities of DFL has been the recovery of the outstanding receivables that the group of companies had held previously, and that had been absorbed by DFL as part of the restructuring. In fiscal year 2015, there was a turnaround in DFL's financial position with positive retained earnings being reported annually thereafter.

The Maritime Financial Group Limited

2.06 In 1961, Maritime was established in T&T financial market through the Maritime Life Assurance Company of Halifax (Canada) commencing business through a Branch operation. In 1971, MLCL was incorporated as a local subsidiary. Between 1975 and 1977, MLCL expanded into the property development sector. In 1977, it became the first foreign life insurance company to be locally controlled, with 74.2% of its shares owned by nationals of T&T, and in 1983, MLCL became 100% locally owned. MLCL was incorporated in T&T and was continued under the provisions of the Companies Act, 1995 on March 23, 1999. Its principal activity is the carrying on of all classes of long-term insurance business in T&T.

2.07 The Maritime Financial Group provides an umbrella of specialised financial services including individual and group life insurance, annuities, commercial and personal lines of general insurance, finance, trust and leasing services, and retail services. The audited financial statements of the Maritime Financial Group as at December 31, 2017 showed total comprehensive income of $91.3 mn, total equity of $768 mn, and total assets of $3.2 bn including current assets of $798.4 mn and financial investments of $1.5 bn (of $1.2 bn held-to-maturity securities, with vast majority in Level 1 and 2). Liabilities stood at $2.4 bn, from which insurance contracts liabilities represent 79% of the total. The ratio of external funds (long and short-term financial debts plus deposits from customers) to total equity is 48.7%, indicating a good capitalisation. The Maritime Group neither in the present or the past have provided any service to DFL, nor are there any type of inter-organisational operations, related businesses or loans. Consequently, no due from or due to subsidiaries currently exists within its balance sheet.

Integrity Compliance and Accountability

2.08 Pursuant to CDB's Integrity, Compliance and Accountability policies and procedures, an internal integrity due diligence exercise was conducted on DFL and its private sector majority shareholders, MGICL and MLCL. Publicly discoverable integrity issues related to MGICL and MLCL and certain individuals connected to those companies were identified. These issues were unrelated to DFL and the project. There are pending legal actions against MGICL and certain connected individuals in TT. The internal integrity plan, to mitigate actively any integrity risks material to the project and reputational risks to CDB, covers:

(a) enhanced due diligence of MGICL and MLCL;
(b) ongoing periodic and event-driven monitoring of MGICL and MLCL; and
(c) periodic review of DFL's compliance with relevant covenants in the Bank's Loan Agreement.

MANAGEMENT AND ORGANISATION

2.09 The BOD comprises qualified and experienced members as shown in Appendix 2.1. Similar to other DFIs and as determined by its size, there are two sub-committees of the BOD at DFL, these being the Product, Investment and Credit Committee with responsibility for revenue generation and growth; and the Audit and Risk Committee which is responsible for audit and risk oversight. Further details of the specific duties of the sub-committees can be seen at Appendix 2.2, which describes the governance structure of DFL, as well as the functions of the business units and the loan approval limits within DFL.

Executive Management

2.10 DFL has a staff complement of 29 persons and is led by a management team comprising five persons of varying academic and work experience in core areas of credit underwriting and administration and finance. Such persons are suitably qualified as shown in their respective profiles at Appendix 2.3.

2.11 The areas of functional responsibilities of the respective senior managers can be seen in DFL's Organisational Chart at Appendix 2.4. There is a management committee called the Asset/Liability and Executive Management Committee, which manages and implements the operating and strategic plans of the Company as agreed with the BOD. This Committee is responsible for overall financial and operational responsibility and portfolio risk management.

Information Technology Infrastructure

2.12 DFL currently uses two main software products - one for the General Ledger management function and the other for the administration of loans and deposits. The software that supports DFL's entire accounting function will continue to be the company's core general ledger software. In preparation for the expansion of its operations, DFL is currently implementing a gradual upgrade – customised modules on a phased basis, of its current information technology (IT) infrastructure that will contribute to improved operational efficiency and decision-making.

2.13 In addition to the application software implementation, DFL's System Firewall was upgraded to an internationally recognised system in November 2018, to enhance its data and information security capability against the threat of cyber-attacks. Full implementation and integration of the new IT strategy is expected to be completed by September 30, 2019.

Operating Policies and Procedures

2.14 Management of DFL ensures, on an ongoing basis, that its policies are reviewed and updated as required such that they are in line with current best practices and international standards including IFRS as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of T&T.

2.15 The Senior General Manager Corporate Commercial and Treasury Unit has direct responsibility for oversight of the enterprise risk activities in DFL. Loan origination and credit approval, along with relationship management is administered by a team comprising a Relationship Manager and Credit Analyst who report directly to Senior General Manager Corporate Commercial and Treasury Unit. A Risk and

Control Unit also reports to the Senior General Manager Corporate Commercial and Treasury Unit and has responsibility for loan implementation and supervision as well as loan recoveries.

2.16 DFL also has adequate systems to manage concentration, market, liquidity and operational risks. In addition, concentration limits are guided by regulatory guidelines as established by CBTT, in which an individual exposure cannot exceed 25% of capital. In order to provide oversight of enterprise risk function of DFL and Asset Liability Management Committee is in place which reports to the Audit and Risk Committee of the Board. Specific reports on the various enterprise risk activities are prepared and submitted for consideration and action. CDB staff is satisfied that DFL's existing credit, finance and administrative policies conform to current best practices and that they are effectively applied by DFL.

2.17 DFL does not have an environmental and social management systems (ESMS) to guide its staff to adequately appraise loans with respect to E&S impacts. CDB recommends that such a system be in place and that appropriate staff be trained to implement the system. Management of DFL has accepted the recommendation and expects to have the system implemented by December 31, 2019. Accordingly, the loan will include a component for the financing of the implementation of the ESMS.

HISTORICAL OPERATIONS AND FINANCIAL PERFORMANCE

2.18 This review is based on the audited financial statements for the years 2013–17, unaudited 2018 financial statements and related in-house reports as prepared by DFL. This review of DFL's operations includes a period of economic volatility in T&T, which was evident since the global crisis of 2008. Since then, DFL has been adapting to the prevailing economic conditions, modifying its corporate governance, targeting the niche markets and sectors served, as well as reviewing the financial products and services offered in an effort to stay current, and remain relevant with sound financial conditions to compete in the financial market of T&T.

Loan Portfolio Evaluation

2.19 At December 31, 2017, DFL's gross loan portfolio amounted to $147.2 mn, which was the lowest level for the past 3 years. As DFL continued its restructuring, the rate of loan activity declined except for its collections. Loan approvals declined in each year from $40 mn in FY 2015 to $16.5 mn in FY 2017. Table 2.2 shows DFL's loan activities in the years 2015–18.

TABLE 2.2: HISTORICAL LOAN APPROVALS, DISBURSEMENTS, AND REPAYMENTS FOR THE YEARS ENDED 2015-18
($'000)

Activity	2015	2016	2017	2018	TOTAL
Approvals	39,980	25,275	16,481	76,336	158,072
Disbursements	23,518	26,499	18,317	32,180	100,514
Repayments	55,159	16,453	34,766	35,857	142,235

2.20 DFL's gross loan portfolio was distributed across 10 specific sectors. The distribution of the portfolio as at FY 2017 is shown in Table 2.3. Three sectors, namely: (a) distribution; (b) tourism, food and beverage; and (c) real estate account for $106.6 mn (75%) of the performing portfolio. DFL, as reported in its Financial Statements, establishes boundaries to limit industry concentration.

TABLE 2.3: HISTORICAL DISTRIBUTION OF LOAN PORTFOLIO FOR THE YEAR ENDED 2017
($'000)

Sector	Performing	NPL	Provision	Net
Agriculture and Agro-Processing	1,293	0	0	1,293
Construction	593	0	0	593
Distribution	31,374	0	0	31,374
Tourism, Food and Beverage	39,860	0	0	39,860
Manufacturing	2,091	0	0	2,091
Energy Based Industries	2,730	0	0	2,730
Other Services	4,194	0	0	4,194
Real Estate	35,377	0	0	35,377
Services	4,194	4,715	521	8,388
Transport	6,856	0	0	6,856
Miscellaneous (Health Care, IT)	6,956	39	0	6,995
Total	**142,441**	**4,754**	**521**	**146,674**

2.21 After DFL absorbed the poorly performing assets of the former subsidiaries of DFLCH, the quality of its loan portfolio declined drastically, such that in FY 2013, the ratio of NPLs/Gross loans was 73.9%. Since 2011, as part of its organisational restructuring, DFL has put its focus on improving its portfolio quality. In particular, collection efforts were stepped up resulting in total principal collections of $106.4 mn in the 3 years, 2015–17, and uncollectible loans were written off. As seen in Table 2.3 above, the non-performing section of the loan portfolio, predominantly in the services sector has been reduced to $4.7 mn from 122.9 mn in 2013.

2.22 The NPLs represent 3.2% of DFL's gross loan portfolio and this is better than the financial sector's benchmark of 5%. The overall quality of the portfolio is satisfactory with total arrears of principal amounting to $2.2 mn or 1.5% of the total loans outstanding. Loans totalling $4.7 mn had arrears of $1.8 mn, due for over 2 years, making up the major portion of these arrears of over 90 days and it is these loans for which DFL has made its loan loss provision. The reserves for loan losses of $0.5 mn, may not however adequately cover this level of arrears and NPLs on the portfolio. However, DFL seeks to obtain adequate collateral for its loans and will therefore have to rely on the adequacy of such security held for NPLs so as to minimise any losses incurred during the recovery process.

Financial Performance

2.23-2.34

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank's Information Disclosure Policy.

PREVIOUS CDB LENDING TO DFL

2.35 CDB has made two previous loans of USD5 mn each to DFL. These loans were fully disbursed to a total of 20 sub-borrowers. DFL has always met its debt service obligations to CDB to the extent that the first loan is now fully repaid. The second loan has a remaining balance outstanding of USD0.3 mn and this is scheduled to be repaid in 2019. Table 2.6 below summarises CDB's previous lending to DFL.

TABLE 2.6: SUMMARY OF PREVIOUS CDB LENDING TO DFL AS AT FEBRUARY 28, 2019
($'000)

Loan No.	Approval Date	Approval Amount	Disbursed Amount	Repaid Amount	No. of Subloans	Outstanding Amount
11/OR-TT	February 12, 1998	5,000	5,000	5,000	12	Nil
17/OR-TRI	December 7, 2000	5,000	5,000	4,755	6	245
Total		**10,000**	**10,000**	**9,755**	**18**	**245**

LESSONS LEARNED

2.36 CDB has a long association with FI lending and has gained valuable lessons from such interventions, among them being a recognition that lending by DFIs target beneficiaries can be high risk and associated with high loan default rates. Therefore, DFIs need to pay careful attention to project appraisal, credit underwriting, and loan administration. In addition, DFIs need to have appropriate policies and procedures along with an adequate and reliable management information system (MIS) for achieving success, given that the sectors, which are usually targeted for assistance are not always attractive to commercial bank financing. Hence, careful attention must be paid to financial management practices, risk management strategies and recruitment and retention of competent management and staff.

2.37 Experience has also shown that credit alone is not a panacea for addressing the investment needs of both DFIs and MSMEs, as access to resources for capacity building do play a pivotal role in strengthening their operations. Over and above the credit provided, there is need for technical support as well as building capacity among the intended target groups. In this regard, there are several regional and local organisations, including CDB's CTCS Network and GORTT, which support MSMEs to increase their productive and export capacities.

2.38 Previous CDB lending to private FIs have had security of the subloans incorporated in a trust arrangement for CDB. Although this has worked well in most instances, there has always been the risk that the balance on the CDB loan outstanding will exceed the value of the subloans in the trust, thereby leaving CDB exposed for a financial loss in the event of financial failure of the FI. This vulnerability is especially prevalent when the subloans are repaid faster than the CDB loan. To mitigate this risk, there will be a further provision in the security arrangements for this loan as set out in Chapter 3.

3. THE PROJECT

RATIONALE

3.01 There are challenges experienced by SMEs in obtaining affordable credit from commercial banks for business start-up and expansion, especially for those enterprises that are perceived as high-risk. While working capital for SMEs is available, it tends to be expensive. Other constraints include the limited supply of long-term financing, high collateral security requirements as well as high equity contribution requirements. Such limiting factors set the context for DFL's role within the financial system to offer development assistance in priority sectors, providing affordable finance for development activities for which commercial banks tend to have a diminished appetite. In addition, there is need to strengthen the capability of DFL and its staff to appraise and supervise projects through their life cycle in order to promote environmental, social and gender considerations throughout the project cycle management process.

PROJECT OUTCOMES

3.02 The expected outcomes of the project are:

(a) increased viable investments in the productive SME sector;

(b) improved and inclusive service delivery to SMEs; and

(c) improved capacity of DFL to manage E&S risks in the project cycle.

PROJECT DESCRIPTION

3.03 The project is an Industrial Credit Line to DFL to assist in providing SME credit to financially sound and economically viable enterprises in various sectors, as well as to provide DFL with an appropriate ESMS . The project will assist DFL in:

(a) satisfying unmet credit needs of SMEs which face limited options in accessing finance, by providing resources to enterprises for financing technically and economically viable projects in the productive sectors;

(b) obtaining long-term development funding to enhance its financial management through matching of its assets and liabilities; and

(c) providing DFL with an appropriate ESMS.

The Design and Monitoring Framework at Table 3.1 summarises the project, including the critical assumptions for its success.

TABLE 3.1: DESIGN AND MONITORING FRAMEWORK

Project Impact
Contribute to increased productivity, employment and income growth generated by the SMEs in line with GORTT's development agenda and SDG goals.

