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The World Bank

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Report No: PAD2023

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT ON

A PROPOSED LOAN IN THE AMOUNT OF US$2 MILLION
TO ANTIGUA AND BARBUDA

A PROPOSED CREDIT IN THE AMOUNT OF SDR 1.4 MILLION
(US$2 MILLION EQUIVALENT)
TO THE COMMONWEALTH OF DOMINICA

A PROPOSED CREDIT IN THE AMOUNT OF US$2 MILLION
(SDR 1.4 MILLION EQUIVALENT)
TO GRENADA

A PROPOSED CREDIT IN THE AMOUNT OF US$2 MILLION
(SDR 1.4 MILLION EQUIVALENT)
TO SAINT LUCIA

AND A PROPOSED CREDIT IN THE AMOUNT OF US$2 MILLION
(SDR 1.4 MILLION EQUIVALENT)
TO SAINT VINCENT AND THE GRENADINES

FOR AN

OECS MSME GUARANTEE FACILITY PROJECT

JUNE 11, 2018

Finance, Competitiveness and Innovation Global Practice
Latin America and the Caribbean Region

CURRENCY EQUIVALENTS

Exchange Rate Effective April 30, 2018

Currency Unit =	Eastern Caribbean Dollar (XCD)
US$1=	XCD 2.700
US$1=	SDR 0.695

FISCAL YEAR

ANTIGUA AND BARBUDA, GRENADA, AND SAINT VINCENT AND THE GRENADINES
January 1 – December 31

COMMONWEALTH OF DOMINICA
July 1 – June 30

SAINT LUCIA
April 1 – March 31

ABBREVIATIONS AND ACRONYMS

AML	Anti-Money Laundering
BAICO	British American Insurance Company
BOT	British Overseas Territory
CBI	Citizenship-by-Investment
CE	Citizen Engagement
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGF	Credit Guarantee Fund
CLF	CL Financial Ltd.
CLICO	Colonial Life Insurance Company
DA	Designated Account
E&S	Environmental and Social
ECAMC	Eastern Caribbean Asset Management Company
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECPCGC	Eastern Caribbean Partial Credit Guarantee Corporation
ESMF	Environmental and Social Management Framework
FA	Financing Agreement
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force

FDI	Foreign Direct Investment
FM	Financial Management
FMS	Financial Management Specialist
GDP	Gross Domestic Product
GRS	Grievance Redress Service
IFC	International Finance Corporation
IFI	International Financial Institution
IFR	Interim Financial Report
IMF	International Monetary Fund
IPF	Investment Project Financing
IPP	Indigenous Peoples Plan
KC	Kalinago Community
KT	Kalinago Territory
LA	Loan Agreement
MC	Monetary Council
MFD	Maximizing Finance for Development
MSMEs	Micro, Small, and Medium-Sized Enterprises
NPL	Non-Performing Loan
OECS	Organisation of Eastern Caribbean States
PCG	Partial Credit Guarantee
PCGS	Partial Credit Guarantee Scheme
PCT	Project Coordination Team
PIU	Project Implementation Unit
PL	Participating Lender
RGSM	Regional Government Securities Market
RPS	Regional Partnership Strategy
SDR	Special Drawing Rights
TA	Technical Assistance

Regional Vice President:	Jorge Familiar
Country Director:	Tahseen Sayed Khan
Senior Global Practice Director:	Ceyla Pazarbasioglu-Dutz
Practice Manager:	Zafer Mustafaoglu
Task Team Leader:	Nadeem M. Karmali

BASIC INFORMATION

Is this a regionally tagged project?	Country (ies)	Financing Instrument
Yes	Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines	Investment Project Financing

[ ] Situations of Urgent Need of Assistance or Capacity Constraints

[✓] Financial Intermediaries

[ ] Series of Projects

Approval Date	Closing Date	Environmental Assessment Category
2-Jul-2018	30-Jun-2023	F - Financial Intermediary Assessment

Bank/IFC Collaboration
No

Proposed Development Objective(s)

The development objective is to facilitate additional financial intermediation for MSMEs by supporting the establishment of a regional partial guarantee corporation.

Components

Component Name	Cost (US$, millions)
Capitalize the Partial Credit Guarantee Fund	8.10
Project Management, Operating Costs and Lender Training	1.90

Organizations

Borrower:	Antigua and Barbuda Grenada Dominica Saint Lucia

	Saint Vincent and the Grenadines
Implementing Agency:	Eastern Caribbean Partial Credit Guarantee Corporation

PROJECT FINANCING DATA (US$, Millions)

[✓] Counterpart Funding	[✓] IBRD	[✓] IDA Credit	[ ] IDA Grant	[ ] Trust Funds	[ ] Parallel Financing

Total Project Cost: 12.00	Total Financing: 12.00 Of Which Bank Financing (IBRD/IDA): 10.00	Financing Gap: 0.00

Financing (in US$, millions)

Financing Source	Amount
International Bank for Reconstruction and Development	2.00
International Development Association (IDA)	8.00
National Government	2.00
Total	**12.00**

Expected Disbursements (in US$, millions)

Fiscal Year	2018	2019	2020	2021	2022	2023
Annual	0.00	8.56	0.36	0.36	0.36	0.36
Cumulative	0.00	8.56	8.92	9.28	9.64	10.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Low

9. Other	Low
10. Overall	Substantial

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Natural Habitats OP/BP 4.04	✓	
Forests OP/BP 4.36	✓	
Pest Management OP 4.09	✓	
Physical Cultural Resources OP/BP 4.11	✓	
Indigenous Peoples OP/BP 4.10	✓	
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

Make the proceeds of the Credit available to the ECPCGC, on a grant basis, under a subsidiary agreement between the Borrower/Recipient and the ECPCGC, under terms and conditions acceptable to the Association/Bank, ("Subsidiary Agreement"), which shall include, inter alia: (a) the roles and responsibilities of the ECPCGC with regard to the implementation of the Project, including the Capitalization of the CGF; (b) the obligation of the ECPCGC to comply with: (i) the technical, fiduciary and safeguards requirements applicable to the Project in accordance with the provisions of this Agreement; and (ii) the Anti-Corruption Guidelines. (Section I.B1 of Schedule 2 to the Loan Agreement.)

