

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**JAMAICA**

**BOOSTING INNOVATION, GROWTH AND ENTREPRENEURSHIP ECOSYSTEMS  
IN JAMAICA**

**(JA-G1006)**

**PROJECT PROFILE**

This document was prepared by the project team consisting of: Kayla Grant, Project Team Leader; Claudia Stevenson, Alternate Team Leader; Edwin Goni (IFD/CTI); Edgar Salgado Chavez (IFD/CTI); Gerard Alleng (CSD/CCS); Evan Cayetano (INE/WSA) Sudaney Blair (CJA/CJA); Kai Hertz (ORP/GCM); Maria Sofia Greco (LEG/SGO); Veronica Benedettelli (VPC/FMP); Naveen Jainauth-Umrao (VPC/FMP); Kayson Black (FMP/CJA); and Mayrett Sierra (IFD/CTI).

Under the Access to Information Policy, this document is subject to Public Disclosure.

## PROJECT PROFILE

### JAMAICA

#### I. BASIC DATA

<b>Project Name:</b>	Boosting Innovation, Growth and Entrepreneurship Ecosystems in Jamaica		
<b>Project Number:</b>	JA-G1006		
<b>Project Team:</b>	Kayla Grant, Project Team Leader; Claudia Stevenson, Alternate Team Leader; Edwin Goni (IFD/CTI); Edgar Salgado Chavez (IFD/CTI); Gerard Alleng (CSD/CCS); Evan Cayetano (INE/WSA); Sudaney Blair (CJA/CJA); Kai Hertz (ORP/GCM); Claudia Valeria Pineda Herrera (ORP/GCM); Maria Sofia Greco (LEG/SGO); Veronica Benedettelli (VPC/FMP); Naveen Jainauth-Umrao (VPC/FMP); Kayson Black (FMP/CJA); Jacqueline Bueso-Merriam (SPD/SDV); Nidia Hidalgo (SCL/GDI); Heidi Fishpaw (VPS/ESG); and Mayrett Sierra (IFD/CTI).		
<b>Beneficiary:</b>	Jamaica		
<b>Executing Agency:</b>	Development Bank of Jamaica		
<b>Financial Plan:</b>	Inter-American Development Bank (IDB)	US\$	8,687,485.33 <sup>1</sup>
	EU-CIF	[Euros]	7,400,00.00 <sup>2</sup>
	Total:	US\$	8,687,485.33
<b>Safeguards:</b>	Policies triggered:	B.1 (OP-102, OP-704, OP-0761); B.2; B.7. B.13.	
	Classification:	B.13	

#### II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **Background.** In September 2019, the Board of Directors of the Inter-American Development Bank (IDB) approved a Conditional Credit Line for Investment Projects (CCLIP) line of US\$50 million, and a first individual operation of US\$25 million under the CCLIP, Boosting Innovation, Growth and Entrepreneurship Ecosystems ([BIGEE 4860/OC-JA](#) or BIGEE Loan). To complement the BIGEE loan, this document proposes the approval of a non-reimbursable investment operation (Investment Grant Operation or "IGR")<sup>3</sup> for EUR (€)7.4 million (approximately US\$8.7 million) to be granted by the European

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<sup>1</sup> The exchange rate used on August 24, 2021, was 0.8518 to one US Dollar. The EU PSG contribution payments will be made in Euros (€), and immediately converted to US Dollars when received by the Bank's Finance Department. The Finance Department through ORP/GCM will inform the project team of the exchange rate at which each contribution is converted.

<sup>2</sup> This includes an administrative fee of EUR400,000.

<sup>3</sup> This IGR is classified as a global credit program given that financial resources will be provided to micro, small, and medium-sized enterprises (MSMEs) to finance projects in sectors that promote economic and social development.

Union Caribbean Investment Facility (EU-CIF). The resources would be transferred to the IDB as administrator by means of a Project Specific Grant (PSG) subject to the Framework Administrative Agreement between the European Union and the IDB signed on September 29, 2020 (GN-2605-5, the EU-IDB Framework Agreement).

- 2.2 **Economic context and rationale for the intervention.** Over the past decades, Jamaica has experienced low levels of economic growth - less than 1% yearly average – and debt levels to Gross Domestic Product (GDP) ratios of over 100%.<sup>4</sup> The low growth observed before the COVID-19 pandemic is partly attributable to declining productivity.<sup>5</sup> Total Factor Productivity (TFP) has decreased at 1.6% per year since the year 2000 in Jamaica.<sup>6</sup> Innovation, defined as the transformation of new ideas into economic and social solutions that add value, has a causal link to increases in productivity and growth.<sup>7</sup> Jamaican businesses, in particular Micro, Small and Medium-Sized Enterprises (MSMEs), innovate at slower rates than those of other small economies. MSMEs<sup>8</sup> account for 98% of registered firms. However, recent surveys show that lack of funding hinders their ability to grow and innovate. Such funding for entrepreneurship and innovation face market failures related to knowledge production, information asymmetries between innovators and financiers, and inherent risk of innovative activities.<sup>9</sup> Firms at different stages of their life cycle have different needs (see Figure 1). The ecosystem (See Link) faces gaps at the early stages of the firm life cycle which translates into a weak deal-flow of high-growth, innovative firms.<sup>10</sup>

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<sup>4</sup> Schmid, et al. 2016.

