



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 27-Jun-2017 | Report No: ISDSC20560



BASIC INFORMATION

A. Basic Project Data

Country Jamaica	Project ID P152307	Parent Project ID (if any)	Project Name Jamaica Access to Finance for MSMEs and Housing (P152307)
Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date Sep 19, 2017	Estimated Board Date Nov 30, 2017	Practice Area (Lead) Finance & Markets
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance and Public Service	Implementing Agency Development Bank of Jamaica	

Proposed Development Objective(s)

The Project development objective is to improve access to finance for MSMEs and housing finance for the middle and low income segments of the population.

Financing (in USD Million)

Financing Source	Amount
International Bank for Reconstruction and Development	20.00
Total Project Cost	20.00

Environmental Assessment Category F-Financial Intermediary Assessment	Concept Review Decision Track II-The review did authorize the preparation to continue
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B. Introduction and Context

Country Context

1. **The Jamaican economy has historically suffered from low growth and high public debt.** Real GDP per capita grew by only 0.6 per year between 1990 and 2015 (compared to 1.6 percent for other developing countries the region and 3.4 percent for middle-income countries worldwide). High crime, constrained access to credit, cumbersome business regulations, and high energy costs have held back economic growth. At around 120 percent of GDP, Jamaica’s public debt is among the world’s highest, and this debt overhang has crowded out both private and public investment



needed to stimulate inclusive growth and poverty reduction. In addition, the island's exposure to frequent hurricanes and other natural hazards is exacerbated by poorly constructed buildings in unplanned urban settlements. Finally, although Jamaica had made significant progress in reducing poverty, the national poverty rate doubled in the wake of the global economic rising to 19.8 percent in 2012 from 9.9 percent in 2007.

2. Fiscal and structural reforms launched in 2013 are helping to reverse the trend of falling growth rates and rising debt. Fiscal restraint and well-timed liability management operations have reduced debt by around 25 percentage points. GDP growth has seen a modest acceleration since the start of reforms rising to an estimated 1.6 percent in 2016 from 0.5 percent in 2013. Employment growth rates have been rising steadily during the past two years. Inflation is at historically low levels, averaging 2.3 percent in 2016 (compared to 9.3 percent in 2013). The outlook is for continued modest growth.

3. In order to support the growth-inducing framework, access to finance for micro, small and medium size enterprises (MSMEs) and housing are two critical priorities that will contribute to higher growth, employment, and living standards for the poor. In addition to being included as priority areas for growth in the Economic Growth Council's framework, these two sectors have been identified by the government as main policy areas of the National Financial Inclusion Strategy for 2016 – 2020.

Sectoral and Institutional Context

4. Jamaica's history of sluggish economic growth and high fiscal deficits have limited the deepening of its financial sector. Credit to the private sector is slowly recovering and liquidity is ample, but credit origination by deposit-taking institutions remains limited and concentrated in loans to households and medium/larger corporates. Despite having the highest proportion of formally banked adults in the region, only 8 percent of households and 27 percent of SMEs have loans.

5. Lack of access to finance constrains MSMEs' ability to contribute to growth and job creation. MSMEs account for the majority of jobs in the Jamaican economy. Factors that have constrained access to finance for MSMEs in Jamaica include, *inter alia*: (i) perception of high risk due to significant information asymmetries and the high level of informality; (ii) lack of adequate traditional collateral owned by MSMEs as required by banks; (iii) lack of bank strategies, processes, lending methodologies, and financial instruments to lend to this segment (such as factoring and leasing); (iv) lack of reliable financial statements for risk assessments of MSMEs; and (v) the absence of an ecosystem for venture capital and private equity and debt. Given the limited access to finance, investments by MSMEs are mostly financed with own funds.

6. In order to address key constraining factors of high credit risk and lack of sufficient collateral for MSME credit, the Development Bank of Jamaica (DBJ) has been operating a partial credit guarantee fund – the Credit Enhancement Facility (CEF). The scheme is underutilized, but improvements in its features are expected to result in increased demand by lenders, and thus requiring additional capitalization.

7. Beyond credit, the supply of alternative sources of finance for MSMEs is limited. The absence of other financial products represents a hurdle for MSMEs. Factoring is not developed and is not recognized as a financial service in the banking services legislation. Leasing is scarcely used due to existing ambiguities in the legal framework. Venture capital is not developed and there are only a few companies listed in the Jamaican Stock Exchange for SMEs. There is limited equity financing and risk-capital for SMEs. The development of venture capital presents an opportunity to finance high-growth firms, given an enabling legal and regulatory environment and policy commitment.