Sections and Description
Ensure that through Project implementation, the Project shall be carried out in accordance with the guidelines, procedures, timetables and other specifications set forth in the ESMF and the IPP (as applicable). (Section I.D.1 of Schedule 2 to the Loan Agreement.)

Conditions

Type	Description
Effectiveness	Other Loan and Financing Agreements of any three (3) Other Participating Countries have been executed and all conditions precedent to the effectiveness of said Other Loan and Financing Agreements have been fulfilled. (LA/FA section 5.01(a))
Effectiveness	That the Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower/Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled; and the Co-Financier has provided a schedule for the proposed disbursement installments under the respective contributions in intervals and amounts acceptable to the Association/Bank. (LA/FA section 5.01(b))
Effectiveness	That each Subsidiary Agreement has been executed on behalf of each Borrower/Recipient and the ECPCGC in a manner acceptable to the Association/Bank. (LA/FA section 5.01(c))
Effectiveness	That: (i) the appointment of the ECPCGC's Board of Directors has been published in published in a manner acceptable to the Association/Bank; (ii) the Operations Manual has been prepared in a manner acceptable to the Association/Bank and adopted by the ECPCGC's board, and published on the website of the ECPCGC in accordance with Article 39(4)(c) of the ECPCGC Agreement. (LA/FA section 5.01(d))
Effectiveness	That: (i) a technical and fiduciary assessment of the ECPCGC has been carried out in a manner acceptable to the Association/Bank; and (ii) the project core team has been established in a manner satisfactory to the World Bank. (LA/FA section 5.01(e))
Disbursement	No withdrawal under Category (1) shall be made unless the Bank/Association has received satisfactory evidence that a separate account has been duly opened for

Type	Description
	the CGF (LA/FA Section III.B.1(a) of Schedule 2)
Disbursement	No withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed US$ 400,000 (in the case of Antigua and Barbuda, Grenada, Saint Lucia and Saint Vincent and the Grenadines) or SDR 280,000 (in the case of the Commonwealth of Dominica) may be made for payments made prior to this date but on or after May 8, 2018, for Eligible Expenditures under Category (2). (LA/FA Section III.B.1(b) of Schedule 2)

PROJECT TEAM

Bank Staff

Name	Role	Specialization	Unit
Nadeem M. Karmali	Team Leader (ADM Responsible)	Senior Financial Sector Economist	GFCLC
Monica Lehnhoff	Procurement Specialist (ADM Responsible)	Procurement Specialist	GGOPL
David I	Financial Management Specialist	Senior Financial Management Specialist	GGOLF
Gibwa A. Kajubi	Social Safeguards Specialist	Senior Social Development Specialist	GSU04
James Walter Hammersley	Team Member	Senior Guarantee Specialist	GFCLC
Leyla V. Castillo	Team Member	Senior Financial Sector Specialist	GFCLC
Maria Pia Cravero	Counsel	Counsel	LEGLE
Michael J. Darr	Environmental Safeguards Specialist	Environmental Safeguards Specialist	GEN04
Monzerrat Garcia	Team Member	Program Assistant	GFCLC
Subika Farazi	Team Member	Financial Sector Specialist	GFCSN
Tatiana Cristina O. de Abreu Souza	Team Member	Finance Officer	WFALA

Extended Team

Name	Title	Organization	Location

OECS COUNTRIES
OECS MSME GUARANTEE FACILITY PROJECT

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I. STRATEGIC CONTEXT

A. Country Context

1. **The Organisation of Eastern Caribbean States (OECS) consists of 10 small open economies.** Six of these are sovereign states, three are British Overseas Territories (BOTs), and one is an overseas department and region of France. Eight of these economies are members of the Eastern Caribbean Currency Union (ECCU) and share a single currency—the Eastern Caribbean Dollar (XCD). The Eastern Caribbean Central Bank (ECCB) is the monetary authority and regional central bank of the ECCU. The total population of the ECCU is about 650,000. These eight members of the ECCU are Anguilla (AIA), Antigua and Barbuda (ATG), the Commonwealth of Dominica (DMA), Grenada (GRD), Montserrat (MSR), St. Lucia (LCA), St. Kitts and Nevis (KNA), and St. Vincent and the Grenadines (VCT).[1] The Eastern Caribbean Dollar has been pegged at XCD 2.7 for US$1 since 1976.

2. **The ECCU economies face five main challenges: low growth, high debt, fiscal deficits, financial sector weakness, and vulnerabilities to external shocks, including those related to negative climate change impacts.** All these challenges are interrelated, and achieving high growth is crucial for breaking the vicious cycle. The loss of trade preferences to European markets in the late 1990s led to a reduction in growth. The subsequent deterioration in the terms of trade and reduced fiscal space was overcome by a successful transformation of the economies toward tourism and services. However, following the 2008 global financial crisis, economic growth in the ECCU economies contracted for three consecutive years, leading to a cumulative gross domestic product (GDP) drop of 8 percent in total ECCU output during 2009–2011. Since 2011, the recovery has been modest with annual ECCU growth averaging 2.3 percent between 2011 and 2016. The recovery since the 2008 global financial crisis has been supported by steady tourism inflows, low oil prices, and steady foreign direct investment (FDI). However, external vulnerabilities and financial sector weaknesses remain.

3. **This low growth, along with high exposure to natural disasters, low adaptive capacity, and accommodating fiscal policies, has led to persistent fiscal deficits and unsustainable debt levels.** The aggregate ECCU debt to GDP level at the end of 2017 is estimated to be 76.1 percent. The current debt path needs to be adjusted to meet the 2030 regional debt benchmark of 60 percent. Debt service is high (averaging 3 percent of GDP in 2016), leaving the region with little fiscal space for growth-enhancing public investment. Some countries have embarked on debt restructuring since 2009 (Antigua and Barbuda, Grenada, St. Kitts and Nevis), but these interventions have not been enough to reestablish capital market access in an enduring way**.** The citizenship-by-investment (CBI) programs were able to increase revenues since the global financial crisis; however, these receipts have recently begun to fall. Climate change is expected to exacerbate observed risks and increase GDP losses associated with wind, storm surge, and inland flooding in the ECCU countries.