<sup>5</sup> Total Factor Productivity (TFP) measures other factors of production not explained by labor and capital (i.e. technology and innovation).

<sup>6</sup> Feenstra, R, et al. 2015.

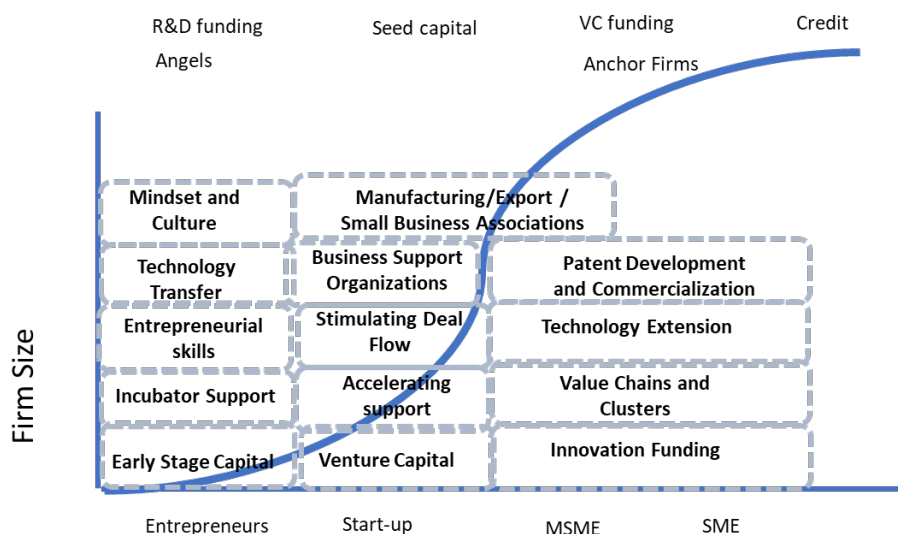
<sup>7</sup> Navarro, 2016.

<sup>8</sup> Ministry of Industry, Commerce, Agriculture and Fisheries (MICAFA) defines a MSME based on annual sales.

<sup>9</sup> [The New Imperative of Innovation: Policy Perspective for Latin America and the Caribbean](#). Navarro, Juan Carlos; Benavente, Jose Miguel; Gustavo, Crespi. 2016.

<sup>10</sup> Navarro et al, 2016.

**Figure 1. Support Interventions to Firms at Different Stages of the Business Life Cycle**



- 2.3 **Gender.** Female entrepreneurs require additional support which takes into consideration differences in needs, access to opportunities, and capacities. Most women-owned businesses in Jamaica are operating in generic sectors with high competition and low profitability.<sup>11</sup> In the last years there has been a decline in women's Total Entrepreneurial Activity (TEA)<sup>12</sup> (49% between 2014-16) and a widening of the gender gap in entrepreneurship<sup>13</sup> that can be attributed to regulation and policies, cultural and societal norms and expectations, funding and human capital.<sup>14</sup> The 2015 gender inequality index (GII) for Jamaica was 0.593 (142 out of 188 economies). [See Link](#)
- 2.4 **COVID-19 impact on MSMEs.** A recent IDB study found that MSMEs<sup>15</sup> (which account for 98% of registered firms in Jamaica<sup>16</sup>) and women-owned/led firms were more negatively impacted by COVID-19 compared to other firms and as such, firm resiliency will require skilled workers, adoption of digital technologies, and access to new markets.<sup>17</sup> [See Link](#).
- 2.5 **Climate change.** Increasing resilience to the impacts of climate change will require innovation in approach, products, and services especially as Jamaica transitions to a carbon-free economy. MSMEs can play a significant role by innovating and delivering solutions in the field of climate resilient and low carbon products, services, technologies, and processes. This will contribute to growth and support achieving Greenhouse Gases (GHG) emissions reduction targets

<sup>11</sup> Rojas 2020.

<sup>12</sup> TEA is the indicator that assesses the percent of working age population about to start an entrepreneurial activity.

<sup>13</sup> [Women's-Entrepreneurship-2016/2017](#). GEM 2018.

<sup>14</sup> Gimenez, et al. 2017.

<sup>15</sup> Ministry of Industry, Commerce, Agriculture and Fisheries (MICAF) defines a MSME based on annual sales as follows: Micro <J\$15 Million, Small >15J\$ Million < 75J\$ Million and Medium > J\$75 Million < J\$ 425 Million. USD exchange rate US\$1 = J\$150.66.

<sup>16</sup> [MICAF 2018. MSME Policy](#).

<sup>17</sup> IDB Invest. The Impacts of the COVID-19 Pandemic on Firms in the Caribbean. 2021.

(between 25.4% and 28.5% depending on conditionality) as set out in the updated Jamaica Nationally Determined Contributions (NDC) of 2020.

