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LAC-IEE-05-30

ENVIRONMENTAL THRESHOLD DECISION

Country: Jamaica

Activity Title: Development Credit Authority (DCA) Activity in Jamaica (with National Commercial Bank Jamaica Limited - NCB)

Activity Number: 532-DCA-05-003

Life of Project: FY 2005 – FY 2012

Life of Project Funding: \$ 250,000 (from USAID)
\$5,000,000 (Total Loan Portfolio)

IEE Prepared by: James Burrowes, USAID/Jamaica Economic Growth

Recommended Threshold Decision: Categorical Exclusion and Negative Determination with Conditions

Bureau Threshold Decision: Concurs with recommendation

Comments:

Pursuant to the following sections of 22 CFR 216.2(c)(2):

- (i) Education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (**such as construction of facilities, etc.**);
- (iii) Analyses, studies, academic or research workshops and meetings;
- (v) Document and information transfers.

a **Categorical Exclusion** is issued to applicable DCA Loan activities involving the provision of technical assistance, facilitation of policy dialogue, and capacity building.

A Negative Determination with conditions is issued to the loan program itself, and the conditions laid out in the attached IEE are to be carried out including:

- Activities should be reviewed, on a case by case basis, to determine potential negative environmental impacts, proposing measures to mitigate them using the provisions of the “*LAC Bureau Environmental Guidelines*” – Chapter 2, for renovations and retrofitting associated with infrastructure modifications, Chapter 4 for Micro Enterprise activities and Chapter 7 for eco-tourism related activities along with other environmental “best practices”.
- In addition, where applicable, these activities should be in accordance with the environmental regulations and permitting processes of the host countries.
- The Cognizant Technical Officer (CTO) for this activity is responsible for making sure environmental conditions are met. It is the responsibility of the SO Team to ensure that activity-related SOAGs, MAARDs and contracting documents contain specific instructions reflecting this Environmental Threshold Decision, including the provision of (and any necessary training in the use of) the indicated LAC Environmental Guidelines for activities that have a Negative Determination with Conditions
- The CTO, in collaboration with the National Commercial Bank of Jamaica Limited and other major partners in the DCA Activity, will provide an annual report at the end of each fiscal year to the Mission Environmental Officer for approval with copies to the Regional Environmental Advisor and Bureau Environmental Officer. The report will summarize the environmental review procedures used (making any recommendations for changes or improvements), list all loans made under the program, summarizing their environmental review, applicable environmental guidelines and how they were implemented in conjunction with the loan.
- No loans will be made under this activity for the purchase or use of pesticides, without prior approval of a supplemental Initial Environmental Examination meeting USAID Pesticide Procedures [22CFR216.3(b)].

Date

Victor H. Bullen
Bureau Environmental Officer
Bureau for Latin America & the Caribbean

Copy to:

Karen Turner, Mission Director,
USAID/Jamaica

Copy to:

James Burrowes, OEG, Karen McDonald-
Gayle MEO, USAID/ Jamaica

Copy to;

Michael Donald, Regional Environmental
Advisor, USAID/Guatemala

Copy to: Beth Cypser, LAC/CAR
Dan Riley, LAC/CAR

Copy to: IEE File

Attachment: IEE

File: P:\LAC.RSD.PUB\RSDPUB\EES\Reg 216\IEE\IEE05\IEE05-30.ETD(JA DCA Loans).doc

INITIAL ENVIRONMENTAL EXAMINATION

PROGRAM LOCATION: Jamaica

PROGRAM TITLE: Development Credit Authority (DCA) Activity in Jamaica (with National Commercial Bank Jamaica Limited - NCB)

LIFE OF PROGRAM (LOP): 2005-2012 (7 years)

LOP FUNDING: \$ 250,000 (from USAID)
\$5,000,000 (Total Loan Portfolio)

IEE PREPARED BY: James Burrowes, Office of Economic Growth

RECOMMENDED THRESHOLD DECISION: Categorical Exclusion/
Negative Determination with Conditions

CONCURRENCE

I have reviewed the above statement and concur with the recommended Environmental Threshold Decision.

