 

**Terms of Reference**

*Consultant to Execute a Post Implementation Evaluation of the DBJ’s Reverse Factoring Product and Market update review*

# BACKGROUND

The Development Bank of Jamaica (DBJ) is a government-owned financial institution that aims to promote economic development and growth in Jamaica by providing financing and technical assistance to small and medium-sized enterprises (SMEs) and other entities. To support its Access to Finance (A2F) for MSMEs project, the DBJ secured financing from the International Bank for Reconstruction and Development (IBRD). The A2F project is a US$15 million-dollar initiative designed to improve access to finance for micro, small, and medium-sized enterprises in Jamaica. As the implementing agency, the DBJ used a portion of the loan to create a Reverse Factoring Product, which facilitates short-term financing for suppliers based on the creditworthiness of their buyers. Reverse factoring is a financing arrangement where a bank or other financial institution provides funding to a company's suppliers, allowing them to receive early payment for their outstanding invoices. The product was developed to release significant amounts of liquidity trapped in payables and receivables and improve financial processes within supply chains. The supplier is then able to receive payment within a few days or weeks, rather than waiting for the full payment term to expire, which can take up to 90 days.

In 2019 the DBJ launched a Reverse Factoring product through an electronic platform, which was facilitated through the DBJ’s list of Approved Financial Institutions (AFIs). The DBJ's Reverse Factoring Product (RFP) was intended to allow SMEs to access funding at a lower interest rate than they would typically be able to obtain from a commercial bank. The programme would allow buyers to upload the invoices they confirm for payment, making them available for financing their suppliers, which can receive funding within three business days of approval. The DBJ would then pay the suppliers directly, and the buyer (invoice payor) is then responsible for repaying the DBJ within the agreed payment term. The product was designed to benefit both buyers and their suppliers. Reverse Factoring allows SMEs to improve their cash flow by accessing funding quickly and at a lower interest rate, while allowing their suppliers to receive early payment for their invoices without having to wait for the full payment term to expire. Additionally, the product aimed to help strengthen the relationship between SMEs and their suppliers by providing a reliable and efficient financing option.

The Reverse Factoring program approval was informed by a Market Feasibility Study for Factoring in Jamaica conducted in December 2017.The report recommended market actions needed to progress the development of factoring in Jamaica, these included:

1. Improve market conditions through amendments to regulations
2. Develop bank skills and create market awareness
3. Research Reverse Factoring Electronic platforms

The report also concluded that (a) Jamaica’s factoring activities were very low, and that for the product to grow it would need more widespread understanding and product development; and (b) that for factoring to achieve scale, banks and finance entities had to offer it on a wide scale.

Over 3 years following the launch of the product by the DBJ, the DBJ’s Board of Directors decided to discontinue the product due to insufficient demand. A number of key challenges that would have affected the take up of the product were identified, including:

* Economic disruptions caused by the Covid-19 pandemic
* Local companies deciding to source supplies from overseas
* Approved Financial Institutions providing working capital to qualified buyers
* Agricultural stakeholders having too short of a credit term to meet programme requirements.

Low product take up by suppliers with late payments

The DBJ intends to conduct a comprehensive review of its Reverse Factoring product to:

* Determine the product’s Strengths, Weaknesses, Opportunities & Threats (SWOT)
* Identify lessons learnt and opportunities for future Reverse Factoring Product to inform a possible reactivation of the product
* Conduct a reassessment of the Jamaican supply chain finance market to determine market opportunity for Reverse Factoring

# OBJECTIVE OF THE ASSIGNMENT

The objective of the assignment is to:

(a) Provide an independent and comprehensive analysis of the DBJ’s Reverse Factoring Product and underlying DBJ operating model, determining their effectiveness

(b) Reassess the Jamaican supply chain finance market to evaluate the current market opportunity for reverse factoring and supply chain financing products more broadly; and

(c) Identify areas for improvement and a strategy to inform a possible reactivation of the product.

# SCOPE OF WORK

The selected consultant will be expected to carry out at a minimum, the following tasks in consultation with the DBJ’s Project Management Office (PMO), through the A2F Implementation Project unit starting from the earlier assessment completed by the DBJ at the inception of the product.

1. Conduct a reassessment of the Jamaican supply chain finance market, including RF supply, RF demand, the enabling environment for RF, and the market opportunity (current and projected over 3-5 years) for reverse factoring products in Jamaica. This should also include assessing the appetite of financial institutions to utilize the product.Assess the current Reverse Factoring Product of the DBJ, including the policies and procedures, risk management framework, technology infrastructure and governance structure. Analyze the underlying DBJ operating model for RF (customer segmentation; marketing and sales; onboarding of anchor buyers, suppliers, and AFIs, etc.) as well as the internal DBJ organization and HR arrangements to support the implementation of the product.
2. Examine the marketing and stakeholder engagement strategy used to promote the DBJ’s reverse factoring product, to encourage take-up of the product by purchasers, suppliers and financial institutions
3. Provide an analysis of the factors that influenced the product’s success or failure, including challenges, risks and lessons learned.
4. Undertake a cost benefit analysis to determine the financial viability of developing a RF product in the future: The consultant should review the financial and operational data related to the RFP
5. Perform risk assessment: The consultant should identify the risks identified in the administration of the product on the DBJ, including; credit risks, operational risks, market risks, and liquidity risks.
6. Assess the economic viability of the product and the impact it can have in assisting the DBJ to meet its Key Performance Indicators (KPI)
7. A review of the bank’s reporting and communication protocols related to the RFP, including an assessment of the clarity and accuracy of the information provided to stakeholders.
8. Undertake field visits and interview DBJ stakeholders inclusive of world bank representatives, in the evaluation of the DBJ RF product.
9. Provide a summary of best practices and lessons learnt from similar Reverse Factoring products in other countries or institutions. This should include best practices and lessons learnt on the operating model for RF (customer, marketing and sales, onboarding, etc.), and on the engagement strategy with public and private sector buyers and financial institutions to launch and market a reverse factoring product.
10. Provide a detailed analysis of the results of the evaluation, utilizing frequency tables, analysis of variance and other appropriate advanced inferential statistical techniques **if applicable**.
11. Provide clear and precise product development guidelines for the redeployment and implementation of a Reverse Factoring product by the DBJ, as well as the needed improvements on the underlying operational model.
12. Deliver **at least** 2 presentations of findings and recommendations to the DBJ’s management team and other stakeholders.
13. Any other tasks as deemed necessary by the DBJ.