Outcome	**Indicator**	**Baseline**	**Target**	**Data Sources, Reporting Mechanisms and**
1. Increased viable investments in the productive SME sector.	No. of new investments in operation in diverse key economic sectors through the increase in the volume of outstanding loans to SMEs and their business expansion.	No. of new investments: 0 No. sub-sectors served: 0 Asset growth: 0 31/12/2018	No. of new investments: 15 No. sub-sectors served: 4 Asset growth: TBD 31/12/2023	Project Completion Report (PCR) DFL Annual Report and Portfolio Records DFL's Audited Financial Statements
2. Improved and inclusive service delivery to SMEs.	Operational and portfolio performance of DFL and quality indicators – efficient allocation of resources.	NPL: 10.96%; Current ratio: 12.7% DSCR: 0.8 x; Debt equity: 1.6 x; Capital Adequacy 55.9%; ROA: 0.5% 31/12/2018	NPL < 10%; Current ratio >2:1 x; DSCR >1.25:1 x; Debt equity <4:1 x; Capital Adequacy >8%; ROA >1% 31/12/2023	DFL Annual Report Annual Loan Performance Reports
3. Improved capacity of DFL to manage E&S risks in the project cycle.	DFL applies the ESMS procedures to all sub-projects.	0 31/12/2023	100% of subloans throughout the project cycle. 31/12/2023	DFL Appraisal Reports for Subloans

Assumptions for achieving Outcomes

- Macro-economic environment remains stable.
- Economic policies and fiscal environment facilitate growth and stability.
- GORTT remains committed to private sector development including SMEs and global Sustainable Development Goals.
- GORTT support the necessary national and sectoral policy reforms and incentives towards growth of SMEs.
- Continued demand for financing of investments/projects in the productive sectors.
- DFL management continue to improve operational efficiency and promote a client-centred approach to service delivery.
- Effective inter-agency coordination among DFL, private sector and the relevant ministries, agencies and departments.
- Financing terms remain competitive and attractive to sub-borrowers.
- Adequate security/collateral made available by sub-borrowers.

Output	Indicator	Baseline	Target	Data Sources, Reporting Mechanisms and Report Frequency
Institutional and financial enhancement activities completed: 1. Increased liquidity or pool of resources to support key economic/productive sectors.	Number and value of subloans appraised and approved- economically, financially and socially viable.	Percentage of loan disbursements: 0 Value of loans: 0 31/12/2018	Percentage of loan disbursements: 100% Value of loans: 883 mn 31/12/2023	CDB's Disbursement Records CDB's Supervision Reports DFL's Audited Financial Statements, Subloan files, and Records
2. Environmental, Social and Gender (ESG) Management System established.	ESG training conducted to DFL staff ESG policy and manuals completed	Policy: 0 Manuals: 0 Staff trained: 0 31/12/2018	Policy: 1 Manuals: 3 Staff trained: 20 (10 female) 31/12/2023	DFL Annual Report CDB's Supervision Reports Consultants' Reports CDB's Project Completion Reports

Assumptions for achieving Outputs

- DFL continues provide the necessary support to the project.
- A competent management team is maintained and key trained staff remain at DFL.
- DFL management and staff continues to apply sound banking and risk management principles/practices, as well as promote environmental, social and gender considerations throughout the project cycle management process.

ARRANGEMENTS FOR RESULTS MONITORING

Project Output Indicators	2019 (No.)	2020 (No.)	2021 (No.)	2022 (No.)	2023 (No.)	Total (No.)	Report and Frequency	Responsibility for Data Collection
Number of SMEs that receive subloans including wherever applicable by gender.	8	6	4	2	0	**20**	DFL Annual Report	DFL
Number of DFL technical staff trained in E&S procedures	4	2	0	0	0	**6**	DFL Annual Report	DFL
Debt-to-Equity Ratio - Maximum 4:1							DFL Audited Financial Statements and Annual Reports	DFL
Debt Service Coverage Ratio (X) - Minimum 1.25	1.25	1.25	1.25	1.25	1.25	n.a.	Ditto	DFL
ROA (%) - Minimum 1.0	1.0	1.0	1.0	1.0	1.0	n.a.	Ditto	DFL
NPLs – Maximum of 11-7%	11	8	8	7	7	n.a.	Ditto	DFL

PROJECT FINANCING

3.04 The project design has been informed by two previous loans to DFL and similar projects to public and private sector DFIs, which have accessed CDB's resources. The project will provide a loan to DFL in an amount not exceeding USD10 mn from CDB's OCR at a variable interest rate that is currently 4.8% p.a. The loan will be subject to a commitment charge at the rate of 0.25 % per annum (p.a.), which will be payable on any portion which is unwithdrawn 60 days after the date of the Loan Agreement. The loan will be repayable by quarterly instalments over 10 years commencing four years after the date of the Loan Agreement, as DFL projects that the subloans will be for an average period of 11 years.[12]

3.05 The proceeds of the loan will be made available to DFL to finance loans to the productive sectors for agricultural, industrial and tourism purposes, including those shown in Appendix 3.1.[13] In addition, a component of the loan, not exceeding USD70,000 will be made available for the engagement of consultants to design and implement an appropriate ESMS for DFL. Subloans will be financed to a maximum of 80% of the project cost under the following conditions:

(a) the maximum subloan or aggregate of subloans in respect of any one subproject must not exceed USD2 mn; and

(b) the repayment period for subloans shall not extend beyond the repayment period of the CDB loan.

3.06 DFL will be expected to onlend the resources of the loan at rates of interest which are in line with current best practice and may be adjusted by DFL from time to time to reflect market conditions. CDB will require that subloan contracts and security include conditions, which permit DFL to vary the rate of interest, as it sees appropriate, on giving adequate notice of its intention. The allocation of the loan resources between the components is as follows:

(a) onlending for AIC subloans – USD9,930,000; and

(b) ESMS Consultancy – USD70,000.

Security

3.07 Security for the loan will be the subloans and the security given by sub-borrowers for such subloans, which will be held by DFL in trust for CDB, at no cost to CDB, subject to the acceptance by CDB of the sub-project and the security. However, it is proposed that CDB may accept other forms of security on similar arrangements. DFL will supervise the security portfolio at no cost to CDB. The holding of such security by DFL in trust for CDB provides CDB with recourse to the specific assets of the proposed loan at any time of default. This arrangement also reduces significantly any legal costs that may arise from the assignment and release of the security relating to such subprojects and affords continuous monitoring of the assets financed without CDB's direct intervention.

3.08 Previous CDB lending to private FIs have had security of the subloans incorporated in a trust arrangement for CDB. Although this has worked well in most instances, there has always been the risk that the balance on the CDB loan outstanding will exceed the value of the subloans in the trust, thereby leaving CDB exposed for a financial loss in the event of financial failure of the FI. This vulnerability is especially

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[12] Paper BD43/05 Add.5, July 20, 2017 – Private Sector Development Policy and Strategy

[13] Purposes for which Agricultural, Industrial and Tourism subloans may be made.

prevalent when the subloans are repaid faster than the CDB loan. To mitigate this risk, it is proposed that if the value of the subloans in the trust fall below the balance on the CDB loan outstanding, DFL shall transfer other unencumbered loans acceptable to CDB from its loan portfolio to the CDB trust, up to a minimum value of the CDB loan balance outstanding, to ensure that the value of the subloans in the trust does not fall below the balance of the CDB loan outstanding.

3.09 In the event that DFL proposes to give security for any other borrowing it shall inform CDB and if, in the opinion of CDB, such security is preferable to that provided to CDB, DFL shall give CDB similar security or allow CDB to share in such security, which may be in addition to the existing security held by CDB. This approach will adequately safeguard CDB's interests, since it enables CDB to obtain the best possible security.

Projected Demand and Retroactive Financing

3.10 There is continuing demand for loan financing to SMEs as indicated by expanded lending to the private sector which increased by 3.5% in 2018 in spite of restricted access to credit due to excessive collateral requirements, high equity contribution requirements, and the risk-averse stance of commercial banks. NBFIs, which includes DFL, recorded robust growth of 5.5% in lending over the same period. As a DFI, DFL is suitably positioned in the market to respond to this demand. Management of DFL proposes to adopt a conservative approach as it transitions DFL to respond to this demand and will principally make loans to well established growth companies in sectors in which it has traditionally been successful. In addition, DFL will place emphasis on enhanced credit quality and ensuring that adequate collateral coverage is obtained for subloans granted. Notwithstanding its previous focus on debt collections, DFL has remained as a lender to SMEs and in 2018 DFL approved new loans of $151.5 mn, indicative of the pent-up demand and DFL's marketing activities. DFL has engaged a marketing company to assist in its outreach to attract new clients for both loans and term deposits where the focus will be on institutions and pension funds. In addition, DFL and Maritime will utilise their networks to increase DFL's client base. These efforts are expected to support the projected levels of loans and term deposit operations of DFL. Based on the trend of increased lending by NBFIs, and its initial marketing efforts, management of DFL anticipates that during the five-year projected period, DFL will approve $1.2 bn in new loans as indicated in Table 3.2. However, a more conservative general level of projections has been utilised by CDB for its projected financial performance analysis. The amended projected annual loan approvals are $180 mn in 2019 and $200 mn thereafter.

TABLE 3.2: PROJECTED ANNUAL LOAN APPROVALS FOR THE YEARS 2018-22
($'000)

Sector	2018	Projected				
		2019	**2020**	**2021**	**2022**	**Total**
Agriculture and Agro-Processing	1,293	5,000	15,000	25,000	30,000	75,000
Construction	1,843	15,000	30,000	40,000	45,000	130,000
Distribution	31,374	21,000	30,000	35,000	40,000	126,000
Energy and Energy-Based Industries	2,730	15,000	20,000	30,000	35,000	100,000
Hotel and Tourism, Food and Beverage	39,860	35,000	35,000	35,000	35,000	140,000
Manufacturing	7,591	15,000	25,000	30,000	35,000	105,000
Miscellaneous (Health Care, IT)	17,973	25,000	30,000	40,000	45,000	140,000
Real Estate	35,377	55,000	35,000	35,000	35,000	160,000
Telecommunications and Transport	6,856	10,000	22,000	25,000	27,000	84,000
Total	**151,491**	**204,000**	**272,000**	**340,000**	**382,000**	**1,198,000**

3.11 Since the request for financing on May 29, 2018, DFL has continued to receive and approve applications for loans in the sectors in which this loan will be applied and has already approved approximately USD3.2 mn between June and December 2018, and further approvals by the time of loan consideration by CDB's Board . These loans are expected to be for purposes that are eligible for financing from the CDB LOC. DFL has therefore requested that consideration be given to retroactive financing for subloan approvals made after the date of its application to CDB. CDB's policy on retroactive financing limits such financing to a maximum of 20% of the loan amount. Accordingly, it is recommended that retroactive financing of an amount up to USD2 mn ($1.34 bn) be permitted under this loan.

Projected Financial Performance

3.12-3.14

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank's Information Disclosure Policy.

Disbursement

3.15 Disbursement of the CDB Loan will be made in accordance with CDB's Disbursement Guidelines for CDB-Financed Projects (January 2019). The first disbursement of the loan shall be made by June 30, 2019 and shall be fully committed by December 31, 2021 and fully disbursed by December 31, 2022.

Procurement

3.16 Procurement under the Loan shall be in accordance with CDB's Guidelines for Procurement (January 2006) and CDB's Guidelines for the Selection and Engagement of Consultants by Recipients of CDB Financing (October 2011). The Procurement Plan approved by CDB is set out at Appendix 3.8. Any revisions to the Procurement Plan shall require CDB's prior approval in writing.

SOCIAL/GENDER IMPACT ASSESSMENT

3.17 The project is classified as a Category FI under the Bank's Environmental and Social Review Procedures (ESRP). It facilitates cost-effective and timely access to financial resources for SME development. The overall social impact of the project is expected to be favourable. Adverse impacts will be minimal and can be easily managed through close monitoring and technical support during project supervision.

3.18 Lending for the development of potential competitive businesses is in keeping with GORTT's National Development Strategy (NDS) 2016 – 2030 (Vision 2030). NDS incorporates the principles and objectives of integration and inclusion of SDGs, while taking into consideration the country's development challenges, opportunities and requirements for economic and social transformation. Investments from the project will contribute to growth in the traditionally, labour intensive, non-energy sub-sectors. Onlending from the loan will complement the range of public sector projects and programmes designed to promote enterprise development. SME development has the potential of contributing to inclusive economic expansion and diversification, creating employment opportunities that lead to enhanced living conditions for beneficiaries and their households.

3.19 The project has the potential to indirectly contribute to enhancing equality in the labour force as SMEs have traditionally provided employment to young people and women. Sex and age disaggregated employment outcomes from MSME development and onlending will be monitored during implementation.

The Gender Marker of the project indicates that the intervention is Gender Mainstreamed (GM). The Gender Analysis is presented at Appendix 3.9.

ENVIRONMENTAL ASSESSMENT

3.20 This project will be categorised "FI" in accordance with CDB's ESRP. Based on this categorisation, DFL is required to have in place, appropriate policies and procedures for effectively managing environmental and social risks in its portfolio. This requires that DFL have an Environmental and Social Management System (ESMS) that outlines requirements to:

(a) Screen all sub-projects in relation to CDB's Exclusion List and comply with the relevant local laws.

(b) Screen all sub-projects for environmental and social (E&S) risks and impacts.

(c) Carry out appropriate E&S due-diligence.

(d) Identify an appropriate staff member with functional responsibility for oversight of the E&S management function.

(e) Periodically report to CDB on the E&S performance of the sub-projects.

3.21 Current demand suggests that the sub-projects targeted for support will likely derive from tourism (physical infrastructure/refurbishment of assets); agriculture (e.g. equipment financing, poultry farms); manufacturing (e.g. household items, chemicals, provision of equipment, roofing); food processing; transportation (for example, trucking haulage, fleets); and the energy sector, specifically supply services to offshore drills.

3.22 The potential E&S impacts of DFL's sub-projects require that the institution has adequate capacity to: identify, assess, manage, and monitor the environmental and social risks and impacts of sub-projects on an on-going basis in relation to its lending activity. Potential impacts are likely to be related to management of effluent discharges and pesticides; pollution of soil and water resources, community and worker health and safety risks, improper or inadequate solid waste disposal and noise pollution from processing activities. DFL's overall portfolio is considered to be generally low risk with limited adverse environmental and social impacts given the generally small scale and size of sub-projects. E&S impacts of these types of projects can be mitigated with well-established environmental good practices.

3.23 Projects proposed for support by DFL are required to meet the regulatory requirements of GORTT. Some of these sub-projects are small and fall below the planning, environmental licensing and permitting thresholds but cumulatively can contribute to environmental and social impacts, which, if not managed, can contribute to E&S harm. In circumstances where it is perceived that sub-projects supported by FIs could result in adverse E&S impacts, a process for adequately addressing and managing these impacts needs to be in place. CDB's ESRP stipulates the need for assessment and management of environmental risks in FIs through the establishment of an ESMS. Sub-projects financed by FIs are also required to be compliant with applicable government regulations and standards.