- 2.6 **Demand assessment.** It has been concluded that there is sufficient demand for the program resources. [See Link.](#)
- 2.7 **Objective.** The standalone IGR complements the BIGEE Loan (4860/OC-JA) with the general objective to promote sustainable and robust growth among startups and MSMEs in Jamaica. The specific objectives are to: (i) promote innovation and productivity among established MSMEs with high growth potential; (ii) promote sustainable growth in scalable startups; and (iii) create a sustainable pipeline of high-growth potential startups. The standalone IGR will focus on three areas that are relevant within the innovation ecosystem, within the same framework of action included in the BIGEE loan: (i) gender; (ii) climate change; and (iii) COVID-19 impact for MSMEs.
- 2.8 **Component 1. Innovation and growth for established MSMEs (EUR1,900,000 / US\$2,230,570).** This component will target established MSMEs<sup>18</sup> to promote efficiency and growth through development and adoption of innovation. The EU program will competitively issue (i) innovation grants up to US\$300,000 to at least three women led firms; (ii) COVID-19 response grants of up to US\$75,000 to seven firms involved in open collaboration to accelerate the development of innovative and gender responsive solutions to global health challenges and climate change mitigation and adaptation solutions; and (iii) cluster grants of up to US\$450,000 to seven clusters submitting initiatives with a gender perspective. It will also provide for targeted communication and specialized consulting services focused on supporting women entrepreneurs. Expenditures to be funded take into consideration the list of IDB's excluded activities, as well as Art 18 of PAGODA and the EU restrictive measures.
- 2.9 **Component 2. Facilitating innovation and growth for scalable startups (EUR940,000 / US\$1,103,545).** This component will stimulate the deal flow of scalable startups, defined as MSMEs that have proven the concept of their business model and commercial viability and need support for acceleration given their potential for scaling up. The EU resources will support (i) COVID-19 response grants of up to US\$30,000 to ten startups with a gender and climate change focus; and (ii) the allocation of resources to a sidecar fund<sup>19</sup> to at least two women-led startups. Fund managers and angel will be provided with gender sensitive training to improve selection methodologies. Mentorship and networking support to women-led startups will encourage women's participation.
- 2.10 **Component 3. Facilitating innovation and growth for potential startups (EUR3,340,000 / US\$3,921,108).** This component will serve early stage MSMEs that have potential to become scalable startups, by strengthening incubators, technology transfer, and research institutions. The EU funding will be used to provide approximately thirty-five vouchers for incubation of women led firms and twelve vouchers that support research and open innovation activities which propose solutions to COVID-19 challenges and climate change issues with a gender focus. It will also support technology transfer with a focus on gender perspectives and climate change issues. The component includes grants for ten women-led research initiatives, gender-responsive training and skills for

<sup>18</sup> Private [sector](#) firms registered in Jamaica with financial audited statements.

<sup>19</sup> The Sidecar Fund provides matching grants for ventures that are supported by an angel investor.

entrepreneurship, and a digital skills bootcamp which includes scholarships and curriculums targeted to women.

- 2.11 **Project administration and management (EUR820,000 / US\$962,667).** The IGR will complement the BIGEE loan with project administration and management that consist of the following: (i) Procurement for a gender specialist advisor to the program; (ii) technical capacity strengthening of the DBJ in the areas of gender responsive design, implementation, and management of programs (including training in gender auditing); and (iii) gender specific sensitization and preparation for take up under the components.
- 2.12 **Beneficiaries and expected results.** The expected outcome of the program is the increase in productivity of MSMEs and scalable startups supported by the program. Resulting outcomes are expected to be higher investment in innovation for benefitted MSMEs; faster growth (in sales and annual labor force) for participating MSMEs and scalable startups; and higher start up rates (beginning of operation) for participants with high growth potential, with a focus on gender perspective, climate change and COVID-19 related issues. Public and private institutions such as incubators, accelerators, academia and technological transfer offices will also be strengthened to provide support to projects that show potential to solve problems in areas such as climate change and gender inclusion and diversity, and COVID-19 challenges.
- 2.13 **Execution.** The expected execution of this operation is five years. The Executing Agency (EA) will be the Development Bank of Jamaica (DBJ), the current EA for the BIGEE (4860/OC-JA) (See paragraph ¶4.2).
- 2.14 **Strategic alignment.** The program is aligned with the Second Update of the Institutional Strategy (AB-3190-2): Development Solutions that Reignite Growth and Improve Lives, through the development challenge of Productivity and Innovation, as it promotes productivity and innovation in MSMEs, startups and entrepreneurs. It is also aligned with the cross-cutting issues areas of: (i) Institutional capacity and rule of law, as the role of the DBJ and other institutions (such as incubator, accelerators, and other business support intermediaries) will be strengthened; (ii) Gender equality and diversity, by financing women-led firms and firms with a gender perspective as well as strengthening women's participation in the different program's activities; and (iii) Climate change and environmental sustainability, as the activities include financing for firms focused on addressing environmental sustainability issues. According to the joint methodology of Multilateral Development Banks (MDB) approach on climate finance tracking,<sup>20</sup> 20% of total IDB funding for this operation will result in climate change mitigation and adaptation activities such as innovations that support circular economy such as recycling, sustainable energy options (renewable and energy efficiency). This operation is also aligned with the Corporate Results Framework (CRF) 2020-2023 (GN-2727-12), through the following indicators: (i) Jobs supported; (ii) micro / small / medium enterprises financed; (iii) enterprises provided with technical assistance; (iv) women beneficiaries of economic empowerment initiatives; and (v) agencies with strengthened digital technology and managerial capacity. The project is aligned with the Sector Strategy Institutions for Growth and Social Welfare (GN-2587-2) as it responds to strengthening entities that are part of the entrepreneurial

