

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

JAMAICA

EVALUATION OF STRATEGIC OPTIONS FOR REFORM OF DEVELOPMENT BANK OF JAMAICA'S WHOLESALE LENDING WINDOW FOR AGRICULTURE AND MICROENTERPRISE

(JA-T1041)

PLAN OF OPERATIONS

This document was prepared by the project team consisting of: Mark Wenner, (ICF/CMF) Project Team Leader; Carina Cockburn (MIF/CJA); Javier Jimenez Mosquera (LEG/SGO); Virginia Franzini (LEG/SGO); and Dianela Avila (ICF/CMF).

CONTENT

I.	BACKGROUND AND JUSTIFICATION	2
II.	PROGRAM DESCRIPTION	3
	A. Program goal and purpose	3
	B. Activities.....	3
III.	COST AND FINANCING.....	4
	A. Cost table	4
	B. BUDGET	4
IV.	EXECUTING AGENCY AND MECHANISM.....	5
	A. Executing Agency.....	5
	B. Execution period and disbursement schedule.....	5
	C. Procurement	5
V.	MONITORING AND EVALUATION	5
	A. Monitoring	5
	B. Technical and basic responsibility	5
	C. Progress and final reports	5
	D. Description of proposed evaluations	5
VI.	PROGRAM BENEFITS AND RISKS	6
	A. Program benefits and developmental impact.....	6
	B. Target Beneficiaries.....	6
	C. Risks	6
VII.	ENVIRONMENTAL AND SOCIAL REVIEW.....	7
	A. Date of ESR review	7
VIII.	RECOMMENDATION.....	7
IX.	APPROVAL	7

ANNEXES

ANNEX I Terms of Reference

BASIC SOCIOECONOMIC DATA

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

ABBREVIATIONS

AFI	Approved Financial Institutions
DBJ	Development Bank of Jamaica Limited
FGCE	Spanish General Cooperation Fund
NPCB	National Peoples Cooperative Bank

PLAN OF OPERATIONS (JA-T1041)

EXECUTIVE SUMMARY

Beneficiary:	Country of Jamaica		
Executing agency:	Inter-American Development Bank		
Team Leader and Team Members	Mark Wenner, (ICF/CMF) Project Team Leader; Carina Cockburn (MIF/CJA); Javier Jimenez Mosquera (LEG/SGO); and Virginia Franzini (LEG/SGO); and Dianela Avila (ICF/CMF)		
Target Beneficiaries:	Small-scale agricultural producers, urban and rural non-farm microenterpreneurs, Government of Jamaica		
Financing:	IDB: (FGE)	€101,376	US\$140,000.00
	Local:	€21,723	US\$29,999.46
	Total:	€123,099	US\$169,999.46
Objectives:	The general objective of this TC is to finance a thorough diagnostic study of two credit wholesale windows operated by the Development Bank of Jamaica Limited, the Approved Financial Institutions and National Peoples Cooperative Bank windows. Theses windows provide funds to on-lend to microenterpreneurs and small farmers. The aim of the consultancy is develop a set of strategic options as to reform and improve the quality, efficiency, and sustainability of financial services offered through these windows.		
Execution timetable:	6 months		
Special contractual conditions:	None		
Exceptions to Bank Policies and Procedures:	None		
Environmental and social review:	“C” classification by ESR net on October 22, 2008		
Coordination with Other Donors:	Collaborating with World Bank on development of a related risk management project that will benefit agricultural producers		