3.24 CDB's assessment of DFL's corporate governance framework indicated that the system being used to manage E&S risks has some weaknesses. These include lack of:

(a) A formal environmental policy and procedures for environmental appraisal.

(b) Staff with the requisite qualifications and experience to identify, manage or assess E&S concerns.

(c) A designated officer for environmental issues.

3.25 Although DFL ensures that that sub-projects comply with national legislative and regulatory requirements, consideration of E&S risks, including climate change and disaster risks in the credit risk appraisal process, is not being undertaken in a systematic manner. DFL's system for managing E&S risks therefore needs to be improved. During appraisal, DFL indicated its commitment to developing an ESMS to improve its operations in relation to E&S by December 31, 2019. In this regard, resources from the loan up to a maximum of USD70,000 can be used by DFL to finance consultancy services for the design and implementation of an appropriate ESMS for DFL. Given that a portion of the Loan will be used for retroactive financing, DFL will be required to furnish evidence acceptable to CDB, that such sub-projects have complied with local legislative and regulatory requirements and CDB's ESRP. Details of on the Terms of Reference (TOR) for consultancy services to strengthen DFL's E&S Management policy and system is provided in Appendix 3.10.

Implementation and Reporting Requirements

3.26 DFL will be responsible for the implementation of the project. In addition, DFL will be required to maintain its financial and organisational performance at levels that satisfy CDB's eligibility criteria and the targets as set out at Appendix 3.11. CDB will supervise the use of the loan resources by DFL's staff and other resource persons as necessary and as shown in the Implementation Support Plan at Appendix 3.12. DFL will be required to effectively manage the resources of the CDB loan and ensure that there are systems in place to monitor the loans to sub-borrowers in order to provide CDB with relevant data and information in order to assess the developmental impact and outcomes of the project. It will also be a condition of the loan that DFL should submit to CDB, no later than 120 days after the end of its FY:

(a) a certified copy of its audited financial statements;

(b) a copy of the most recent management letter received from independent auditors acceptable to CDB, and shall make arrangements satisfactory to CDB, to address any deficiencies; and

(c) an annual independent audit report on DFL's compliance with the terms and conditions of the loan.

3.27 Furthermore, DFL will be required to prepare and submit management and project monitoring reports, as well as to compile other reports to assist CDB staff in the supervision of DFL's operations. In order to facilitate data collection for preparation and submission of such reports as outlined in Appendix 3.13 (the Reporting Requirements), CDB will provide DFL with appropriate templates. These reports will enable staff of CDB and DFL to assess DFL's performance in relation to the monitoring indicators shown in the Results Framework at Table 3.1. DFL will be required to assist in the preparation of CDB's PCR.

3.28 DFL, at the request of CDB, shall ensure that its management meets with CDB representatives at a mutually acceptable time and place as often as determined by CDB to be necessary, but at least annually, to exchange views with regard to the progress of the project, the performance of DFL, as well as the obligations under the Loan Agreement and other matters related to the project.

Expected Performance Rating

3.29 The expected performance rating for this project is 6.0, or highly satisfactory, based on CDB's project performance system. The rating suggests that there is a good probability that if effectively implemented, the project is likely to meet the stated objectives and achieve an acceptable level of performance. Table 3.4 provides a brief rationale for the expected performance scores.

TABLE 3.4: EXPECTED PERFORMANCE RATING

Criteria	Rating	Expected Performance Score	Brief Rationale for Expected Performance Score
Strategic Relevance	Highly satisfactory	7.5	Project is consistent with GORTT's long-term strategic plan for inclusive social and economic development and growth objectives.
Poverty Relevance	Satisfactory	5.5	The project is expected to provide opportunities for poverty reduction through the generation of increased business activity, enhanced competitiveness of beneficiary enterprises and employment generation.
Efficacy	Highly satisfactory	7.0	The project will assist DFL with resources to meet a portion of its anticipated disbursements over the period 2019–22 in the strategic areas of DFL's lending mandate. The Project will also support the long-awaited economic diversification of T&T.
Cost Efficiency	Excellent	8.0	The project will be managed effectively by DFL. During the planned period, it is projected that DFL will maintain an ROA in excess of the CDB benchmark of 1%.
Institutional Development Impact	Not rated	n.a	The project makes provision for a capacity building component to benefit DFL's staff in achieving E&S due diligence. In addition, CDB will work closely with DFL to ensure that the necessary oversight is provided for compliance with existing CDB policies and procedures.
Sustainability	Excellent	8.0	It is projected that DFL will remain viable and profitable with sufficient liquidity to meet its debt service and other obligations. Also increased lending will contribute to improved market presence.
Composite Score	Highly satisfactory.	6.0	

4. RISK ASSESSMENT AND MITIGATION

4.01 The project carries a variety of risks to CDB and to DFL. These risks can be categorised under the headings of financial risks, operational risks, strategic and other risks. As a consequence, various risk mitigation measures have been established to manage these risks within tolerable levels, through a framework of measurement, monitoring and control policies, procedures and processes.

4.02 DFL's BOD has overall responsibility for the establishment and oversight of its risk management framework. DFL's risk management policies are established to identify, analyse and monitor the risks it faces, to set appropriate risk limits and controls, and to ensure adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and DFL's activities. The primary risks encountered by DFL and associated mitigation measures are summarised in Table 4.1.

TABLE 4.1: RISK ASSESSMENT AND MITIGATION MEASURES

Risk Type	Description of Risk	Mitigation Measures
Credit	DFL fails to meet its loan obligations to CDB; and Sub-borrowers fail to meet debt service obligations to DFL.	The financial risks to CDB include the credit risk of financial loss in the event that DFL is unable to repay the loan. In this regard, security for the loan will be the subloans and the security given by sub-borrowers for such subloans, which will be held by DFL in trust for CDB. For DFL, the main sources of this risk are the appraisal process of subloans, and the impact of changes in the economic environment and their impact on the ability of the subloan borrowers to meet their obligations in accordance with the agreed terms. Mitigation factors include the retention and training of staff with experience in credit appraisal and loan administration, the willingness of management and staff to implement and adhere to acceptable policies and procedures that support good corporate governance, and the strength of DFL's ability to collect debt service on its subloans
Foreign Exchange	Availability of foreign exchange for debt servicing to CDB.	In addition to the credit risk, there is also the market risk that encompasses currency and interest rate risks. For CDB, the currency risk will be eliminated, as the loan will be denominated and repayable to CDB in USD, thereby avoiding any potential financial loss that may arise from any future changes in currency exchange rates. For DFL, while this risk will exist as the subloans may be in TTD, whereas the CDB loan will be in USD, DFL, being an authorised foreign exchange trader, will have access to USD from its trading activities.
Operational	Inadequate SME demand for funding	DFL serves a niche market that includes a range of sectors and such diversification will create opportunities for SME sub-projects to utilise the loan. DFL will also seek out lending opportunities through its marketing operations and other business networks.
Operational	Inadequate SME implementation capacity	DFL proposes to lend to well established and financially viable enterprises. This is a conservative approach that was established by the BOD as DFL now enters a new phase of growth.
Operational	Operational weaknesses in reporting framework.	DFL is in the process of upgrading its MIS. The new customised MIS has been designed with modules to support the different areas of DFL's operations. There will be integration among the various modules and other software applications.

5. THE BORROWER

5.01 The Borrower is DFL.

Legal Status

5.02 DFL is a company duly incorporated on May 22, 1970 and continued under the Companies Act, 1995 of the laws of T&T on January 5, 1999 [Company No. D-736(c)] with its registered office at 10 Cipriani Boulevard, Port-of-Spain, T&T. In accordance with the Companies Act, DFL has the capacity, and, subject to the Companies Act and any other law, the rights, powers and privileges of an individual, including the capacity to carry on its business, conduct its affairs and exercise its powers in and outside T&T to the extent permitted by applicable laws.

5.03 DFL is licensed by CBTT under the Financial Institutions Act, 1993, to carry on business of a financial nature in the following classes of business: (1) acceptance/confirming house; (2) finance house/company; (3) leasing corporation; (4) merchant bank; (5) mortgage institution; and (6) financial services. The license is issued on condition that DFL's equity/risk weighted assets ratio should not fall below 15%; and DFL incorporates within its operations the function of Internal Audit.

5.04 CBTT has also granted authorised dealer status to DFL under Section 5 of the Exchange Control Act, Chap. 79:50. This authorises DFL to take term deposits, grant credit facilities and otherwise deal in foreign currency so far as is permitted by its license under the Financial Institutions Act, 1993.

Restrictions on Business

5.05 The Articles of Continuance (the Articles) of DFL restrict the business of the company to that for which it is licensed under the Financial Institutions Act, 1993. The Articles also restrict DFL from lending or otherwise providing financial assistance to any enterprise in which GORTT owns directly or through any agency of Government a total of more than fifty per cent (50%) of the voting shares or stock unless the obligation is guaranteed under the Guarantee of Loans (Companies) Act, Chapter 71:82.

Borrowing Powers

5.06 The By-Laws of DFL (By-Laws) state that the directors may from time to time by resolution, *inter alia*, borrow money upon the credit of DFL; issue, reissue, sell or pledge debentures of DFL; and mortgage, charge, pledge or otherwise create a security interest in all or any property of DFL, owned or subsequently acquired, to secure any obligation of DFL or any other person.

Shareholding

5.07 DFL is authorised to issue an unlimited number of Ordinary Shares, 266,000 non-redeemable, non-voting preference shares ("Non-Redeemable, Non-Voting Preference Shares") and 800,000 redeemable, non-cumulative, non-voting, convertible preference shares ("Convertible, Redeemable Preference Shares"). The rights attaching to each class of share is set out in Appendix 5.1. As at January 5, 2019, the Ministry of Finance (Corporate Sole) held 30,000,000 Ordinary Shares and 266,000 Non-Redeemable, Non-Voting Preference Shares; DFLCH held 300,393 Ordinary Shares; Maritime General Insurance Company Limited (MGICL) held 20,000,000 Ordinary Shares and 200,000 Convertible, Redeemable Preference Shares; and Maritime Life (Caribbean) Limited (MLCL) held 10,000,000 Ordinary Shares. GORTT, through the Ministry of Finance (Corporate Sole), holds 49.75% of the voting shares of DFL while the Maritime Group collectively holds 49.75% and DFLCH holds the remaining 0.50% of the voting shares.

DFL is majority owned and controlled by corporate shareholders incorporated and having registered offices located in T&T.

5.08 According to the By-Laws, the directors shall manage the business and affairs of the Company and may exercise all such powers and do all such acts and things as may be exercised or done by DFL and are not by the Companies Act, the Articles, the By-Laws, any special resolution of DFL, a unanimous shareholder agreement or by statute expressly directed or required to be exercised or performed by the shareholders or to be done in some other manner. There are no shareholders agreements.

5.09 The directors are elected by the shareholders by ordinary resolution at a meeting of the shareholders called for that purpose. However, according to the By-Laws, so long as any shareholder of DFLCH holds twenty-five (25%) or more of the issued ordinary shares of DFL, such shareholder as a result of this position is entitled to nominate one person as a Director to the Board of DFL, such directors being referred to as an "Appointed Directors". MGICL is not a shareholder of DFLCH. MLCL is a shareholder of DFLCH but only holds 16.58% of the ordinary shares of DFL. GORTT is also a shareholder of DFLCH and holds over 25% of the ordinary shares of DFL and is therefore entitled to appoint one (1) director. The Articles stipulate that the minimum number of directors shall be six (6) and the maximum is twelve (12). There are currently nine (9) directors, all of whom are resident in T&T.

5.10 Directors are elected for three year terms and are eligible for re-election if qualified. An appointed Director is deemed to be duly re-appointed unless and until his appointment is revoked by the shareholder who appointed him.

5.11 A quorum of directors for the transaction of business is more than half of the directors appointed at that time. A quorum of the directors at a meeting of the directors properly convened may exercise all the powers of the directors. No business shall be transacted at a meeting of directors unless a quorum is present. Questions arising at any meeting of the directors shall be decided by a majority of votes. In case of an equality of votes, the chairman of the meeting in addition to his original vote shall have a second or casting vote. A resolution in writing signed by all the directors entitled to vote on that resolution at a meeting of the directors or any committee of the directors and approved by two thirds of the directors is as valid as if it had been passed at a meeting of the directors or any committee of the directors.

Outstanding Bonds

5.12 The total amount of the indebtedness of DFL's long-term bonds in respect of all mortgages and charges is TTD175,804,753, as set out in Table 5.1 below.

TABLE 5.1: DEVELOPMENT FINANCE LIMITED'S BONDS AS AT JANUARY 5, 2019
(USD Rate – 6.7805)

Name	Type	Currency	Amount	Value of Securities Issued (TTD)
DFL TTD90 mn Bond Issue - Class A Floating Rate (Tax Exempt) Industrial Bonds 2000 - 2030	Bond	USD	2,855,000	19,358,328
DFL TTD90 mn Bond Issue - Class C Floating Rate Industrial Bonds 2000 - 2030	Bond	TTD	35,000,000	35,000,000
TTD70 mn Long-term Variable Rate Bonds 2024	Bond	TTD	70,000,000	70,000,000
Up to USD10 mn Securitised Industrial Tax Exempt Bonds 2026 Trust	Bond	USD	6,850,000	46,446,425
TOTAL				**175,804,753**

5.13 Each of the above referenced bond instruments (Trust Deeds) contains a negative pledge provision which requires DFL, so long as the bonds remain outstanding (Outstanding Bonds), to obtain the consent in writing of the trustee of the Outstanding Bonds to create any charges or liens on DFL's assets. The trustee may also, in giving consent, require the same security to be given to the bondholders. It will be a condition precedent to first disbursement of the Loan that DFL obtain the consent in writing of the trustees to the creation of the security for the Loan.

6. PROJECT IMPACT

MACROECONOMIC IMPACT

6.01 Increased availability of affordable credit is likely to have positive impacts on macroeconomic performance in T&T. The net impact on output and employment levels is likely to be positive as enterprises access these funds. Particularly, increased lending to SMEs, made possible under this LOC, is expected to have a positive impact on output growth, employment, and ultimately on poverty. The impact of the loan on debt and of the loan repayment on fiscal operations will be negligible. The injection of foreign currency (USD) into the T&T's economy will contribute positively to the financial account of the balance of payment and help to boost foreign reserves. A summary of the Project's macroeconomic impact is outlined in Table 6.1.