# RESOURCES

The consultant will have access to internal stakeholders, as well as relevant data and documentation as deemed necessary in the execution of the evaluation.

# QUALIFICATIONS

The consultant will be expected to have the following capabilities and skills:

* A graduate degree in economics, finance, business administration, or a related field. (A post graduate degree is a plus).
* A minimum of 8 years of demonstrated experience in analyzing financial products and services.
* A minimum of 10 years of demonstrated experience in successfully completing comparable projects.
* Experience in developing, using, and/or evaluating reverse factoring and/or supply chain financing products.
* Experience in conducting project or programme evaluation and have participated in at least three similar evaluations as team lead.
* Project management skills: The consultant should possess project management skills to ensure that the examination is conducted efficiently and effectively, with clear timelines, milestones, and deliverables. The consultant must also be able to meet tight deadlines.
* Strong analytical skills and the ability to examine and interpret data related to complex banking products and services.
* Knowledge of the Jamaican economy and the role of development finance institutions in promoting economic development.
* Strong written and verbal communication skills, with the ability to present complex information in a clear and concise manner.
* Fluency in oral and written English.

# EXPECTED DELIVERABLES

The consultant will deliver the following products:

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| **Deliverable 1: Inception Report**  Inclusive of:   * Work plan with timelines * Project Gantt Chart * Key milestones to be achieved * Overview of the approach & methodology on market assessment and evaluation of RF (including current operating model) * Project plan of general and specific activities * Assigned team members |
| **Deliverable 2: Preliminary Report**  Inclusive of:   * Preliminary findings * Draft questionnaire/ interview questions to be administered to internal and external stakeholders * Preliminary findings of the evaluation of the DBJ’s RFP * Preliminary findings of the programmes’ impact on the DBJ’s financial performance and its ability to support the Jamaican economy * Preliminary findings on the reassessment of the Jamaican Reverse Factoring market, (supply, demand, the enabling environment), and the current market opportunity for reverse factoring products in Jamaica |
| **Deliverable 3: First draft of the Final Evaluation Report**  Inclusive of:   * Primary data received from interviews conducted with internal and external stakeholders * Preliminary analysis of data received * Preliminary findings of the overall evaluation * Update on the factors that influenced the programmes success or failure, including challenges, risks and lessons learned * Update on recommendations for the continuation of the product, or alternative supply chain financing products that may be pursued by the bank * Draft recommended strategy for a re-engagement by the DBJ on an RF product * Recommendations on the needed improvements on the underlying DBJ operating model. |
| **Deliverable 4: Final Evaluation Report**  Inclusive of:   * All key deliverables outlined inclusive of comments and feedback received from the DBJ and World Bank team from the draft final evaluation report * Appendix inclusive of responses from interviews conducted * Delivery of final report electronically and via thumb drive |

In preparing the Final Evaluation Report, the consulting firm should consider the suggested outline for the Evaluation report contained in the annex.

# ACCEPTANCE CRITERIA

All deliverables must be submitted to the Manager, Product Development for reviewing. High quality deliverables are expected. Comments will be provided by written email. The consultant is expected to provide written feedback on how comments were addressed. Approval of quality deliverables will be provided in writing by email.

# CONTRACT DURATION

The service would be provided over a period of 3 to 4 months. The service provider must be available to start at the earliest possible time, with reports developed on demand.

# INDICATIVE PAYMENT TERMS

The payments will be processed as follows:

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| --- | --- | --- | --- |
| **Payment No.** | **Deliverable** | **% of the Contract** | **Submission Deadline** |
| Payment 1 | At the approval of Deliverable 1: Inception Report | 30% | 2 weeks after signing the contract |
| Payment 2 | At the approval of Deliverable 2: Preliminary Report | 20% | 2 months after contract signing |
| Payment 3 | At the approval of Deliverable 3: First Draft of Final Evaluation Report | 30% | 3 months after contract signing |
| Payment 4 | Review and approval of Deliverable 3: Final Report & Presentation | 20% | 4 months after contract signing |

# Annex. Suggested outline of the contents of the Evaluation Report

I. Introduction

* Background information on the DBJ and the RFP
* Purpose of the evaluation
* Scope of the evaluation

II. Methodology

* Data collection methods
* Sampling techniques
* Data analysis procedures

III. Evaluation Findings

* Overview of the RFP
* Effectiveness of the programme
* Efficiency of the programme
* Demand (current and future) from prospective suppliers
* Demand (current and future) from prospective buyers
* Demand (current and future) from prospective financial institutions

IV. Lessons Learned

* Best practices and success factors
* Challenges faced and recommendations for improvement
* Lessons learned for future implementation

V. Conclusion and Recommendations

* Summary of evaluation findings
* Recommendations for product improvement and future implementation
* Recommendations for the engagement strategy with public and private sector buyers and financial institutions
* Conclusion

VI. Appendices

* List of documents reviewed
* Interview and survey questions
* Data collection instruments
* Supporting data and analysis