

**STRENGTHENING THE DEVELOPMENT BANK OF JAMAICA (DBJ) INSTITUTIONAL CAPACITY THROUGH THE
DIGITALIZATION OF CREDIT ENHANCEMENT FUND (CEF) MANAGMENT PROCESSES**

JA-T1142

CERTIFICATION

I hereby certify that this operation was approved for financing under the **Ordinary Capital Strategic Development Program for Institutions (INS)** through a communication dated July 13, 2017 and signed by Kai Hertz (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$250,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of six (6) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, represent a risk that will not be absorbed by the Fund.

CERTIFIED BY:	<u>Original Signed</u> Sonia M. Rivera Unit Chief Grants and Co-Financing Management Unit ORP/GCM	<u>Oct 3,2017</u> Date
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APPROVED BY:	<u>Original Signed</u> Juan Antonio Ketterer Division Chief Connectivity, Markets and Finance Division IFD/CMF	<u>Oct 4,2017</u> Date
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TC Document

I. Basic project data

▪ Country/Region:	Jamaica
▪ TC Name:	Strengthening the Development Bank of Jamaica (DBJ) Institutional Capacity through the Digitalization of the Credit Enhancement Fund (CEF) management processes
▪ TC Number:	JA-T1142
▪ Team Leader/Members:	Navita Anganu (CMF/CJA) Team Leader; Daniel Fonseca, Gloria Lugo, Isabelle Braly-Cartillier, (IFD/CMF); Wayne Beecher (MIF/CJA); Alana Fook (CCB/CCB); Melissa Wallace (CCB/CJA); Naveen Jainauth-Umrao (FMP/CJA) and Rene Herrera (FMP/CJA); Louis-François Chrétien (LEG/SGO); and Cecilia Bernedo (IFD/CMF).
▪ Taxonomy:	Operational Support (OS)
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	JA-L1075 - Credit Enhancement Programme for Micro, Small and Medium Enterprises (MSME).
▪ Date of TC Abstract authorization:	Thursday, July 13, 2017
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Development Bank of Jamaica (DBJ)
▪ Executing Agency and contact name:	CCB/CMF
▪ Donors providing fund:	Ordinary Capital Strategic Development Program for Institutions (INS)
▪ IDB Funding Requested:	US\$250,000
▪ Local counterpart funding, if any:	None
▪ Disbursement period (which includes execution period):	36 months (execution period: 30 months)
▪ Required start date:	September, 2017
▪ Types of consultants:	Individuals and/or Consulting firms
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	CCB/CJA
▪ Included in Country Strategy (y/n);	Y
▪ TC included in CPD (y/n):	Y
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Supporting Development and Institutions for growth

II. Description of the Associated Loan/Guarantee

- 2.1 Micro, Small and Medium Enterprises (MSME) are very important to Jamaica's economic development. They account for approximately 82% of jobs in the Jamaican economy¹ and while there are no current official estimates related to the size and composition of the MSME sector, it is estimated that there are approximately 200,000 to 400,000 micro enterprises in Jamaica.² Notwithstanding, the absence of firm data, indications are that the MSME sector is a significant contributor to income generation

¹ Compete Caribbean, "Private Sector Assessment of Jamaica", 2015.

² Financial Sector Assessment Program, Development Module, Jamaica, Small Medium Enterprise (SME) Finance Technical Note. World Bank 2015.

and poverty reduction.³ In order for MSMEs to further unlock their growth potential, it is important that key legislations, policies and initiatives be implemented to enable this. Critical to all of this is the creation of an enabling business environment for MSMEs and the reduction of impediments they face.

