**Document of the Inter-American Development Bank**



**BAHAMAS**

**CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL AND MEDIUM ENTERPRISES**

**BH-L1046**

**Environmental and Social MANAGEMENT REPORT**

**(ESMR)**

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| **ENVIRONMENTAL AND SOCIAL MANAGEMENT REPORT (ESMR)** | |
| **Operation Name:** | CREDIT ENHANCEMENT PROGRAM FOR MICRO, SMALL AND MEDIUM ENTERPRISES |
| **Operation Number:** | BH-L1046 |
| 1. **Operation Details** | |
| **IDB Sector** | IFD/CMF |
| **Type of Operation** | Global Credit Loan |
| **Environmental and Social Impact Categorization** | B13. FI-3 |
| **Disaster Risk Rating** | Low |
| **Borrower** | The Commonwealth of the Bahamas |
| **Executing Agency** | Small Business Development Centre Bahamas (SBDC) |
| **IDB Loan US$ (and total project cost)** | IDB (Ordinary Capital) US$25,000,000  Total US$25,000,000 |
| **Applicable Policies/Directives** | OP-102, OP-703 (B1, B2, B3, B7, B17) |
| 1. **Executive Summary** | |
| The general objective of the program is to improve economic activity in The Bahamas. The specific objective is to enhance access to finance of Micro, Small and Medium Enterprises (MSMEs) by providing a credit enhancement facility. The Executing Agency (EA) will be the Small Business Development Centre Bahamas (SBDC), a non-profit company incorporated in May 2018 and launched in September of that year. Its Members include the Bahamas Chamber of Commerce (BCoC), the Ministry of Finance (MoF) and the University of the Bahamas. The government currently owns 100% of the capital.  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 ex-ante.  The project team, in compliance with Directive B.13, analyzed the potential environmental and social (E&S) risks of the eligible projects to be granted a partial credit guarantee through the CEF and the institutional capacity of the Executing Agency to manage those risks.  It is expected that the portfolio financed by the Program will reflect the macroeconomic reality of the Country (services representing 78.3% of GDP). Eligibility criteria will be put in place to ensure that only category C sub-loans will be eligible for financing.  Based on the E&S due diligence conclusions as well as the intended use of proceeds as further described, this operation is classified as low risk (FI-3). Potential E&S risks will be managed through the application of an extended exclusion list, the compliance with a set of eligibility criteria, the compliance with local legislation.  Capacity building will be provided to the Executing Agency in the E&S risks management field. All those requirements – described in detail below in this document – will be integrated into the Program Operating Regulations (OR). | |
| 1. **Operation Description** | |
| The specific objective is to enhance access to finance of Micro, Small and Medium Enterprises (MSMEs) by providing them (i) training and technical support and (ii) partial credit guarantees (via the Credit Enhancement Facility – CEF – see below) so that they can present bankable projects to private banks in the Bahamas and be granted financing for those projects.  The end-beneficiaries of the program will be MSME, under the following definition: micro as up to US$250,000 in sales and 5 employees, small as up to US$1 million in sales and 20 employees, and medium up to US$5 million in sales and 50 employees. The program will benefit those MSME, either existing or start-up, with viable projects and who are supported with advisory services and vetted by the SBDC, thus making them eligible for the CEF. Specific MSME end-beneficiaries of the program will be deemed eligible based on a number of other conditions established in the OR, including being a registered entity to operate as a business in The Bahamas and having the necessary licenses and permits to operate under national law.  The executing Agency (EA) will be the Small Business Development Centre Bahamas (SBDC), a non-profit company incorporated in May 2018 and launched in September of that year. Its Board Members include the Bahamas Chamber of Commerce (BCoC), the Ministry of Finance (MoF) and the University of the Bahamas[[1]](#footnote-1). The government currently owns 100% of the capital. The SBDC has the mandate to support the development of MSME and maximize their economic impact by equipping and empowering them to provide employment, create wealth and drive development of a resilient economy. Its current priorities include improving the enabling environment of these firms, increasing their access to finance, and fostering a culture of entrepreneurship and innovation. The SBDC will offer the following services: Business Advisory Services; Training & Entrepreneurial Programming; Mentorship & Incubation; Advocacy; and Access to Capital.  