I. BACKGROUND AND JUSTIFICATION

- 1.1 On May 26, 2008, the Development Bank of Jamaica (DBJ) a public entity, made an official request to the IDB for a technical assistance operation to develop a strategy and plan of action for the reform of two wholesale credit windows, National Peoples Cooperative Bank (NPCB) and the Approved Financial Institutions (AFI). These two windows target two underserved and financially excluded communities—small-scale agricultural producers and urban microentrepreneurs respectively. The purpose of DBJ is to provide a supplemental source of funding at attractive rates and with term security to retail lending institutions. Unfortunately, the wholesale windows targeting these two excluded population groups are not functioning well. The intention of the senior management of DBJ is to implement the findings of this technical cooperation. The likely outcome will be either a follow-on MIF grant or public sector loan. The government of Jamaica is highly motivated to rationalize public expenditures since it is a condition in a recently approved Competitiveness Enhancement policy based loan, JA-L1001.
- 1.2 The Approved Financial Institutions Window (AFI) is not reaching microentrepreneurs to any appreciable degree. Regulated commercial banks whom are the clients of this window claim that the sector is too risky and high cost to attend. The other window is actually on-lending to a consolidated set of private cooperative banks that date back to 1905, now called the National Peoples Cooperative Bank (NPCB). NPCB's purpose is to mobilize rural savings and lend to small farmers. The institution has had a checkered history and largely serves as an agent to channel government and donor funds. Despite the ability to mobilize deposits from the public it has been less than successful due to a 50% delinquency rate, heavy recurrent losses, poor control systems, and the inability to attract and retain quality staff. The DBJ has repeatedly re-capitalized the NPCB; however, it has started a process of reducing its support given the high indebtedness of Central Government. For example, NPCB has cut its total number of branches to 38, down from 116 a decade ago. Even though DBJ wrote off over half of its wholesale portfolio with NPCB in 2006, the institution is still projected to lose a further US\$71.28 m this year. The DBJ, in coordination with the Ministry of Finance has taken the policy decision to institute a process of graduation of the NPCB, with a view to eliminating the ongoing drain on the public treasury. It is noteworthy that international development agencies, including the IDB encouraged the GOJ to suspend transfers to the NPCB in the early 1990's, however in the current decade several donors have turned to the NPCB as a means of making other projects viable. As such, the DBJ has been mandated to channel funds to pre-identified beneficiaries with little consideration of their creditworthiness.
- 1.3 Upon technical review by staff in CMF, CJA, and MIF, several adjustments were recommended in the original request. These consist of limiting the scope of the initiative to just the NPCB window; reducing the financing request to US\$170,000; and instead of seeking US\$445,000 to rapidly diagnose and

implement some changes. Based on a thorough understanding of the problem, it was decided to first seek funding for a thorough diagnostic that would identify one or more viable options, then develop a consensus among Jamaican stakeholders about one course of action, and finally design and approve one or more adequately dimensioned financing operations to implement the agreed upon course of action. The need to fully understand problems and build a political consensus for change was deemed fundamental to lasting success.

II. PROGRAM DESCRIPTION

A. Program goal and purpose

- 2.1 The goal of the operation is to develop a set of strategic options for the reform of the National Peoples Cooperative Bank and Approved Financial Institutions wholesale credit windows operated by the Development Bank of Jamaica Limited. The thorough financial and institutional diagnosis and recommendations will serve as the basis for key stakeholders to develop a consensus and make an informed decision on how to better serve the financial needs of the class of small-scale agricultural producers and rural non-farm entrepreneurs normally attended by retail institutions using the two aforementioned windows.

B. Activities

- 2.2 The consultancy will engage in the following activities.
- a. Participate in a planning and orientation meeting (videoconference) with IDB and DBJ staff.
 - b. Complete a thorough institutional and financial appraisal of the wholesale credit windows. Will involve review of the records of DBJ, AFI, and NPCB.
 - c. Interview clients of NPCB and AFI, document the level of client satisfaction with services at present, and explore what are client preferences and capacity/willingness to pay.
 - d. Estimate the demand for the various financial products offered.
 - e. Determine the principal factors explaining the high levels of losses and current state of affairs with the two wholesale windows.
 - f. Elaborate a set of strategic options for the wholesale windows that range from closure to reform with attendant costs, risks, likely impacts, and benefits spelled out.
 - g. Circulate reform proposals with key stakeholders and IDB staff for vetting.
 - h. Plan and organize dissemination seminar with key stakeholders in Jamaica with the purpose of building consensus.