4. **Official poverty rates across the region vary from 22 percent to 38 percent but data are limited and outdated, while unemployment is high, especially youth unemployment.**[2] In the absence of up-to-

[1] The standard abbreviation “St.” is used for “Saint” henceforth for Saint Lucia, Saint Kitts and Nevis and Saint Vincent and the Grenadines. Three letter codes in parentheses after the country names are ISO 3166-1 alpha-3 codes for each economy. Anguilla and Montserrat are BOTs.

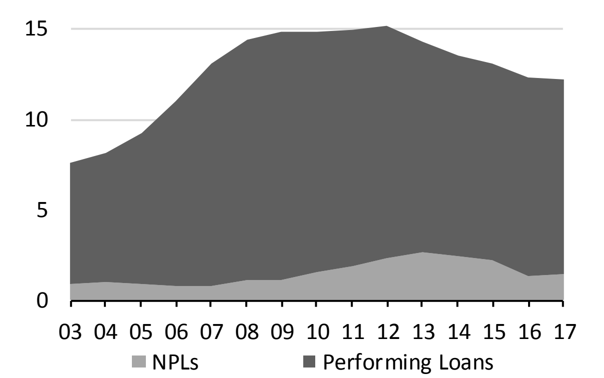
[2] Official estimates of moderate poverty are ATG and KNA <22 percent (2007), DMA 28.8 percent (2009), LCA 25 percent (2016), VCT 30 percent (2008), and GRD 38 percent (2008). Latin America and the Caribbean comparisons are approximately 30 percent (2008) and 25 percent (2015).

date statistics, the latest household surveys suggest that the region has low extreme poverty rates, but that moderate poverty rates are high, notwithstanding relatively strong human development indicators. Youth unemployment rates in the OECS countries (except in St. Kitts and Nevis) are estimated to be among the highest in the world.[3] Therefore, there is an important economic growth challenge in the region in terms of finding internal drivers of growth—instead of FDI or CBI—for economic growth and for tackling youth unemployment.

B. Sectoral and Institutional Context

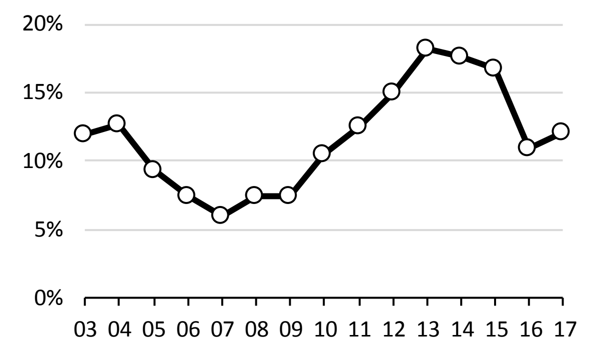
5. **The large bank-based ECCU financial sector experienced an expansion of credit before the global financial crisis which led to a sharp increase in non-performing loans (NPLs).** Total ECCU banking sector assets represent 193 percent of GDP, compared to an average across Latin America and the Caribbean of 54 percent. Between 2004 and 2008, credit in the ECCU grew at an average annual rate of 15 percent (see figure 1). The onset of the global financial crisis led to the failure of two insurance companies and an increase in NPLs; by 2013, NPLs had reached 18.3 percent (see figure 2). The region has begun to address these high NPLs through the resolution of three banks and the creation of the Eastern Caribbean Asset Management Company (ECAMC), and stability has been restored to the system (see annex 4).

Figure 1. Loans in the ECCU by Quality (XCD, billions)



Source: ECCB.

Figure 2. ECCU Non-Performing Loans (%)



Source: ECCB.

6. **The cyclical stress that emanated from the global financial crisis has put pressure on the existing ECCU financial sector structural challenges and has increased credit risk.** Lending in the ECCU is over-collateralized and there is an absence of formal information on borrowers.[4] There is ongoing work led by the International Finance Corporation (IFC) to support the region in improving credit infrastructure, including the establishment of a new credit bureau. However, for each ECCU country, access to finance is still a top-three obstacle for enterprises (figure 3),[5] while the Doing Business survey data show a decline in the 'getting credit' indicator (figure 4). After the global financial crisis, the combination of an illiquid distressed asset market, shorter maturity non-consumer loans, protracted insolvency regimes, and the

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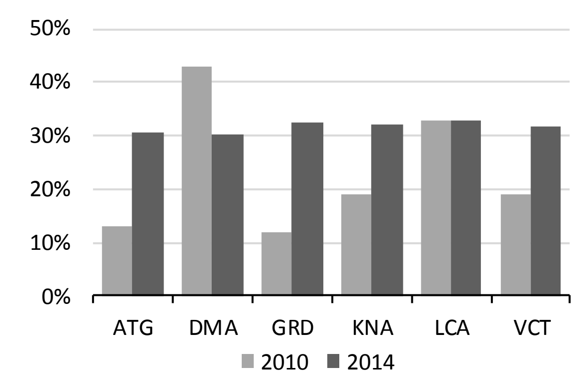
[3] ATG 34.6 percent (2015), DMA 35.8 percent (2014), GRD 50.4 percent (2016), KNA 8.5 percent (2013), LCA 38.5 percent (2017), VCT 21.5 percent (2012). *Source:* World Bank staff estimates based on each OECS country's official definition (except DMA); Central Statistics Office *Report on Millennium Development Goal Achievements 2015* for DMA.

[4] According to the 2014 Compete Caribbean survey, 88 percent of all loans to enterprises were collateralized—this is above the global average of 70 percent.

[5] There is no Enterprise Survey or Doing Business data for Anguilla or Montserrat, which are BOTs.

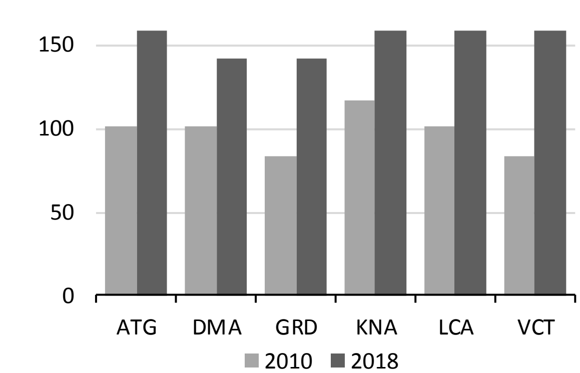
lack of credit bureaus and credit registries have all contributed to a constrained lending environment, even though the regulatory framework for banking has been strengthened. As a result, credit has continued to contract across the ECCU. Total credit at the end of 2016 was 20 percent lower than the 2012 peak. This is equivalent to a compound annual decrease of 5.4 percent per year.