The Program will include two components:  **Component 1: Credit Enhancement Facility (US$22 million).** The CEF will provide partial loan guarantees to eligible Financial Institutions (FI) for loans granted to eligible MSME, mentored and vetted by the SBDC. The CEF acts as an incentive to FI to increase their MSME loan portfolio by providing additional security coverage on loans they issue for MSMEs’ investment projects. Eligibility conditions for FI to participate in the CEF will be established in the OR, including: be an incorporated entity registered to operate in the Bahamas; have the necessary licenses and permits to operate under national law; have signed the General Agreement with the SBDC to participate under the CEF, which delineates the guidelines and responsibilities of the parties; be regulated and supervised by a government entity. It is contemplated that the main participants will be banks[[2]](#footnote-2) . The specific procedures, conditions and requirements of the CEF operations are described in the OR. The partial guarantees will be issued to eligible FI to cover individual loans to be undertaken by eligible MSME. FI will review loan applications, which will be subject to normal lending criteria, and notify SBDC and the applicant within a certain time frame of its interest in providing financing under the CEF. Each partial guarantee will not exceed US$375,000 per individual loan and will provide coverage of up to 75% of the MSME loan amount for up to ten years. For certain projects, such as energy efficiency, the coverage may increase to 90%.  **Component 2: Support to MSME in business advisory services and institutional strengthening of SBDC (US$2,940 million).** The SBDC’s technical assistance instruments include business advisory services, training, mentorship, incubation, and advocacy of the sector. It has 1,868 firms already registered. The program will support the expansion of these instruments. Specifically, the loan would cover the following key aspects that confront one of the two main obstacles to MSME financing: i) supporting MSME in creating proper financial records/statements of their business, with services provided from accounting firms or individuals vetted by the Bahamas Institute of Chartered Accountants (BICA) and the SBDC; and ii) supporting firms in developing their business and financial models, which would be implemented with advisors contracted by the SBDC .  Also, institutional strengthening of SBDC will be supported. Loan resources will cover the personnel that would support the SBDC in program management and fiduciary aspects. Also, an amount of US$60,000 will be set aside to cover the administrative and monitoring and evaluation cost of the program. | |
| 1. **Key Impacts, Risks, and Mitigation Measures** | |
| **Assessment Requirements and Information Disclosure** | |
| The IDB will disclose information about the Program in compliance with OP-102.  In compliance with B.13 the Project team assessed the potential E&S risks of the eligible portfolio and SBDC Institutional capacity in the management of E&S risks. | |
| **Consultation and Stakeholder Engagement** | |
| NA – only Cat C sub-loans will be eligible | |
| **Environmental and Social Impacts and Risks and Mitigation Measures** | |