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[Joint Report on Multilateral Development Banks Climate Finance](#). 2018.

ecosystem. The program is consistent with the Innovation, Science and Technology Sector Framework Document (GN-2791-8) as it supports the strengthening of an innovation and entrepreneurship ecosystem. The program aligned with the IDB Group Country Strategy with Jamaica 2016-2021 (GN-2868), through the strategic objective of facilitating access to finance for SMEs, as it will increase private sector productivity and growth by enhancing MSME access to funding for innovation. The proposed activities support the following priorities of the IDB's Vision 2025: (i) the digital economy as it relates to improving digital skills; and (ii) support to MSMEs as it relates to direct financial and technical assistance. The program proposes to create a pipeline of firms that may potentially seek additional financial support from the IDB Invest. It also proposes to support IDB Lab projects<sup>21</sup> in Jamaica.

### III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **Technical and economic feasibility.** Based on the analysis of demand, it has been concluded that there is sufficient demand for the program resources. [See Link.](#)
- 3.2 **Bank's experience and lessons learned.** Beyond financial support, interventions show that dynamic entrepreneurs need complementary programs such as training, incubators, and accelerators. The IDB has supported entrepreneurship and innovation ecosystems in Peru and Uruguay that have shown results in terms of growth, innovation, and employment generation. These ecosystems have shown the capacity to respond rapidly to the challenges posed by COVID-19.<sup>22</sup> Lessons from other operations in Jamaica that support the private sector such as Boosting Innovation, Growth and Entrepreneurship Ecosystems Programme (4860/OC-JA), Program for Skills Development for Global Services (4645/OC-JA), Credit Enhancement Programme for MSMEs (4115/OC-JA), Supporting the Development of an Entrepreneurial and Early Stage Ecosystem in Jamaica (ATN/ME-15282-JA), show that a strong EA with the mechanisms for interacting with private sector and entrepreneurs must provide a transparent and effective allocation of resources that chooses the entrepreneurs with the most potential to be successful in order to promote high quality deal flow.

### IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 According to the directives of the Environmental and Safeguards Compliance Policy (GN-2208-20) and based on Directive B of the Environment and Safeguards Compliance Policy (OP-703) the project is classified as Category B.13. The program is classified as a financial intermediary and as such is not categorized according to its potential Environment and Social (E&S) impacts and risks. The program will not support projects that have significant negative environmental and social impacts that could be classified as Category A. ([See Annex III](#))
- 4.2 **Fiduciary Risk.** An institutional capacity analysis conducted on the DBJ using the Bank's methodology ICAP/RACI indicated low fiduciary risk. The DBJ, based on the current structures and fiduciary systems in place, and the recently established

<sup>21</sup> For instance, the IDB-Lab spearheaded the Jamaica Venture Capital Program (JVCP) and has supported various incubator programs that can benefit through this program.

<sup>22</sup> See Gonzalo, 2013, ANNI 2017



Technical Unit (TU) that is executing the BIGEE loan, will have the capacity<sup>23</sup> to execute the program.

## V. OTHER ISSUES

- 5.1 **Risks.** The risks associated with this project are: (i) Project execution delays due to change in government priorities stemming from vulnerability to external shocks such as COVID-19 (low risk); (ii) lack of deal flow to engage in the different instruments (medium-high risk); and (iii) delay in execution due to complexities that arise in the EU procurement, disbursement, and financial reporting procedures (medium-low risk). These risks will be mitigated by: (i) establishment of coordination mechanisms with key entities; (ii) implementing a strong communications campaign (such as targeted communication, mentorship, and networking) to strengthen and promote women's participation and strengthening the technical capacity of stakeholders; and (iii) providing training to the TU on EU rules and procedures.
- 5.2 **Sustainability.** The program intends to build sufficient capacity within the DBJ and innovation ecosystem actors to ensure the continuity of gender sensitized and environmentally conscious private sector development programs.

## VI. RESOURCES AND TIMETABLE

- 6.1 The preparation of the program will not require administrative resources. The proposal for Operation Development (POD) will be distributed to the Quality and Risk Review (QRR) by October 8th, 2021, and for consideration by the Bank's Board of Executive Directors on December 9, 2021. Time needed for project preparation will be 0.84 FTEs (see [Annex V](#)).

