

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

JAMAICA

**CONDITIONAL CREDIT LINE FOR INVESTMENT PROJECTS (CCLIP):
BOOSTING INNOVATION, GROWTH AND ENTREPRENEURSHIP ECOSYSTEMS**

(JA-O0010)

**FIRST INDIVIDUAL OPERATION UNDER THE CCLIP
BOOSTING INNOVATION, GROWTH AND ENTREPRENEURSHIP ECOSYSTEMS**

(JA-L1085)

PROJECT PROFILE

This document was prepared by the project team consisting of: Claudia Stevenson (IFD/CTI); Team Leader; Sylvia Dohnert (IFD/CTI) Alternate Team Leader, Juan Carlos Navarro (IFD/CTI), Adrian Magendzo (IFD/CTI), Edwin Goni (IFD/CTI), Elias Tefarikis (IFD/CTI), Kayla Grant (IFD/CTI); Jaiwattie Anganu (IFD/CMF); Luana Marques (SCL/GDI); Svante Persson (CSD/CCS), Terry-Ann Segree (GRU/CJA); Guillermo Eschoyez (LEG/SGO), Naveen Jainauth-Umrao (VPC/FMP), Martin Nesbeth (VPC/FMP), Elroy Ruel Leith (CCB/CJA), Rene Herrera (FMP/CJA) and Yohana Gonzalez (IFD/CTI).

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

PROJECT PROFILE

JAMAICA

I. BASIC DATA

Project Name:	Conditional Line of Credit for Investment Projects (CCLIP) and First Individual Loan for Boosting Innovation, Growth and Entrepreneurship Ecosystems		
Project Number:	JA-L1085 (CCLIP CREDIT LINE: JA-O0010)		
Project Team:	Claudia Stevenson (IFD/CTI); Team Leader; Sylvia Dohnert, Alternate Team Leader (CTI/CBA); Adrian Magendzo, Edwin Goñi, Elias Tefarikis and Kayla Grant (IFD/CTI); Navita Anganu (CMF/CJA); Luana Marquez (SCL/GDI); Terry-Ann Segree (GRU/CJA); Sudaney Blair (CCB/CJA), Guillermo Eschoyez (LEG/SGO), Naveen Jainauth-Umrao, Rene Herrera, (FMP/CJA); and Yohana Gonzalez (IFD/CTI).		
Borrower:	Jamaica		
Executing Agency:	Development Bank of Jamaica		
Financial Plan:¹		<u>Credit Line CCLIP (JA-O0010)</u>	<u>First Individual Loan (JA-L1085)</u>
	IDB (Ordinary Capital):	US\$50,000,000	US\$25,000,000
	Total:	US\$50,000,000	US\$25,000,000
	Policies triggered:	B.1 (OP-102); B.2; B.7. B.13	
Safeguards:	Classification:	B.13	

II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **Background.** The Government of Jamaica requested the Bank's support in financing a program that would support innovation, entrepreneurship and economic growth and which would provide technical and financial support to the Development Bank of Jamaica (DBJ) in executing such a program. The request will be structured as a Conditional Line of Credit for Investment Loans (CCLIP) for an amount of US \$50 Million. The present program for US\$25 million constitutes the first individual loan operation under the CCLIP.
- 2.2 **Economic context.** For the past decades Jamaica has experienced low levels of economic growth – less than one percent yearly average – and debt levels to Gross Domestic Product (GDP) ratios of over 100%². Recently, the debt to GDP ratio has been reduced from 1.45 in 2014 to 1.04 in 2017³, and employment fell to 9.7% in 2018 (an 11-year low), although fiscal conditions have improved, and Jamaica has ranked the highest in the Caribbean in the World Bank's Doing Business report in the last years, (carrying out reforms such as reducing the cost of paying taxes,

¹ Co-financing is being explored. Any co-financing would be additional to the loan amount.