TABLE 6.1: SUMMARY OF MACROECONOMIC IMPACT

Item	Strongly Positive	Positive	Neutral	Weakly Negative	Adverse
GDP		x			
Employment		x			
Poverty Reduction		x			
Fiscal Position			x		
External Debt				x	
Balance of Payments		x			

7. TERMS AND CONDITIONS

7.01 Terms and Conditions of the Loan

No.	Subject	Terms and Conditions of the Loan
1	**Parties**	Bank: Caribbean Development Bank Borrower: Development Finance Limited (DFL) Implementing Agency: Development Finance Limited (DFL)
2	**Amount of Loan**	The Bank agrees to lend to the Borrower an amount not exceeding the equivalent of ten million United States dollars (USD10,000,000) (the Loan) comprising: Ordinary Capital Resources (OCR): Ten million United States dollars (USD10,000,000) Equity and Market Resources.
3	**Purpose**	The purpose for which the Loan is being made is to assist the Borrower in financing the making by the Borrower of loans (Subloans) to financially sound small and medium-sized enterprises (Sub-borrowers) to finance projects (Sub-projects) for agricultural, industrial and/or tourism purposes; and the establishment of an environmental and social management system for the Borrower (the Project).
4	**Repayment**	The Borrower shall repay the amount withdrawn from the Equity and Market Resources Loan Account in forty (40) equal or approximately equal and consecutive quarterly instalments on each Due Date, commencing on the first Due Date after the expiry of four (4) years following the date of the Loan Agreement or on such later Due Date as the Bank may specify in writing.
5	**Interest**	The Borrower shall pay to the Bank interest at the rate of four decimal eight percent (4.8%) per annum on the amount of the Equity and Market Resources withdrawn and outstanding from time to time. Such interest shall be payable quarterly. The Bank may from time to time increase or decrease the rate of interest for the time being payable on any amount of the Loan which is being lent from the OCR to take effect on the day after the first Due Date after March 31, June 30, September 30 and/or December 31 in any year, or such other date or dates as the Bank may specify in writing from time to time.

No.	Subject	Terms and Conditions of the Loan
6	**Commitment Charge**	The Borrower shall pay to the Bank a commitment charge at the rate of zero decimal two five percent (0.25%) per annum on the amount of the OCR unwithdrawn from time to time. Such charge shall accrue from the sixtieth (60th) day after the date of the Loan Agreement and shall be payable quarterly.
7	**Withdrawal and Application of Loan**	Except as the Bank may otherwise agree withdrawals in respect of each Subloan shall not exceed eighty percent (80%) of the cost of the project financed by such Subloan. The amounts withdrawn from the Loan Account(s) shall not be used to meet any part of the costs of the Project which consists of identifiable Taxes imposed under the laws of the Project Country. The Loan shall not be used by the Borrower to finance any Sub-project which does not comply with CDB's ESRP. The Borrower shall comply with the Bank's Disbursement Guidelines for CDB-Financed Projects (January 2019), which publications is in effect at the date hereof and which may be amended from time to time by the Bank.
8	**Period of Disbursement**	The Bank shall have received an application for first disbursement of the Loan by June 30, 2019 or such later date as may be specified in writing by the Bank. The Loan shall be disbursed up to December 31, 2022 or such later date as may be specified in writing by the Bank. The Loan shall be fully committed by the Borrower for making Subloans by December 31, 2021 (Commitment Date).
9	**Procurement**	Except as provided below, procurement shall be in accordance with the following procedures or such other procedures as the Bank may from time to time specify in writing: *CDB's Guidelines for Procurement (January 2006).* *CDB's Guidelines for the Selection and Engagement of Consultants by Recipients of CDB Financing (October 2011).* The Borrower shall comply with the procurement requirements set out in the **Procurement Plan**. Any revisions to the **Procurement Plan** shall require the Bank's prior approval in writing.
10	**Currency Provisions**	Except as the Bank and the Borrower may otherwise agree, withdrawals from the Loan Account shall be made in United States dollars or in such other currency or currencies available to the Bank, as the Bank may reasonably determine.

No.	Subject	Terms and Conditions of the Loan
		The amount withdrawn from the Loan Account shall be repayable in United States dollars. The commitment charge, interest and other charges shall be payable in United States dollars.
11	**Additional Condition(s) Precedent to First Disbursement**	The Borrower shall, by the 60th day after the date of the Loan Agreement, or such later date as the Bank may agree, furnish or cause to be furnished to the Bank, evidence acceptable to the Bank, that the following condition/s has/have been satisfied: The Borrower shall have approved the Loan and the Security (as defined below). The Borrower shall have received the requisite consent in writing of the trustee of the relevant Trust Deeds in respect of the Outstanding Bonds to the creation of the Security. The Borrower shall give to the Bank the Security.
12	**Project Implementation**	Except as the Bank may otherwise agree, the Borrower shall: (i) implement the Project through the Implementing Agency; (ii) carry out the Project at all times with due diligence and efficiency, with management personnel whose qualifications and experience are acceptable to the Bank and in accordance with sound technical, environmental, administrative, financial and managerial standards and practices; and (iii) institute and maintain organisational, administrative, accounting and auditing arrangements for the Project, acceptable to the Bank. The Borrower shall: (i) adhere to organisational, administrative, accounting and auditing arrangements for the Project agreed with the Bank and, in particular, maintain procedures acceptable to the Bank, for processing and making Subloans; (ii) be responsible for supervising the implementation of the Sub-projects and any requirements specified as conditions of Subloans in the appraisal reports for such projects; (iii) incorporate within its operations the function of internal audit; and (iv) maintain financial and operating policies in accordance with the Financial Institutions Act 1993 (No. 18 of 1993) of the Project Country. At the request of the Bank, the Borrower shall procure that the management of the Borrower meet with a representative or representatives of the Bank at a mutually acceptable time and place as often as determined to be necessary by the Bank and exchange views with regard to the progress of the Project, the performance by the Borrower of its obligations under the Loan Agreement and any other matters relating to the Project.

No.	Subject	Terms and Conditions of the Loan
13	**Engagement of Consultant(s)**	The Borrower shall, in accordance with the procurement procedures applicable to the Loan, select and engage consultant(s) to provide the following consultancy services and shall, within a timeframe acceptable to the Bank, implement such recommendations arising out of the following consultancy/ies, as may be acceptable to the Bank: **Consultancy Services to Establish an Environmental and Social Management System** The Borrower shall, by December 31, 2019, or such later date as the Bank may agree, implement such recommendations arising out of the **Consultancy Services to Establish an Environmental and Social Management System** as may be acceptable to the Bank.
14	**Security**	The Borrower shall give to the Bank security for the Loan (the Security) as follows: (a) The Borrower shall: (i) hold in trust for the Bank, free of any cost to the Bank, the Subloans and interest and other charges thereon and the security in respect of the Subloans, which shall be approved by the Bank as to adequacy, nature and form and be assignable and enforceable in accordance with its terms; (ii) monitor and take steps to secure compliance by the sub-borrowers with the covenants, conditions and stipulations of the loan agreements and security in respect of the Subloans; and (iii) from time to time, with the agreement in writing of the Bank, retain for its own use such amount of the monies held in trust for the Bank as may exceed the requirements of the Bank for securing the Loan. (b) The Subloans and security in respect of the Subloans shall be declared to be held in trust for the Bank and no part of the cost of the preparation, completion or registration of Subloan agreements and security or any documentation for the termination of the trust in respect of any Subloan agreement and security or of monitoring and taking steps to secure compliance with the covenants, conditions and stipulations of such Subloan agreements and security or enforcing any security shall be borne by the Bank. (c) The Bank may accept other forms of security under arrangements similar to those set out in this Section. (d) Any Trust Deed and/or other instrument or instruments required to give effect to the arrangements contemplated by this Section in any country in which the Borrower makes subloans shall be in a form and substance acceptable to the Bank and shall be prepared and completed at the expense of the Borrower.

No.	Subject	Terms and Conditions of the Loan
		(e) So far as may be necessary for the avoidance of doubt, the expense of the Bank for obtaining any legal advice in the Project Country or elsewhere in connection with the preparation and completion (including registration thereof or registration of particulars thereof) of the documentation hereinbefore referred to shall be borne and paid for by the Borrower. (f) In the event that the Borrower proposes to give security for any borrowing (other than the Loan) the Borrower shall so inform the Bank and, if in the opinion of the Bank, such security is preferable to the security contemplated or provided for by the foregoing provisions of this Section, the Borrower shall give the Bank, at the option of the Bank, similar security to such proposed security or allow the Bank to share in such proposed security in addition to or in substitution for the security contemplated or provided for by the foregoing provisions of this Section. (g) If at any time during the life of the Loan, the Bank determines in its absolute discretion that the Subloans and the security in respect thereof held in trust for the Bank in accordance with this section is at any time insufficient to secure the Loan, the Borrower shall, at the request of the Bank, declare additional loans made by the Borrower and security therefor and other forms of security to be held in trust for the Bank under arrangements similar to those set out in this Section, in order to ensure that the security held in trust for the Bank is at all times sufficient and adequate to secure the Loan.
15	**Borrower's General Obligations in relation to making Subloans**	The Borrower shall utilise the Loan exclusively for making Subloans to finance Sub-projects in any of the Bank's borrowing member countries (BMCs) in which the Borrower is authorised to carry on business. The Borrower shall ensure that all Subloans shall be adequately secured and the value of property offered as security for each Subloan shall be carefully appraised. The Borrower shall only bring economic considerations to bear upon the decisions of the Borrower in making Subloans. The Borrower shall exercise its rights in relation to each Subloan in such a manner as to protect the interests of the Bank and the Borrower. The Borrower shall take steps to ensure that all goods and services financed out of each Subloan are used exclusively in carrying out the Sub-project and in conformity with any contract or other arrangement approved by the Bank.

No.	Subject	Terms and Conditions of the Loan
		The Borrower shall ensure that all Sub-projects utilising the proceeds of the Loan comply with applicable legislative and regulatory requirements in the Project Country and the Bank's ESRP.
16	**Terms and Conditions of Subloans**	(a) Except as the Bank may otherwise agree, the Borrower shall make Subloans on terms and conditions satisfactory to the Bank and, in particular, the Borrower shall take account of the following: (i) Purpose of Subloans: The Loan shall be used only to make Subloans for agricultural, industrial and/or tourism purposes including those specified in the **Purposes for which Agricultural, Industrial and Tourism Subloans may be made**. (ii) Currency Denomination: Subloans shall be denominated, owed and repaid in United States dollars (USD) or Trinidad and Tobago dollars (TTD). (iii) Interest Rate on Subloans: The Borrower shall: (aa) make Subloans at rates of interest which are in line with current practice and may vary the interest rate from time to time to reflect market conditions; and (bb) include a provision in agreements for and instruments to secure Subloans that the Borrower may vary the stipulated rate of interest as it deems appropriate upon giving the Sub-borrower reasonable notice in writing of the Borrower's intention to do so. (iv) Period for Repayment of Subloans: Without prejudice to the obligation of the Borrower to repay the Bank, the Borrower may make Subloans for any period not exceeding fourteen (14) years including a grace period not exceeding four (4) years, provided, however, that the repayment period of any Subloan shall not extend beyond the repayment period of the Loan. (v) Restriction on making Subloans: The Loan shall not be used by the Borrower for making a Subloan: (aa) to a Sub-borrower unless such Sub-borrower has demonstrated the capability for generating foreign currency; (bb) which is more than, or when added to the outstanding balance or any other Subloan or Subloans for the same Sub-project, exceeds two million United States dollars (USD 2,000,000); (cc) for the purchase of land and/or existing buildings, working capital (except where required for start-up operations), refinancing, equity investments or any

No.	Subject	Terms and Conditions of the Loan
		other purpose which is excluded from financing by the Bank; or (dd) to any person or body of persons other than nationals or belongers of a BMC or to any company or corporation which is not effectively controlled by nationals and/or belongers of one or more of such countries without the prior written approval of the Bank. (vi) Appraisal Reports and other Documentation for Subloans: The Borrower shall submit to the Bank, for all Sub-projects financed by Subloans in a format acceptable to the Bank, appraisal reports which demonstrate the overall viability of the Sub-projects (Appraisal Report). (vii) Environmental and Social Management: The Borrower shall complete an environmental screening and scoping checklist for all Sub-projects, and shall submit to the Bank a copy of the checklist in respect of all Sub-projects financed from Subloans together with the Appraisal Report to be furnished to the Bank referred to in this Section. In addition, the Borrower shall at the same time furnish to the Bank a copy of the Environmental and Social Impact Assessment (ESIA) for each Sub-project classified as requiring a full ESIA. Prior to making any Subloan in respect of a Sub-project, the Borrower shall furnish to the Bank, evidence acceptable to the Bank that the Sub-project has complied with the Bank's ESRP. (b) The Borrower agrees that the following conditions, among others, shall be required whenever Subloans are made by the Borrower: (i) a requirement that the Sub-borrower carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and practices; (ii) a commitment on the part of the Sub-borrower that the goods and services financed by the Subloan will be used exclusively for the purpose of the Subloan; (iii) a requirement that the Sub-borrower maintain adequate records and that disbursements from a Subloan will be made against invoices and certificates of work done except for advances given to the Sub-borrower in accordance with arrangements consistent

No.	Subject	Terms and Conditions of the Loan
		with the policy of the Bank on floats to financial intermediaries; (iv) the right of the authorised representatives of the Bank, upon reasonable notice to the Borrower and the Sub-borrower, to inspect the goods, sites, works, plant and construction included in the Sub-project, the operation thereof and any relevant accounts, records and documents; (v) the obligation of the Sub-borrower to furnish all information that the Borrower may reasonably request with respect to the Sub-project and to the financial condition of the Sub-borrower; (vi) the right of the Borrower to suspend or terminate disbursement of the Subloan if the Sub-borrower defaults in the performance of any of its obligations under the agreement for the Subloan; (vii) an undertaking by the Sub-borrower that all necessary measures will be taken to ensure that any construction or service contract and all purchases of goods for the Sub-project be made at a reasonable cost which will generally be the lowest market price, taking into account time of delivery, quality, efficiency, reliability of the goods and availability of maintenance facilities and spare parts therefor and, in the case of services, of their quality and the competence of the parties rendering them; (viii) provision by the Sub-borrower of adequate security for the Subloan; (ix) a requirement that the Sub-borrower shall take out and maintain with responsible insurers such insurance against such risks and in such amounts as shall be consistent with sound business practice and, without limitation upon the foregoing, such insurance to cover marine, transit and other hazards incident to the acquisition, transportation and delivery of goods financed out of the Subloan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Sub-borrower to replace or repair such goods; (x) an undertaking by the Sub-borrower to carry out any requirements specified as conditions of the Subloan, and the right of the Borrower to require repayment of