| It is expected that the portfolio to be financed with resources from the Program will reflect the macro-economic reality of the country with a composition of Gross Domestic Product (GDP) by sectors of services 78.3% (mainly financial services and tourism), manufacturing 19.8% and agriculture 1.9%.  To make sure only category C projects will be financed under the Program, high risk sectors such as forestry, large scale farming and fishing and energy production will be excluded.  Main environmental issues in the Bahamas are quite typical of the Caribbean and are involving marine pollution and coral reef decay, solid waste disposal and potable water scarcity. The [Ministry of Environment and Housing](https://www.bahamas.gov.bs/wps/portal/public/gov/government/contacts/agencies/government%20ministries/ministry%20of%20the%20environment%20and%20housing/!ut/p/b1/vZTLkqJAEEW_xQ-wqSqeLlGQtzwLCzaEgspDBBS1ra8fnc1MTER3z2J6KlcVeTNP3LtIJmUIk542t-qwGavutDm-_qmQsUBzZJmTHI0HAjCwZ8ueqCNpyT8FyccClwN_Nw8-ePKX82uG2Am0lYtxV9Tw1jSIxLl1ktMk72boAPVl2Embvj0uTIQcyxKl1EtY2Mn7w3UMzBkHTTe6H3KwvtahxluC67doD88Bi42qqWRh6VPzkoTrR1xZJ1xssixbJvygDKU_8h2NMu8SF9G-JNXgEmi0zm4ByE7lFXJLsMu6bLemdI5MMUh2N0mOL3ZxoGVS9-ezKhI-A4qt8vr-MJk8vaSf2XUt9IXgFfdPwSd5rvSu3THJUyb-tieKATAgkIMQ-kAKeCZiCOCysH70Bm1oUNPAXjXQHZXAAhjAqBHDFT6uolW8ipSlA6P42R-tkDqso2DqrDyviAM8l-VQzt_hn0AXRbMncAEFC_Mg1NB3AzXelZ5JiZEn8wiAxX8Hwu8Caq7jL16RRvNXpKyuy4LNSoD730DhnwNNJq227ds9b9_AG5oBXoISKyARSIhn4joR3rcHp1TVICuT5FHWQzFl73LRemNObnp4XtiJDk-ZiN451u-Jw0YbJRDscxnhgd3D4zUTs-u8P1kGHh7ZMafFdOyb8cRp8y0ko8I974UlSPfxKnQ2DNKtfRV3u6Dean66oLsi8YuAzqvybs4F9KgxTjfQNYb1KML1dKrB1jHryNAo4Vlf98xLC1UhuzpTp-ghF43DMu_DU9MUeY8F6nd6wJ4Hpa_YQ7DMREy8ktAk9uDeRvnTF2nUW_q6E32L8a1X9wqhv0qeTH4Ay5EZSw!!/dl4/d5/L2dBISEvZ0FBIS9nQSEh/) is the primary environmental regulator in the Bahamas. The Bahamas are also signatory of most of the international treaties and conventions aiming at addressing global environmental and social issues such as for example: loss of species and biodiversity, ozone depletion, hazardous waste management, pollution from land-based sources. A list of those conventions is available on [here](https://www.bahamas.gov.bs/wps/wcm/connect/f63c4369-0d62-41d7-8abb-4a8fe638eb73/MULTILATERAL+TREATY+REGISTER.pdf?MOD=AJPERES). The Bahamas are a member of the International Labour Organization since 1976 and has ratified eight of its eight fundamental conventions and two out of the four Governance Conventions (see [here](https://www.ilo.org/dyn/normlex/en/f?p=1000:11200:0::NO:11200:P11200_COUNTRY_ID:103215))  A list of relevant laws, regulation and policies follows:   * Antiquities, Monuments, and Museum Corporation Act 1998, Chapter 51 * Archipelagic Waters and Maritime Jurisdiction Act, 1993 * Bahamas National Trust Act,1959 and Bahamas National Trust Amendment, 2013 Bahamas Protected Areas Fund Act 2014 * Bahamas Public Parks and Beaches Authority Act, 2014 * Coast Protection Act, 1968 Chapter 204 * Conservation and Protection of the Physical Landscape of The Bahamas, 1997 Chapter 260 * Environmental Health Services (Collection and Disposal of Wastes) Regulations 2004 * Environmental Health Services Act 1987 and Environmental Health Services (Fees and Services) Regulations 2000 * Fisheries Resources (Jurisdiction and Conservation) Act 1977 * Forestry Act of 2010 * Health and Safety at Work Act 2002 * Planning and Subdivision Act, 2010 Planning and Subdivision Regulations (Application Requirements), 2011 * Water and Sewerage Act 1976 * Wild Animals Protection Act 1968 * Wild Birds Protection Act 1987 Wild Bird Protection Act (Reserves),   The Executing Agency has a limited capacity in the management of E&S risks. SBDC was only created last year and for the moment has no E&S coordinator. But they have good access to public agencies and could work closely with the Ministry of Environment and Housing.  Given the limited E&S regulatory framework and the lack of capacity from the Executing Agency, it was decided to restrict the eligible sub-loans to category C and manage the risks through the application of a maximum amount of guarantee per project (US$375,000), an extended exclusion list, a set of eligibility criteria, the inclusion of specific clauses in the binding documents between the beneficiary and. Those requirements – listed further down in this document – will be integrated in the Program OR.  Capacity building will be provided to SBDC and Tier 1 FIs with resources from Component 1. See detail below.  **Biodiversity/Natural Habitat/Critical Natural Habitat**  Projects located in protected areas will be excluded.  **Cultural site**  Projects located in Cultural Site or Critical Cultural Site will be excluded.  **Pollution**  The potential pollution impacts and/or risks that the eligible sub-loans could generate are expected to be low. The binding loan documents will include an affidavit from the borrower confirming that any solid, hazardous or water waste will be treated appropriately and according to the existing relevant regulations.  **Indigenous Peoples**  NA.  **Involuntary Resettlement**  Projects involving involuntary resettlement will be excluded.  **Livelihoods (economic displacement)**  Projects involving economic displacement will be excluded.  **Vulnerable People**  Projects involving potential negative impacts on vulnerable communities will be excluded.  **Gender**  It is not anticipated that the eligible projects generate any gender inequality. The program is expected to address gender issues by tracking women-led MSME, in order to develop data on this type of financing and existing gaps, with a medium-term view to support further decisions and develop specific strategies. Further analysis is required to better understand the Bahamian context. A recent study indicates that Bahamas has one of the lowest ratios of female-owned businesses in the Caribbean, with less than 20%. This study reflects that although access to finance appears to be the biggest obstacle to women-led firms in the Caribbean, there is no specific data on a gender gap in Bahamas. Another study of three Caribbean concludes that there no gender gap in access to credit by businesses, but there is the need to deepen the analysis of the effect of gender in firms’ decision-making processes. Additionally, there may be a positive impact on the labor force since the investment projects is focused on MSME development. | |
| **Supervision and Execution** | |
| The EA will provide an annual report on the implementation of the E&S requirement set in the OR.  The EA will designate and maintain an E&S focal point for the Program. The assigned staff will receive capacitation (UNEP FI or IDB on-line course) financed with Component 1 resources.  The requirements set in the E&S section of the OR will be presented to SBDC staff and to participating FIs in a workshop session. | |
| 1. **Environmental and Social Requirements** | |
| For this Program, the Bank will require SBDC to:   1. Assign and maintain a focal point for the follow-up of the E&S aspects of the program. Ensure that the assigned staff is trained through a program approved by the IDB. The training can be financed with resources form the program Component 1. 2. Comply with all applicable environmental, social, health and safety, and labor regulatory requirements of the Bahamas. 3. Confirm that the participating Financial Institutions and the guaranteed sub-loans comply with all applicable environmental, social, health and safety, and labor regulatory requirements of the Bahamas. This will be achieved by either amending the existing Agreements with the participating FIs or by signing any other legally binding document deemed necessary. 4. Apply the IDB exclusions list (see Annex I). For the sake of clarity this list will exclude from guaranteeing:    1. sub-loans above 540,000US$    2. sub-loans in forestry, large scale farming and agriculture, energy production sectors sectors    3. sub-loans located in established protected areas[[3]](#footnote-3) and cultural sites    4. sub-loans involving the introduction of invasive species    5. sub-loans involving involuntary resettlement of population    6. sub-loans involving economic displacement of population 5. Require an affidavit from the borrower that he will comply with (i) the application of safety measures for workers including the use of PPE when relevant and the compliance with the Ministry of Labour policy related to Health and Safety and (ii) the appropriate disposition of solid and hazardous waste in authorized locations and discharge of waste water. 6. Present to the IDB an Annual Environmental and Social Compliance Report (ESCR) with information on the financed portfolio and any particular risk issues identified, mitigation measures agreed with clients as well as compliance status.   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 SBDC will provide and facilitate access by IDB to all relevant documentation, personnel and guaranteed sub-loans facilities.  If necessary, IDB and the SBDC will agree on corrective actions or measures necessary to address impacts and risks and/or to enhance their management.  If and when the SBDC wants to include sub-loans to sectors not eligible, request the IDB non-objection.  Those requirements will be included in the OR. See Annex B. | |
| 1. **Summary of Compliance with IDB Safeguard Policies** | |