² Debt, Fiscal Adjustment and Economic Growth, Schmid and Malcom. IDB Policy Paper 2016.

³ International Monetary Fund (IMF). 2018.

improving access to finance through secured transactions and insolvency, and simplifying business registration, among others), economic growth was only 0.5% during 2017, and is expected to be around 2% in 2018.

- 2.3 The slow growth has its roots in declining productivity: Total Factor Productivity (TFP) has decreased at 1.6% per year since 2000. In 2014, TFP equaled 30% to that of the US⁴. GDP growth has been mainly driven by exogenous factor accumulation (hiring more people or increasing physical capital) and lack of innovation has hindered productivity and growth.
- 2.4 Promoting innovation in firms has shown to reverse low economic growth and low productivity trends, and there is a transformational, high impact increase in productivity and growth by strengthening innovation ecosystems⁵. An innovation and entrepreneurship ecosystem ([See link](#)) is composed by stakeholders from the private, public and academic sectors and supported by intermediary institutions (business incubators and accelerators, technology transfer offices, investors networks, venture capitals, among others) and depends on the presence of key elements, such as the regulatory framework in place, skilled human capital, and venture capital, among others. There is plenty evidence⁶ on the importance of innovation to create economic growth, productivity, wealth and employment and the importance of public sector interventions to foster innovation at a company level and to create a propitious environment or ecosystem that allows innovation to flourish. There are two main sources of innovation at a company level. On one hand, incumbent companies through innovation can create new products and processes that make their operation more productive and competitive and new entrants or entrepreneurs that detect an opportunity, many times disruptive, and build a new company or Start-Up that many times has explosive growth with disproportionate impact on employment, productivity and wealth creation. Supporting incumbent and start-up companies requires a different and distinct set of policies and programs.
- 2.5 Based on similar experiences in the region, such as the case of Peru and Uruguay that started with similar incipient innovation ecosystems as the one Jamaica has now, and where the results in terms of growth, innovation and employment generation were instrumental in the economic transformation processes of those countries, this project aims at shifting stagnant growth trends by building an innovation ecosystem that supports innovation in MSMEs and dynamic entrepreneurship by cultivating, accelerating and supporting high potential growth ventures at all stages in the business cycle (from early and ideation stage, to

⁴ The Next Generation of the Penn World Table" American Economic Review, 2015.

⁵ The New Imperative of Innovation, Juan Carlos Navarro, IDB, 2016.

⁶ Acs, Audretsch, Strom, "Entrepreneurship, Growth and Public Policy", 2009, Navarro, Crespi and Benavente, "The New Imperative of Innovation: Policy Perspectives for Latin America and the Caribbean", 2016. D.B. Audretsch, Keilbach, and. Lehmann, "Entrepreneurship and Economic Growth", 2014.

established start-ups with high growth potential and established SMEs that face challenges to innovate and grow)⁷.

- 2.6 **Rationale for intervention and main challenges to be addressed.** Small and medium-sized enterprises (SMEs) in Jamaica provide for 90% of employment and micro, small and medium-sized enterprises (MSME)⁸ account for 98% of registered firms⁹. It is estimated that around 9,600 MSMEs engage in business activities, of which 37% are small. Most of them engage in wholesale and retail trade (55.7%) and in services (23%). Jamaican firms' productivity growth has been below the average of the Caribbean region for the period 2007-2013, and lower than other small economies¹⁰. Both GDP per worker and total factor productivity has contracted relative to other small economies and while Jamaica does not differ from other small economies in their capacity for innovation, Jamaican businesses (in particular MSMEs) innovate at slower rates than those of other small economies ([See link](#))¹¹. However, recent surveys show that there is a cadre of SMEs driven by opportunity with high growth potential that claim that lack of funding hinders their ability to grow and innovate¹². Many of these SMEs and dynamic start-ups do not have the collateral for borrowing in commercial banks and are looking for co-investors or other mechanisms for reducing risk rather than traditional debt¹³. On the other hand, total entrepreneurial activity (TEA) has declined in Jamaica, and the gender gap in entrepreneurship has widened¹⁴.
- 2.7 While lack of funding for innovation is a deterrent for growth at the firm level, there are challenges at more aggregate levels that inhibit innovation. Jamaica's innovation ecosystem is classified as an "efficiency-driven" economy, rather than "innovation-driven"¹⁵ and ranks 84th out of 127 countries in the 2017 Global Innovation Index. A 2013-2014 firm level survey revealed that only 12% of surveyed Jamaican firms are innovating compared to 46% in Suriname and 24% in Trinidad and Tobago and only 13% of Jamaican firms indicate having a Research and Development (R&D) department¹⁶.
- 2.8 The current Jamaican startup and SME innovation ecosystem is comprised of: (i) a network of incubators and accelerators (public and private); (ii) academic