No.	Subject	Terms and Conditions of the Loan
		the Subloan immediately on failure of the Sub-borrower to carry out such requirements; and (xi) a requirement that the Sub-borrower shall observe all the laws of the Project Country with respect to the environment, which are relevant to the Sub-project.
17	**Reports and Information**	Except as the Bank may otherwise agree, the Borrower shall furnish or cause to be furnished to the Bank the reports and information set out in the **Reporting Requirements** in the form specified therein, or in such form or forms as the Bank may require, not later than the times specified therein for so doing. The Borrower shall furnish to the Bank, as soon as available, but in any case not later than one hundred and twenty (120) days after the end of each such year, certified copies of its audited financial statements for such year and an audit report by the said auditors of such scope and in such detail as the Bank may reasonably request. The Borrower shall furnish to the Bank, not later than January 31, April 30, July 31 and October 31 in each year, a list of Sub-borrowers showing any instalments of principal and interest for which such Sub-borrowers may be in arrears. If a Sub-borrower is in arrears for more than six (6) months, the Borrower shall take steps to recover the Subloan. The Borrower shall furnish or cause to be furnished to the Bank in such form or forms as the Bank may require, a copy of the most recent Management letter received from the Borrower's auditors not later than one hundred and twenty (120) days after the end of each financial year of the Borrower and shall make such arrangements as are satisfactory to the Bank for addressing any deficiencies identified in the management letter. The Borrower shall furnish or cause to be furnished to the Bank in such form or forms as the Bank may require, an annual independent audit report on the Borrower's compliance with the terms and conditions of the Loan not later than one hundred and twenty (120) days after the end of each financial year of the Borrower. In the event that the Borrower fails to maintain its records and accounts, have its accounts and financial statements audited or furnish information in accordance with **Reporting Requirements**, and the Bank authorises a representative or representatives, including an accountant or accountants and/or an auditor or auditors to carry out an inspection in pursuance of those provisions, the Borrower shall pay to the Bank on demand the cost and expenses, including travel expenses incurred by the Bank in carrying out such inspection.

No.	Subject	Terms and Conditions of the Loan
18	**Financial Covenant(s)**	Except as the Bank may otherwise agree, the Borrower shall maintain throughout the life of the Loan an equity/risk-weighted asset ratio of not less than fifteen percent (15%). Except as the Bank may otherwise agree, the Borrower shall: (i) from the date of the Loan Agreement to December 31, 2019 maintain NPLs of less than eleven percent (11%); (ii) from January 1, 2020 to December 31, 2021 maintain NPLs of less than eight percent (8%); and (iii) from January 1, 2022 throughout the remaining life of the Loan maintain NPLs of less than seven percent (7%).
19	**Other Condition(s)**	The Borrower shall, by December 31, 2019, or such later date as the Bank may agree, furnish or cause to be furnished to the Bank, evidence acceptable to the Bank that the Borrower has implemented a compliance or related programme acceptable to the Bank, in order to mitigate integrity risks.
20	**Suspension, Cancellation and Events of Default**	The Bank may by notice to the Borrower suspend, cancel or call in the whole or any part of the Loan if: CBTT or other competent regulatory authority takes any action, including the issuance of letters (Regulatory Action), with respect to the Borrower's: (i) non-compliance with the requirements under the FIA, ECA or other applicable law, regulation, policy or procedure; or (ii) operating licences and authorisations, capital or assets. The Borrower shall give to the Bank notice in writing of the initiation of any Regulatory Action immediately upon the Borrower becoming aware thereof. If after the Commitment Date an amount of the Loan remains uncommitted by the Borrower, then at any time thereafter the Bank may by notice to the Borrower terminate the right of the Borrower to make withdrawals from the Loan Account or with respect to any amount of the Loan, as the case may be, and, upon the giving of such notice, the amount of the Loan specified therein shall be cancelled.

APPENDIX 1.1

COUNTRY ECONOMIC REVIEW 2018

Overview

1. A welcomed turnaround in economic activity in T&T is estimated for 2018. A recovery in the energy sector underpinned the reinvigoration of the economy. Headline inflation, as measured by the Y/Y rate of change in the Retail Price Index, slowed. Continued fiscal consolidation efforts resulted in a smaller fiscal deficit. Net public debt increased in nominal terms, but contracted as a percent of GDP. Commercial bank credit to the private sector picked up and continued to grow into 2018 and CBTT raised the repo rate by 25 basis points to 5.0% in June 2018. The external current account realised surplus, while the gross reserves recorded further contraction.

Real Sector and Prices

2. According to CSO's estimates of GDP, real economic activity in T&T is expected to expand by 1.9% in 2018. The CSO's revised estimates for previous years also indicate that this follows on two consecutive years of contraction, with economic activity declining sharply by 6.5% in 2016, and more moderately by 1.9% in 2017.

3. The leading contributors to real economic growth in 2018 are estimated to be Manufacturing; Financial and Insurance Activities; Transport and Storage; Administrative and Support Services; Education; and Electricity and Gas. Manufacturing, which should surpass Mining and Quarrying to become the largest contributor to GDP in 2018 (20.1%), is expected to record growth of 7.3%, reversing two consecutive years of decline. Growth in this sector would be driven primarily by expansions in the manufacture of petrochemicals, and the refining of natural gas by Atlantic LNG, which are key activities within the Petroleum and Chemical Products sub-industry. A strong recovery in the Food, Beverages and Tobacco Products sub-industry is also expected to positively influence Manufacturing's outturn. The Financial and Insurance industry, the fifth largest contributor to GDP in 2018 (6.5%), should stabilise and recover somewhat in 2018, expanding by 1.1%, after having slowed to 0.9% growth in 2017 from 2.4% in 2016. Growth in Transport and Storage is forecasted to slow to 1.1% and contribute 3.4% to GDP in 2018.

4. The above positive performances are estimated to be partly counteracted by contractions in a number of sectors, including the second largest sector, Mining and Quarrying (which represents 18.9% of GDP). This sector is estimated to decline by 1.8%, after recording minimal growth of 0.9% in 2017.

5. Data to September 2018 indicates that headline inflation (period average), at 1.0% Y/Y, has been well contained. In September, food inflation was zero after declining for the first time in seven years in August (-0.1 per cent). Core inflation, on the other hand, rose to 1.4% in September, from 0.8% in April, reflecting increased costs of home ownership and higher prices for fast food meals. The Producer Prices Index fell by 0.9% in September 2018, following a slightly steeper fall in June, lending further support to the low inflationary environment at the retail level.

Labour Market

6. Weak economic conditions compromised employment performance in 2017. Data from CSO points to an increase in the unemployment rate to 4.4% in the fourth quarter of 2017, from 3.6% in the corresponding period of 2016. On an annualised basis, unemployment is estimated to be approximately 4.8% in 2017, up from 4.0% in 2016.

Fiscal and Debt Operations

7. Ongoing fiscal consolidation efforts led to improved fiscal position. Preliminary estimates from the Ministry of Finance, indicate that the overall deficit reached 4.0% of GDP in FY 2018 compared to 9.1% of GDP in FY 2017; while the primary deficit rose to 1.2% of GDP from 6.0% over the same time period. GORTT achieved an overall reduction in expenditure of 1.7%, with cuts across most expenditure categories. Meanwhile, total revenues increased by 17.8%. Most of the deficit was financed domestically.

8. In FY 2018, Total Revenue and Grants, projected at $42,617.6 mn, is estimated to be $3,124.2 mn lower than originally budgeted but nonetheless higher than receipts of $36,180.6 mn in FY 2017. The main contributors to the stronger revenue performance between FY 2017 and FY 2018 are the increased receipts of Taxes on Income and Profits, Taxes on Goods and Services and Non-Tax Revenue totaling $3,043.6 mn, $2,045.3 mn and $1,929.6 mn, respectively. Tax Revenue is projected to comprise 74.0% of Total Revenue and Grants in FY 2018.

9. In FY 2018, Total Expenditure is estimated to have declined by 1.7 % to $48,879 mn as compared to the previous fiscal year. Total Expenditure also fell short of the budgeted estimate of $50,501.5 mn, with Current Expenditure, totaling $45,347.9 mn, and accounting for 92.8% of Total Expenditure, while Capital Expenditure, estimated at $3,531.3 mn, comprises the remaining 7.2% of Total Expenditure.

10. Total Public Sector Debt or Gross Public Sector Debt moved from $121,258.6 mn in FY 2017 to an estimated $122,173.6 mn in FY 2018, an increase of 0.7%. This figure comprises Net Public Sector Debt plus borrowings for Open Market Operations (OMOs), which consist of Treasury Bills, Treasury Notes and Treasury Bonds. Net Public Sector Debt Stock[1] comprises Central Government Domestic Debt (43.4%), Central Government External Debt (26.9%), Contingent Debt (29.5%) as well as BOLTs and Leases (0.1%). It is anticipated that Net Public Sector Debt will increase by 3.1% from $93,647.1 mn in FY 2017 to $96,592.0 mn by the end of fiscal 2018. Based on revised GDP47, Net Public Sector Debt as a percentage of GDP is estimated to decrease from 62.1 % at the end of fiscal 2017 to 60.9 % at the end of fiscal 2018.

11. Net public sector debt was estimated at 60.8% of GDP at the end of FY 2018, down from 62.7% a year earlier. The improvement in debt outstanding is consistent with improvement in fiscal outturns, which resulted in a reduction in borrowing requirements for FY 2018.

External Account

12. In the first quarter of 2018, the Balance of Payments recorded an overall deficit of USD381.9 mn, compared to the deficit of USD360.4 mn recorded for the similar period in 2017. The current account surplus persisted; growing by 65.3% from USD759.5 mn in the first quarter of 2017 to USD1,255.2 mn in the corresponding period. This surplus is reflective of the continued growth in exports of 27.6% as well as a 10.0% expansion in imports during the period under review. Non-energy exports continued to grow, recording a 30% expansion, moving from USD572.6 mn over the period January to March 2017 to USD744.3 mn in the similar 2018 period. Energy exports expanded by 26.9%, moving from USD1,959.5 mn at the end of the first quarter of 2017 to USD2,486.6 mn in the 2018 period. Meanwhile,

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[1] Net Public Sector debt is defined as the sum of all domestic and external obligations of public debtors, which include the Central Government and autonomous public bodies such as State Enterprises and Statutory Authorities. It excludes instruments of Open Market Operations, such as Treasury Bills, Treasury Notes, Treasury Bonds and Sterilised Bonds; proceeds of which are held or sterilised at the Central Bank and not utilised by the GORTT for its operations.

import of goods registered growth of 10%, moving from USD1,405.2 mn in the first quarter of 2017 to USD1,545.2 mn in 2018. This increase is mainly attributed to greater fuel imports.

13. Gross international reserves, though still well above the standard 3-month threshold, continued its decline in 2018. In comparison to the end-December 2017 outturn, data at end-September 2018 shows that gross reserves fell by 11% to $7,465.3 mn, the equivalent of 8.1 months of imports.

Financial Sector Review

14. Monetary conditions tightened somewhat during the course of 2018. Citing positive growth during the first half of the year, credit growth, low inflation and higher external rates, CBTT raised the repo rate by 25 basis points to 5.00% in June 2018. The median prime lending rate also increased by 25 basis points to 9.25%. Sales of foreign exchange by authorised dealers to the public over the period October 2017 to September 21, 2018, amounted to USD5,350.7 mn, 1.0% lower than in the full fiscal period one year earlier.

15. According to CBTT data, for the past five years growth in the financial sector (including finance, insurance and real estate) has remained relatively stable even as economic conditions have been volatile. The sector continued to be well-capitalised and profitable, and credit quality remains relatively high, with NPL ratios one of the lowest in the Region. Provisional data as at September, 2018 indicate that net credit from the banking system continued its upward trend, while non-performing loans (NPLs) increased though still relatively low. The ratio of gross NPLs to total loans rose to 3.3%, from 2.9% at the end of 2017. The reported capital adequacy ratio remained relatively stable at 24.3%.

Outlook

16. Macroeconomic stability remains a key priority for the GORTT. The growth outlook for T&T is cautiously optimistic as the energy sector is poised to strengthen particularly in light of increased natural gas output, as the Angelin project comes on line. Real GDP growth for 2019 is projected to tick up to 2.0%. Despite the restructuring at Petrotrin, the energy sector is expected to drive the growth prospects with eventual positive spillover effects on the non-energy sector. However, in the short run the non-energy sector is anticipated to continue to exert a slight drag on economic activity in T&T. The country's vulnerability to a downturn in energy prices, however, remains a significant downside risk. The volatility in the energy sector and the persistent weaknesses in the non-energy sector once again emphasises the need for a robust economic diversification of the Republic's economy into activities that are more resilient to the business cycles.

17. Fiscal and debt conditions are expected to continue to improve in the near-term, as energy sector related revenues as set to strengthen. However, while attempts have been made to undertake some levels of fiscal policy adjustments, including the government's efforts to reform the energy tax regime and to boost domestic revenues, sustainable fiscal adjustment will require additional measures (including further containment of current expenditure) to rebalance the public finances and sustain the fiscal and debt gains. The reform actions should still be seen as an imperative even if energy sector revenues pick up. Despite the fiscal improvements, delayed implementation of key adjustment measures, such as the establishment of the Revenue Authority, the body to be charged with tax collection, and reintroduction of the property tax, coupled with continuing high levels of public debt, mean T&T's economy remains vulnerable to any external shocks. There is also a need for an increase in capital investment to set the stage for a lasting recovery in economic growth and for economic diversification.

18. In summary, a comprehensive reform agenda which maintains the focus on fiscal consolidation, economic diversification, improving overall doing business, productivity and competitiveness is necessary to maintain and accelerate economic momentum and to improve the prospect of a more balance growth

outcome in the future. A critical element of economic diversification in T&T is a sound technical vocational programme to support the new economy. This is even more relevant in Tobago and could have significant long-lasting positive productivity and macroeconomic impacts. Taking steps to improve the doing business environment could bolster activities in the financial sector thus allowing the sector to contribute more positively to increasing economic activity. Credit growth is likely to rise as economic activity picks up in the near-term, creating positive feedback loops to GDP growth. The external sector would benefit from increased output from the energy sector leading to improvements in the external current account and foreign reserve positions.