- 2.2 Currently, MSME growth prospects and means of improving their productivity are limited by the low level of finance available to private sector. The financing they require is prohibited by lack of access to financing, which includes the short repayment period given by banks which is not compatible with the time needed to consolidate them or the type of assets required as collateral that MSME cannot adequately provide. MSMEs therefore, not being able to improve their levels of productivity, have lower cash flows, thus limiting their capacity to repay their creditors and access new loans. This results in a cycle of low productivity, low revenue flows and the inability to access funding.
- 2.3 The commercial banks' high-risk perception of MSME is one of the main barriers identified for low access to finance, where firms may also lack the necessary guarantees and collateral to obtain credit for investment or working capital. This, coupled with high levels of informality and the absence of a secondary market for fixed assets, results in banks requiring a high level of collateral to offset their risk-weighting. Consequently, access to finance by banks is reduced to only those firms that have the capacity to meet these high collateral requirements. Banks usually require land, buildings or cash, which is particularly onerous to MSME, and do not accept or significantly undervalue equipment or specialized assets in a market of limited size.
- 2.4 In the interest of productivity growth, the Government of Jamaica has adopted the MSME & Enterprise Policy in 2013 to serve as a comprehensive framework for the implementation of strategies to support the growth and development of the MSME sector. This includes the introduction of the Security Interest in Personal Property (SIPP) Act which allows entrepreneurs to use moveable assets such as livestock and motor vehicles; intellectual property such as copyright, patents and trademarks to be used as collateral in the process of securing business loans. Additionally, the government has established a Collateral Registry which forms part of the secured transaction framework as it acts as a repository of information on non-real estate assets being tendered as collateral for securing loans. This enables the entrepreneurial development by expanding access to credit while minimizing the risks of loan default. The Insolvency Act is also part of this framework as it provides for the rehabilitation of the insolvent debtor under court protection and will help to remove the stigma and constraints associated with bankruptcy in Jamaica. Jamaica also established three credit bureaus which also ensure the creditors have the information they need to make decisions on borrowers.
- 2.5 In this context, the Bank has prepared an investment loan, Credit Enhancement Programme for Micro, Small and Medium Enterprises (MSME) (JA-L1075), which will contribute to increase the productivity of MSME in Jamaica by facilitating access to medium- and long-term credit for investment projects. Under a single component, resources from the programme will be used to complement the capital of the Credit Enhancement Fund (CEF), an existing guarantee mechanism administered by the

³ Micro-Small-Medium Enterprise Development in the Caribbean: Towards a New Frontier. 2016 www.caribank.org

Development Bank of Jamaica (DBJ). Under the CEF, partial credit guarantees are issued to eligible MSME through Approved Financial Institutions (AFI) to supplement the unmet collateral needs for eligible loans.

III. Objectives and Justification of the TC

- 3.1 The objective of this Technical Cooperation (TC) is to strengthen the institutional capacity of the DBJ, specifically related to the internal control and reporting function by digitizing the work flow of the collateral guarantee system. The project will be focused on improving the efficiency, security and sustainability of the CEF by digitizing processes that are currently manual and strengthening DBJ's internal controls and reporting capability.
- 3.2 The TC specifically addresses a risk identified during the preparation of the IDB operation (JA-L1075 – 'the Loan') – a weakness in internal control and limited capacity to handle a larger scale of transactions due to the manual processing of guarantees and a database housed and managed in excel. As the IDB operation is expected to scale-up the volume of transactions, the DBJ will greatly benefit from an automated workflow, database management and reporting system to maximize efficiency and safeguard internal controls. By facilitating the automation and digitalization of these processes, as well as improvement of promotional competencies and greater coordination with relevant players, this TC will enhance the DBJ's technical capacity to administer the CEF. Further, by improving the quality of management information systems, this TC contributes to the sustainability of the CEF, by increasing capacity to manage a higher volume of operations more securely, with increased efficiency and consistency over time, thus reducing the impact of staff changes.
- 3.3 While contributing to a more efficient operation and increased security and sustainability of the CEF, these enhancements will also serve as a model for the DBJ to better manage its other products and services, thus providing an opportunity to replicate these opportunities throughout the institution, paving the way for increased institutional effectiveness overall. It is important to note, however, that even if the IDB loan is not executed, this TC will offer a relevant solution to the DBJ by mitigating an important risk identified on the existing CEF that was launched by the DBJ since 2009. The DBJ has shown strong interest and commitment in the preparation phase of the project and is expected to be an active party in the coordination of this project.
- 3.4 This TC builds upon the experience and lessons learnt from a recent operation in (the Enhanced Access to Credit for Productivity Project – 3389/OC-BA), a guarantee fund to provide access to finance for MSME in Barbados that was approved by the IDB in 2014. It is worthwhile to note that TC resources were similarly allocated to support the promotion and the management information systems of the programme, both of which have enhanced the uptake from participating financial institutions and improved the internal controls. Since the launch of the Barbados operation in March 2016, the programme has authorized 14 guarantees, providing US\$12 million in guarantees to support US\$15 million in total loan amounts. During the first year, the programme disbursed 25% of the resources, exceeding the disbursement projections for 2016.
- 3.5 **Alignment with Bank Priorities.** This TC is aligned with the Update to the Institutional Strategy 2010-2020 (AB-3008), as it contributes to addressing productivity and innovation structural and emerging development challenges, through the support of

access to finance for MSME to undertake productive investment projects. It also aligns with the Country Development Results Indicator under the Corporate Results Framework of financing to MSME, as well as with the objectives and priorities outlined in the 2016-2021 IDB Country Strategy with Jamaica (GN-2868), especially the strategic area of Increasing private sector productivity and growth.