⁷ An impact evaluation using quasi-experimental techniques revealed investment in innovation higher than the public support that had been obtained, a 20% greater likelihood of launching products in international markets, and a 230% increase in sales of innovative products. Moreover, each dollar of public support generated 19 dollars in terms of increased fiscal revenues to the government. (Kantis, 2013, ANNI 2017). In Perú, public support for entrepreneurship and innovation attracted investment of international investors, universities and large corporations to take advantage of the commercial opportunities being created by the eco-system.

⁸ Ministry of Industry, Commerce, Agriculture and Fisheries (MICAF) defines a MSME based on annual sales as follows: Micro <J\$15 Million, Small >15\$J Million < 75J\$ Million and Medium > J\$75 Million < J\$ 425 Million.

⁹ MICAF 2018. MSEM Policy.

¹⁰ See Ruprah and Melgarejo (2016) that show that Jamaica's Sales Growth was -6.71% in 2010 compared to the Caribbean average of 1.46% and sales growth was 2.44% compared to the Caribbean average of 3.53%.

¹¹ IDB. Ruprah and Melgarejo. 2016. Engine of Growth? The Caribbean Private Sector Needs More than an Oil Change. Small economies or Rest of Small Economies (ROSE) are defined as countries with a population smaller than 3 Million.

¹² Jamaica SME Survey Report 2013.

¹³ European Investment Bank. 2017.

¹⁴ Global Entrepreneurship Monitor 2016/2017 Report.

¹⁵ Ibid

¹⁶ PROTEqIN, 2014.

institutions (providing R&D, pre-seed and research); (iii) a very incipient network of financiers, mainly angel investors and venture capitalists; and (iv) public institutions such as the Ministry of Science, Energy and Technology (MSET), the Science Research Council, the National Commission for Science and Technology (NSCT), the Jamaica Trade and Promotion Office (JAMPRO) and the Ministry of Industry, Commerce, Agriculture and Fisheries (MICAFA). Although the 2018 Micro, Small and Medium Enterprise & Entrepreneurship policy identifies the need to foster entrepreneurship as a mechanism to transform the economy, most of these institutions have programs that support both MSMEs and entrepreneurship in a non-articulated way, are small scale and don't support the needs for MSMEs and entrepreneurs with high growth and disruptive potential¹⁷. There is a need for policies and instruments that support innovative businesses at all stages, especially within the high tech sector ([see link](#))¹⁸. On the other hand, the system has strengths that provide a transformational opportunity for Jamaica¹⁹, such as: (i) legislation that allows for VC and new ventures (legislation on Limited Partnerships (LP), investment of Pension Funds in VC, instruments for preservation of viable companies and the use of movable assets as collateral and regulation for the operation of VC funds and their tax treatment ([see link](#)); (ii) a Junior stock exchange; and (iii) an academic sector that is generating local talent in business and technology²⁰.