- i. Submit report for revision and clearance.
- j. Submit revised report in English (5 hard copies and 5 electronic storage media with the Word and Excel files).

III. COST AND FINANCING

A. BUDGET

TYPE OF EXPENSE	TRUST FUND (EUR) ¹	COUNTER- PART ² (EUR)	TOTAL (EUR)
Expert #1: Senior Financial and Institutional Analyst			
HONORARIUM/FEES			
• 120 working days x US\$500	43,446.74		43,446.74
Expert #2 Junior Accounting/Financial Analyst			
HONORARIUM/FEES			
• 90 working days x US\$350	22,809.50		22,809.50
CONSULTING FIRM OVERHEAD FEES	13,034.00		13,034.00
Counterpart Experts (Senior Officials)			
IMPUTED FEES			
• 50 working days x US\$300		7,241.13	7,241.13
Counterpart Experts (Junior Officials)			
IMPUTED FEES			
• 120 working days x US\$150		13,034	13,034
PER DIEM :			
• 50 days x US\$262	9,485.88		9,485.88
TRAVEL COSTS:			
International Travel:			
• 3 tickets x 2 experts x US\$1,400	6,082.54		6,082.54
Local Travel (to other cities):			
• 2 tickets x. 2 experts x US\$250	724.113		724.113
OTHER COSTS :			
Seminar Expenses (Venue Rental, Audiovisual Equipment, Light Refreshments)	2,172.33		2,172.33
COMMUNICATIONS (Phone, Fax, Internet Charges)	1,448.22		1,448.22
GENERAL LOCAL SUPPORT (Transport, Office Space, Photocopying etc)		1,448.22	1,448.22
UNFORESEEN	2,172.33		2,172.33
GRAND TOTALS	101,376€	21,723€	123,099€

B. Cost table

- 3.1 The total cost of the project will be €123,099 (US\$169,999.46), of which the Bank will provide non-reimbursable financing of up to €101,376 (82.5%) and is

¹ Note: The exchange rate used to convert US dollars to Euros as of December 16, 2008 is US\$1= €724113

² Counterpart will be mostly in-kind

equivalent to US\$140,000, from the Spanish General Cooperation Fund (FGS), and local counterpart will be €21,723 (17.5%) and equivalent to US\$29,999.46.

IV. EXECUTING AGENCY AND MECHANISM

A. Executing Agency

- 4.1 This Inter-American Development Bank will be the executing agency.

B. Execution period and disbursement schedule

- 4.2 Execution will be in 6 months period and Disbursement in 9 months

C. Procurement

- 4.3 **Procurement**: The Country Office of the Inter-American Development Bank in Jamaica (CCB/CJA) will be responsible for selecting, hiring, and supervising the consulting firm in accordance to the respective trust fund guidelines (50% tied to Spanish firms or nationals) and all the applicable policies and procedures of the Bank.

V. MONITORING AND EVALUATION

A. Monitoring

- 5.1 Staff in ICF/CMF and CCB/CJA will closely monitor the consultancy to assure relevancy and appropriate focus. Frequent email and phone communication are expected to be maintained.

B. Technical and basic responsibility

- 5.2 **Technical Responsibility**: Inter-American Development Bank by Capital Markets and Financial Institutions Division (ICF/CMF).
- 5.3 **Responsibility for Disbursements**: The technical supervision and basic administration for the operation shall be with country office of Jamaica CCB/CJA.

C. Progress and final reports

- 5.4 Monthly progress reports will be required from the consulting firm and shared with the Development Bank of Jamaica. The final report shall be reviewed and vetted by IDB staff.

D. Description of proposed evaluations

- 5.5 Since the operation will be executed by the IDB no evaluation shall be required.

VI. PROGRAM BENEFITS AND RISKS

A. Program benefits and developmental impact

- 6.1 The developmental impact of the program will be successful implementation of recommendations that effectively result in the delivery of better and more efficient financial services to small-scale agricultural producers and microentrepreneurs in Jamaica.