19. Risks to the outlook are tilted to the downside and include depressed global prices for oil and gas and underperformance of output production in the energy sector.

APPENDIX 1.2

TRINIDAD AND TOBAGO MAJOR INVESTMENT PARTNER AGENCIES

Agency	Focus
AMCHAM T&T	AMCHAM T&T represents 300 private sector companies, 25% multinational and 75% national. AMCHAM T&T's member companies represent over 90% of the foreign direct investment into T&T and AMCHAM T&T has become the *de facto* preferred point of private sector representation for local, US and multinational companies.
BATT	BATT currently comprises eight member banks, comprising Bank of Baroda; Citi Bank; CIBC First Caribbean International Bank; First Citizens; Intercommerical Bank; RBTT Bank; Republic Bank Ltd; and Scotiabank.
Trinidad and Tobago Chamber of Industry and Commerce	Since establishment on March 14, 1879, the Chamber has lobbied on behalf of its members' interests and it has made an impact on the conduct of business and development of the national economy. The Chamber seeks the interests of its members and the wider business community by forging a sustainable framework for successful business through effective advocacy, representation, facilitation and enablement of legitimate and responsible enterprise.

PROFILE OF THE BOARD OF DIRECTORS

Name	Office	Academic Qualifications	Profession
Andrew S. Ferguson	Chairman	Graduate of the Wharton School of Business Fellow of the Life Management Institute, Chartered Property and Casualty Underwriter, Associate in Reinsurance, and Associate in Fidelity and Surety Bonding.	Chairman and Chief Executive Officer of Maritime Life Caribbean Limited
Prakash Dhanrajh	Director	BSc. Industrial Management	General Manager of DFL Caribbean Holdings Limited and Managing Director of MICROFIN Caribbean Holdings Limited (Trinidad and Grenada Offices).
Errol Pilgrim	Director	Chartered Certified Accountant ACCA	Accountant
Suresh Dutta	Director	BSc. (Hons) in Physics MSc. (Physics) Post Graduate Diploma in Marketing Management	Chairman of DFL's Product Investment and Credit Committee
Roger Gomes	Director	Chartered Certified Accountant ACCA	General Manager
Kaisha Ince	Director	Master's Degree in Corporate and Commercial Law	Barrister and Attorney-at-Law
Lionel Seunarine	Director	Master's of Education and Educational Planning Bachelor of Education specialising in Accounting and Marketing Degree in Business Management Diploma in Business Administration	Banker Chairman, Audit and Risk Committee
Ryan Maharaj	Director	Chartered Certified Accountant ACCA MBA in General Management Certified Internal Auditor (CIA)	Senior Business Analyst (Ag.)
Louis Nurse	Director	Doctor in Business Administration Master's Degree in Business Administration in Project Management and Finance Graduate of the Henley Business School with a Diploma in Management.	Project Director and External Lecturer in Project Management

GOVERNANCE STRUCTURE

1. There are two sub-committees of the Board of Directors:

   (a) Product, Investment and Credit Committee (PICC) – responsible for DFL's revenue generation and growth:

      (i) Lending - Credit Adjudication
      (ii) Securities – Investment approval
      (iii) Capital Markets – Transaction Approval
      (iv) Product Development – Internal Approval

   (b) Audit and Risk Committee – responsible for audit and risk oversight:

      (i) Credit and Market Risk Oversight
      (ii) Operational Risk and Compliance Oversight
      (iii) Direct reporting line for Internal Audit function
      (iv) Responsibility for direction and approval of external audit function

2. The Asset/Liability and Executive Management Committee is an Executive Management committee that manages and implements the operating and strategic plans of the Company as agreed with the Board of Directors. This Committee is responsible for:

   (a) Overall financial and operational responsibility:

      (i) HR Oversight
      (ii) Regulatory Oversight
      (iii) Operational Oversight
      (iv) Financial Accountability

   (b) Portfolio Risk Management:

      (i) Assessing exposure in DFL's assets and liabilities in a framework consistent with DFL's Investment Policy Statement.
      (ii) Management of DFL's liquidity risk profile.
      (iii) Market Risk Management.
      (iv) Recommendation of DFL's interest rate, liquidity and foreign exchange posture.
      (v) Review and determination of appropriate market risk benchmarks.

Business Units

3. The business is driven by two revenue generating units:

   (a) Corporate, Commercial and Treasury;

(b) Merchant Banking, Investments and Securities; and the following support units:

(i) Finance;
(ii) Risk and Controls;
(iii) Compliance; and
(iv) IT.

4. The Marketing function remains under the purview of the CEO and is supported by an external Strategic Marketing Consultant.

Finance Unit

5. The Finance Unit is responsible for financial reporting, financial management, management of external audits, budgeting and variance analysis. This Unit prepares monthly management accounts, monitors financial performance and is responsible for submitting reports (on a daily, weekly or monthly basis) to the regulators, CBTT and the T&T Securities and Exchange Commission. The Unit oversees all purchases and maintains an inventory of fixed assets, accounts payable and accounts receivable.

Risk and Controls Unit

6. The Risk and Controls Unit is responsible for responsible for Credit Risk including Credit Administration (maintenance of client files, which includes reports on site visits and collection of insurance renewal certificates and financial statements), Special Loans Management and Recoveries, Operational Risk and Controls, Business Continuity Planning, Health, Safety and the Environment and Deficiency Management. The Unit ensures conformance to the company's risk framework to satisfy reporting and regulatory requirements.

Compliance Unit

7. The Compliance Unit ensures that the company adheres to external legislation and regulation and internal controls and is responsible for protecting the company against AML/CFT. The Unit is also responsible for corporate secretarial services including administration, shareholder relations, legal functions and liaising with key stakeholders of the company. This Unit manages internal audits.

Information Technology Unit

8. The IT Unit is responsible for the architecture, hardware, software and networking of computers in the company. The Unit is responsible for integrity of the information and communication technology (ICT) systems that support critical functions and activities, quality (speed and reliability) of client-related information delivery systems and services and minimisation of operating cost and time in carrying out the various ICT processes. The Unit must also ensure that employees have the access they require to the computer systems for enhanced output and increased productivity of staff.

Loan Approval Limits

9. In accordance with DFL's Credit and Lending Policy approved by BOD on May 2, 2017:

(a) Loans up to $2 mn

10. Must be approved by both CEO and the General Manager (GM), Risk and Controls. The PICC has responsibility to ratify these approvals at the next available meeting. Upon ratification these approvals are further forwarded to the Board at its next meeting as part of the PICC report. Should the CEO and GM, Risk and Controls be unavailable then the approving authority will be the PICC.

11. Note that for USD loan equivalent amounts less than or equal to $2 mn, the approving authority will be the PICC.

(b) Loans greater than $2 mn up to $10 mn (or USD equivalent)

12. Approved by the majority of the members of the PICC at a PICC meeting or *via* unanimous approval of the PICC members *via* Round Robin request on recommendation of the CEO and GM, Risk and Controls.

(c) Loans greater than $10 mn up to Single Borrower Credit Limit (or USD Equivalent)

13. Approved by the majority of the members of the BOD at a BOD meeting or via unanimous approval of the BOD members *via* Round Robin request on recommendation of the PICC.

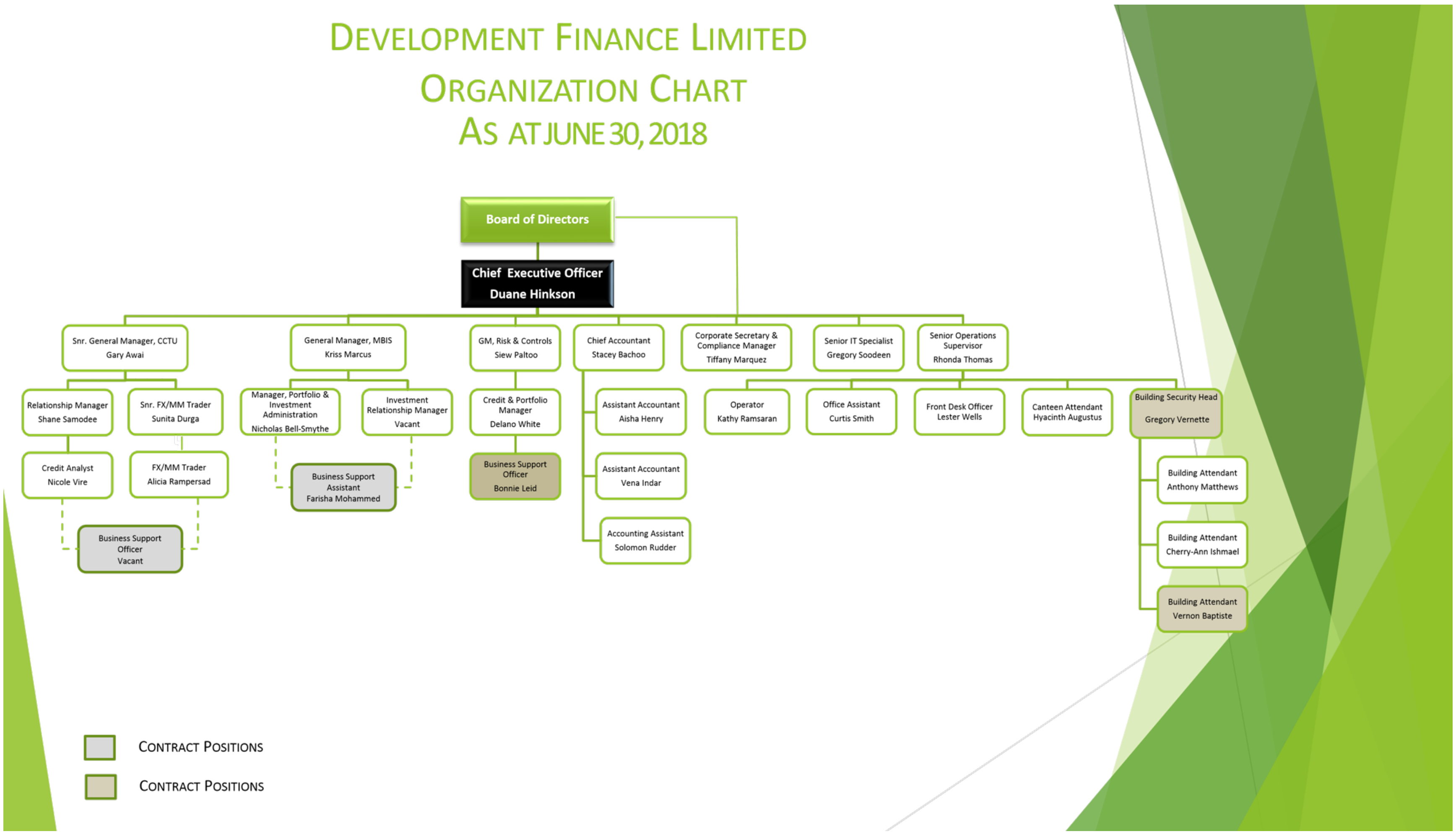
14. USD equivalent loan limits are based on the prevailing TTD: USD FX selling rate on the date of approval.

APPENDIX 2.3

PROFILE OF MANAGEMENT TEAM

Name	Position	Qualification	Years of Service
Duane Hinkson	CEO	MBA in Marketing and International Business Bachelor's degree in Management Certificate for Financial Advisors from the Institute of Banking and Finance of Trinidad and Tobago with Specialisations in Securities and Mutual Funds	4
Gary Awai	Senior General Manager, Corporate, Commercial and Treasury Unit	Chartered Professional Accountant and member of the Society of Management Accountants of Nova Scotia, Canada MBA Business Administration Bachelors in Business Administration	3
Siew Paltoo	General Manager, Risk and Controls	BSc. Mechanical Engineering	2
Stacey Bachoo	Chief Accountant	Association of Chartered Certified Accountants (ACCA)	7
Tiffany Marquez	Corporate Secretary and Compliance Manager	BSc. Management Studies	4

ORGANISATIONAL CHART



APPENDIX 2.4

APPENDIX 2.5

DEVELOPMENT FINANCE LIMITED
HISTORICAL BALANCE SHEET STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013-17

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank's Information Disclosure Policy.

HISTORICAL INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013-17

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank’s Information Disclosure Policy.

HISTORICAL STATEMENTS OF CASH FLOW FOR THE YEARS ENDED DECEMBER 31, 2013–17

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank's Information Disclosure Policy.

SUMMARY MEASUREMENT OF FINANCIAL PERFORMANCE BY CAPITAL ADEQUACY, ASSET QUALITY, MANAGEMENT, EARNINGS, LIQUIDITY AND SENSITIVITY TO MARKET RISK FRAMEWORK

Measure	Meaning	DFL Performance
Capital Adequacy	The CAR measures a bank's financial strength by using its capital and assets. It is used to protect depositors and promote the stability and efficiency of financial systems. Generally, a bank with a high capital adequacy ratio is considered safe and likely to meet its financial obligations.	The capital injection by GORTT and Maritime has strengthened the capital base of DFL enabling it to take remedial actions to be on a path of growth. The recapitalisation of DFL in 2011, allied with improved performance resulted in a Capital Adequacy Ratio (CAR) in excess of the benchmark minimum of 8% such that in the years 2013-17 the CAR was in excess of 30-40%. This high ratio is indicative that DFL is a safe FI and is likely to meet its financial obligations.
Asset quality	A bank is said to have good quality assets if loans given out by it are being repaid on time. Bad quality assets include loans that are not being paid on time.	Arising from the recapitalisation and reorganisation of DFL, there was the initial focus on debt recovery and improving the quality of the loan portfolio. DFL has reduced its NPLs to 3.3% which is better than the financial sector's benchmark maximum of 5%.
Management	This is an assessment of the quality of the BOD, senior managers, operating policies, and how effectively these policies are enforced for the successful operation of DFL.	The members of DFL's BOD and senior management are well experienced and academically qualified. DFL has in place policies that are kept up-to-date to respond to changing market conditions and standards including governance and delegation of duties.
Earnings	The ROA is the key measure of the earnings of FIs and there is the benchmark for a minimum ROA of 1%.	DFL has successfully exceeded this benchmark in the review period 2013-17 where it improved to 9.5%. This indicates DFL's efficient use of its capital and other resources.
Liquidity	This is the ability to convert assets into cash. The level of **c**ash maintained and the required minimum balance with the Central Bank also determines the liquidity of the DFL.	DFL has maintained the required minimum cash holding at the CBTT representing 10% of term deposits. DFL has also effectively managed its operations to ensure that its obligations, including debt service to CDB, were paid on time.
Sensitivity to Market Risk	Through this parameter, DFL's sensitivity towards changing market conditions and how they are likely to affect DFL and its operations is checked.	Guided by its policies, and in particular its Credit Policy, the management of DFL has adopted a conservative approach as it has embarked on a new phase of growth.

