

## Technical Cooperation Document

### I. Basic project data

▪ Country/Region:	Jamaica
▪ TC Name:	Support to the Financial Sector Reform in Jamaica
▪ TC Number:	JA-T1143
▪ Team Leader/Members:	Navita Anganu (CMF/CJA) Team Leader; Joan Prats, Gloria Lugo, Sylvia Gabriela Andrade, Alison Arauz Herrera (IFD/CMF); Melissa Wallace (CCB/CJA); Naveen Jainauth-Umrao (FMP/CJA) and Rene Herrera (FMP/CJA); and Margie-Lys Jaime R. (LEG/SGO)
▪ Taxonomy:	Operational Support
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	JA-L1076
▪ Date of TC Abstract authorization:	July 19, 2017
▪ Beneficiary:	Jamaica
▪ Executing Agency:	Inter-American Development Bank – Country Office Jamaica (CMF/CJA)
▪ IDB Funding Requested:	Ordinary Capital Strategic Development Program for Institutions (INS) US\$350,000
▪ Local counterpart funding, if any:	N/A
▪ Disbursement period (which includes execution period):	42 months
▪ Required start date:	November 2017
▪ Types of consultants:	Individual and/or firm consultants
▪ Prepared by Unit:	CJA/CMF
▪ Unit of Disbursement Responsibility:	CJA
▪ Included in Country Strategy (y/n):	Y
▪ TC included in CPD (y/n):	Y
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Supporting Development and Institutions for growth

### II. Description of the Associated Loan/Guarantee

- 2.1 This Technical Cooperation will support the Financial System Reform Support Program II (JA-L1076) of the Government of Jamaica, which aims to enhance the contribution of the financial sector to economic growth by: (i) enhancing financial stability; (ii) increasing financial inclusion; and (iii) improving the financial and business legal framework.
- 2.2 Jamaica is redesigning its Financial Resolution Regime (FRG)<sup>1</sup> – a critical part of the financial infrastructure as it facilitates the resolution of FIs without severe systemic

<sup>1</sup> This includes clarifying the role of the main actors involved and providing a general framework that follows the Financial Stability Board Key Attributes of Effective Resolution Regimes for Financial Institutions (the 'Key Attributes' KA).

disruption and taxpayers' costs, while protecting vital economic functions through mechanisms which make it possible for shareholders and unsecured and uninsured creditors to absorb losses – and this TC will complement the work underway by providing support to: (i) develop the “Resolution Tool Kit” to operationalize the Special Resolution Regime (SRR); and (ii) provide training to develop and monitor resolution and recovery plans.

- 2.3 Also in the interest of stability, this TC will align the functioning of the Jamaican Deposit Insurance Fund to the Financial Resolution Regime (FRG) addressing issues related to adequacy, contingent funding, and potential fiscal contingent liabilities. In so doing, the TC supports the development of a clear financial crisis management plan, including a robust methodology to measure, monitor and manage Financial Sector Contingent Liabilities (FSCL) – an important source of fiscal and financial risk.<sup>2</sup> The TC will: (i) assess the current approach and methodology of the Deposit Insurance Fund Adequacy, including determination of Amount of Contingency Funding Required and establishment of Formal Contingency Funding Arrangements; and (ii) develop a strategic risk management strategy for Deposit Insurance Fund.
- 2.4 Supporting key actions of the National Financial Inclusion Strategy (NFIS), which is structured around four pillars – Financial Access and Usage, Financial Resilience, Financing for Growth and Responsible Finance – and a cross-cutting foundation of Supporting Infrastructure<sup>3</sup> is critical to ensuring the efficacy of the Financial Sector Reform Support Program.<sup>4</sup> The economic literature demonstrates that greater participation by the population in the financial system, through financial inclusion, stimulates growth and reduces poverty and inequality.<sup>5</sup>

### **III. Objectives and Justifications of the TC**

- 3.1 The objectives of this TC are to: (i) enhance financial stability, which will be accomplished through supporting the implementation of the Financial Resolution Regime (FRG) and the Deposit Insurance Scheme; and (ii) Increase Financial Inclusion, which will involve supporting the National Financial Inclusion Strategy (NFIS).
- 3.2 More specifically, this TC will:
- a. Enhance financial stability by supporting the implementation of a financial resolution framework, training and a toolkit to be used for non-viable financial institutions. The exiting legal framework governing non-viable financial institutions are contained in several pieces of legislations<sup>6</sup>. Also, Deposit Taking Institutions (DTIs) and insurance companies are expressly excluded from the Insolvency Act 2014<sup>7</sup>. This TC will address these issues by developing a separate piece of

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<sup>2</sup> Arslanalp, S. and Liao, Y. “Contingent Liabilities from Banks. How to Track Them?”. IMF Working Paper. WP/15/255.