8. Access to finance is also challenging at the household level, and housing finance is an important driver for



financial sector development. Housing finance is associated with savings and asset accumulation, improved living standards, and financial sector deepening. Jamaica has a relatively sophisticated mortgage market, which almost exclusively serves middle-income or formally employed borrowers, leaving out low income and informal segments of the population. Despite the maturity of the market, over 80 percent of households remain effectively excluded from mortgage finance due to low/informal incomes, lack of savings and high perceived credit risk.¹ The National Housing Trust (NHT) is the main mortgage provider to the low income segment. Two critical barriers for housing finance market deepening are: (i) lack of savings for a mortgage down payment, and (ii) high credit risk perceived by lender to serve borrowers with informal and low income. Income inequality, with a large share of the population being unable to afford traditional mortgage products, expensive land titling process, and a weak rural infrastructure, are among the fundamental market challenges that restrict access to mortgage finance for lower income households. Mortgage insurance (MI) is an appropriate mechanism to address both lack of savings and high credit risk, however, the existing Mortgage Insurance Fund (MIF) has limited capacity to provide insurance coverage for low-income borrowers.

Relationship to CPF

9. **The Project is strongly aligned to the Country Partnership Strategy and the government’s growth agenda.** The proposed Project is consistent with the CPS strategic thematic area 2 of “enabling environment for private sector growth”. In addition, this operation is an important complementary intervention to the current World Bank’s Foundations for Growth and Competitiveness Project, which supports growth in the Jamaican economy. The proposed operation aims to contribute significantly to the GOJ’s growth agenda, as access to finance for MSMEs and housing finance are two amongst the GOJ’s priorities. The project also reflects the vision and priorities of the National Financial Inclusion Strategy for 2016-2020, which highlights financing for growth through MSMEs and housing finance as key priorities. The Project supports five of the 15 critical policy actions outlined by the Economic Growth Council’s Growth Framework.

C. Proposed Development Objective(s)

10. The project development objective is to improve access to finance for MSMEs and to housing finance for the middle and low-income segments of the population.

Key Results (From PCN)

11. The key indicators to measure progress towards the PDOs are proposed below and will be finalized during project preparation: (i) number of MSMEs with guaranteed loans through the CEF; (ii) number of MSMEs getting access to risk capital; and (iii) increase in MI penetration (share of low-income mortgage loan originations).

D. Concept Description

12. The proposed Project will have the following three main components: (i) enhancing MSME finance; (ii) strengthening the housing finance market; and (iii) project management.

13. **Component 1: Enhancing MSME finance.** Under this component, the proposed Project will finance activities for: (i) improving the features of the Credit Enhancement Facility (CEF) and providing capital to the CEF; (ii) improving the

¹ World Bank – Poverty & Equity Databank and PovcalNet (2005).



enabling environment for access to finance for MSMEs, including through encouraging the development of financial instruments, such as leasing and factoring; (iii) encouraging the development of private equity and venture capital (PEVC), through investing into an SME fund and reforming the related legal, regulatory, and tax regime; and (iv) capacity building for MSMEs to improve their bankability.

14. **Subcomponent 1.A. Improving the CEF features and capitalization.** This subcomponent aims at improving the features of CEF and providing capital for its expansion. The Project will finance: (i) development of a business plan, financial model, policies and procedures for the operations of the CEF, as well as training; (ii) capitalization of the CEF; and (iii) marketing and awareness raising to Approved Financial Institutions (AFIs) and SMEs.

15. **Subcomponent 1.B. Enabling environment for access to finance for SMEs, including development of financial instruments.** The Project would support activities with the goals of enabling an adequate legal and regulatory environment for access to finance, including inter alia:

- i. For factoring, the Project would finance: (i) a market feasibility study for factoring; (ii) drafting of legal and regulatory amendments, or factoring law; (iii) feasibility assessment of the factoring platform; (iv) design, development and introduction of a factoring on-line platform; (v) awareness raising and capacity building of AFIs, SMEs, and other stakeholders on factoring and its benefits.
- ii. For leasing, the Project would finance: (i) market assessment on the leasing sector; (ii) drafting of necessary legal and regulatory amendments, or leasing law; (iii) awareness raising and capacity building of key stakeholders on leasing and its benefits; and (iv) leasing handbook.

16. **Subcomponent 1. C. SME fund.** This subcomponent aims to increase the flow of risk financing to SMEs in Jamaica. Under this subcomponent the Project would finance the following activities:

- i. Feasibility assessments for an SME Fund. These assessments would focus on the demand and supply side for the viability of the SME fund. This proposed SME Fund, anchored by the GoJ, would be run by a competitively selected private manager and raise co-investment from private co-investors, such as institutional investors. The Fund would target Jamaican SMEs that are profitable, and represent good growth potential, but are currently not deemed investment worthy by PEVC funds. In addition to risk financing, such enterprises would receive capacity building they need to attain a stronger level of growth, preparing them for listing in the junior stock exchange, or for sale to a financial or strategic sponsor.
- ii. Capitalization of the SME Fund.
- iii. Legal, regulatory, and taxation review and reform to address current gaps in Jamaica's legal and regulatory framework for PEVC Funds.

17. **Sub-component 1. D. Capacity building for MSMEs to improve bankability.** This sub-component would provide support to DBJ to strengthen its MSME support programs.