- 2.9 The DBJ has acted as a catalyst for public and private initiatives in the ecosystem, executing initiatives to improve entrepreneurship and innovation, such as the Innovation Grant from New Ideas to Entrepreneurship (IGNITE). An assessment of the eco-system to support entrepreneurship and innovation in Jamaica²¹ found that: (i) there was insufficient support at the ideation stage to yield a solid pipeline of dynamic growth enterprises; and (ii) there are no accelerators in Jamaica that can support the needs of high-potential growth entrepreneurs. An evaluation of the first experience of the IGNITE program showed that high-potential growth entrepreneurs had not been able to get useful advice for scaling-up from the existing incubators that participated in the project.
- 2.10 Notwithstanding ongoing work to strengthen entrepreneurship and innovation in Jamaica, there are existing gaps in the depth and effectiveness of the eco-system. This operation intends to help close those gaps. The main bottlenecks identified are: (i) weak deal flow²² of good quality projects; (ii) insufficient equity and other instruments to address liquidity/credit constraints; (iii) lack of coordination between the stakeholders; and (iv) the lack of capacity (incubators, accelerators, private funding) to respond to the needs of SMEs, start-ups and entrepreneurs with growth

¹⁷ For example, the Jamaican Business Development Corporation (JBDC) has carried 8,600 interventions most of them on business advisory services on MSMEs with low growth and high levels of informality, which are not the type of SMEs targeted by the JA-L1085 program. This and other Business Support Organizations (BSOs) provide the basis on which to build an entrepreneurship and innovation ecosystem.

¹⁸ Assessment of Jamaican Innovation Ecosystem and Draft Strategic Plan. DBJ. 2017.

¹⁹ European Investment Bank 2017.

²⁰ For example, two cohorts of Jamaican university students have won prizes at international tech pitch competitions.

²¹ DBJ. 2017.

²² Deal Flow is used by finance professionals such as venture capitalists, angel investors, private equity investors and investment bankers to refer to the rate at which they receive business proposals/investment offers.

potential²³. In addition, cultural issues and risk aversion hinder the possibilities of SME growth through innovation, as well as the limited linkages between evidence-based research, prototyping, patenting and product development²⁴.

- 2.11 Evidence from other experiences in the region show that firms that have access to public incentives for innovation will invest up to 345% more than the firms that do not receive any support²⁵. Recent evidence from innovation-oriented startup programs in the region suggests that public intervention has impactful effects on convening major stakeholders, especially at early stages of the building up of the ecosystem²⁶. In Peru, for example, Start Up Peru managed not only to foster innovative entrepreneurs but also incubators, accelerators, local and international investors, universities and large corporations that realized the commercial opportunities behind the projects identified through the program.
- 2.12 **Complementarity with other operations.** This operation complements the Program for Skills Development for Global Services (4645/OC-JA) that supports SMEs in the Global Services Sector (GSS), the Credit Enhancement Programme for MSMEs (4115/OC-JA) that addresses access to credit for MSEs, the Supporting the Development of an Entrepreneurial and Early Stage Ecosystem in Jamaica (ATN/ME-15282-JA) that will be scaled up with the present operation, the Compete Caribbean TCs, ATN/CO-17021-JA Strengthening The Intellectual Property Ecosystem to Increase Innovation, Competitiveness and Growth that tackles Intellectual Property and JA-T1164 Support to Jamaica's Innovation Ecosystem for Promoting Innovative Firms (in preparation) which will design an innovation fund for MSMEs²⁷ and that will be scaled with the present operation. In addition, the present operation complements the ongoing World Bank Programs Foundations for Competitiveness and Growth and the Jamaica Access to Finance for MSME Project that includes the capitalization of an SME (Venture Capital) fund.
- 2.13 **Objectives.** The objective of the CCLIP line is to transform the Jamaican private sector by fostering productivity and innovation. The general objective of the first individual operation is 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 and disruptive growth in scalable startups; and (iii) create sustainable startups and a strong supporting ecosystem for entrepreneurship.
- 2.14 **Component I. Innovation and growth for established MSMEs (US\$10 Million).** Geared at promoting efficiency and growth through developing and adopting innovation among established MSMEs with high growth potential, this component will develop a MSME Innovation window as a mechanism for supporting innovation and growth. This window will support established firms with grants of up to

²³ Ecosystem Strengthening to Support Hight Impact Entrepreneurs.2017. Development Bank of Jamaica

²⁴ Global Entrepreneurship Monitor (GEM) report 2017.