<sup>3</sup> The aim of the NFIS is to improve the country's financial system by 2020 and focuses on creating conditions that will allow Jamaicans, particularly those who were underserved by the domestic financial system, to access and use to a range of adequate financial services that allows them to, inter alia, to build resilience against financial shocks; and that will allow firms to invest, grow and generate greater levels of wealth.

<sup>4</sup> Jamaica: National Financial Inclusion Strategy 2015-2020

<sup>5</sup> See: Karpowicz, I., Financial Inclusion, Growth and Inequality: A model application to Colombia, IMF Working Paper, 2014; Park, I. and Mercado, F., Financial Inclusion, Poverty, and Income Inequality in Asia, Asian Development Bank, Working Paper, 2015.

<sup>6</sup> i.e. the Banking Services Act; Financial Services Commission Act; Deposit Insurance Act; Companies Act; Insurance Act and Insolvency Act.

<sup>7</sup> Unless the Regulator gives written consent for the application of this Act.

legislation to support non-viable financial institutions, provide a toolkit for its implementation and train the relevant regulators in its use.

- b. Support the implementation of the NFIS through the development of a National Financial Literacy Strategy directed at improving financial education of low-income and unbanked citizens following best practices and recommendations stemming from relevant recent literature and evaluations. This is intended to help address some of the issues discovered in the demand-side financial capability survey completed in 2012 by the Financial Services Commission (FSC) and the OECD, which highlighted that less than half of Jamaicans have a budget, one third of the population resorting to credit use to make ends meet indicating lack of skill in short term money management, and that while the financial literacy of Jamaicans is comparable to that of other countries, there is significant room for improvement particularly in basic financial knowledge<sup>8</sup>.
- c. Facilitate adequate regulation for the micro-insurance sector, which can be expected to improve households' ability to mitigate shocks and stress-events that impact their income and/or assets, thereby affecting stability of consumption and investments in human capital.

3.3 **Alignment with Bank Priorities.** This TC is aligned with the Update to the Institutional Strategy 2010-2020 (GN-2788-5), as it contributes to improving productivity and innovation as well as addresses the cross-cutting issue of institutions and rule of law. It also aligns with the Country Development Results Indicator under the Corporate Results Framework of financing to micro, small and medium enterprises.

3.4 The TC is also aligned with the objectives and priorities outlined in the 2016-2021 IDB Country Strategy with Jamaica (GN-2868), especially the strategic area of Increasing private sector productivity and growth.

3.5 The project is aligned with the 2017 priorities of the Ordinary Capital Strategic Development Program for Institutions (INS). The support to the JDIC, FSC, Ministry of Education, and BOJ directly contributes to Institutional Effectiveness, Efficiency and Transparency as well as Institutional Innovation and increases implementation capacity to improve service delivery and advances policy implementation in national and substantial public-sector entities strengthened.

#### **IV. Description of Activities/Components and Budget**

4.1 This TC will be carried out through the following activities:

4.2 **Component 1: Support the development of the Jamaica Deposit Insurance Scheme and implementation of the Financial Resolution Regime (FRG).** This component will be executed through two different subcomponents:

4.3 **Subcomponent 1.1. Institutional strengthening of the Jamaica Deposit Insurance Fund.** This subcomponent includes: (i) the assessment of the Deposit Insurance Fund adequacy approach and methodology, including potential fiscal contingent liabilities, (ii) the determination of the amount and types of Contingency Funding required to close potential financing gaps, including the establishment of Formal Contingency Funding Arrangements.

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<sup>8</sup> Bryson, T.A. (2016). FSC Results of the Financial Literacy Survey (MOEYI). Kingston, Jamaica: Financial Services Commission.

