Enhanced access to credit for productivity project

(BA-L1034)

ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT (ESMR)

1. Project Description and Background
   1. Barbados is a small open economy with a concentrated domestic production base, predominantly driven by the services industries (more than 80% of GDP). In the last 5 years the country has been facing growth and macroeconomic stability challenges, which are projected to persist in 2014. However, the economy is expected to grow in the medium-term with the start of new tourism-related capital projects.
   2. The tourism industry is the main driver of the Barbados economy, has worsened in the past two years, recording a 6% and 5.6% decline in long-stay arrivals in 2012 and 2013, respectively. The challenges facing the tourism industry have also adversely impacted related sectors. The government of Barbados has been developing a strategy to promote alternative models for the tourism industry to attract new visitors, tap in other markets of types of tourists in the United States of America, Canada and Latin American countries, and to promote private investments in the industry. As a consequence, the private sector, in particular Small and Medium Enterprises (SMEs), will need to adapt and modernize their businesses in order to be more competitive.
   3. Commercial banks are the largest players within the financial industry both in terms of holdings of deposits as well as public and private sector credit. There are currently six commercial banks operating on the island, most of which are branches or subsidiaries of Canadian banks, though some consolidation has occurred within the industry in recent years (CIBC and Barclays merged to form CIBC FirstCaribbean and RBTT and Royal Bank merged to form RBC Barbados). The level of public involvement within the financial system has also declined with the government’s divesture of the majority shares in the Barbados National Bank. Three institutions dominate the banking system: Scotiabank, Republic Bank and CIBC FirstCaribbean International Bank. Together these institutions accounted for almost 64 per cent of total assets of the banking system at the end of 2010.
   4. The project will be in the form of a loan of $35 million (US$ 17.5 million from IDB and US$ 17.5 million from the China Trust Fund), to **establish a guarantee mechanism to facilitate access to medium- and long-term financing for SMEs through the local intermediary financial institutions (IFIs)**; the mechanism will be managed by the Central Bank of Barbados.
2. Project Status and Compliance
   1. Based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks.
   2. The Central Bank of Barbados has confirmed to the Project team that it is in compliance with Directive B.2 of IDB Environmental and Safeguards Compliance Policy (country laws and regulations), complying with all applicable legal and regulatory environmental, social, health and safety, and labor (ESHS&L) laws and regulations.
   3. It is expected that the portfolio guaranteed by the facility will reflect the macroeconomic reality of the Country with a very heavy weight of the services sector (88% of GDP).

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| --- | --- |
|  | 2011 |
| Finance & Business Services | 31.99% |
| Government Services | 15.16% |
| Hotels & Restaurants | 14.38% |
| Wholesale & Retail Trade | 9.11% |
| Transport, Storage & Communications | 8.40% |
| Manufacturing | 6.82% |
| Construction | 5.16% |
| Personal & Other Services Incl. Private Education & Health | 4.02% |
| Electricity, Gas & Water | 3.06% |
| Agriculture | 1.48% |
| Mining and Quarrying | 0.43% |

*Source: Central Bank of Barbados*

* 1. It is also expected that the average value of the guaranteed sub-loans will be below US$200,000.
  2. No projects above US$1 million will be eligible to guaranteeing via the program.
  3. Overall, it is expected that the guaranteed portfolio present low to medium risk. Based on the current analysis as well as the intended use of proceeds as further described, this operation is classified as low risk (FI-3).