**Annex A. Summary of Compliance with IDB Safeguard Policies**

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| **Policies / Directives** | **Compliance Status and Rationale with Policy / Directive Requirements** | **Requirements / Actions / Plans / Timing** |
| **OP-703 Environment and Safeguards Compliance Policy** | | |
| B.2 Country Laws and Regulations | Full compliance achieved | The SBDC will only guarantee operations complying with national laws and regulations |
| B.3 Screening and Classification | Full compliance achieved | Only Cat C. sub-loans will be eligible to financing. |
| B.4 Other Risk Factors | NA | NA |
| B.4 Other Risk Factors (Institutional Capacity) | NA | NA |
| B.5 Environmental Assessment and Plans Requirements | NA (B.13 and only Category C. sub-loans eligible to financing) | NA |
| B.5 Social  Assessment and Plans Requirements (including Livelihood Restauration Plan[[4]](#footnote-4)) | NA (B.13 and only Category C. sub-loans eligible to financing) | NA |
| B.6 Consultation (including consultation with affected women, indigenous persons, and/or minority groups) | NA (B.13 and only Category C. sub-loans eligible to financing) | NA |
| B.7 Supervision and Compliance | Compliance achievable through conditions in OR | The SBDC will present to the IDB an Annual Environmental and Social Compliance Report (ESCR) with information on the guaranteed portfolio and any particular risk issues identified, mitigation measures agreed with clients as well as compliance status. |
| B.8 Transboundary Impacts | NA | NA |
| B.9 Natural Habitats | NA | Sub-loans located in established protected areas and cultural sites are excluded from financing |
| B.9 Invasive Species | NA | Sub-loans involving the introduction of invasive species are excluded from financing |
| B.9 Cultural Sites | NA | Sub-loans located in established protected areas and cultural sites are excluded from financing |
| B.10 Hazardous Materials | Compliance achievable through conditions in OR | The SBDC will require affidavit from the sub-borrower for appropriate management of hazardous materials |
| B.11 Pollution Prevention & Abatement | Compliance achievable through conditions in OR | The SBDC will require affidavit from the sub-borrower for appropriate disposal of waste |
| B.12 Projects under Construction | NA | NA |
| B.13 Noninvestment Lending and Flexible Lending Instruments | Full compliance achieved | Financial intermediation under B.13. The team assessed the E&S risks of potential portfolio and EA capacity. An ESMS (set of requirements) has been designed and will be integrated in the Program OR |
| B.14 Multiple Phase and Repeat Loans | NA | NA |
| B.15 Co-financing Operations | NA | NA |
| B.16 In-Country Systems | NA | NA |
| B.17 Procurement | NA | Contracting processes for external advisors and accountants in Component 2 will comply with the IDB safeguards. |
| **OP-704 Natural Disaster Risk Management Policy** | | |
| A.2 Analysis and, if necessary, management of Type 2 risk[[5]](#footnote-5) scenario | *NA* | NA |
| A.2 Contingency planning in case of emergencies (Emergency response plan, Community health and safety plan, Occupational health and safety plan) | NA | NA |
| **OP-710 Operational Policy on Involuntary Resettlement** | | |
| Resettlement Minimization | NA | Sub-loans involving involuntary resettlement of population  and/or economic displacement of population are excluded from financing |
| Impoverishment Risk Analysis |
| Resettlement Plan and/or Resettlement Framework Requirement[[6]](#footnote-6) |
| Resettlement Plan Consultations |
| **OP-765 Operational Policy on Indigenous Peoples** | | |
| Sociocultural Evaluation Requirement | NA | NA |
| Good-faith Negotiations and proper documentation / agreements with Affected Indigenous Peoples |
| Indigenous Peoples Compensation, and Development Plan or Framework requirement |
| Discrimination and/or Exclusion Issues |
| Transborder Impacts |
| Impacts on Isolated Indigenous Peoples |
| **OP-761 Operational Policy on Gender Equality in Development** | | |
| Consultation and effective participation of women and men | NA (the Program does not create gender inequalities) | NA |
| Gender equality risk[[7]](#footnote-7) analysis |  |  |
| **OP-102 Access to Information Policy** | | |
| Disclosure of relevant Environmental and Social Assessments[[8]](#footnote-8) Prior to Analysis Mission, QRR, OPC and submission of the operation for Board consideration[[9]](#footnote-9) | Full compliance achieved | The project team will publish the E&S documents in compliance with OP-102 for B.13 operations |
| Provisions for Disclosure of Environmental and Social Documents during Project Implementation |