²⁵ Quasi-experimental impact assessment of the instruments to promote firm Innovation from ANNI in Uruguay. H. Kantis (2013).

²⁶ Hall. and Maffioli, (2008) "Evaluating the impact of technology development funds in emerging economies: evidence from Latin America"; Alvarez and. Zahler (2013) "Promoting Innovation in the [Chilean] Services Sector: Towards Productivity and Competitiveness," mimeo CINVE; Goñi and Gonzales (2017) "Impacto de programas de financiamiento para la innovación en empresas.

²⁷ The VC Fund provides equity to SMEs for growth while Innovation Funds tackle mainly innovation constraints.

US\$300,000 for firms to innovate in either products or processes. The minimum amount of the grant will be US \$70,000. Grants will be awarded for R&D activities, product development, prototyping, patenting and patent commercialization. Funding will be awarded to established firms through a competitive process based on the technical and commercial merits of proposals, with priority given to climate resilient technologies and women focused initiatives. Matching company funds will be required in the case of each project supported, and a rigorous selection (including an independent expert panel), monitoring and evaluation process will be put in place to supervise the execution of innovation projects carried out by firms. This component will also seek to strengthen the current technology extension service providers to provide support on business models for new disruptive technologies.

- 2.15 **Component II. Facilitating growth for scalable startups (US\$7 Million).** Geared at promoting equity financing and improving the system for scalable startups, including the establishment or capitalization of a Venture Capital Fund for investable scalable startups²⁸. This fund is expected to provide US\$100,000 to \$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. This component will also support the ecosystem by strengthening the ability of accelerators to support start-ups in rapid expansion and addressing issues that hinder women's participation.
- 2.16 **Component III: Promoting viable startups (US\$5 Million).** This component will support viable startups by strengthening current incubators, providing early stage capital; fostering technology transfer, development of entrepreneurial skills mindset and culture and capacity building for the ecosystem. Women's participation will be addressed by targeting potential women entrepreneurs in diffusion, awareness, mentorship programs and networking events. This component will provide seed capital in the form of grants for entrepreneurs for ideation, commercialization and technology adoption. Contributions are expected to be between US\$10,000 and be US\$80,000.
- 2.17 **Component IV. Project Administration and capacity building (US\$3 Million).** Including a technical unit at the executing institution, a program manager and technical staff, procurement and financial specialist. The program will finance auditing, the midterm and final evaluation and a monitoring and evaluation system
- 2.18 **Country context.** Jamaica's Vision 2030 calls for a prosperous economy based on an enabling business environment, a technologically enabled society and internationally competitive industries. The 2018 MSME Policy promotes the formation, sustainable growth and development of businesses in the MSME sector, incorporating a culture of entrepreneurship
- 2.19 **Strategic Alignment.** The CCLIP and the first operation are consistent with the IDBG Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) and are aligned with the development challenges of: productivity and innovation; and with

²⁸ The World Bank Access to Finance for MSME Project (PAD2182) includes an SME (Venture Capital) Fund of around US\$15 million on which the World Bank will contribute US\$ 5 Million and is currently selecting the Fund Manager. This program is exploring the possibility of contributing resources to that Fund.

the cross-cutting development areas of: (i) gender equality and diversity as activities will seek to incorporate the participation of women in MSMEs and Entrepreneurship; and (ii) institutions and the rule of law as the role of the DBJ will be further strengthened in the Entrepreneurial and SME ecosystem. It is aligned with the IDB Country Strategy with Jamaica 2016-2021 (GN-2868), as it will increase private sector productivity and growth, which is one of the overarching strategic objectives of the Country Strategy, by addressing market failures that hinder MSME access to finance. The program is consistent with the Innovation, Science and Technology Sector Framework Document (GN-2791-8) and is included in the 2019 Country Programming Document for Jamaica.