1. Environmental and Social Risks and Impacts
   1. The environmental, social, health and safety (ESHS) and labor impacts and risks associated with guaranteed sub-loans are likely to be low to moderate. As stated above it is expected that the guaranteed portfolio will mirror the country’s macroeconomic profile with more than 80% of projects in the services industry and the average value of sub-loans below US$200,000. Furthermore, the sub-loans will be required to comply with the local legal requirements.
   2. Following ESRNet guidelines and based on the nature of the program, the project team evaluated the capacity of the program to comply with the Policy Environment and Safeguards Compliance Policy, in particular, Directive B.13 (GN 2208 -20 and OP-703).
   3. The Central Bank of Barbados, by its nature, and given its role as guarantor in the program, would not make ex-ante checks of the compliance of each guaranteed sub-loan with the local laws and regulation, leaving this task to participating Commercial Banks under the terms of the current legislation.
2. Environmental and Social Management
   1. Environmental laws and regulations[[1]](#footnote-1). Barbados has an Environmental Protection Department, which was established in 1971 and operates under the Ministry of Environment and Drainage. The Department is the pollution prevention, sampling, monitoring and control department and is responsible for the monitoring and control of conditions likely to affect the quality of land, air and water and the general health and environmental well-being of the inhabitants of Barbados. Its functions are exercised throughout the entire island. Environmental protection is covered within the Town and Country Planning Act (1985 TCPA), and the Coastal Zone Management Act (1998 CZM, updated recently with IDB support).
   2. The TCPA is implemented by the Town and Country Development Planning Office (TCDPO), is the agency that oversees development in Barbados.
   3. The Coastal Zone Management Unit (CZMU) performs a variety of coastal management functions to ensure the effective management of the coastal resources of Barbados. It stipulates policies, strategies and standards for the development and maintenance of structures in the coastal zone management areas, as well as the standards for an EIA for development activities that may affect coastal resources. The CZMU also establishes regulations for water quality in coastal and marine areas to affect the maintenance, rehabilitation and enhancement of coastal and marine habitats.
   4. The Government of Barbados is also establishing a National Disaster and Emergency Management System to ensure that disaster management policies and strategies become an essential part of the national development and planning process, complying then with the IDB safeguard OP-704.
   5. Other laws and regulations having an environmental impact are the Fisheries Act and the Tourism Development Act of 2002.
   6. Barbados is Signatory of CITES, UN Convention on Biodiversity
   7. The program potential environmental and social risks will be managed
      1. With the application of a list of exclusion
      2. With requirements per guaranteed sub-loan defined in accordance with the guaranteed sub-loan size (see below)
   8. The guarantee agreement between the Central Bank and the participating Commercial Bank will determine that, if a given operation results in environmental harm or fall within the exclusion list, the participating Commercial Bank should remedy the environmental damage in a specific timeframe, otherwise financing is cancelled.
3. Environmental and Social Requirements
   1. For this Project, within the framework of eligibility requirements established for the sub-projects in agreement with IDB, the Bank will require the Central Bank to:
      1. Comply with all applicable Barbadian ESHS, and labor regulatory requirements.
      2. Along with the guarantee agreement with the participating IFIs, confirm in the form of an affidavit that (i) the sub-loan complies with ESHS and labor regulatory requirements, and with the Fundamental Principles of the Rights at Work and (ii) that the IFI applies a fair and equitable credit analysis and approval process for potential and eligible beneficiaries.
      3. Integrate the IDB exclusions list (see Annex II) in the sub-project approval process.
      4. Require an affidavit (see Annex I) from the participating Commercial Bank for operations above USD500,000, confirming that sub-borrowers are in possession of necessary operating and ESHS permits.
   2. Present an Annual Environmental and Social Compliance Report (ESCR) with information on the guaranteed portfolio and any particular risk issues identified during screening, mitigation measures agreed with clients as well as compliance status.
   3. The IDB will supervise the ESHS and labor aspects related to the use of the proceeds of the IDB loan, as necessary either by an IDB in-house specialist or with external consultants, hired by the IDB. To this end, the Central Bank will provide and facilitate access by IDB to all relevant documentation, personnel and guaranteed sub-loans facilities.
   4. If necessary, IDB and the Central Bank will agree on corrective actions or measures necessary to address impacts and risks and/or to enhance their management.

**ANNEX I**

**DRAFT - Form of Borrower’s Certificate Regarding Environmental and Social Compliance (in case of operations above US$500,000)**

*[Date]*

Mr./Ms. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Central Bank of Barbados

[*Address]*

Dear Sirs:

Reference is made to the guarantee agreement dated as of [\_\_\_\_\_\_\_\_\_\_\_\_\_], 2014 (***Guarantee Agreement***) among, xxxxx organized under the laws of Barbados (the ***Borrower***), and the Central Bank of Barbados as the ***Lender***. With respect to the Environmental and Social Requirements of said Guarantee Agreement:

The Borrower is in compliance with all applicable laws relating to environmental or social matters][Environmental or Social Matters] having taken all reasonable measures in good faith to achieve such compliance. *[Note: Include in this model the capitalized text if a separate definition of “Environmental or Social Matters” is to be included]*

The Borrower is in compliance with the Environmental and Social Requirements, or if not so incompliance, is diligently implementing a Corrective Action Plan.

Except as specifically set forth herein, to the best of the Borrower’s knowledge after due inquiry, each Sub-Borrower and Sub-Loan is in compliance with the respective Environmental and Social Requirements, or if not so in compliance is diligently implementing a Corrective Action Plan agreed with the Borrower.

There are no pending or, to the best of the Borrower’s knowledge, threatened claims with respect to environmental or social matters related to the Borrower or, to the best of the Borrower’s knowledge, any Sub-Borrower or Sub-Loan.

Unless specifically disclosed herein, there are no existing adverse risks or impacts with respect to environmental or social matters that have not been adequately mitigated that are known, or should reasonably have been known, to the Borrower as of the date of issue of this certificate.