<sup>23</sup>

Under the technical cooperation (ATN/CO-17246-JA) "Support to Jamaica's Innovation Ecosystem for Promoting Innovative Firms", technical assistance was provided to strengthen the Development Bank of Jamaica's (DBJ) capacity for execution of the loan program.



CONFIDENTIAL

<sup>1</sup> The information contained in this Annex is confidential and will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Access to Information Policy (GN-1831-28) at the Inter-American Development Bank.



## Safeguard Policy Filter Report

### Operation Information

Operation		
JA-G1006 Boosting Innovation, Growth and Entrepreneurship Ecosystems in Jamaica		
Environmental and Social Impact Category	High Risk Rating	
B13		
Country	Executing Agency	
JAMAICA	JA-JDB - DEVELOPMENT BANK OF JAMAICA LIMITED	
Organizational Unit	IDB Sector/Subsector	
Competitiveness, Technology and Innovation Division	ENTERPRISE DEVELOPMENT, CLUSTERS AND INNOVATION	
Team Leader	ESG Primary Team Member	
KAYLA SHAREE GRANT		
Type of Operation	Original IDB Amount	% Disbursed
Investment Grants	\$8,687,485	0.000 %
Assessment Date	Author	
7 Sep 2021	MAYRETTTS Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	22 Sep 2021	
QRR (Estimated)		
Board Approval (Estimated)	22 Sep 2021	
Safeguard Performance Rating		
Rationale		



# Safeguard Policy Filter Report

## Safeguard Policy Items Identified

### B.1 Bank Policies (Access to Information Policy– OP-102)

The Bank will make the relevant project documents available to the public.

### B.1 Bank Policies (Disaster Risk Management Policy– OP-704)

The operation includes activities related to climate change adaptation, but these are not the primary objective of the operation.

### B.1 Bank Policies (Gender Equality Policy– OP-761)

The operation will offer opportunities to promote [gender equality](#) or [women's empowerment](#).

### B.2 Country Laws and Regulations

The operation is expected to be in compliance with laws and regulations of the country regarding specific women's rights, the environment, gender and indigenous peoples (including national obligations established under ratified multilateral environmental agreements).

### B.7 Supervision and Compliance

The Bank is expected to monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

### B.13. Noninvestment Lending and Flexible Lending Instruments

Ex-ante impact classification may not be feasible for this type of operation. This includes: policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, and conditional credit lines for investment operations.

## Potential Safeguard Policy Items

### B.1 Bank Policies (Disaster Risk Management Policy– OP-704)

The operation is in a geographical area exposed to [natural hazards](#) ([Type 1 Disaster Risk Scenario](#)). Climate change may increase the frequency and/or intensity of some hazards.

## Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

## Additional Comments

According to the directives of the Environmental and Safeguards Compliance Policy (GN□2208-20) and based on Directive B, the project is classified as a financial intermediary and as such is not categorized according to its potential environment and social impacts and risks.

## Social and Environmental Strategy

### A. Environmental impact

- 1.1 The standalone IGR complements the BIGEE Loan (4860/OC-JA) with the general objective to promote sustainable and robust growth among startups and MSMEs in Jamaica. The specific objectives are to: (i) promote innovation and productivity among established MSMEs with high growth potential; (ii) promote sustainable growth in scalable startups; and (iii) create a sustainable pipeline of high-growth potential startups. The standalone IGR will focus on three areas that are relevant within the innovation ecosystem, within the same framework of action included in the BIGEE design: (i) gender and youth; (ii) climate change; and (iii) COVID-19 impact for MSMEs.<sup>1</sup>
- 1.2 According to the directives of the Environmental and Safeguards Compliance Policy, (GN-2208-20 and OP-703) and based on Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), the program is classified as a financial intermediary and as such is not categorized according to its potential Environment and Social (E&S) impacts and risks.

### B. Expected sectors, typology of projects and amount of interventions

- 1.3 DBJ has experience in the sector of the proposed program as the DBJ has carried out initiatives to improve the entrepreneurial and innovation ecosystem in Jamaica with their own resources, such as the first phase of the Innovation Grant from New Ideas to Entrepreneurship (IGNITE) that was approved in 2015 for US\$625,000 and was successfully completed in June 2018.<sup>2</sup>
- 1.4 The results from the IGNITE program, that provided non-reimbursable grants to MSMEs and entrepreneurs for up to US\$35,000 showed that 48% of the beneficiaries engaged in manufacturing activities, 22% in ICT, 7% in scientific and professional activities and 7% in agriculture. In the manufacturing area, most of the activities supported included production of electronic platforms, holistic beauty products and new product development for agro-processing.
- 1.5 The present program envisions awarding non-reimbursable grants in three categories, with no specific sectors identified a-priori and with a focus on women-led firms and firms that address climate change:
  - (i) **MSME innovation window** that will support established firms with up to US\$300,000 to innovate in either products or processes. It is expected that those grants will be awarded for Research and Development (R&D) activities, product development, prototyping, patenting and patent commercialization. The minimum amount of the grant will be US\$70,000.
  - (ii) **Venture capital fund** aimed at rapidly growing star-ups, which will provide US\$100,000 to US\$2 million (US\$750,000 average amount) in risk capital to established SMEs that have high growth potential and operations in Jamaica but have not been deemed investment worthy by private equity funds. The DBJ already has approved a Venture Capital Fund (named SME Fund) under the World Bank

<sup>1</sup> The proportional resource allocations are shown in the detailed budget.