- 2.20 **Expected results.** It is expected that the implementation of all these components will generate increased productivity levels of targeted beneficiaries (startups and MSMEs). Resulting outcomes are expected to be higher investment in innovation for benefitted MSMEs; faster growth (in sales and hiring) for participants MSMEs and scalable startups; and higher start up rates (beginning of operation) for participants with viable business projects²⁹.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **CCLIP Line and First Operation.** The single sector CCLIP line will provide the necessary (long-term) funding to ensure the continuity of investments required to achieve results in a 10-year period and adapts to the demand driven nature of the private sector to be able to adapt to the challenges provided by the rapid technological transformation that is happening globally, and allows the DBJ to provide grants in a continuous manner.. The proposed amount for the CCLIP line is US\$50 million, with two individual operations (specific investment loans) of US\$25 million each, with the DBJ as the executing agency for both loans. The duration of the first operation will be 5 years.
- 3.2 **Eligibility of the CCLIP Line and First Program.** The program complies partially with the eligibility criteria outlined in the CCLIP policy (GN-2246-9) and (GN-2246-11) as follows: (i) the DBJ is an integral and sustainable institution in the innovation sector; and (ii) the DBJ has completed a similar project in the sector of the CCLIP that was financed with that institution's resources. However, additionally the CCLIP policy requires an institutional analysis that demonstrates that a satisfactory performance record is expected to be maintained in the areas to be covered under the credit line, as well as evidence of satisfactory execution performance and progress in achieving expected results, compliance with loan contact conditions, financial operational reports prepared and presented in a timely manner and with acceptable quality standards, and investments completed with financing from the project are adequately operated and maintained. The latter are all pending, but the analysis is currently underway. As agreed, after consultation on these matters in accordance with the IDB's operational processing guidelines, the proposed CCLIP

²⁹ Although the Program will be sector neutral, it is expected that beneficiaries to be supported will likely include agriculture, small scale light manufacturing, ICT, construction, and tourism sectors. The Operation Manual will provide more detail on the eligible sectors.

is expected to fully comply with all eligibility criteria prior to distribution of the documents for Quality and Risk Review.

- 3.3 **Lessons learned.** Lessons learned from similar projects, such as Improved Levels of Productive Innovation at the National Level (3700/OC-PE) and Business Innovation and Entrepreneurship (4329/OC-UR) show: (i) the need to address the ecosystem comprehensively; (ii) the importance of strengthening the capacity of the actors in the ecosystem as the system matures; and (iii) the need to tackle the equity and financing gaps through public-private interventions. Lessons learned from previous Bank interventions in Jamaica (ATN/ME-15282-JA) show the need to promote high-quality deal flow.
- 3.4 **Institutional Framework.** The DBJ will be the executing agency, has experience in the sector of the proposed CCLIP and has carried out initiatives to improve the entrepreneurial and innovation ecosystem in Jamaica with its own resources, such as IGNITE program. The DBJ also manages the Jamaica Venture Capital Programme (JVCP) for an entrepreneurial and early stage ecosystem in Jamaica, co-funded by Innovation-Lab (I-Lab)³⁰. The DBJ is executing one IDB project and two World Bank Programs in the sector as follows: (i) the Credit Enhancement Program for MSMEs (4115/OC-JA); (ii) the Foundations for Competitiveness and Growth Program; and (iii) the Jamaica Access to Finance for MSEs.
- 3.5 **Retroactive Financing.** The Bank may recognize up to 10% of the loan amount (US\$2.5 million) for expenditures incurred from the Program from the date of approval of the project profile until the eligibility date of the loan. These expenditures will be eligible for such financing if they are eligible within the project and attributable to the achievement of the corresponding development results.
- 3.6 **Risks.** The risks associated with this project are: (i) lack of deal flow to engage in the different instruments; (ii) lack of coordination among the intermediary agencies involved; (iii) lack of capacity among the different institutions involved; and (iii) difficulty in scaling up the supported ventures. These risks will be mitigated by: (i) establishment of coordination mechanisms; (ii) strengthening the technical capacity of the different stakeholders involved; and (iii) creating networks and international exchange programs.

IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 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 Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks. this operation is classified as Category B.13.

³⁰ The Innovation Lab (I-Lab)* of the Inter-American Development Bank (IDB) promotes social innovation as a tool to improve equality in Latin America and the Caribbean. Its Mission is to promote the generation, implementation and dissemination of innovations with high social impact through a multidisciplinary and participative process

V. RESOURCES AND TIMETABLE

- 5.1 The following timeline is expected: Distribution of the Proposal for Operation Development (POD) to the Quality and Risk Review (QRR) is expected to take place on February 7, 2019, approval by the Operations Policy Committee (OPC) on March 12, 2019; and presentation to the Board of Directors on April 24, 2019. The resources needed for project preparation are estimated of US\$109,256. Time needed for project preparation will be 1.46 FTEs (see Annex V).

CONFIDENTIAL

¹ 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-L1085 Boosting Innovation, Growth and Entrepreneurship Ecosystems		
Environmental and Social Impact Category	High Risk Rating	
B13		
Country	Executing Agency	
JAMAICA	JA-DBJ - DEVELOPMENT BANK OF JAMAICA LIMITED	
Organizational Unit	IDB Sector/Subsector	
Competitiveness, Technology and Innovation Division	SMALL AND MEDIUM ENTERPRISE	
Team Leader	ESG Primary Team Member	
CLAUDIA STEVENSON		
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	\$25,000,000	0.000 %
Assessment Date	Author	
10 Dec 2018	YBGONZALEZ Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	4 Dec 2018	
QRR (Estimated)	7 Feb 2019	
Board Approval (Estimated)	24 Apr 2019	
Safeguard Performance Rating		
Rationale		



Safeguard Policy Filter Report

Potential Safeguard Policy Items

[No potential issues identified]

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.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.

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

The size and magnitude of the operation suggests a medium to low risk of potential negative environmental and social impacts.

SOCIAL AND ENVIRONMENTAL STRATEGY

A. Environmental Impact

- 1.1 The objective of the CCLIP line is to transform Jamaican private sector by fostering productivity and innovation. The objective of the first individual operation is 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 and disruptive growth in scalable startups; and (iii) create sustainable startups and a strong supporting ecosystem for entrepreneurship.
- 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 Project is classified as a financial intermediary and as such is not categorized according to its potential environment and social (E&S) impacts and risks. this operation is classified as Category C.

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

- 1.3 DBJ has experience in the sector of the proposed CCLIP 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 2018.¹
- 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:
 - (i) **MSME innovation window** that will support established firms with NRA for up to US \$300,000 to support firms to innovate in either products or processes. It is expected that those grants will be awarded for 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 and rapidly growing star-ups, which will provide US\$100,000 to \$2 million (US\$750,000 average amount) in risk capital to established SMEs that have high growth potential and operations in

¹ 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

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 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, construction, 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, construction 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 one IDB Program and two World Bank Programs in the sector, (i) the Credit Enhancement Program for Micro, Small and Medium Enterprises (MSME) -JA-L1075 for US \$25 Million, approved in June 2017; (ii) the Foundations for Competitiveness and Growth Program for US \$50 Million approved in 2014 that has satisfactorily executed 60% of the resources and (iii) 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-L1075, 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.
 - 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 (see Annex II) in the guarantee 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 (See Annex I).
 - 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 labour 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 guarantee 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 Programme 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 In April 9, 2015 the NRCA Act was amended ([see here](#)), 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 ([NSWMA](#)) 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. A list of those conventions is available on the NEPA website (http://nepa.gov.jm/new/legal_matters/conventions/)
- 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 ([see here](#)).