APPENDIX 2.9

HISTORICAL FINANCIAL AND OPERATING RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2013–17

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank's Information Disclosure Policy.

DEFINITIONS OF FINANCIAL RATIOS

Term	Definition of Term
DSCR	Earnings before interest plus non-cash expenses and principal collections on long-term loans divided by annual debt service requirement (that is, financial expenses plus principal repayment on long-term borrowings).
Interest Coverage Ratio	Net operating income plus financial expenses divided by financial expenses.
Debt/Equity Ratio	Total debt divided by capital and reserves.
Average Cost of Borrowed Funds	Financial expenses as a percentage of average borrowed funds.
Annual Asset Growth	Change in total assets as a percentage of total assets for previous year.
ROA	Net surplus before appropriations as a percentage of average assets.
ROE	Net income as a percentage of average equity.
Arrears Ratio	Total arrears of principal and interest as a percentage of total loans outstanding.
Total Assets Ratio	Total assets as a percentage of equity.
Total Collections Ratio	Cash collections of principal and interest as a percentage of total collectibles (past due amount and current amounts collectible).
Current Collection Ratio	Cash collection of principal and interest on current amounts collected as a percentage of current amounts collectible.
Net Interest Margin	Interest Income less Interest Expense as a percentage of Average Total Assets.
Liquid Asset Ratio	Cash and Cash Equivalents as a percentage of Total Assets.
Loans to Total Assets	Net Loans divided by Total Assets.
Capital Adequacy Ratio	Capital times one hundred divided by Risk-weighted Assets.
Contamination Ratio or Portfolio at Risk	Value of loans with arrears times 100 divided by value of total loans outstanding.
Average Yield on Loans	Interest on loans divided by gross loans.

PURPOSES FOR WHICH SUBLOANS MAY BE MADE

Agriculture

(a) Farm machinery and equipment, i.e. tractors, spraying equipment for crop production, poultry cages, milking machines, harvesting equipment.

(b) Establishment of crops to bearing stage and the rearing of breeding stock to reproductive stage.

(c) Irrigation.

(d) Aquaculture.

(e) Establishment of permanent drains, terracing or permanent anti-erosion control measures.

(f) Facilities for storage, packing, processing and on-farm energy conservation.

(g) Farm buildings, including buildings for livestock.

(h) Farm power, including provision for water supply for animals and electricity.

(i) Construction of access and on-farm roads.

(j) Livestock production, including small stock.

(k) Land clearing from primary and secondary forest.

(l) Boats, marine engines and fishing gear for commercial fishing operations.

(m) The establishment of processing plants.

(n) Medium and long-term programmes associated with any of the above which are specifically designed to raise productivity levels.

Industry and Tourism

(a) Construction of buildings for manufacturing, processing and handicraft operations.

(b) Purchase and installation of machinery, equipment, utilities, including office equipment for industrial production.

(c) Purchase of vehicles and materials-handling equipment.

(d) Construction of small and medium-sized new hotels and renovation and expansion of existing properties.

(e) Services related to the manufacturing, tourism and communications sectors.

(f) Initial work required to support the operations.

APPENDIX 3.2

FINANCIAL ASSUMPTIONS

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank's Information Disclosure Policy.

SUMMARY OF INTERNATIONAL FINANCIAL REPORTING STANDARDS 9 TO BE EFFECTIVE FROM FINANCIAL YEAR 2018[1]

1. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

2. IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities and some contracts to buy or sell non-financial items.

3. IFRS 9 requires an entity to recognise a financial asset or a financial liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, an entity measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Financial Assets

4. When an entity first recognises a financial asset, it classifies it based on the entity's business model for managing the asset and the asset's contractual cash flow characteristics, as follows:

(a) Amortised cost—a financial asset is measured at amortised cost if both of the following conditions are met:

(i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Fair value through other comprehensive income—financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

(c) Fair value through profit or loss—any financial assets that are not held in one of the two business models mentioned are measured at fair value through profit or loss.

5. When, and only when, an entity changes its business model for managing financial assets it must reclassify all affected financial assets.

[1] Source: www.ifrs.org.

APPENDIX 3.4

ACTUAL 2017, UNAUDITED 2018 AND PROJECTED BALANCE SHEET STATEMENTS FOR THE YEARS ENDING DECEMBER 31, 2019−23

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank's Information Disclosure Policy.

APPENDIX 3.5

ACTUAL 2017, UNAUDITED 2018 AND PROJECTED INCOME STATEMENTS FOR THE YEARS ENDING DECEMBER 31, 2019−23

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank’s Information Disclosure Policy.

APPENDIX 3.6

ACTUAL 2017, UNAUDITED 2018 AND PROJECTED CASH FLOW STATEMENTS FOR THE YEARS ENDING DECEMBER 31, 2018−23

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank’s Information Disclosure Policy.

APPENDIX 3.7

ACTUAL 2017, UNAUDITED 2018 AND PROJECTED FINANCIAL AND OPERATING RATIOS FOR THE YEARS ENDING DECEMBER 31, 2018−23

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank's Information Disclosure Policy.

PROCUREMENT PLAN

I. General

1. **Project Information:**

Country: Republic of Trinidad and Tobago

Borrower: Development Finance Limited (DFL)

Project Name: Third Agricultural and Industrial Credit, Development Finance Limited

Project Executing Agency: Development Finance Limited (DFL)

2. **Bank's Approval Date of the Procurement Plan**: March 28, 2019

3. **Period Covered by this Procurement Plan:** April 15 to November 30, 2019

II. Goods and Works and Non-Consulting Services N/A

III. Consulting Services

1. **Prior Review Threshold:** Procurement decision subject to prior review by the Bank as stated in Appendix 2 to the Guidelines to Procurement: all

2. **Reference to (if any) Project Operational/Procurement Manual**: CDB's Guidelines for the Selection and Engagement of Consultants (October 2011).

3. **Any Other Special Procurement Arrangements**: N/A

4. **Procurement Packages with Methods and Time Schedule:**

1	**2**	**3**	**4**	**5**	**6**	**7**
Ref No.	**Assignment (Description)**	**Estimated Cost (USD)**	**Selection Method**	**Review by Bank (Prior/Post)**	**Expected Proposal Submission Date**	**Comments**
1.	Consultancy Services to Establish an Environmental and Social Management System		Individual Consultant Selection (ICS)	Prior	April 15, 2019	Project expected to be approved by March 28, 2019 and Procurement process to commence after CDB's initial review process.

Implementing Agency Capacity Building: CDB's online procurement training and remote training sessions as necessary.

Summary of Proposed Procurement Arrangement

	CDB										NBF		Total Cost
	Primary		Secondary		Other								
Project Component	**ICB**	**NCB**	**RCB**	**ICS**	**Shopping**	**DC**	**FA**	**QBS**	**CQS**	**SSS**	**Country**	**Institution**	
Consultancy Services													
Administrative Support in-kind													
Contingency													
Total Project Costs	-	-	-		-	-	-	-	-	-			

CQS	Consultant Quality Selection	NCB	National Competitive Bidding
DC	Direct Contracting	QCBS	Quality and Cost-Based Selection
EOI	Expression of Interest	QBS	Quality-Based Selection
FA	Force Account	RCB	Regional Competitive Bidding
ICB	International Competitive Bidding	RFP	Request for Proposal
ICS	Individual Consultant Selection	RFQ	Request for Quotation
IDC	Interest During Construction	SSS	Single-Source Selection
LIB	Limited International Bidding		
NBF	Non-Bank Financed		

This information is withheld in accordance with one or more of the exceptions to disclosure under the Bank's Information Disclosure Policy.

APPENDIX 3.9

GENDER MARKER ANALYSIS

Project Cycle Stage	Criteria	Score
Analysis:Introduction/ Background/ Preparation	Consultations with relevant categories of males and females and relevant gender-related public/private sector organisations and Non-Governmental/Community-Based Organisations will take/have taken place. Socioeconomic, Sector and/or Institutional analysis considers gender risks and/or gender disparities that impact the achievement of project outcomes.	0.5 0.5
Design: Project Proposal/ Definition/ Objective/ Description	Project interventions/policies address existing gender disparities. Project objective/outcome includes the enhancement of gender equality or the design of gender-responsive policies or guidelines.	0.5 0
Implementation: Execution	Implementation arrangements include either: • Capacity building initiatives to enhance gender mainstreaming of the executing and/or implementing agency, Or • Active participation of representatives of gender-relevant stakeholders in project execution. Terms of Reference of consultancy/project coordinating unit/project management unit includes responsibilities and resources, including budgets for gender mainstreaming.	0.5
Monitoring and Evaluation: Results-Monitoring-Framework (RMF)	Sex-disaggregated data included in the baselines, indicators and targets of the RMF Or Collection of sex-disaggregated data is part of the project. At least one gender-specific indicator at the outcome and/or output level in the RMF or included in tranche releases of PBLs.	0.5 0.5
Maximum Score:		**3**
Scoring Code		
Gender Specific (GS) and Gender Mainstreamed (GM):: if 3 to 4 points **Marginally Mainstreamed (MM): if 1.5 to 2.5 points.** **NO: if projects score zero or 1; if NO please give a justification why**		

Gender Specific (GS): the project's principal purpose is to advance gender equality.
Gender Specific Projects are projects which directly enhance gender
Gender Mainstreamed (GM): the project has the potential to contribute significantly to gender equality. The project is gender mainstreamed when gender considerations have been taken fully into account.
Marginally Mainstreamed: the project has limited potential to contribute to gender equality.

APPENDIX 3.10

DRAFT TERMS OF REFERENCE

**CONSULTANCY SERVICES TO ESTABLISH
AN ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM
DEVELOPMENT FINANCE LIMITED - REPUBLIC OF TRINIDAD AND TOBAGO**

1.01 Development Finance Limited (DFL) is a non-bank financial institution licensed in the Republic of Trinidad and Tobago (T&T) under the Financial Institutions Act (2008). The entity was originally established in the 1970s as a state enterprise known as the Trinidad and Tobago Development Finance Company (TTDF) and later incorporated as a private limited liability company in T&T. DFL is currently registered under the Companies Act, 1995 and under the Securities Industry Act (2012) as a reporting issuer and an underwriter. DFL's operations are governed by several policies and procedures for its administrative functions and operations (loan appraisal, income recognition, and loan loss provisioning). DFL does not have a formal Environmental and Social (E&S) Policy or documented procedures and guidelines for the proactive identification, assessment and management of environmental and social/gender impacts (risks and opportunities) of its operations. There is also no corporate health and safety policy.

1.02 DFL has a mandate to provide financing for the development and/or expansion of small, medium and large businesses across a wide cross section of productive sectors including: tourism (physical infrastructure/refurbishment of assets); agriculture (e.g. equipment financing, poultry farms); manufacturing (e.g. household items, chemicals, provision of equipment, roofing); food processing; transportation (e.g. trucking haulage, fleets); and the energy sector, specifically supply services to offshore drilling operations from the petroleum sector. Projects proposed for support by DFL are required to meet the regulatory requirements of the Government of the Republic of Trinidad and Tobago (GORTT). However, many are small and fall below the national planning, environmental and permitting thresholds.

1.03 Despite the relatively small scale of some individual projects, cumulatively they can contribute to E&S impacts, which if not managed can contribute to E&S harm. Potential risks include: untreated effluent discharges, management and disposal of pesticides, pollution of soil and water resources, solid waste disposal and noise emission from processing activities and/or possible social fallout from socioeconomic dislocation, community health and safety risks, and occupational health and safety of workers.

1.04 DFL is currently negotiating a ten million United States dollars (USD10 mn) Loan Agreement for a Line of Credit (LOC) with the Caribbean Development Bank (CDB) for onlending to financially viable small and medium-sized enterprises (SMEs) in the productive sectors of T&T. During the appraisal of the project, CDB's staff assessment of DFL's corporate governance framework highlighted the absence of:

(a) a formal system for managing E&S impacts; a formal environmental policy; and

(b) trained or experienced staff to identify/manage/assess E&S concerns related to the sub-projects financed, constrains the institution's ability to adequately supervise sub-projects project cycle and monitor E&S compliance.

1.05 CDB's Environmental and Social Review Procedures (ESRP) stipulates the need for finance institutions (FIs) such as DFL to have in place, appropriate policies and procedures for effectively managing E&S impacts in their portfolio. Hence, resources from the loan up to a maximum of USD70,000 can be used by DFL to finance consultancy services for the design and implementation of an appropriate an Environmental and Social Management System (ESMS) consistent with its overall mission and strategy and in compliance with CDB's E&S requirements for financial intermediary lending. At a minimum, this requires DFL to have an ESMS that outlines requirements to:

(a) screen all sub-projects in relation to CDB's Exclusion List and comply with the relevant local laws;

(b) screen all sub-projects for E&S risks and impacts;

(c) carryout appropriate E&S due-diligence;

(d) identify an appropriate staff member with functional responsibility for oversight of the E&S management function; and

(e) periodically report to CDB on the E&S performance of the sub-projects.

2. OBJECTIVE

2.01 The objective of the TA is to improve the institutional capacity of DFL to assess and manage E&S impacts in its project appraisal and supervision processes.

3. SCOPE OF SERVICE

3.01 The Consultant will perform all tasks within the scope of work with expected professional skills and based on research, experience, knowledge and analytic capacities. Assigned consultants will perform the work in an efficient manner and will avoid unnecessary expenses by assigning appropriate personnel, utilising appropriate means of communication, optimising travel schedules (if necessary) and through other appropriate means without compromising the thoroughness or quality of the work. In order to achieve the consultancy's objectives, the Consultant will develop the set of activities described below.

3.02 The Consultant (s) will be required to:

(a) Review the national legislative and administrative framework (national E&S policies, legislation, and related) relevant to the development and application of E&S safeguards for DFL's operation.

(b) Review the investment portfolio and pipeline to determine the E&S issues that arise during project appraisal and implementation which are significant to the business processes and which must be factored into the design of an appropriate ESMS to ensure compliance.

(c) Prepare a Draft Environmental and Social Safeguards Policy (ESSP) for consideration and approval of DFL's Board of Directors (BOD).