B. Target Beneficiaries

- 6.2 The beneficiaries of the operation are primarily the Government of Jamaica who will have guidance on how to improve the way financial services are being delivered to important but underserved segments of the population, small-scaled farmers and microentrepreneurs. If the recommendations are acted upon and found to be effective, then the ultimate beneficiaries will be small-scale farmers and entrepreneurs who are currently experiencing difficulty in accessing formal financial services.

C. Risks

- 6.3 The operation has three principal risks. First, vested political interests and other donors that expeditiously use NPCB to channel subsidized resources to constituencies of interest may resist reform. Second, the quality of the consultancy may be deficient or not enough time may be available to forge the necessary consensus for reform among the key stakeholders resulting in the final report not being acted upon. Third, the data needed to perform a thorough analysis may not be readily available or disaggregated in the desired form.
- 6.4 The three mitigating factors are the following. First, the Government of Jamaica is highly indebted and has agreed to a program of expenditure rationalization and improved fiscal management. As a signatory to Competitiveness Enhance loan, JA-L1011, one of the conditions for the release of future funds is a reduction in losses. The motivation to reform NPCB and AFI should be high. Second, to assure the delivery of high quality consulting services and the elaboration of credible and feasible recommendations, the IDB staff will have to pay close attention in the selection process and will have to monitor closely. The emphasis will be on selecting a team that has prior experience in reforming public banks and which has intimate knowledge of Jamaican realities. Third, lack of information or problems with access to information will be closely monitored and the relationship of DBJ with its participating retail institutions used to obtain a bare minimum of information needed to make an informed decision.

VII. ENVIRONMENTAL AND SOCIAL REVIEW

A. Date of ESR review

- 7.1 The TC seeks to give guidance as how to improve credit access for an excluded group and it seeks to reduce or eliminate the need for costly transfers from the treasury to an ailing institution, NPCB, which is primarily about conducting a diagnostic and developing a strategic plan of action. For this reason, the Technical Cooperation has been classified as a category “C” operation, on October 22, 2008.

VIII. RECOMMENDATION

- 8.1 Mark Wenner, designated team leader for the project of the reference, recommends the approval of this operation and the use of resources form the Spanish General Cooperation Fund totaling up to €101,376 in order to finance the corresponding project.

IX. APPROVAL

Original Signed
Kurt Focke
Chief, ICF/CMF

18/12/2008
Date

Original Signed
Gerard S. Jonhson
Country Representative CCB/CJA

18/12/2008
Date

**EVALUATION OF STRATEGIC OPTIONS FOR REFORM OF DEVELOPMENT BANK
OF JAMAICA'S WHOLESALE LENDING WINDOW FOR AGRICULTURE AND
MICROENTERPRISE**

JA-T1041

CERTIFICATION

I hereby certify that this operation was approved by the donor of the *Fondo General de Cooperación de España (FGE)* in its FEV Commission meeting held on December 4, 2008 and informed to GCM by Ana de Vicente Lancho, *SG Instituciones Financieras Multilaterales*, Ministry of Economy of Spain. Also, I certify that resources from the *Fondo General de Cooperación de España (FGE)* are available for up to €101,376 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of twelve (12) calendar months counted from the date of signature below. 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 Euros. 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 Plan of Operations. 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, for which the Fund is not at risk.