<sup>2</sup> It is reported, that the IGNITE Phase 1 saw “215 full time jobs created; US\$1.8million in investments generated; and entities realizing approximately \$1 million in revenues from the domestic market and exports.

program for MSME access to finance and the Team is exploring the possibility to capitalize this Fund.

- (iii) **Early stage capital fund** which will provide seed capital for entrepreneurs for ideation, commercial and technological risk. The minimum amount of the grant is expected to be US\$10,000 and the maximum amount of the grant will be US\$80,000.

- 1.6 The specific location of the individual MSMEs to be supported under the project are not known at this time, but they could be located anywhere in Jamaica where the Project is being implemented. MSMEs to be supported will likely include agriculture, small scale light manufacturing, ICT, and tourism sectors. And they are expected to be largely related to machinery financing or small and medium-scale construction works in agriculture, small-scale light manufacturing, tourism. Potential impacts are anticipated to be relatively minor to moderate.
- 1.7 The loan contract and operations manual will incorporate the list of excluded activities from the Bank and the requirement that all the projects to be supported have to be in compliance with national legislation and have a valid environmental license if applicable.
- 1.8 The program will not finance any of the activities on the List of Excluded Activities of the IDB, nor any activity that may pose a negative impact in protected areas nor in any natural habitats, cultural heritage sites, or introduction of invasive species. The program won't finance any projects that require involuntary resettlement or economic relocation of affected population. Projects carried out in indigenous lands or that have a negative impact in indigenous populations won't be eligible for financial support. The program won't support any project that has any significant negative environmental and social impacts that could be classified as Category A.

### **C. Institutional capacity of the DBJ**

- 1.9 The DBJ is currently executing two IDB Programs and two World Bank Programs in the sector which are: (i) the Boosting Innovation, Growth and Entrepreneurship Ecosystems Programme (4860/OC-JA); (ii) the Credit Enhancement Program for Micro, Small and Medium Enterprises (MSME) (4115/OC-JA) for US\$25 Million, approved in June 2017; (iii) the Foundations for Competitiveness and Growth Program for US\$50 Million approved in 2014 that has satisfactorily executed 60% of the resources; and (iv) the Jamaica Access to Finance for Micro, Small and Medium Enterprises for US\$15 Million that was approved in January 2018. The performance of these operations is rated satisfactory.
- 1.10 Under the JA-L1085, the Operation Regulations require that, within the framework of eligibility requirements established for the sub-projects in agreement with IDB, the IDB will require the DBJ to:
  - a. Appoint an Environmental and Social Coordinator for the duration of the project.
  - b. Comply with all applicable environmental, social, health and safety, and labor regulatory requirements of Jamaica and requisite IDB policies.
  - c. Confirm that the AFI and the guaranteed sub-projects comply with all applicable environmental, social, health and safety, and labor regulatory requirements of Jamaica. This will be achieved by either amending the existing Guarantee and Indemnity Agreement with the participating AFI or by signing any other legally binding document deemed necessary.

- d. Integrate the IDB exclusions list in the guaranteed approval process.
  - e. Require a specific affidavit from the participating AFI for any guarantee submitted for a sub-loan when the sub-loan total amount is above US\$500,000 (or the equivalent in Jamaican Dollars), confirming that the sub-borrower and guaranteed sub-loan are in possession of necessary operating and Environmental, Social, Health and Safety (ESHS) permits.
  - f. For guarantees submitted for sub-loans that are pending licensing, require the AFI to provide evidence that the licensing process has been initiated in good faith and grant or not specific approval for such guarantee. The evidence will include the proof of any step taken by the sub-borrower towards acquiring the necessary license or permit and the confirmation by the AFI that the case was analyzed and treated as an exception and approved as such by the AFI internal credit approval process. This process will not apply to sub-loans above US\$500,000 (or the equivalent in Jamaican Dollars) and the AFI will need to confirm that the lending documents include a timeframe that does not exceed 12 months.
  - g. The DBJ will present 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.
  - h. 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 DBJ will provide and facilitate access by IDB to all relevant documentation, personnel and guaranteed sub-projects' facilities.
  - i. If necessary, IDB and the DBJ will agree on corrective actions or measures necessary to address impacts and risks and/or to enhance the sub-project's management.
- 1.11 Under the Jamaica Access to Finance for MSMEs, financed by the World Bank, an Environmental and Social Management Framework (ESMF) was prepared, including a consultation process with stakeholders and publication in the DBJ's website. The ESMF is consistent with the GOJ's environmental and regulatory requirements and the World Bank's safeguards policies. According to the ESMF, MSMEs will be required to conform to requirements for E&S performance, and AFIs will need to effectively screen the MSMEs (including for the World Bank exclusion list, permit status, and good practice), verify their eligibility for the CEF, and ensure that E&S requirements are clearly included in guaranteed agreements. AFIs will need to periodically report on the status of their E&S management efforts, so that the DBJ can conform to relevant E&S requirements. The SME Fund Management Firm will assume a leading role in the management of E&S risk for SMEs obtaining risk capital financing. Screening and exclusion criteria are provided in the ESMF to ensure that any MSMEs or activities that will trigger any other World Bank safeguard policies will not be eligible for funding under the Project as described in their ESMF:
- 1.12 The MSME screening and processing procedure involves the following steps:

- ☐ *Compare to Exclusion List*
- ☐ *Assign E&S Risk Category*
- ☐ *Check NRCA permit requirements and status*
- ☐ *Additional Investigation (optional)*
- ☐ *Prepare Guarantee Documentation*
- ☐ *Administration, Evaluation, & Reporting*

- (i) MSMEs also have responsibilities for E&S compliance. They need to provide evidence that their NRCA permit and/or license, if required, has been updated, regularized, and remains in force throughout their involvement. This is especially important since the 2015 NRCA amendments have strengthened and clarified MSME requirements. To assist with this process, DBJ has been providing support to MSMEs and liaising with NRCA/NEPA through an MOU to determine permit and license requirements and negotiate and develop compliance conditions if required, to support the MSME is moving towards full compliance with all relevant E&S requirements. DBJ will also extend the services of the Voucher Program to include environmental & social advisory and occupational health and safety services. These additional efforts are part of the E&S due diligence to improve the compliance performance of MSMEs and therefore minimize E&S risk.
  - (ii) DBJ and AFIs may also provide technical guidance to MSMEs, such as WBG's Environment, Health, and Safety (EHS) Guidelines or good practice documents. The objective is to provide the MSMEs with information to help them move beyond the minimum bar of compliance to improved environmental sustainability that would help reduce costs (e.g., due to use of less water and energy, generation of less waste, etc.) and potential environmental problems. These are made available to MSMEs and may also create MSME financing opportunities should an MSME desire financing to move to cleaner and environmentally more sustainable production.
  - (iii) DBJ will provide safeguards oversight to verify Fund Manager Compliance and report to the World Bank; and the Fund Manager will be responsible for investment screening, assessment, monitoring and reporting. The SME Fund would be sector neutral and therefore a broad variety of investments could be included, including agriculture and ecotourism projects.
  - (iv) Very high-risk projects (Category A) and those on the WBG Exclusion List, would not be eligible.
  - (v) The Fund Manager of the SME Fund will assume a leading role in the management of E&S risk for SMEs. The Fund Manager will be required to effectively screen the SMEs, verify their eligibility in the Fund, ensure that E&S requirements are clearly included in contractual commitments, and periodically report to DBJ on the status of their E&S management efforts. DBJ's environmental policy and management procedure for SME participation forms the basis for the Fund Manager's E&S management system.
- 1.13 During project preparation, the Team will assess and incorporate the applicable existing mechanisms and procedures of the existing programs into the Operation Manual.



**D. Administrative and legislative framework**

- 1.14 The National Environment and Planning Agency (NEPA) is the primary environmental regulator in Jamaica and provides technical and administrative mandate of three statutory bodies: (i) Natural Resources & Conservation, Authority (NRCA); (ii) Town & Country Planning Authority (TCPA); and the (iii) Land Development & Utilization Commission (LDUC).
- 1.15 NEPA operates under the following Acts and all Regulations made hereunder:
- The Natural Resources Conservation Authority Act (1991)
  - The Beach Control Act (1956)
  - The Watersheds Protection Act (1963)
  - The Wild Life Protection Act
- 1.16 The Natural Resources Conservation Authority Act provides for the management, conservation and protection of the natural resources of Jamaica. The Act establishes the Natural Resources Conservation Authority, a body of persons appointed by the Minister of the Environment. The functions of the Authority include the taking of such steps that are necessary to ensure the effective management of the physical environment of Jamaica; and the management of marine parks and protected areas. Section 10 of the NRCA Act gives the NRCA the power to directly request EIAs from any applicant for a permit or (even more broadly) from any person who is doing any undertaking in a prescribed area where it is of the opinion that the environment is likely to have adverse effects due to the activities. The Natural Resources (Prescribed Areas) (Prohibition of Categories of Enterprise, Construction and Development) Order, 1996 and the Permits & Licensing Regulations was passed pursuant to section 9 of the Natural Resources Conservation Authority Act, 1991. The Order provides that the entire island of Jamaica is a prescribed area and lists specified categories of enterprise, construction or development that require a permit. The Act also addresses Sewage and Trade Effluent discharges as well as air emissions.
- 1.17 On April 9, 2015, the NRCA Act was amended, the list of activities requiring permits being widened and the grandfather clause being removed. The amendment aimed at proving clarity on the type of activities requiring Environmental Licenses and/or Environmental Impact Assessments (EIA). It also raised fees and imposed them annually.
- 1.18 The current environmental licensing process is a two steps process. NEPA reviews a Pre-Submission Form (PIF) and decides whether the project requires an EIA. If it does, then NEPA issues the ad-hoc terms of reference for such EIA. All projects requiring an EIA require a public consultation. Licenses must be renewed every five years.
- 1.19 In addition to obtaining environmental permission for the prescribed categories from the NRCA, other permissions are required for development to take place. These include planning approvals from the Town and Country Planning Authority or the Local Planning Authority/Parish Council and also building approvals from the Parish Council /Local Planning Authority.
- 1.20 Last, other permits and licenses may be required under the Beach Control Act, Wild Life Protection Act, Natural Resources (National Parks) Regulations; Endangered Species (Protection, Conservation and Regulation of Trade) Act, Natural Resources (Marine Parks) Regulations and Amendments.