**Annex B. ESHS Legal Requirements**

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| **C. Provisions to be included in the Program Operating Manual (POM)** |
| In order to meet the requirements of the Bank’s Environmental and Social Safeguard Policies, SBDC will comply to the satisfaction of the Bank with the ESHS contractual terms and conditions set forth in this Annex B. These terms and conditions can only be modified with the prior written consent of the Bank, including clearance by ESG.  These include the following conditions to be included in the Program OR:  For this Program, the Bank will require SBDC to:  1. Assign and maintain a focal point for the follow-up of the E&S aspects of the program. Ensure that the assigned staff is trained through a program approved by the IDB. The training can be financed with resources form the program Component 2.  2. Comply with all applicable environmental, social, health and safety, and labor regulatory requirements of the Bahamas.  3. Confirm that the participating Financial Institutions and the guaranteed sub-loans comply with all applicable environmental, social, health and safety, and labor regulatory requirements of the Bahamas. This will be achieved by either amending the existing Agreements with the participating FIs or by signing any other legally binding document deemed necessary.  4. Apply the IDB exclusions list (see Annex I). For the sake of clarity this list will exclude from financing:  a. sub-loans above 540kUS$  b. sub-loans in forestry, large scale farming and agriculture, energy production sectors  c. sub-loans located in established protected areas and cultural sites  d. sub-loans involving the introduction of invasive species  e. sub-loans involving involuntary resettlement of population  f. sub-loans involving economic displacement of population  5. Require an affidavit from the borrower that he will comply with (i) the application of safety measures for workers including the use of PPE when relevant and the compliance with the Ministry of Labour policy related to Health and Safety and (ii) the appropriate disposition of solid and hazardous waste in authorized locations and discharge of waste water.  6. Present to the IDB an Annual Environmental and Social Compliance Report (ESCR) with information on the financed portfolio and any particular risk issues identified, mitigation measures agreed with clients as well as compliance status.  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 SBDC will provide and facilitate access by IDB to all relevant documentation, personnel and guaranteed sub-loans facilities.  If necessary, IDB and the SBDC will agree on corrective actions or measures necessary to address impacts and risks and/or to enhance their management.  If and when the SBDC wants to include sub-loans to sectors not eligible, request the IDB non-objection. |

1. The SBDC is part of a network of similar programs in the United States, Latin America and Caribbean, that has been supported by the US government and regional agencies, such as the OAS (<https://www.sbdcglobal.com>). The network has been instrumental in its capacity building. [↑](#footnote-ref-1)
2. Other intermediaries may include microfinance institutions and credit unions [↑](#footnote-ref-2)
3. See http://bahamasprotected.com/bpaf-act/ [↑](#footnote-ref-3)
4. OP-703 applies when livelihood impacts are not significant and don’t lead to physical displacement (see *Transitional Guidance in instruments for Physical Displacement, Economic Displacement and Economic Losses under OP-710 and OP-703* (TG-005) for more information) [↑](#footnote-ref-4)
5. Type 2 risk scenario occurs when the operation has a potential to exacerbate hazard risk to human life, property, the environment and the project itself. [↑](#footnote-ref-5)
6. OP-710 applies when livelihood impacts lead to physical displacement (see *Transitional Guidance in instruments for Physical Displacement, Economic Displacement and Economic Losses under OP-710 and OP-703* (TG-005) for more information) [↑](#footnote-ref-6)
7. Risks may include: (i) Unequal access to project benefits/ compensation measures, (ii) Men or women disproportionally affected due to gender factors, (iii) Non-compliance with applicable legislation related to equality between men and women, (iv) Increased risk of gender-based violence, including sexual exploitation, human trafficking and sexually transmitted diseases, and (v) Disregard of women’s ownership rights. [↑](#footnote-ref-7)
8. Environmental and Social Assessments include ESIAs, ESMPs, RPs, RFs, and ESMFs. [↑](#footnote-ref-8)
9. Please refer to the Protocols for ESHS Documentation and Information Disclosure for more details on the disclosure timing of the different Environmental and Social Assessments. [↑](#footnote-ref-9)