Figure 3. Access to Finance Main Constraint (%)



Source: Enterprise Survey (2010) and Compete Caribbean (2014).

Figure 4. Doing Business Getting Credit Ranks



Source: Doing Business.

7. **This cyclical financial stress has exacerbated the market failure in the lending to micro, small, and medium-sized enterprises (MSMEs) and requires an adequate policy response.** The high NPLs in the region has meant that financial institutions are less willing to expose risk capital to MSMEs. This cyclical factor, in addition to the structural factors mentioned earlier, means that there is an acute MSME credit crunch in the ECCU. Therefore, financial institutions are reducing their exposure to sectors that are critical for economic growth—as was the case in Europe after the global financial crisis. This is despite the elevated levels of liquidity across the system.[6] Eleven existing MSME programs reviewed in the ECCU had funding or implementation challenges. Consequently, these factors need to be addressed anew to help resume lending to MSMEs and contribute to a resumption of higher economic growth.

8. **A partial credit guarantee (PCG) is the preferred instrument to address the elevated credit risk and falling credit in the context of high public debt and ample liquidity in some parts of the financial sector.** The crux of the problem is the elevated MSME credit risk, and this would not be reduced through a liquidity support program. Plus, the lack of fiscal space implies that directed lending or credit lines are also unviable.[7] PCG schemes provide third-party credit risk mitigation to financial intermediaries. A PCG is strongly preferable as it would channel the existing liquidity to directly lower the elevated MSME credit risk. This is done through the absorption of a portion of the lender's losses on the loans made to MSMEs in case of default, in return for a fee from the financial institution.

9. **However, it must be noted that the problem is not only one of supply, but also of structural constraints on the demand side with MSME capacity and skills gaps.** Findings from an MSME survey

[6] In 2016, liquid assets as a percentage of total assets was just below 35 percent, while net liquid assets to total assets was 41 percent, compared to an emerging market average of 18 percent (Fitch).
[7] For more discussion on the role of countercyclical fiscal policy for the region, see Carneiro, Francisco Galrao, and Rei Odawara. 2016. *Taming Volatility: Fiscal Policy and Financial Development for Growth in the Eastern Caribbean (English).* Washington, DC: World Bank Group.

undertaken in September 2015 suggested a growing demand for loans from MSMEs, concomitant higher loan rejection rates, and low knowledge of existing government MSME support programs. MSMEs indicated that their most pressing technical assistance (TA) needs were in preparing loan applications and overall business management. Therefore, a PCG could also contribute to long-term financial sector development in the ECCU region by enhancing the enabling environment for MSME lending. Providing TA to financial institutions will improve their lending instruments and aiding MSMEs in identifying sources of business development services will assist in their efforts to expand.

10. **With World Bank Group TA, a new regional institution is being designed to run a partial credit guarantee scheme (PCGS).** After careful deliberations and legal counsel, it was determined that a new institution for the region would be required to undertake this role because the existing regional institutions are legally not permitted to run such a scheme and each of the sovereign countries of the ECCU also has differing legal precedents. On March 2, 2017, the Monetary Council (MC) of the ECCB approved and signed the Agreement for the Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC)—henceforth, 'the Corporation'.[8] The ECPCGC formally entered into force on May 7, 2018.

11. **The ECPCGC Agreement establishes the Corporation and provides a governance structure.** The Agreement was drafted in a consultative manner, taking into account best international practice, regional considerations, and the recently published Principles for Public PCGs.[9] The regional framework in the design of the legislation followed the recent harmonized Banking Act as well as the ECAMC Agreement. The ECPCGC Agreement provides for the establishment of a Board of Directors. Guidance in the Agreement is provided on board member qualifications, board operations, and how to handle the many eventualities that could happen including replacement and removal of members. The ECCB will provide a regulatory oversight and on-site operational reviews to insure the ECPCGC is following its procedures.[10] The board of the ECPCGC was appointed on May 9, 2018.

12. **The Agreement also provides the operational guidelines for the loan guarantee scheme that the Corporation will operate.** The Corporation will provide partial guarantees on loans made by eligible financial institutions (commercial banks, development banks, and credit unions) to MSME borrowers located in the ECCU. The use of a partial guarantee ensures that the judgement of the lender will be part of the application decision process along with the expertise of Corporation employees. These lenders understand the local economy and have ongoing relationships with the MSME community. The expectation is that the formal lending community will be able to serve a larger number of MSMEs, which will create jobs and expand the local economy.

C. Higher Level Objectives to which the Project Contributes

13. **This project is in line with the OECS Regional Partnership Strategy (RPS) FY15–19[11] and such a PCG model uses a maximizing finance for development (MFD) approach.** The RPS objective is to help lay

[8] Seven ECCU Member States signed the Agreement: Anguilla, Antigua and Barbuda, the Commonwealth of Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. See http://www.eccb-centralbank.org/PDF/Communiques/87th_Meeting_of_Monetary_Council_2_March_2017.pdf.

[9] World Bank. 2015. *Principles for Public Credit Guarantee Schemes for SMEs.* Washington, DC: World Bank Group. http://hdl.handle.net/10986/23329.

[10] Under the fourth pillar of the ECCB's 2017–2021 strategic plan is a commitment to establish a PCG corporation to increase access to finance and spur economic growth.

[11] World Bank Report Number: 85156-LAC.

the foundation for sustainable and inclusive growth. In particular, the project supports the competitiveness pillar of the RPS (Pillar 1), that aims to increase private participation in the economy. Further, it also connects to the pillar on diversifying economies (Pillar 6) of the Small States Roadmap.[12] The guarantee facility supports further financial sector development by easing constraints for MSMEs and ensuring that credit flows to this underserved sector. Economies of scale imply that a national PCG in each ECCU territory would be overly costly; regional coordination and leverage is therefore required, and this PCG model leverages its own funds and maximizes financing for development by unlocking the private sector liquidity in the market. World Bank/IDA support ensures that the institutional design and capacity building draw on international best practices.