- 1.21 The National Solid Waste Management Authority is responsible for managing solid waste in Jamaica.
- 1.22 Jamaica is 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.
- 1.23 Jamaica is a member of the International Labour Organization since 1962 and has ratified eight of its eight fundamental conventions and three out of the four Governance Conventions.

## INDEX OF COMPLETED AND PROPOSED SECTOR WORK

Area	Description of Works	Dates	Hyperlinks to Technical Files
<b>Country Strategies</b>	Vision 2030 Jamaica National Development Plan. 2009	Completed	<a href="https://www.gemconsortium.org/country-profile/75">https://www.gemconsortium.org/country-profile/75</a>
	Jamaica Micro, Small & Medium Enterprise Policy.2017	Completed	<a href="http://www.miic.gov.jm/content/medium-small-and-micro-enterprises-msmes">http://www.miic.gov.jm/content/medium-small-and-micro-enterprises-msmes</a>
<b>Technical options and design</b>	Mapping of the SME, Innovation and Entrepreneurship Ecosystem	Completed	Internal Document.
	Venture Capital Ecosystem assessment	Completed	Internal Document.
	Analysis of Intellectual Commercialization and Technology Transfer	Completed	Internal Document.
	Technology Foresight Study for Jamaica	Complete	Internal Document.
	2017/2018 Scorecard The Private Equity and Venture Capital Environment in Latin America		<a href="https://lavca.org/scorecard/20172018-lavca-scorecard/">https://lavca.org/scorecard/20172018-lavca-scorecard/</a>
	The New Imperative for Innovation. Policy Perspectives for Latin America and the Caribbean. 2016	Completed	<a href="https://publications.iadb.org/handle/11319/7417">https://publications.iadb.org/handle/11319/7417</a>
	Exploring Firm Level Innovation and Productivity in Developing Countries. 2016. Dohnert, Crespi and Maffioli.	Completed	<a href="https://publications.iadb.org/handle/11319/8138">https://publications.iadb.org/handle/11319/8138</a>
	An Engine for Growth? The Caribbean Private Sector Needs more than an Oil Change. IDB Technical Note. Ruprah and Melgarejo. 2016	Completed	<a href="https://publications.iadb.org/bitstream/handle/11319/7997/Engine-Growth-Caribbean-Private-Sector-Oil-Change.pdf?sequence=1&amp;isAllowed=y">https://publications.iadb.org/bitstream/handle/11319/7997/Engine-Growth-Caribbean-Private-Sector-Oil-Change.pdf?sequence=1&amp;isAllowed=y</a>
	Jamaica MSMe Survey Report	Completed	<a href="https://balcostics.files.wordpress.com/2013/07/jamaica-smes-survey-report-2013.pdf">https://balcostics.files.wordpress.com/2013/07/jamaica-smes-survey-report-2013.pdf</a>
	Evaluación del Programa Emprendedores Innovadores. 2013. Kantis, Federico	Completed	<a href="http://www.anii.org.uy/upcms/files/listado-documentos/documentos/1441135930_informe-evaluaci-n-externa-2013-n-1-.pdf">http://www.anii.org.uy/upcms/files/listado-documentos/documentos/1441135930_informe-evaluaci-n-externa-2013-n-1-.pdf</a>
	Informe de Evaluación Emprendedores Innovadores. 2017. Agencia Nacional de Investigación e Innovación. ANNI	Completed	<a href="https://www.anii.org.uy/institucional/documentos-de-interes/4/informes-de-evaluacion/">https://www.anii.org.uy/institucional/documentos-de-interes/4/informes-de-evaluacion/</a>

	Global Entrepreneurship Monitor. 2016/2017. Jamaica Report	Completed	<a href="https://www.gemconsortium.org/country-profile/75">https://www.gemconsortium.org/country-profile/75</a>
	Assessment of the Jamaican Innovation Ecosystem and Draft Strategic Plan. Development Bank of Jamaica. 2017	Completed	Internal Document.
<b>Analysis of the Institutional, Legal and Regulatory Framework</b>	Document assessing the current framework and proposing implementation measures	Completed	Internal Document.

CONFIDENTIAL

<sup>1</sup> The information contained in this Annex is confidential and will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Access to Information Policy (GN-1831-28) at the Inter-American Development Bank.