 Karen McDonald-Gayle (for)
 Mission Environmental Officer
 USAID/Jamaica

 Mike Donald
 Regional Environment Advisor
 USAID/Guatemala

MISSION DIRECTOR'S DECISION

Approved: _____
 Karen D. Turner

Date: _____

LAC BUREAU ENVIRONMENTAL OFFICER'S DECISION

Approved: _____
 Victor Bullen

Date: _____

Activity Description:

The activity is a Loan Portfolio Guarantee (LPG) to support lending activities of one of Jamaica's leading financial institutions, the National Commercial Bank of Jamaica Limited (NCB). The LPG is to facilitate the inclusion of small and medium businesses that would not be considered for loans under NCB's current lending guidelines and credit parameters. The activity will have a wide geographic coverage area, extending across the entire island and providing assistance to women-owned and family-owned or operated businesses, as well as those with limited collateral, unsteady cash flows and/or need longer maturities. These are businesses and sectors that have been largely underserved, as local financial institutions, including NCB, perceive them as having levels of high risk. The LPG will cover US\$5 million in loans and will expire 7 years after the signing of the agreement. The activity's average loan size is projected to be US\$200,000 and will accommodate a minimum of 100 loans.

This LPG will support the Mission's overall sustainable economic growth objective and, specifically, Strategic Objective #9 (SO 9) – "Increased Trade Competitiveness in Targeted Industries". Targeted industries include key industries that will support Jamaica's competitiveness, including, though not limited to, agriculture, tourism, arts and culture, and information and communications.

The implementation of the DCA activity will improve the development impact of USAID by facilitating asset accumulation and income generation for disadvantaged groups and by increasing financing to the small and medium-sized business sectors. DCA loan portfolio guarantees complement ongoing programs by increasing the number of loans made to underserved sectors and strengthening the small and medium-sized enterprise sector (SME) sectors. Using a loan portfolio guarantee, USAID, working together with National Commercial Bank Jamaica Limited (NCB), will provide access to needed capital to SMEs, to stimulate growth in these sectors. The SME sectors in particular will benefit from increased access to credit to expand business operations, in order to meet the challenges of a global economy. The DCA guarantee, together with current USAID projects, will result in sustained economic growth in these sectors.

Without expanding sustainable economic opportunities for SMEs growth and providing access to capital for small and medium-sized enterprises, the goals of many USAID/Jamaica programs may not be met. This DCA activity is an essential component of USAID/Jamaica's Mission strategy, as it will contribute to the results of SO9, both directly and indirectly. Additionally, it will further cement USAID/Jamaica's commitment to the Government of Jamaica in implementing its Competitive Strategy for the Private Sector.

DCA Program:

This proposed LPG is designed to improve SME access to affordable capital. It is anticipated that the facility will help improve the competitiveness of SME borrowers, including non-traditional ones, by enabling them to finance an assortment of activities that will result in their businesses being more profitable. Loans under the guarantee may be used for purchasing equipment, supporting working capital requirements, performing environmental retro-fitting, updating and/or otherwise improving fixed assets, and purchasing various production inputs. Loan proceeds are not expected to be used for new construction.

Under this DCA guarantee program, NCB will provide loans to businesses/entrepreneurs in sectors, such as manufacturing, agriculture, and tourism. Non-traditional SME borrowers include firms engaged in telecommunications (e.g. cellular phone companies, Internet providers, etc.),

technology and software development, arts and culture, including entertainment. Businesses in these sectors often have extreme difficulties accessing debt capital because banks generally have difficulties valuing collateral, such as intellectual property, and have difficulties evaluating business plans specific to these sectors. Further, local banks have not historically placed significant value on personal assets and personal secured guarantees related to assets outside of the business seeking financing. As a result, banks often make overly conservative appraisals which increase the costs of the capital available to these companies.

Loans to the manufacturing sector will include activities supporting purchases of raw-material, working capital, and other production inputs. This will allow the manufacturing sector to become efficient and more competitive. Agricultural loans will support the purchase of production inputs, inclusive of planting materials, tools and irrigation equipment. These loans will also support agro-processors. Tourism sector loans will include support for performing environmental retrofitting and updating and/or otherwise improving fixed assets. In the information and communications sector, loans will primarily be used for technological improvements, training and development, as well as for working capital.