14. **Increasing access to finance for MSMEs is crucial for poverty reduction and shared prosperity and is fully aligned with the MFD agenda.** Facilitating access to finance will help unlock greater economic growth through improved financial intermediation. This intermediation leverages the liquidity within private sector banks. Therefore, there is a strong MFD dimension to the design. With a focus on the productive sectors of the economy, this PCG has the potential to redirect existing liquidity and reorient lending toward productive uses. There are creditworthy MSMEs that currently do not have access to financing and are being excluded due to the worsening market failure for credit. These are the target MSMEs. With low levels of informality and relatively high banking penetration, there is scope for such an operation.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

15. The development objective is to facilitate additional financial intermediation for MSMEs by supporting the establishment of a regional partial guarantee corporation.

B. Project Beneficiaries

16. **The main project beneficiaries will be (a) MSMEs and (b) lenders in the ECCU.** The definition of MSMEs for this project was developed through consultations and is in the ECPCGC Agreement.[13] There is no other regionally accepted definition of MSMEs. The Results Framework has a beneficiary indicator to track the percentage of beneficiaries who feel project activities reflected their needs. Women-managed MSMEs will also be beneficiaries and will be tracked in the Results Framework.[14] Lenders will also receive training through the project on MSME lending and therefore are also beneficiaries. The lenders may include any eligible regulated lenders in the ECCU. This includes credit unions, development banks, and commercial banks.

C. PDO-Level Results Indicators

17. The PDO-level indicators are (a) number of guaranteed loans, (b) total amount of outstanding guaranteed loans through the project, and (c) number of loan officers trained in MSME credit assessment.

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[12] World Bank. 2017. *Small states : a roadmap for World Bank Group engagement (English)*. Washington, D.C. : World Bank

[13] Article 42 of the ECPCGC Agreement.

[14] Data from the 2014 Compete Caribbean Survey show that 30 percent of MSMEs are owned by women. The country breakdowns are ATG: 11 percent, DMA: 26 percent, GRD: 25 percent, LCA: 23 percent, KNA: 26 percent, and VCT: 35 percent.

III. PROJECT DESCRIPTION

A. Project Components

18. The project has two main components: (a) Capitalize the Partial Credit Guarantee Fund; and (b) Project Management, Operating Costs, and Lender Training.

19. **Component 1: Capitalize the Partial Credit Guarantee Fund (US$8.1 million).** This component will support the capitalization of the Credit Guarantee Fund (CGF) for the provision of PCGs to participating lenders (PLs).

20. **Component 2: Project Management, Operating Costs, and Lender Training (US$1.9 million).** This component will support the ECPCGC, which is responsible for the coordination, implementation, and supervision of the project. The project will finance, among others: (a) the recruitment and training of the ECPCGC team members; (b) training of loan officers at the ECCU supervised lenders; (c) the acquisition of goods such as equipment, software, and furniture for the ECPCGC; (d) monitoring and evaluation (M&E) activities; (e) the financing of operating costs; and (f) the carrying out of minor works for the installation of any necessary computer hardware and minor refurbishing works of office facilities. The funds under this component will also be used to cover the annual audits of the firm's activities, which are required by the ECPCGC Agreement. It will be important to review the contractual arrangements for the audit, including the terms of reference.

B. Project Cost and Financing

21. **The total project cost is US$12 million.** The project's allocations to the two components and the country pledges are summarized in the following tables. Each of the six participating ECCU countries have pledged US$2 million.[15] Antigua and Barbuda is the only borrower from the International Bank for Reconstruction and Development (IBRD), and hence the application of a 0.25 percent front-end fee. St. Kitts and Nevis has committed to providing counterpart funding as co-financing of its share of the initial authorized capital, which is US$2 million.

Project Components	Project Cost (US$)	IBRD & IDA Financing (%)	Counterpart Funding (%)
Component 1	9,720,000	83.33	16.67
Component 2	2,275,000	83.30	16.70
Total Costs	**11,995,000**		
Total Project Costs	11,995,000	83.33	16.67
Front End Fees	5,000	100.00	
Total Financing Required	**12,000,000**	**83.33**	**16.67**

[15] Anguilla and Montserrat, as BOTs, are ineligible to borrow from either IBRD or IDA. Anguilla did sign the ECPCGC Agreement on March 2, 2017. However, it will not be an initial project participant as it has been unable to secure the US$2 million. Montserrat has not signed the Agreement; however, as seven ECCU Member States signed the Agreement, it was passed. Montserrat, like Anguilla, according to the Agreement, can join the ECPCGC whenever it passes the legislation and provides an initial capital contribution.

Table 1. Sources of ECPCGC Financing and Funding

Country	IDA (US$)	IBRD (US$)	Co-Financing (US$)	Total (US$)
Antigua and Barbuda	—	2,000,000	—	2,000,000
Dominica	2,000,000	—	—	2,000,000
Grenada	2,000,000	—	—	2,000,000
St. Lucia	2,000,000	—	—	2,000,000
St. Kitts and Nevis	—	—	2,000,000	2,000,000
St. Vincent and the Grenadines	2,000,000	—	—	2,000,000
Total Financing	8,000,000	2,000,000	2,000,000	12,000,000

C. Lessons Learned and Reflected in the Project Design

22. **The inception of the project commenced with an in-depth study to gauge the suitability of a PCG as an instrument for the ECCU.** This study considered four principal areas: (a) PCG principles and international PCG lessons learned from the literature,[16] (b) review of regional MSME financing initiatives, (c) supply-side analysis, and (d) demand-side analysis. Important lessons such as low leverage, avoiding of moral hazard, simplicity of design, market-friendly restrictions, and the importance of financial sustainability were gleaned from this global literature review. World Bank experience in credit guarantees from Jamaica, Papua New Guinea, Jordan, Sri Lanka, Ghana, and Croatia was also incorporated. Finally, governance in the developing country context was shown to be a critical factor, and therefore the design and consultation strategy also focused on governance by strengthening the requirements for ECPCGC board members and enhancing reporting requirements to the ECPCGC's supervisor.