SK



Marguerite S. Berger
Chief

Grants and Cofinancing Management Unit
VPC/GCM

12/17/08

Date

ANNEX I. TERMS OF REFERENCE

Diagnosis and Strategic Options for the Reform of Development Bank of Jamaica Limited Ministry

I. Background

- 1.1 Specialized consulting services are needed to advise and assist the Development Bank of Jamaica Limited formulate a plan as to how to reform two wholesale credit windows that are not functioning well.
- 1.2 On May 26, 2008, the Development Bank of Jamaica (DBJ), a publicly owed bank, made an official request to the IDB for a technical assistance operation to develop a strategy and plan of action for the reform of two wholesale credit windows, National Peoples Cooperative Bank (NPCB) and the Approved Financial Institutions (AFI). These two windows target two underserved and financially excluded communities—small-scale agricultural producers and urban microentrepreneurs respectively. The purpose of DBJ is to provide a supplemental source of funding at attractive rates and with term security to retail lending institutions. Unfortunately, the wholesale windows targeting these two excluded population groups are not functioning well. The intention of the senior management of DBJ is to implement the findings of this technical cooperation. The likely outcome will be either a follow-on MIF grant or public sector loan. The government of Jamaica is highly motivated to rationalize public expenditures since it is a condition in a recently approved Competitiveness Enhancement policy based loan, JA-L1001.
- 1.3 The Approved Financial Institutions Window (AFI) is not reaching microentrepreneurs to any appreciable degree. Regulated commercial banks whom are the clients of this window claim that the sector is too risky and high cost to attend. The other window is actually on-lending to a consolidated set of private cooperative banks that date back to 1905, now called the National Peoples Cooperative Bank (NPCB). NPCB's purpose is to mobilize rural savings and lend to small farmers. The institution has had a checkered history and largely serves as an agent to channel government and donor funds. Despite the ability to mobilize deposits from the public it has been less than successful due to a 50% delinquency rate, heavy recurrent losses, poor control systems, and the inability to attract and retain quality staff. The DBJ has repeatedly re-capitalized the NPCB; however, it has started a process of reducing its support given the high indebtedness of Central Government. For example, NPCB has cut its total number of branches to 38, down from 116 a decade ago. Even though DBJ wrote off over half of its wholesale portfolio with NPCB in 2006, the institution is still projected to lose a further US\$71.28 m this year. The DBJ, in coordination with the Ministry of Finance has taken the policy decision to institute a process of graduation of the NPCB, with a view to eliminating the ongoing drain on the public treasury. It is noteworthy

that international development agencies, including the IDB encouraged the GOJ to suspend transfers to the NPCB in the early 1990's, however in the current decade several donors have turned to the NPCB as a means of making other projects viable. As such, the DBJ has been mandated to channel funds to pre-identified beneficiaries with little consideration of their creditworthiness.

- 1.4 Upon technical review by staff in CMF, CJA, and MIF, several adjustments were recommended in the original request. These consist of limiting the scope of the initiative to a detailed diagnosis of the wholesale lending windows while reducing the financing request to US\$170,000 instead of seeking US\$445,000 to rapidly diagnose and implement some changes. Based on a thorough understanding of the problem, it was decided to first seek funding for a thorough diagnostic that would identify one or more viable options, then develop a consensus among Jamaican stakeholders about one course of action, and finally design and approve one or more adequately dimensioned financing operations to implement the agreed upon course of action. The need to fully understand problems and build a political consensus for change was deemed fundamental to lasting success.
- 1.5 On December 4, 2008 the Spanish General Cooperation Fund approved use of non-reimbursable resources to support this consultancy. The Fund is tied and 50% of the Trust funds must be used by Spanish firms or Spanish nationals.

II. Objective

- 2.1 The objective of this consultancy is to advise the managers and executive officers of Development Bank of Jamaica Limited on how to best restructure or reform two wholesale credit windows—Approved Financial Institutions and National Peoples Cooperative Bank---operated by said institution that have not been performing well. The purpose is to provide a set of strategic options that will reduce operating losses, improve the quality of service provided to clients, and improve efficiency.

III. Characteristics of the Consultancy.

Type of Consultancy: Firm (Tied; must be Spanish)

Start Date: February 2009

Duration and Location: Minimum of 50 days in Jamaica and the rest of the time in home country of consulting firm or home country of hired consultant.

Disbursements: 30% at the time of signing; 50% at the time of the submission of the first draft version of the final report; and 20% at the time of the submission of the approved revised version of the final report.