Program Implementation:

Under the DCA guarantee, NCB will use its own funds for the loans. USAID funding will be in the form of a loan portfolio guarantee to the bank to cover specific, eligible DCA loans. The guarantee extended by USAID will be 50% of the principal amount of the total US\$5 million loan pool. While the Mission does not have control over the activities chosen by the lending institution, the Mission will be required to approve each loan to ensure that they fall within the DCA eligibility guidelines.

Discussion of Environmental Impacts & Mitigation Measures:

The illustrative retrofitting, productivity improvement or business development activities described above could involve infrastructure modification, and the purchase of equipment and supplies. No new construction developments are envisioned.

Where construction or infrastructure modification is involved, the possibility exists that these activities may have a negative impact on the environment. The funds for these activities will be provided directly by the financial institution; hence, USAID will not have direct control over the implementation of this program. However, the Mission will be required to approve each loan to ensure that they fall within the DCA eligibility guidelines. This places some responsibility on the Mission to ensure that each activity is compliant with environmental regulations and guidelines. The DCA Agreement (Annex 1) also stipulates the provision for “evidence sufficient to demonstrate compliance with local environmental laws,” where applicable.

The other interventions which focus primarily on the provision of technical assistance, training, and other service delivery will not include actions that directly or significantly affect the environment.

Monitoring and Reporting:

While USAID/J-Car funds will not be used directly under this program, it is recognized that the potential exists for a casual relationship between the activity which the DCA guarantee supports and the Agency. The CTO will, therefore, be responsible for ensuring that the financial institution is compliant with the DCA Loan Agreement Conditions, which require conformation with the Government of Jamaica’s environmental and planning approval procedures (where necessary) by the relevant Ministries.

Recommendations:

Categorical Exclusion: - Pursuant to 22 CFR 216.2(c)(2)(i) (iii) and (v), which state that a categorical exclusion is recommended for all activities which involve:

- (i) Education, technical assistance, or training programs except to the extent such programs include activities directly affecting the environment (such as construction of facilities, etc.);
- (iii) Analyses, studies, academic or research workshops and meetings;
- (v) Document and information transfers.

For this activity it is therefore foreseen that activities involving the provision of technical assistance, facilitation of policy dialogue, and capacity building are eligible for a categorical exclusion per 22 CFR 216.2(c)(2)(i) (iii) and (v) detailed above.

Negative Determination with Conditions: - With specific reference to activities where there will be environmental improvements to infrastructure supported by the DCA financing mechanism and/or other financing sources, a negative determination is recommended where activities will involve infrastructure developments, environmental retrofitting and other activities which might have a direct impact on the environment. Accordingly, activities should be reviewed, on a case by case basis, to determine potential negative environmental impacts, proposing measures to mitigate them using the provisions of the “*LAC Bureau Environmental Guidelines*” – Chapter 2, for renovations and retrofitting associated with infrastructure modifications, Chapter 4 for Micro Enterprise activities and Chapter 7 for eco-tourism related activities¹ along with other environmental “best practices”. In addition, where applicable, these activities should be in accordance with the environmental regulations and permitting processes of the host countries.

¹ http://www.usaid.gov/locations/latin_america_caribbean/environment/docs/epiq/epiq.html

Clearances:

SO9: VJohnson _____

SO10: KJohnston _____

PDM: LOdle _____

INITIAL ENVIRONMENTAL EXAMINATION

PROGRAM LOCATION: Jamaica

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LIFE OF PROGRAM (LOP): 2005-2012 (7 years)

LOP FUNDING: \$ 250,000 (from USAID)
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IEE PREPARED BY: James Burrowes
(Economic Growth)

RECOMMENDED THRESHOLD DECISION: Categorical Exclusion/Negative Determination (with conditions)

CONCURRENCE

I have reviewed the above statement and concur with the recommended Environmental Threshold Decision.

Karen Gayle 2/22/05
 Karen McDonald-Gayle (for)
 Mission Environmental Officer
 USAID/Jamaica

for Mike Donald, 2/10/05
 Mike Donald
 Regional Environment Advisor
 USAID/Guatemala

MISSION DIRECTOR'S DECISION

Approved: *[Signature]*
 Karen D. Turner

Date: *2/22/05*

LAC BUREAU ENVIRONMENTAL OFFICER'S DECISION

Approved: _____
 Victor Bullen

Date: _____