- 4.4 **Subcomponent 1.2. Implementation of the Financial Institutions Resolution Regime.** Specifically, this subcomponent will support (i) development of the administrative and legislative framework with requisite training to assist in implementation of the Special Resolution Regime (SRR) Legislation; and (ii) the development of a “Resolution Tool Kit” for its operationalization.
- 4.5 **Component 2: Support to the NFIS.** This component will consist of two main activities: **Subcomponent (2.1) Implementation of the National Financial Literacy under the NFIS.** Specifically this will **support the Ministry of Education** to build the Institutional Capacity for the development and implementation of the National Financial Literacy Action Plan (NFLAP) following state-of-the-art recommendations stemming from existing, but particularly new, evaluations of literacy initiatives, the level of financial literacy in the country and barriers, to be specifically identified, affecting low-income and unbanked citizens and **Subcomponent (2.2)** support to the FSC<sup>9</sup> for the development and advancement of regulatory and supervisory standards for micro-insurance.

## V. Budget

- 5.1 The total cost of this TC will be US\$350,000, all of which will be funded by the Ordinary Capital Strategic Development Program for Institutions (INS) (GN-2819-1).

### Indicative Budget

Component/Activity	IDB Funding
<b>Component 1: Support the implementation of the Financial Resolution Regime (FRG) and the Deposit Insurance Scheme</b>	
Assessment of the Deposit Insurance Fund	US\$65,000
Development of a strategic risk management strategy for Deposit Insurance Fund	US\$65,000
Development of a Financial Insolvency Framework and Training	US\$75,000
Development of Financial Resolution Toolkit	US\$45,000
Component 1: Total	US\$250,000
<b>Component 2: Support to the NFIs</b>	
Development and implementation of the National Financial Literacy Strategy and related action plans	US\$50,000
Design and drafting of micro-insurance regulation	US\$50,000
Component 2: Total	US\$100,000
<b>Technical Corporation Total</b>	<b>US\$350,000</b>

## VI. Executing Agency and Execution Structure

- 6.1 The Ministry of Finance and Public Service submitted a formal request for this technical cooperation on May 19, 2017 (see attached), and also requested that the Bank execute the TC (see letter dated September 20, 2017). The Connectivity, Finance and Markets Division (IFD/CMF) will be responsible for the direction, supervision and coordination of this TC and will coordinate its work extensively via the Ministry of Finance and Public Service (MOFPS) which will in turn coordinate amongst all the beneficiary agencies. The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of CJA/CMF.

<sup>9</sup> FSC is mandated by the FSC Act of 2001 to supervise insurance, pensions and securities. The Act is being amended to specifically add micro insurance.

- 6.2 **Procurement.** The Bank will contract individual consultants (AM 650, Complementary Workforce Employees) consulting firms (GN 2765-1: Policies for the Selection and Contracting of Consulting Firms for Bank Executed operational work) and non-consulting services in accordance with GN-2303-20.
- 6.3 The IDB's execution will support coordination among the entities involved in the preparation and successful execution of the program while strengthening local institutional capacity. This execution structure will capitalize on the technical expertise within IFD/CMF to administer the TC, reduce administrative burdens on the government, and help ensure that the TC and program objectives are met.

## VII. Major Issues

- 7.1 This TC could have some potential risks: (i) a delay in the implementation of the changes in the areas involved at the operations level; and (ii) changes in priorities of the JDIC over their programs impacting upper management's commitment with this TC.

Risks	Type of Risk	Mitigation Strategy
Delays in implementation	Low	The number of beneficiary agencies can pose a challenge and result in delays. The MOFPS will be involved throughout all the stages and processes of the implementation to internalize the changes and adjustments at the operational level. An Implementation Plan will be drafted during the initial phase of the execution to outline and agree on the approach to delivering the results of the TC.
Changes in Priorities	Low	As long as the TC is providing support to the Program Loan, the priorities of the agencies in question can be expected to remain the same. Additionally, as part of the disbursements conditions for the Program, the stakeholders acknowledge the importance and benefits of the TC as part of the Program.

## VIII. Exceptions to Bank policy

- 8.1 This TC does not require any exceptions to Bank policy.

## IX. Environmental and Social Classification

- 9.1 The TC is not expected to generate negative environmental and social impacts. Consequently, it is expected that this project is classified in category C, which means that environmental and social assessments are not necessary. See [Safeguard Policy Filter Report \(SPF\)](#), and [Safeguard Screening Form \(SSF\)](#).

### Required Annexes:

Annex I: [Request from the Client](#)

Annex II: [Results Matrix](#)

Annex III: [Terms of Reference](#)

Annex IV: [Procurement Plan](#)