Requirements: At a minimum the team should include three persons but additional members may be considered and entertained. One person on the team should have significant experience (that is greater than 15 years) in appraising financial institutions; advising and implementing reform of troubled

financial institutions; and working with publicly owned financial institutions that have social mandates. Other specialists should be very proficient in accounting, financial appraisal, asset valuation, Jamaican political economy considerations, and the evolution of microfinance in Jamaica. At least one person on the team must have good knowledge of Jamaican institutional, socioeconomic, and political realities in order to tailor recommendations that will be feasible and implementable in the Jamaican context. All members of the team should be fluent in English (read, write, and speak). Previous professional work experience by most, if not all, of the team in the English-speaking Caribbean is desirable.

IV. Activities

1. Participate in a planning and orientation meeting (videoconference) with IDB and DBJ staff.
2. Complete a thorough institutional and financial appraisal of the wholesale credit windows. Will involve review of the records of DBJ, AFI, and NPCB.
3. Interview clients of NPCB and AFI, document the level of client satisfaction with services at present, and explore what are client preferences and capacity/willingness to pay.
4. Estimate the demand for the various financial products offered.
5. Determine what the principal factors are explaining the high levels of losses and current state of affairs with the two wholesale windows.
6. Elaborate a set of strategic options for the wholesale windows that range from closure to reform with attendant costs, risks, likely impacts, and benefits spelt out.
7. Circulate reform proposals with key stakeholders and IDB staff for vetting.
8. Plan and organize dissemination seminar with key stakeholders in Jamaica with the purpose of building consensus.
9. Submit report for revision and clearance.
10. Submit revised report in English (5 hard copies and 5 electronic storage media with the Word and Excel files).

V. Deliverables Products (2)

The first deliverable is a dissemination seminar organized and planned in conjunction with DBJ and realized at a venue to be determined in Jamaica to present preliminary findings and strategic options.

The second deliverable is a final report that includes the following:

- (i) Brief history of the two wholesale credit windows—NPCB and AFI—focusing on political objectives and actual performance (outreach, asset quality, cost of operation, staffing, reported socioeconomic impact on end users of credit).
- (ii) Appraisal of the current situation with the credit windows from the perspective of DBJ a second tier institution. Review of operating procedures, pricing of resources, delinquency control, and administrative efficiency.
- (iii) Financial and institutional assessment of a representative cross-section of surviving National Peoples Cooperative Banks and financial institutions

participating in AFI focusing on quality of management and staff; asset liquidity management; asset quality; profitability; solvency; operational efficiency; degree of subsidy dependence; opinions of how well the wholesale window works from the perspective of a first tier retail institution in expanding market presence and generating a profit; and the relative degree of success obtained in outreach to intended beneficiaries, i.e. small-scale agricultural producers and microentrepreneurs. Multiyear analysis to determine trends and tendencies should be conducted. It may not be possible, but to the extent disaggregated information exists on what the contribution to overall profitability is for participating retail institutions in the AFI and NPCB line of credit operations, that would be most welcomed.

- (iv) Summary reports from end user loan clients to determine levels of satisfaction and to explore alternative sources used for financial services in conjunction with or in the possible absence of NPCB and AFI (terms and conditions likely to be faced).

VI. Expected Results

The managers of DBJ and other Jamaican stakeholders should have a clear and panoramic picture of why the windows are not working well; what are the costs of continuing the wholesale windows as is; how successful the windows have been in terms of outreach; what are possible options of reform along with estimated attendant costs for implementation, risks of implementation, preconditions needed for success, and likely impacts in terms of improved service, outreach, and financial sustainability for both participating first tier institution and second tier institution (DBJ).

VII. Technical and Administrative Supervision

Carina Cockburn (CCB/CJA) and Mark Wenner (ICF/CMF) will supervise the consultancy.

VIII. Reporting and Monitoring

The consulting team and the IDB staff supervising the operation shall maintain frequent email and phone communication. Monthly written progress reports are to be submitted.