- 3.6 The project is aligned with the 2017 priorities of the Strategic Program for the Development of Institutions Financed with Ordinary Capital (GN-2819-1). . The support to the DBJ directly contributes to institutional effectiveness, efficiency and transparency as well as Institutional Innovation and increases implementation capacity to improve service delivery and advances policy implementation in national and substantial public-sector entities strengthened.
- 3.7 Also, this TC is included as part of the Bank's support to Jamaica in the Country Program Document for 2017.

IV. Description of activities/components and budget

- 4.1 This Technical Cooperation will consist of a single component – strengthening DBJ's institutional capacity through digitalization of the CEF – which will include the following four activities:
- 4.2 **Activity 1: strengthening DBJ's capacity to support the Jamaican private sector growth via the digitalization of the CEF guarantees management processes – CEF workflow.** The objective of this activity is to improve the processes related to the CEF by converting current manual processes to digital processes, thus improving DBJ's internal controls, security and efficiency. This activity will: (i) assess the existing manual processes in the CEF, including recommendations for improvement;⁴ (ii) design of a fully computerized workflow based on enhanced processes developed in accordance with the DBJ, including appropriate security protocol; (iii) develop and implement the workflow; and (iv) train and support the DBJ and participating AFI teams.
- 4.3 The workflow will include the following processes:
- AFI participation into the CEF - submission and approval or rejection
 - New guarantee - submission and approval or rejection (including E&S⁵ requirements)
 - AFI reporting
 - Claim submission and approval or rejection
 - Asset recovery reporting
- 4.4 By including dissemination activities (via training of both DBJ and AFI teams), DBJ will have an opportunity to improve its overall institutional capacity and to better engage the private sector. The activities would also allow for more communication between the DBJ and the AFI, therefore improving communications among the stakeholders and DBJ's awareness private sector constraints.

⁴ A separate consultancy previously contracted by the World Bank is currently undertaking an assessment on the CEF's product features and would provide some recommendations for DBJ's consideration which may be incorporated in the workflow.

⁵ Environmental and Social

- 4.5 **Activity 2: strengthening DBJ's internal controls through the digitalization of the CEF financial management processes – Financial management interface.** The objective of this activity is to improve DBJ's internal controls by linking the data generated from the digital workflow of the CEF to its financial management function. This activity will: (i) assess the interface of the CEF workflow described in Activity 1 with the accounting system currently used by DBJ (Great Plains), with the objective of streamlining the CEF financial management and automating the reporting function; (ii) design the interface in coordination with DBJ; (iii) develop and implement the interface; and (iv) develop an operations manual and train the DBJ team. By strengthening and securing the CEF internal processes, this activity will allow a global improvement of the DBJ financial products management capacity.
- 4.6 **Activity 3: strengthening DBJ's institutional, innovation and product development capacities through the digitalization of the CEF management information systems (MIS) – MIS module.** The objective of this activity is to strengthen DBJ's decision-making capabilities through the creation of a management information system for the CEF, based on the data generated by the workflow and the financial interface. Further, an improved CEF management information system will generate information necessary to better measure the impact of its products, as well as monitor, evaluate, and continuously improve the program over time. This activity will: (i) assess the management information systems to manage critical data and generate reports that will be the inputs for decision making and monitoring and evaluation of the CEF; (ii) design an information module and reports; (iii) develop and implement the module; and (iv) develop an operations manual and train the DBJ team. During the system design phase, end-user involvement will be key to maximize suitability for and compatibility with business needs and agility to react to changes in law/practice. Once the system is designed, an operations manual will be developed and training will be provided to ensure compliance and increase usage.
- 4.7 **Activity 4: strengthening DBJ's capacity to apply the good practices and lessons learned in the CEF to other DBJ products – Dissemination and sustainability.** The objective of this activity is to use the work undertaken in this TC to enhance the CEF's capacity to manage a higher volume of operations more securely, with increased efficiency and with better quality of management information systems. More broadly, however, the good practices developed and lessons learned through this TC may contribute to improving DBJ's overall internal capacity, which will positively impact other DBJ products and processes. This activity will: (i) collect and assess the outputs and results of the technical cooperation; (ii) disseminate the good practices and lessons learned in a report; (iii) identify and propose other opportunities to streamline processes within the DBJ; and (iv) perform monitoring and evaluation activities to ensure that the impact of TC is maximized and measured. This will help maximize the TC's contribution to the wider sustainability of the CEF and the DBJ as a whole. A copy of these findings will be shared with the INS Technical Secretariat and the Fund will be properly acknowledged in any knowledge products developed.
- 4.8 The total projected cost of this TC will be US\$250,000, all of which will be IADB funding.
- 4.9 The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of CJA/CMF.