(d) Prepare a Draft E&S Operations Manual and implementation guidelines.

(e) Finalise the E&S Safeguards Operations Manual and prepare training materials for staff training

(f) Deliver a training workshop to DFL's technical staff on the application of the ESSP and operational procedures in DFL's investment operations.

(g) Develop a Draft ESMS Implementation Plan.

Detailed Tasks – Project Coordinator

3.03 The Project Coordinator (PC), DFL will be required to:

(a) Facilitate consultations with DFL management, BOD and key external stakeholder groups.

(b) Facilitate the provision of documentation (including workshop materials), for the consultant.

(c) Liaise with the CDB Project Supervisor to ensure timely delivery of reports as defined in the reporting schedule.

(d) Undertake any other tasks as assigned by the Chief Executive Officer to facilitate the successful completion of the consultancy.

3.04 The PC will present a draft of all deliverables to the DFL BOD for their endorsement and buy-in.

4. IMPLEMENTATION ARRANGEMENTS

4.01 The assignment will be based in Trinidad and the Consultant will report to the PC, who will be required to facilitate the training. The assignment is expected to be completed within seven months.

5. QUALIFICATIONS AND EXPERIENCE

5.01 The Consultant must have familiarity with current and emerging issues related to ESSP of development institutions, including international financial institutions. Knowledge and experience of the application of E&S Safeguard issues in FIs; good interpersonal skills; excellent oral and written English language skills; and a good understanding of cultural, government, and institutional conditions in CDB's Borrowing Member Countries is required.

5.02 The Consultants shall jointly or solely possess:

(a) Post graduate qualifications in E&S management or a related field.

(b) A minimum of ten years' working experience in the areas of environmental management and social development as well as the conduct of E&S impact assessments.

(c) Excellent organisational and communication skills. Specific experience in the Caribbean context is desirable.

(d) Experience in E&S management in MSME development will be an asset.

6. DELIVERABLES/OUTPUTS

6.01 The Consultant will be required to prepare and submit five copies (four hard copies and one electronic copy in Microsoft Word) of the following documents to DFL and CDB within the time periods indicated:

(a) A detailed Work Plan and Inception Report describing the proposed approaches to be taken to prepare and deliver the scope of works outlined, within two weeks of the signing of the consultancy agreement. DFL and CDB will provide comments on this report within two weeks of receipt of the Report.

(b) Revised Work Plan and Inception Report incorporating the comments from the joint review of DFL and CDB, within two weeks of receipt of comments from DFL and CDB.

(c) A Diagnostic Report identifying gaps and outlining recommendations for incorporating ESRP into DFL operations, and documenting these procedures for presentation to DFL management and staff within three weeks of the acceptance of the Inception Report by DFL. DFL and CDB will provide comments on the Diagnostic Report within two weeks of its receipt.

(d) Revised Diagnostic report incorporating the comments and modification of the joint DFL/CDB review within one week of the receipt of feedback from the review.

(e) Draft ESSP and ESSP Manual for presentation to DFL management and staff within three weeks of acceptance of the diagnostic report. DFL and CDB will provide comments on the draft ESSP and ESSP Operations Manual within two weeks of its receipt.

(f) Final ESSP and ESSP Operations Manual within two weeks of receipt, having regard to comments by DFL and CDB.

(g) Prepare draft ESSP Training Manual. DFL and CDB will review and provide feedback within 2 weeks of receipt.

(h) Revise ESSP Training manual and conduct staff training within two weeks of receipt of comments from the joint DFL/CDB review of the Manual.

(i) A Report on DFL staff training workshop within three weeks of acceptance of staff training plan by DFL. The workshop report will include the evaluation by the participants.

(j) Draft ESMS Implementation Plan.

7. DURATION

7.01 The Project is to be implemented over a period of six months.

PROPOSED BUDGET
(USD)

ITEM	CDB	DFL	TOTAL
Professional Fees	64,800	-	64,800
Workshop Materials	2,200	-	2,200
Accommodation/Admin Support	-	20,000	20,000
Sub-Total	67,000	20,000	87,000
Contingencies	3,000	-	3,000
Total	**70,000**	**20,000**	**90,000**
Percentage			

APPENDIX 3.11

CDB'S ELIGIBILITY CRITERIA FOR DEVELOPMENT FINANCE INSTITUTIONS

External Audit

1. Existence of an audit report on the financial condition of the DFI carried out by qualified independent auditors.

Quality of Organisation, Management and Staffing

2. (a) Assurance of managerial autonomy.

   (b) Satisfactory organisational and staffing arrangements to assess and manage credit risks associated with long-term lending.

   (c) Adequate operating policies and procedures.

Accounting Policies

3. The DFI's accounting policies should be appropriate for a FI and have sound rules for the classification of performing and NPLs, loan provisioning, rescheduling, bad-debt write-off and the recognition of interest and other income.

Financial Condition

4. The NPL portfolio should be adequately covered by loan loss provisions.

5. The cash collection ratio on loans should be sufficiently high that liquidity is not adversely affected.

6. Debt-service coverage should not normally be less than 1.25 times.

7. The ratio of total debt-to-equity should not normally exceed 4:1.

8. Normally a minimum ROA of 1%.

Other Criteria

9. (a) Appropriate onlending interest rates to cover all of the DFIs expenses including allowances for risks on its various categories of lending. Interest rates should be positive in real terms and in line with market rates.

   (b) Specific plans, where feasible, for the mobilisation of domestic savings to reduce dependence on loan funds, both local and foreign, and also to improve the financial discipline of the institutions.

10. Willingness of DFIs to become involved in financing working capital, both as a means of improving the services provided and to assist in diversifying the maturity structure of the loan portfolios. Success in domestic resource mobilisation would facilitate such portfolio diversification.

IMPLEMENTATION SUPPORT PLAN

1. CDB is well placed to provide implementation support, based on its considerable experience in the supervision of LOCs in the Region. The implementation support to be provided will include:

   (a) reviewing implementation progress and achievement of project outcomes;

   (b) addressing implementation issues;

   (c) monitoring systems to ensure their continued adequacy through monitoring reports, audit reports and field visits; and

   (d) monitoring changes in risks and compliance with legal agreements as needed.

The Implementation Support Plan will be reviewed at least once a year to ensure that it continues to meet the implementation support needs of the project. In addition to reviewing implementation progress, the Implementation Support Plan aims at providing technical support to the BMC in the achievement of the results.

2. The Plan has been developed based on the risk profile of the project with particular focus on the capacity risk as well as the traditional supervision focus areas of financial management, and good corporate governance.

Strategy and Approach for Implementation Support

3. Supervision of the Project will be undertaken by a team led by the supervision coordinator from the Private Sector Development Unit and including as required, operations officers with specific responsibilities for Environmental and Social Analyses. Formal supervision and field visits will be undertaken at least annually.

4. The first formal supervision activity will be a Project Launch Workshop (PLW). The objective of the PLW is to review the implementation arrangements, train the project management staff in the use of CDB's guidelines for disbursement and discuss project supervision issues. The PLW will also include one half-day training on environmental and social screening for credit officers. PLW is scheduled for the third quarter of 2019. Arrangements for PLW will be finalised after the confirmation by Legal Counsel that the loan and guarantee agreements are effective. Participants at PLW will include key stakeholders of DFL.

5. The supervision coordinator will coordinate CDB's team to ensure that project implementation is consistent with the requirements as specified in the Terms and Conditions and other legal documents. The supervision team will prepare annual Project Supervision Reports identifying the status of project implementation and any issues requiring the resolution of management.

TABLE 1: IMPLEMENTATION SUPPORT STAFF SKILLS REQUIREMENTS

Activities	Staff	Approximate Time (Month/Year)	Staff Requirements
Follow-up and verify satisfaction of conditions precedent to first disbursement.	2		PSDU; Legal Department, CDB.
Project Launch Workshop.	5		CDB Appraisal Team.
Process Disbursement Claims.	2	Ongoing	PSDU and Procurement Unit CDB.
Through desk and field supervision, review operations of DFL in terms of compliance with loan conditions, loan portfolio quality, operational policies and procedures, financial performance, execution and management of existing and new lines of credit.	3	Ongoing	PSDU, CDB.
Undertake at least two supervision visits p.a.	2	Ongoing	PSDU, CDB.
Exit Interview and PCR.	5		CDB Appraisal Team.

APPENDIX 3.13

LIST OF REPORTS FOR SUBMISSION TO CDB

	Details of Reports	Frequency
1.	Status of Loan Portfolio by sector stating number and value of subloans outstanding including: (a) interest in arrears and principal in arrears and aged analysis thereof in intervals of 3 months up to 12 months and over; and (b) breakdown of outstanding loan portfolio by performing and NPLs.	Quarterly within 30 days of the end of each quarter.
2.	Schedule of Cumulative Approvals and Disbursements by sector and Anticipated Approvals and Disbursements by sector for the next 12 months.	Quarterly within 30 days of the end of each quarter.
3.	Status of Loan Collections in respect of Principal and Interest, including: (a) arrears of principal at beginning of period; (b) principal collectible for period; (c) total principal due; (d) collection of principal due at beginning of period; (e) collection of principal collectible for period; (f) arrears of interest at beginning of period; (g) interest collectible for period; (h) collection of interest; (i) collection of interest collectible for period; and (j) amount of principal affected by arrears.	Semi-annually within 30 days of the end of June and December each calendar year.
4.	Copy of Annual Corporate Budget.	Within 30 days of the beginning of each FY.
5.	Schedule of Sub-borrowers in Arrears.	Annually and within 30 days of the end of the calendar year.
6.	Data Collection Table - SME Categorisation for CDB’s Subloans by ownership.	Within 30 days of the beginning of each FY.
7.	Aa certified copy of its audited financial statements.	Annually and within 120 days of the end of FY.
8.	A copy of the most recent management letter received from independent auditors acceptable to CDB, and shall make arrangements satisfactory to CDB, addressing any deficiencies.	Annually and within 120 days of the end of FY.
9.	An annual independent audit report on DFL’s compliance with the terms and conditions of the loan.	Annually and within 120 days of the end of FY.

REPUBLIC OF TRINIDAD AND TOBAGO

REGISTRAR GENERAL'S OFFICE 22 DEC 2011 TRINIDAD AND TOBAGO

THE COMPANIES ACT, 1995

ARTICLES OF CONTINUANCE
OF
DEVELOPMENT FINANCE LIMITED

SCHEDULE ITEM (4)

This is the annexed Schedule referred to in ITEM 4

1. The Company is authorized to issue an unlimited number of ordinary shares (the "Ordinary Shares") which are equal in all respects and which carry the following rights:

    (a) The right to vote at any meeting of the shareholders;
    (b) The right to receive any dividend declared by the company; and
    (c) The Right to receive the remaining property of the company on dissolution.

2. The Company is authorized to issue 266,000 non-redeemable, non-voting preference shares (the "Non-Redeemable Preference Shares") which carry the following rights, privileges, restrictions and conditions:

    (a) The 266,000 Non-Redeemable Preference Shares issued to the Minister of Finance (Corporation Sole) shall confer the right to a fixed non cumulative preferential dividend at the rate of $5.00 per share. The said dividend shall rank for payment in priority to the payment of a dividend of any other shares of the company and shall be payable (if and so far as, in the opinion of the directors, the profits of the company justify such payment) annually.

    (b) The Non-Redeemable Preference Shares shall also confer the right to fifty percent of any distribution of profits after any dividend in excess of $12.00 per share is paid to the ordinary shareholders.

    (c) The Non-Redeemable Preference Shares shall not entitle the holders to receive notice of or attend or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for:

        (i) Winding up the company or reducing its share capital; or
        (ii) The sale of the undertaking of the company; or
        (iii) Varying or abrogating any of the special rights or privileges attached to the preference shares in which case they shall be entitled to vote on any such resolution but on no other resolution proposed at the meeting.

    (d) The Non-Redeemable Preference Shares shall not on a winding up or other repayment of capital entitle the holders to have the assets of the company available for distribution among the holders of Non-Redeemable Preference Shares.

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3. The Company is authorized to issue up to 800,000 redeemable, non-cumulative, non-voting, convertible preference shares (the "Convertible Preference Shares") which carry the following rights, privileges, restrictions and conditions:

   (a) The Convertible Preference Shares shall carry a fixed non-cumulative preferential dividend at an interest rate of 5% per annum. The payment of the said dividend shall rank under the Non-Redeemable Preference Shares but in priority to Ordinary Shares of the Company in the declaration and payment of dividends.

   (b) The Convertible Preference Shares shall not entitle the holders to receive notice of or attend or vote at any general meeting unless the business of the meeting includes the consideration of a resolution for:

      (i) Winding up the company or reducing its share capital; or
      (ii) The sale of the undertaking of the company; or
      (iii) Varying or abrogating any of the special rights or privileges attached to the preference shares in which case they shall be entitled to vote on any such resolution but on no other resolution proposed at the meeting.

   (c) **Winding up**: On a winding up or other repayment of capital the holders of Convertible Preference Shares shall be entitled to receive their share of the assets of the company available for distribution among shareholders in preference to ordinary shareholders and shall be entitled to the repayment of their capital payment in priority to ordinary shareholders.

   (d) **Redemption**: The Convertible Preference Shares may be redeemed in accordance with the following provisions:

      (i) The redemption value of the Convertible Preference Shares shall be at the original subscription price of TT$80,000,000.00, plus any accrued dividends.
      (ii) Upon redemption of the Convertible Preference Shares, the Company shall thereupon issue, free of charge, new share certificates for the balance of the unredeemed portion of the Convertible Preference Shares.
      (iii) The Convertible Preference Shares to be redeemed shall cease to rank for dividend on the date of redemption unless the company fails to make the redemption.
      (iv) The option to redeem shall be exercisable at any time at the sole discretion of the holders of Convertible Preference Shares.

   (e) **Conversion**: The holders of Convertible Preference Shares shall be entitled to an option for conversion of same to Ordinary Shares in accordance with the following provisions:

      (i) The option to redeem the Convertible Preference Shares to Ordinary Shares shall remain open and available to be exercised, in whole or in part, at the sole discretion of the holders of Convertible Preference Shares.
      (ii) The exercise of the option for conversion shall be based upon a valuation of the unit share price of the Ordinary Shares of the Company. The valuation of the unit

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share price of the ordinary shares of DFL will be determined as at the date of the approval of the investment by the shareholders of the Company.

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GILLIAN GOLAH
Director
Development Finance Limited

Date: December 20, 2011