23. **A workshop was held in November 2016 to share the drafts of the ECPCGC Agreement and receive feedback from key stakeholders.** As part of the consultation strategy for the draft ECPCGC legislation, a two-day validation workshop was held in St. Kitts and Nevis on November 14–15, 2016. A wide range of stakeholders from the ECCU attended. In attendance were representatives from credit unions, cooperatives, commercial banks, MSMEs, members of professional services associations, civil society, governments, attorney general chambers, regional political institutions, and regional and national financial regulators. The event provided a range of lessons to improve the design of the ECPCGC; foremost among these was the importance of regional harmonization and collective action to design projects for inclusive economic growth. The definition of MSME was adjusted through this consultation process to be regionally accepted and is the first formally approved regional definition of MSMEs. Another feature of the design that was provided through this event was the corporate governance accountability structure.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

24. **The ECPCGC will be the implementing agency for this project.** This is a new institution that has been created by the ECCU Member States. In accordance with the ECPCGC Agreement, it is a corporate body with full legal personality. On May 7, 2018, the ECPCGC entered into force with the deposit of five

[16] World Bank. 2015. *Principles for Public Credit Guarantee Schemes for SMEs.* Washington, DC: World Bank Group. *http://documents.worldbank.org/curated/en/576961468197998372/Principles-for-public-credit-guarantee-schemes-for-MSMEs*. For global results, see Beck, Klapper, and Mendoza (2010); for Canada, see Riding (1997); for the Middle East, see Saadani, Arvai, and Rocha (2011); for Latin America, see Larraín and Quiroz (2006); for general global principles, see Honohan (2010).

instruments of ratification of the ECPCGC Agreement to the OECS Commission. The final location of the ECPCGC is yet to be determined; the board of the ECPCGC will make this decision. The ECPCGC will be responsible for coordinating, implementing, supervising, finalizing, and documenting all the activities related to the project. The ECPCGC will be staffed with qualified personnel for the coordination and implementation of the project. The project coordination team (PCT) will be recruited, trained, and equipped to manage the project activities. Upon approval of an MSME guarantee, the ECPCGC will enter into Guarantee Agreements with PLs, while the selected MSME will enter into a related and concurrent MSME Loan Agreement (LA) with PLs.

25. **The initial board of the ECPCGC has been vetted and appointed, by majority vote, according to the ECPCGC Agreement Article 11 by the MC of the ECCB.** The initial board of the ECPCGC comprises nine members (assuming six participating governments).[17] The qualifications and responsibilities for board members are specified in the ECPCGC Agreement. To provide support to the ECPCGC board, the MC may, according to Article 52, provide initial policy guidance for the first year. The board has full legal authority to hire qualified personnel to manage the Corporation, and the chairperson of the board has decision-making powers. The terms of reference for the Corporation staff are available in the draft Operations Manual.

26. **The ECPCGC Agreement makes provisions for the use of an Operations Manual for the areas of the Corporation's functioning that are not suited for legislation.** Article 39 stipulates that an Operations Manual should be prepared to provide guidance to the ECPCGC. The board must approve the Operations Manual before its publication. Areas that the Operations Manual covers include policies and procedures for dealing with financial institutions, pricing, criteria to evaluate guarantee applications, and guidelines for requesting that the ECPCGC pay on a defaulted guarantee. This manual has been prepared in a manner acceptable to the World Bank. The responsibilities of the ECPCGC will include, among others: (a) managing the implementation of project activities; (b) managing the procurement, financial management (FM), disbursements, and safeguards aspects; (c) coordinating the preparation, adjustments, and use of the project management tools, including the Procurement Plan, and disbursement projections; (d) coordinating with key stakeholders all the technical aspects of the project; (e) monitoring the progress of the PDO and intermediate results indicators of the results framework; (f) preparing project reports; and (g) acting as the main point of contact for the World Bank.

27. **The ECCB and the St. Lucia Department of Public Service will provide interim FM and procurement support.** The ECCB will be the interim FM support partner to undertake the FM fiduciary functions as the ECPCGC builds its own capacity. The St. Lucia Department of Public Service will begin to undertake the procurement process of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Senior Operations Officer, and the Administrative Assistant. The St. Lucia Department of Public Service staff have been appraised and have the requisite capacity. This service, as the interim procurement team for the ECPCGC, has been offered on a pro bono basis. The board of the Corporation will undertake the selection decisions. Once the initial team is in place, a fiduciary assessment will be made.

[17] According to Article 11 of the Agreement, the ECPCGC board comprises: (a) one member from each of the participating governments; (b) one member representing the banking industry from the ECCU Bankers' Association; and (c) two members representing the MSME community, from the Chambers of Commerce of two Member Territories chosen by alphabetical rotation.

Figure 5. Implementation Arrangements

ECPCGC formed and ECPCGC board appointed

↓

ECCB to be interim financial management support partner

↓

With support of St. Lucia Department of Public Service, initial ECPCGC team is in place in a manner acceptable to the World Bank

↓

After all effectiveness conditions are met, the project is declared effective

↓

Disbursement

28. **The ECCB will be the regulator of the ECPCGC once it is fully operationalized.** These provisions are provided for in Article 53. The responsibilities of the regulator include risk management, compliance with the Agreement, and evaluating policies and procedures for credit analysis. The ECCB has the powers to direct the Corporation to take remedial action to address any deemed deficiencies. The Corporation is expected to run with a minimal team to keep the operation efficient. It is envisaged that the Corporation's staffing will grow to a total of six employees; the roles of the core team are listed in annex 1, table 1.1. FM has been assigned to the senior management, while the Administrative Assistant will handle procurement. Safeguards will rely on an Environmental, Social, Health, and Safety Specialist for environmental and social (E&S) expertise. Further information on roles and the draft terms of reference are available in the Operations Manual.

B. Results Monitoring and Evaluation

29. **The ECPCGC will monitor and evaluate progress toward achieving the PDO.** The ECPCGC will be responsible for monitoring and evaluating the PDO-level and intermediate results indicators for the project described in the Results Framework. Further, as a legal body, the ECPCGC also has its own reporting requirements to its board. This is detailed in Article 36, wherein the ECPCGC is required to prepare an annual account and an audit of this annual account. The semiannual reporting for the project will strive to work in collaboration with the annual reporting requirements stipulated in the Agreement. The M&E activities will be financed under Component 2. The ECPCGC will provide, on a semiannual basis, through project progress reports, results of its M&E activities. Further details on the Results Framework are in section VII and in annex 2. In addition, the project will include a citizen engagement (CE) survey to obtain feedback from beneficiaries of the project.