ANNEX IV
Index for completed and proposed sector work

Issues	Description	Expected Dates	References & hyper links to Technical files
Country Strategies	Vision 2030 Jamaica National Development Plan. 2009	Completed	https://www.gemconsortium.org/country-profile/75
Technical options and design	Jamaica Micro, Small & Medium Enterprise Policy.2017	Completed	http://www.miic.gov.jm/content/medium-small-and-micro-enterprises-msmes
	Jamaica MSMe Survey Report	Completed	https://balcostics.files.wordpress.com/2013/07/jamaica-smes-survey-report-2013.pdf
	An Engine for Growth? The Caribbean Private Sector Needs more than an Oil Change. IDB Technical Note. Ruprah and Melgarejo. 2016	Completed	https://publications.iadb.org/bitstream/handle/11319/7997/Engine-Growth-Caribbean-Private-Sector-Oil-Change.pdf?sequence=1&isAllowed=y
	Exploring Firm Level Innovation and Productivity in Developing Countries. 2016. Dohnert, Crespi and Mafflioli.	Completed	https://publications.iadb.org/handle/11319/8138

Issues	Description	Expected Dates	References & hyper links to Technical files
	The New Imperative for Innovation. Policy Perspectives for Latin America and the Caribbean. 2016	Completed	https://publications.iadb.org/handle/11319/7417
	Evaluación del Programa Emprendedores Innovadores. 2013. Kantis, Federico.	Completed	http://www.anii.org.uy/upcms/files/listado-documentos/documentos/1441135930_informe-evaluaci-n-externa-2013-n-1-.pdf
	Informe de Evaluación Emprendedores Innovadores. 2017. Agencia Nacional de Investigación e Innovación. ANNI		
	Global Entrepreneurship Monitor. 2016/2017. Jamaica Report	Completed	https://www.gemconsortium.org/country-profile/75
	Assessment of the Jamaican Innovation Ecosystem and Draft Strategic Plan. Development Bank of Jamaica. 2017	Completed	

Issues	Description	Expected Dates	References & hyper links to Technical files
	2017/2018 Scorecard The Private Equity and Venture Capital Environment in Latin America	Completed	https://lavca.org/scorecard/20172018-lavca-scorecard/
	Analysis of Intellectual Commercialization and Technology Transfer	December2018	
	Mapping of the SME, Innovation and Entrepreneurship Ecosystem	January 2019	
	Venture Capital Ecosystem assessment	January 2019	
Analysis of the Institutional, Legal and Regulatory Framework	Document assessing the current framework and proposing implementation measures	January 2019	

Issues	Description	Expected Dates	References & hyper links to Technical files
Analysis of project cost and economic viability	Document estimating the economic viability of the proposed reform program.	January 2019	
IDB Strategies	The IDB Country Strategy with Jamaica 2016-2021		http://www.iadb.org/document.cfm?id=40713849
	Country Program Evaluation 2017		http://www.iadb.org/document.cfm?id=40713849
	Update to the Institutional Strategy 2010-2020, Partnering with Latin America and the Caribbean to Improve Lives		http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=39556684
	Innovation, Science and Technology Sector Framework Document		https://idbg.sharepoint.com/teams/ez-SEC/Registered%20Documents/RI-Reg-GN/RIRegGNEnglish/Innovation,%20Science%20and%20Technology%20Sector%20Framework%20Document.%20Final%20version.pdf

<https://publications.iadb.org/bitstream/handle/11319/4929/Public%20Support%20to%20Innovation%3a%20the%20Colombian%20COLCIENCIAS%20C2%BF%20Experience.pdf?sequence=1&isAllowed=y>

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¹ 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.