Sincerely,

[Manager/Officer]

**ANNEX II**

**Exclusion list to be applied to projects financed by the IDB operation**

1. LIST OF EXCLUDED ACTIVITIES FOR NON-SOVEREIGN-GUARANTEED (NSG) OPERATIONS

The IDB does not finance projects or companies involved in the production, trade, or use of the products, substances or activities listed below.

* 1. Those that are illegal under host country laws, regulations or ratified international conventions and agreements
  2. Weapons and ammunitions
  3. Tobacco[[2]](#footnote-2)
  4. Gambling, casinos and equivalent enterprises[[3]](#footnote-3)
  5. Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)[[4]](#footnote-4)
  6. Radioactive materials[[5]](#footnote-5)
  7. Unbonded asbestos fibers[[6]](#footnote-6)
  8. Forestry projects or operations that are not consistent with the Bank’s Environment and Safeguards Compliance Policy (GN-2208-20)
  9. Polychlorinated biphenyl compounds (PCBs)
  10. Pharmaceuticals subject to international phase outs or bans[[7]](#footnote-7)
  11. Pesticides/herbicides subject to international phase outs or bans[[8]](#footnote-8)
  12. Ozone depleting substances subject to international phase out[[9]](#footnote-9)
  13. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length
  14. Transboundary trade in waste or waste products[[10]](#footnote-10), except for non-hazardous waste destined for recycling
  15. Persistent Organic Pollutants (POPs)[[11]](#footnote-11)
  16. Non-compliance with workers fundamental principles and rights at work[[12]](#footnote-12)

1. IDB Safeguard Filter

* Exclude activities that materially affect land in an adverse way, or have a potentially adverse environmental and/or social impact (including impacts on involuntary resettlement)

3. Sector Exclusions

* Exclude sub-loan lending in Mining and Quarrying

1. Source – ESMR of operation BA-L1027 – Four Seasons Hotel <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=36594358> [↑](#footnote-ref-1)
2. This does not apply to project sponsors who are not substantially involved in these activities. “Not

   substantially involved” means that the activity concerned is ancillary to a project sponsor’s primary

   operations. [↑](#footnote-ref-2)
3. This does not apply to project sponsors who are not substantially involved in these activities. “Not

   substantially involved” means that the activity concerned is ancillary to a project sponsor’s primary

   operations. [↑](#footnote-ref-3)
4. www.cites.org. [↑](#footnote-ref-4)
5. This does not apply to the purchase of medical equipment, quality control (measurement)

   equipment and any equipment where it can be demonstrated that the radioactive source is to be

   trivial and/or adequately shielded. [↑](#footnote-ref-5)
6. This does not apply to the purchase and use of bonded asbestos cement sheeting where the

   asbestos content is <20%. [↑](#footnote-ref-6)
7. Pharmaceutical products subject to phase outs or bans in United Nations, Banned Products:

   Consolidated List of Products Whose Consumption and/or Sale Have Been Banned, Withdrawn,

   Severely Restricted or not Approved by Governments. (Last version 2001,

   www.who.int/medicines/library/qsm/edm-qsm-2001-3/edm-qsm-2001\_3.pdf) [↑](#footnote-ref-7)
8. Pesticides and herbicides subject to phase outs or bans included in both the Rotterdam Convention

   (www.pic.int) and the Stockholm Convention (www.pops.int) [↑](#footnote-ref-8)
9. Ozone Depleting Substances (ODSs) are chemical compounds which react with and deplete

   stratospheric ozone, resulting in the widely publicized ‘ozone holes’. The Montreal Protocol lists

   ODSs and their target reduction and phase out dates. The chemical compounds regulated by the

   Montreal Protocol include aerosols, refrigerants, foam blowing agents, solvents, and fire

   protection agents. (www.unep.org/ozone/montreal.shtml). [↑](#footnote-ref-9)
10. Defined by the Basel Convention (www.basel.int) [↑](#footnote-ref-10)
11. Defined by the International Convention on the reduction and elimination of persistent organic

    pollutants (POPs)(September 1999) and presently include the pesticides aldrin, chlordane,

    dieldrin, endrin, heptachlor, mirex, and toxaphene, as well as the industrial chemical

    chlorobenzene (www.pops.int) [↑](#footnote-ref-11)
12. Fundamental Principles and Rights at Work means (i) freedom of association and the effective

    recognition of the right to collective bargaining; (ii) prohibition of all forms of forced or

    compulsory labor; (iii) prohibition of child labor, including without limitation the prohibition of

    persons under 18 from working in hazardous conditions (which includes construction activities),

    persons under 18 from working at night, and that persons under 18 be found fit to work via

    medical examination; (iv) elimination of discrimination in respect of employment and occupation,

    where discrimination is defined as any distinction, exclusion or preference based on race, color,

    sex, religion, political opinion, national extraction, or social origin. (International Labor

    Organization: www.ilo.org) [↑](#footnote-ref-12)