C. Sustainability

30. **One of the main findings of the initial in-depth study was the need for financial sustainability for the ECPCGC and for the project.** As such, a detailed financial model was built to understand the risks to financial sustainability and design the Corporation on this principle. It is intended that the fee income and the earnings generated by investing the capital base will provide sufficient revenues that will be used to cover loan losses and operating expenses. An important consideration of the guarantee instrument in this context is its limited impact on public debt in comparison to directed lending or credit lines. The already high debt to GDP of the ECCU economies means that any additional contingent liabilities would be unwelcome. The cost structure of the project has been designed to ensure long term sustainability.

D. Role of Partners

31. **The World Bank has collaborated with both the OECS Commission and the ECCB in the design of the ECPCGC to date.** Given the legal dimensions of the project, the design of the ECPCGC required substantial local legal counsel and guidance. Both the OECS Commission and the ECCB provided timely and useful inputs throughout the drafting of the ECPCGC Agreement. It is envisaged the project will work in close collaboration with these regional institutions going forward as well. The collaboration with the ECCB, as regulator of the Corporation and promoter of economic development in the region, is consistent with its 2017–2022 Strategic Plan and its legal mandate. Further, the ongoing projects in credit infrastructure, implementing the new Banking Act as well as the ECAMC are important complements to this project in improving credit information and the continued financial stability of the sector.

32. **MSME business development services are an important part of addressing the credit risk problem for MSMEs in the ECCU.** The design of the project calls for the establishment of partnerships with a small number of regional and national providers of these services. These partnerships will strive to coordinate business development services for MSMEs in identified areas of need, without raising expectations of the receipt of a loan guarantee. Both the public OECS Commission's Competitive Business Unit as well as the not-for-profit Branson Centre for Entrepreneurship in the Caribbean are in the process of expanding their services across the OECS. Their expansion plans have received input from the design choices of the ECPCGC and are thus potential not-for-profit partners for MSME business development services. It is also conceivable that for-profit partners are selected by the ECPCGC.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

33. **Overall risk is considered Substantial.** The Corporation is a new entity with a technical role that is not simple. The Agreement that has been signed provides an overarching umbrella and corporate governance framework. The macroeconomic situation is improving, but the ECCU is vulnerable to external shocks and debt levels are high. The design has focused on addressing this risk and making design choices that are conscious of these factors.

34. **Macroeconomic risk is High.** Across the ECCU, the economic recovery remains fragile and the economies are vulnerable to shocks and high public debt. New exogenous shocks (economic or natural disaster) or lower-than-expected economic growth could result in a less favorable business environment. In a scenario of low business confidence, the demand for MSME financing could decline, as firms postpone investment decisions. This could reduce usage of the project's guarantee due to a reduction in overall business lending, thereby affecting the Corporation's financial viability. A hurricane could lead to higher NPLs and higher-than-expected guarantee losses for the Corporation. On the other hand, slow economic growth could increase the usage of the ECPCGC as lenders seek to offset some of the risk in a loan due to the slowing economy. In either scenario, there may be an increase in credit risk. The project design and the loss sharing with lenders have been chosen to mitigate these macroeconomic risks. However, the exogenous shocks that these economies face are shared by the project, and therefore the rating of macroeconomic risks is High.

35. **Technical design of project risk is Substantial.** The project has required the passing of regional legislation and the establishment of a new regional institution. This has required a high level of technical

expertise. There is no other such institution in the OECS region, and the Caribbean experience with such similar projects has been mixed. To mitigate this risk, the design has had a primary focus on simplicity and the evaluation of complexity. One example is the use of an individual guarantee approval process initially which will move to a portfolio approach once more learning has been completed. Finally, as this is a market instrument, there is an important client facing side of the design which will determine adoption of the project by lenders. The design of the interface and the consultations to date with lenders have been influenced by the awareness of this technical risk.

36. **Institutional capacity for implementation and sustainability risk is Substantial.** The risk is fully dependent on the caliber of the Board of Directors and of the team members selected to operate the Corporation. The ECPCGC Agreement provides specific guidance on the requirements for the board members, including their fields of expertise, and thus the enforceability of the Agreement is critical. Experience with other regional institutions such as the ECCB or the ECAMC has been good to date. The ECPCGC board will be responsible for selecting the CEO. Selection of a hands-on CEO with appropriate experience will help mitigate this risk. As the team is intended to be lean, it is crucial that all team members be well trained and qualified. These team members will be responsible for maintaining the policies that are necessary for the scheme to remain financially viable while serving the MSME community. The Environmental, Social, Health, and Safety Specialist will be relied upon to ensure that PLs have or develop E&S risk management procedures as required by the Environmental and Social Management Framework (ESMF). This is mitigated by the guidance and requirements for selecting board members in the ECPCGC Agreement.

37. **Fiduciary risk is Substantial.** Although the procurement activities and FM functions envisaged in the project are simple, the fiduciary risk is Substantial. Only the interim arrangements for FM and procurement have been appraised as the Corporation is being set up. The interim arrangements that have been appraised have the requisite capacity to undertake the interim fiduciary task. The risks for the arrangements for the Corporation itself will be mitigated by the hiring of qualified and skilled professionals for the core structure of the Corporation and by the establishment of the internal fiduciary systems.

38. **Environment and social risk is Substantial.** This is mainly due to the potential for poor MSME performance for managing E&S risks. Specific E&S risks include control of emissions, discharges, or wastes; community and traffic safety; labor practice and working conditions; and permit gaps and regulatory issues, resulting in defaulted loans and the associated liability, along with reputational risk for the ECPCGC. These risks are mitigated by the ESMF for the project, included in the Operations Manual, which specifies screening, documentation, and reporting for the PLs and oversight by the ECPCGC. In addition, lenders are responsible for upholding environmental limitations imposed by local law. The Kalinago Territory (KT) in Dominica is a protected area in Dominica and specific guidance is provided in the Indigenous Peoples Plan (IPP), the ESMF, and the Operations Manual on how to work with businesses located in the KT given their collateral constraints.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

39. **Under reasonable assumptions, the net present value of the project is equal to US$1.7 million.** The 2014 Compete Caribbean Survey is a firm survey of 2,000 firms across the Caribbean. In the ECCU, firms with a line of credit have 12.1 percent (statistically significant) higher revenue. These results control

for sector of industry and the number of employees. Using this marginal result, it is possible to calculate the net present value. Assuming that a representative sample of the firms in the ECCU get a new loan within the target of 400 guarantees over five years, this is equivalent to a net present value of US$1.8 million, assuming that each guarantee is for a loan of US$30,000 and that the discount rate is 10 percent. As the guarantee fund is to cover losses, only the portion of expected losses is used to adjust these positive inflows. Further, there are externalities beyond this calculation from the training and downscaling of lenders toward more MSME lending.