Indicative Budget

Activity/ Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Activity 1 – CEF workflow	<ul style="list-style-type: none"> – Analysis of existing process and proposal for enhanced processes – Design and proposal of on-line workflow, – Development and implementation – Training of DBJ staff 	\$100,000	-	\$100,000
Activity 2 – Financial management interface	<ul style="list-style-type: none"> – Feasibility study – Design – Development and Implementation – Development of operations manual and training of DBJ staff 	\$75,000	-	\$75,000
Activity 3 – MIS module	<ul style="list-style-type: none"> – Analysis of MIS requirements, design of methodology and process for data collection – Development and implementation – Development of operations manual and training of DBJ staff 	\$50,000	-	\$50,000
Activity 4 – Dissemination and sustainability	<ul style="list-style-type: none"> – Study and proposal of replication opportunities – Monitoring and evaluation of TC 	\$25,000	-	\$25,000
TOTAL		\$250,000	0	\$250,000

V. Executing agency and execution structure

- 5.1 The Ministry of Finance and Public Service submitted a formal request for this technical cooperation on May 1st, 2017, and specifically requested that the IDB be the executing agency (see attached). The Government of Jamaica – including the DBJ – is currently going through a general restructuring phase, which will limit its capacity to execute a new capital project. The IDB's execution should therefore (i) ensure that the TC and program objectives are met quicker; and (ii) enhance local institutional capacity while supporting coordination among the official entities involved in the preparation and successful execution of the Guarantee Program. The DBJ also believes that the dissemination of knowledge and technical skills comprised in this TC will be more efficient if executed by the IDB. To fulfil the objectives of this TC, the DBJ will designate

a dedicated programme coordinator to interact with the IDB and will ensure participation from key members of its team.

- 5.2 **Procurement.** The Bank will contract individual consultants (AM 650, Complementary Workforce Employees) consulting firms (GN 2765-1: Policies for the Selection and Contracting of Consulting Firms for Bank Executed operational work) and non-consulting services in accordance with current Bank procurement policies and procedures.

VI. Major issues

- 6.1 This TC could have some potential risks: (i) a delay in the implementation of the changes in the areas involved at the operations level; and (ii) changes in priorities of the DBJ, which could impact upper management's commitment with this TC.

Risks	Risk Level	Mitigation Strategy
Delays in implementation	Low	The DBJ will be involved throughout all the steps and processes of the implementation to internalize the changes and adjustments at the operational level. An Implementation Plan will be designed and agreed upon during the initial phase of the execution.
Change in DBJ Priorities	Low	Since the TC is providing support to the program loan, the priorities of the DBJ can be expected to remain the same. Additionally, the stakeholders acknowledge the importance and benefits of the TC as part of the program to support the loan program and the CEF in general, hence DBJ will place priority on this intervention.

VII. Exceptions to Bank policy

- 7.1 This TC does not require any exceptions to Bank policy.

VIII. Environmental and Social Classification

- 8.1 The TC is not expected to generate negative Environmental and Social (E&S) impacts. This operation is classified as a Category "C" according to the Environmental and Safeguards Compliance Policy (OP-703) of the Bank (see the links: [Safeguard Policy Filter \(SPF\)](#) and [Safeguard Screening Form \(SSF\)](#)), which means that environmental and social assessments are not necessary. However, the digitalization of the guarantee application process can be expected to have a positive E&S impact as the analysis and mitigation of E&S potential negative impact on each sub-loan will be improved and streamlined.

Required Annexes:

- Annex I: [Request Letter](#)
- Annex II: [Results Matrix](#)
- Annex III: [Terms of Reference](#)
- Annex IV: [Procurement Plan](#)