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Ministry of Finance  
Male', Maldives

## **Terms of Reference**

### **Short-Term Consultant**

#### **“SME Credit Gap Assessment”**

**Invitation Number:** (IUL)13-PMU /13/2024/84

**Project:** Maldives Competitiveness and Growth Project (P179286)

**Loan No./Credit No./ Grant No.:** IDA-73050, IDA-E1690

**Assignment Title:** SME Credit Gap Assessment

**Reference No:** MV-MOF-MV-407594-CS-INDV

### **A. BACKGROUND**

The Maldives Competitiveness and Growth Project (MCGP, “the project”) is a new 5-year investment project financed by the World Bank for the Government of Maldives (GoM) through Investment Project Financing (IPF) with Performance-Based Conditions (PBCs), declared effective on 23 June 2023 and to be implemented by the Ministry of Finance (MoF). The overall Project Development Objective (PDO) is to strengthen private participation in and financial sustainability of State-Owned Enterprises (SOEs), and the support mechanisms for the competitiveness of small and medium enterprises (SMEs). The project comprises of three components which are as follows:

#### **Component 1: Accelerating SOE Reforms**

- Sub-component 1.1: Increasing Private Participation in Ownership of Select SOEs
- Sub-component 1.2: Improving Governance of SOEs at the Program and Corporate level
- Sub-component 1.3: Reforming SOE Public Service Obligations

#### **Component 2: Fostering SME Competitiveness**

- Sub-component 2.1: Digital Financial Infrastructure
- Sub-component 2.2: SME Growth Acceleration Program

#### **Component 3: Project Management**

Under Sub-component 2.1: Digital Financial Infrastructure, the project seeks to address the critical need to enhance access to affordable and formal finance for Small and Medium Enterprises (SMEs), with a special focus on women-owned or led SMEs. The project will allocate funds for Technical Assistance (TA) activities and the procurement of hardware and software solutions, focusing on enhancing digital financial infrastructure. This involves diagnosing and improving existing systems, establishing information-sharing mechanisms with key entities, and developing alternative credit scoring models for SMEs based on transactions and cash-flow. The initiative also includes building fintech platforms for SME data collection, promoting financial literacy, and encouraging technology adoption. The overarching goal is to create a sustainable market for cash flow-based lending, reduce turnaround time for SME finance, and foster an enabling environment for fintech institutions, with a special focus on empowering women-owned or led SMEs.

In the Maldives, the economic contribution of SMEs is significant, yet these businesses often face challenges in securing adequate financing. This assignment for an SME Credit Gap Assessment is designed to comprehensively evaluate the financing landscape in the Maldives, focusing on the unique needs and hurdles faced by SMEs.

The assessment seeks to:

- a. Understand the current financing environment, including formal and informal avenues, and the constraints SMEs face in accessing these resources.
- b. Identify the specific financing requirements of SMEs across various sectors and regions, considering factors like business size, entrepreneur gender, and market dynamics.
- c. Quantify the gap between the demand for and supply of financing to SMEs, analyzing both the demand-side and supply-side factors contributing to this gap.
- d. Investigate the role of digital lending and the impact of FinTech and non-banking financial institutions in meeting SME financing needs.

This initiative, together with a “SME Technology Gap Assessment” being conducted concurrently, aims to provide insights and recommendations that can inform policy and practice to bridge the financing gap for SMEs in the Maldives, enhancing the availability and accessibility of digital financial resources for SME growth and sustainability.

## **B. OBJECTIVES**

The objective of this assignment is to;

- a. Evaluate the overall SME financing landscape of the Maldives and to identify and quantify the Financing Gap for SMEs.
- b. Analyze the digital lending products available for SMEs, including their penetration and constraints, both on the supply and demand side.
- c. Analyze the digital lending models and technologies employed by Fintech and Non-Banking Financial Institutions in bridging the financing gap for SMEs.

## **C. SCOPE OF WORK**

1. Evaluate the Overall Financing Landscape:
  - Conduct a comprehensive analysis of the formal and informal financing avenues available to SMEs in the Maldives.
  - Identify and assess the accessibility, terms, and conditions of financing options provided by traditional financial institutions, government programs, and informal channels.
2. Assess Financing Requirements of SMEs:
  - Examine the specific financing needs of SMEs based on diverse criteria, including but not limited to business size, gender of entrepreneurs, geographical location, and sectorial classification.
  - Understand the factors influencing SMEs' financial requirements, such as growth plans, technological adoption, and market dynamics.
3. Identify and Quantify the Financing Gap:

- Quantify the gap between the demand for financing by SMEs and the actual supply of funds available in the market.
  - Explore the reasons behind the existing financing gap, considering both demand-side constraints faced by SMEs and supply-side challenges from financial institutions.
4. Analyze Demand for Finance:
- Assess the financing needs of SMEs in Maldives using surveys, desk research, past trends and future needs model to quantify the existing gap in financing, and conduct focus group meetings with SMEs / associations.
  - Analysis of the constraints in obtaining digital lending products available. This analysis should include segregation in terms of geography, size, and gender, formal/informal.
5. Analyze Supply of Finance:
- Evaluate the types of loans and financial products offered to SMEs, including traditional loans, grants, trade credit, equity financing, and other innovative financial instruments.
  - Investigate the role of government initiatives, development banks, and other financial institutions in catering to the financing needs of SMEs.
  - Analyze constraints faced by digital lending products in penetrating the market.
6. Explore Fintech and Non-Banking Financial Institutions:
- Investigate the emergence and impact of FinTech and non-banking financial institutions as alternative sources of financing for SMEs.
  - Analyze any FinTech and digital lending models and technologies being employed by these entities and their effectiveness in bridging the financing gap.
  - Explore existing international FinTech and digital lending models in similar countries, and evaluate their suitability for use in the Maldivian context.
7. Data Collection and Analysis:
- For the collection of data, the consultant is expected to but not limited to conduct surveys, interviews, and focus group discussions with a diverse sample of SMEs, financial institutions, government officials, and other stakeholders, and to gather financial data from relevant sources, including financial statements of SMEs and reports from regulatory bodies
  - For the comparative analysis, the consultant is expected to explore financing models and practices in other countries with a focus on digital lending, and to identify the successful strategies and lessons learned that could be applicable to the Maldivian context.
  - For the regulatory environment analysis, the consultant is expected to examine the existing regulatory framework and policies related to SME financing, and to identify regulatory barriers or incentives that impact the financing landscape.
8. Stakeholder Engagement:
- Engage with key stakeholders, including government agencies, financial institutions, SME associations, and Fintech companies and seek feedback and input at various stages of the study to ensure a comprehensive understanding of the financing ecosystem.

- Provide recommendations to key stakeholders and SME-related policymakers on how to increase SME access to financing and optimize SME lending models, based on the findings of the assignment.

#### 9. Desk Review:

- Conduct a thorough desk review of existing studies and reports on SME financing, drawing inspiration from global best practices and relevant studies conducted by organizations such as the IFC and SDFC.

### **D. KEY DELIVERABLES**

#### **1. Inception Report and Work Plan**

- Clearly define the research questions, objectives, hypotheses, methodology, approach, limitations, and targets for conducting the assignment, along with a detailed, time-bound work plan detailing task assignments and deadlines.
- Outline the specific data collection methods, sampling techniques, and tools to be employed, and identify key stakeholders for consultation.

#### **2. Draft Report**

- Preliminary assessment report on SME lending, identifying gaps, strengths, and opportunities, based on initial findings from desk review and key stakeholder engagements.

#### **3. Stakeholder Validation Workshop**

- Present preliminary findings to stakeholders through workshops or meetings to validate initial observations and receive input for further refinement.

#### **4. Final Report**

- Develop a comprehensive report incorporating all findings, analysis, and recommendations addressing the demand and supply side factors of digital lending products available for SMEs. This expanded methodology should generate a report that can provide a comprehensive understanding of the SME financing landscape in the Maldives, taking into account the diverse needs and challenges faced by different segments of the SME sector.
- The final report should include recommendations on how to increase SME access to financing and optimize SME lending models.
- Present the key findings of the report to key stakeholders and policymakers, and provide further clarifications as requested together with hands-on staff coaching and training to SME-related Government agencies and peer financial institutions on the recommendations outlined in the report.
- Provide a debriefing with a project completion report, post-project evaluation, lessons learned, roadmap and recommendations to the Project Director.

The Consultant shall refine the report based on feedback received from the Maldives Monetary Authority (MMA), Ministry of Economic Development and Trade (MoEDT), and other key stakeholders and submit the final version that is acceptable to the government.

### **E. REPORTING & WORKING ARRANGEMENTS**

The Consultant will report to Project Director of MCGP, and provide necessary updates to MMA and MoEDT as needed, and liaise with a group of technical advisors as formulated by the Project for

technical inputs. The Consultant shall update the Project Director of MCGP on the progress of key deliverables of the assignment on a weekly basis.

The Consultant shall provide all reports and relevant data and information such as maps, diagrams, plans, databases, other documents and software, supporting records or material compiled or prepared by the Consultant for this Assignment.

## **F. DURATION OF SERVICES AND PAYMENT TERMS**

The assignment is expected to take up to 3 months, concluding no later than 31st June 2024. The consultant is expected to work both on-site (at MoF, MMA, MoEDT, or other relevant work sites) and off-site, as may be required.

On-site and off-site working hours will be weekdays (Sunday to Thursday) from 8:00am to 4:00pm (Maldives time).

<b>#</b>	<b>Deliverable</b>	<b>Estimated Duration</b>	<b>Payment Breakdown (%)</b>
1	Inception Report & Work Plan	Week 1 (1 week)	10%
2	Submission of Draft Report	Week 2-5 (4 weeks)	20%
3	Conduct at least One Stakeholder Validation Workshop	Week 6-7 (2 weeks)	20%
4	Submission & Acceptance of Final Report	Week 8-12 (5 weeks)	50%

## **G. QUALIFICATIONS & EXPERIENCE**

1. Minimum Master's degree in Finance, Banking, FinTech, Financial Engineering, Business Administration, Economics or equivalent professional qualification, or suitable equivalency from a recognized university or professional body.
2. Minimum 5 years of professional experience in financial analysis and/or SME financing and/or economic research related to SMEs.
3. Demonstrable experience working with SMEs.
4. Strong analytical and problem-solving skills with the ability to interpret financial data and provide strategic recommendations.
5. Excellent communication skills, both written and verbal, to effectively convey complex lending & borrowing information and provide strategic recommendations.
6. Strong proficiency in data collection, analysis and interpretation, with a focus on financial modelling and market trends.
7. Experience in assisting banks and/or financial institutions with the development and/or strengthening of SME credit and/or risk management will be an added advantage.
8. Experience in assisting banks and/or financial institutions with devising and/or implementing SME lending policies will be an added advantage.
9. Familiarity with local laws, regulations and policies pertaining to SMEs will be an added advantage.