18. **Component 2: Strengthening the housing finance market.** Under component 2, the proposed Project will support the strengthening of the mortgage insurance sector by: (i) the capitalization of a licensed mortgage insurance company; (ii) institutional re-organization and capacity building of the MI provider; (iii) establishment of a risk-based regulatory and supervisory MI framework; and (iv) design and deployment of the MI products to address the currently underserved (or unserved) households with low, irregular or informal incomes.



19. **Component 3: Project Management.** This component will support a Project Implementation Unit (PIU) responsible for the coordination, management, implementation, and supervision of the project.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The specific location of the individual MSMEs to be financed under the Project are not known at this time, but they could be located anywhere in Jamaica where the Project is being implemented. The type and scale of activities may vary widely across the geographic and environmental landscapes of Jamaica.

B. Borrower’s Institutional Capacity for Safeguard Policies

The Development Bank of Jamaica (DBJ) has experience with World Bank projects and has managed Safeguards for two recent projects (Energy Security and Efficiency, P112780; and, Foundations for Competitiveness and Growth, P147665). DBJ’s activities have included developing and implementing an Environmental Management Framework (EMF) for risk management, and hosting training programs for AFIs on the EMF. It is expected that DBJ’s capacity will increase with the current Program.

C. Environmental and Social Safeguards Specialists on the Team

Hana Salah, Michael J. Darr

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The Project is proposed to be classified as Category FI, given the potential impacts associated with financing of MSMEs in Component 1. The specific individual MSME projects to be financed under the Project will not be known until after Project approval. The potential environmental impacts associated with the type of MSMEs to be financed are anticipated to be relatively minor to moderate, and not involve significant impacts, and with appropriate standard mitigation measures the potential negative impacts would be managed appropriately. Specific MSME sub-projects and activities are not yet defined. The range of eligible activities may vary widely. Potential activities / sectors of supported MSMEs would be: agriculture, small scale light manufacturing, construction & real estate development, and tourism. The current Environmental and Social Management Framework (ESMF) that DBJ has in place for the



		<p>Growth project, will be revised and enhanced. Screening and exclusion criteria will be developed to ensure that Category A projects are not funded, nor are projects that would trigger any other World Bank Safeguard Policies other than Pest Management (see OP 4.09, below). Standard checklists for screening, inspection, and reporting would be included in the ESMF, and be commensurate with the inherent level of risk. During Project preparation, in relation to Component 2 (Housing Finance), potential environmental, health and safety risks will be assessed for the identification of gaps and mitigation measures. Initial discussions with JMB indicate that existing procedures offer some assurances that environmental issues for the housing sector (e.g. hazardous materials, high-risk locations, structural integrity, and basic services) are addressed, but further analysis is needed. It is not believed that any safeguards measures would be applicable for Component 2.</p> <p>The ESMF will refer to the World Bank Group’s Environmental Health and Safety Guidelines.</p>
Natural Habitats OP/BP 4.04	TBD	<p>Potential impact to natural habitats, protected or sensitive areas will be assessed during project preparation, which will determine if OP 4.04 Natural Habitats should be triggered. Triggering this policy should be considered, in case activities undertaken by MSMEs supported by the Project (for example, investments in ecotourism) create any adverse impact to natural habitats.</p>
Forests OP/BP 4.36	No	<p>Screening in the ESMF will exclude activities that could potentially affect forest resources or their management.</p>
Pest Management OP 4.09	Yes	<p>Some of the MSME productive projects may be related to agriculture, so the policy is triggered to allow for the purchase or use of pest management materials.</p>
Physical Cultural Resources OP/BP 4.11	TBD	<p>Potential impact to physical cultural resources will be assessed during project preparation, which will determine if OP 4.11 Physical Cultural Resources should be triggered. Triggering this policy should be considered in case projects undertaken by MSMEs supported by the Project (for example, investments in ecotourism) create any adverse impact to cultural heritage. The ESMF will include, as a precaution, chance find procedures, as to ensure the protection of</p>



		unidentified cultural heritage resources.
Indigenous Peoples OP/BP 4.10	No	This policy is not triggered because there are no Indigenous Peoples present in the Project area.
Involuntary Resettlement OP/BP 4.12	TBD	Possible involuntary resettlement will be assessed during project preparation, which will determine if OP 4.12 Involuntary Resettlement should be triggered. If it is triggered, a Resettlement Policy Framework (RPF) will be prepared. During Project preparation, in relation to Component 2 (Housing Finance), it will be assessed potential implications of the activities supported by this component (for example, land acquisition for housing schemes and construction for business expansion).
Safety of Dams OP/BP 4.37	No	The ESMF will include an exclusion list for activities involving dams.
Projects on International Waterways OP/BP 7.50	No	Subprojects which could potentially affect international waterways will be excluded in the ESMF.
Projects in Disputed Areas OP/BP 7.60	No	Subprojects in disputed areas will be excluded in the screening criteria of the ESMF.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Sep 29, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

An ESMF will be prepared using the existing SME management procedures in the Foundations for Competitiveness and Growth project (P17665) and adapting from lessons-learned during implementation. The ESMF will be ready, disclosed, and consulted prior to Appraisal.

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APPROVAL

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