40. **The economic benefits of the project can be measured in terms of additionality.** Given that the fund is new, the fund is expected to have a leverage of 1 for the first five years. Therefore, the Guarantee Fund will be able to cover US$12 million in loans. Assuming that the coverage will be 75 percent, this represents new lending of US$16 million. Over the five-year life of the fund, this would cover 80 firms a year, assuming each loan averages US$30,000. In terms of what percentage of the market this is, as of December 2017, the total stock of outstanding credit to private businesses was US$1.6 billion. The share of credit to private businesses has been decreasing; in December 2017, it was 35 percent, down from 44 percent in 2007. The additionality that the Guarantee Fund would provide, assuming flat growth in private credit to the private sector, is approximately 2.0 percent. This is in line with international benchmarks. See annex 5 for more information.

B. Technical

41. **The World Bank Group has been active in the financial sector reform agenda in the OECS, bringing lessons learned from several years of engagement.** The World Bank has provided advisory services to the authorities on strengthening the financial sector through improving the banking legislation and the creation of an asset management company. Subsequently, in 2015, the World Bank conducted an in-depth study to gauge the suitability of a PCG—as an instrument for the ECCU with recommendations that established the analytical foundation for this project (see annex 6). The project design incorporates key lessons, including a partial coverage ratio to avoid moral hazard; transparent, specific, and efficient claims processes; accurate and efficient reporting on loans; and stringent eligibility criteria for MSMEs and lenders. These are in the regulations that govern the ECPCGC. World Bank experience in credit guarantees from Jamaica, Papua New Guinea, Jordan, Sri Lanka, Ghana, and Croatia was also incorporated. Further, governance in the developing country context was shown to be a critical factor, and therefore, the design and consultation strategy focused on governance in addition to the above findings, and specifically in terms of requirements for ECPCGC board members, procedures for the removal of board members and reporting requirements to the ECPCGC's supervisor.

C. Financial Management

42. **The FM aspect of the project will be initially undertaken by the ECCB and then subsequently transferred to the Corporation.** The World Bank performed an FM assessment of the ECCB, as the interim FM support partner to undertake the FM fiduciary functions of this project until the ECPCGC builds its own capacity, in accordance with OP/BP 10.00 and the FM Practice Manual.[18] The assessment concluded that the ECCB has the capacity to establish an adequate FM system for the project, which can provide with reasonable assurance, accurate and timely information on the status of the funds, as required by the World Bank. Once the Corporation is operational, an FM Assessment will be performed on the Corporation

[18] Issued by the Financial Management Sector Board in March 1, 2010.

to ensure that it is capable of managing the FM fiduciary functions before transferring this responsibility and function from the ECCB to the Corporation.

D. Procurement

43. **Procurement for the project shall be carried out in accordance with the World Bank's Procurement Regulations for Investment Project Financing (IPF) Borrowers for Goods, Works, Non-Consulting, and Consulting Services dated July 1, 2016, revised November 2017, hereinafter referred to as 'Regulations'.** The project shall be subject to the World Bank's Anticorruption Guidelines, dated October 15, 2006, and revised in January 2011, and Procurement Regulations for IPF Borrowers dated July 1, 2016, revised in November 2017. All procurement for the project will be carried out by the ECPCGC.

44. **The qualifications of the Department of Public Service in St. Lucia have been appraised to meet project requirements in terms of procurement capacity.** The task team conducted a capacity assessment of the Department of Public Service in St. Lucia for them to assume the role of the procurement liaison team for the project. The team at the Department of Public Service has also received training from the World Bank task team. The St. Lucia team will help the board of the ECPCGC (Project Implementation Unit [PIU]) with the hiring of initial four consultancies to form the staff (the PCT) of the ECPCGC. The Department of Public Service has previous and ongoing experience with World Bank procurement, because it manages the World Bank Caribbean Regional Communications Infrastructure Program Project (P155235), approved by the Board on August 2, 2016.

45. **The procurement and other fiduciary functions will be transferred to the Corporation once it is operational.** In terms of the procurement assessment of the permanent PIU (the ECPCGC), once it is fully established, the World Bank will ensure that the Terms of Reference for the PIU has the requisite procurement skills. The ECPCGC team, through its administrative assistant, will undertake the procurement. This is because, as this is a guarantee project, there is a limited number of procurement activities.

E. Social (including Safeguards)

46. **The project is expected to have positive social impacts through providing more small businesses with access to financing and improving the lending strategies of lenders in the region.** The Involuntary Resettlement policy (OP 4.12) will not be triggered. The project and the Corporation will not finance investments involving: (a) involuntary taking of land resulting in relocation or loss of shelter, loss of assets, or access to assets, or loss of income sources, or means of livelihood, whether or not the affected persons must move to another location, or (b) involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the displaced persons. To ensure that OP 4.12 is not triggered, the policy will be part of the exclusion list in the ESMF and Operations Manual, and excluded firms will be denied assistance through a rigorous screening process of potential applicants. The ESMF and the Operations Manual have clear guidance on the types of activities that will be funded and will not consider any activity that would result in any of the circumstances that would require triggering OP 4.12.

47. **The Kalinago Community (KC), residing in the KT in Dominica, meets the definition of Indigenous Peoples as articulated in OP 4.10.** For this, an IPP analysis has been conducted and finalized with feedback already incorporated. The IPP analysis was conducted with the following objectives: (a) establish and

maintain an ongoing relationship based on Informed Consultation and Participation (ICP) with the Kalinago Council and Community throughout the MSME activity's life-cycle; (b) anticipate and avoid adverse impacts of MSME activities on the KC, or when avoidance is not possible, minimize and/or compensate for such impacts; and (c) promote sustainable development benefits and opportunities for the KC in a culturally appropriate manner. Two consultations, in May and August 2017, were undertaken in the KT with the Chief, Council of Elders, and community representatives.

48. **The policy for the KC is designed to address the constraints identified earlier, and broad community support was obtained for this policy through free prior informed consultations.** The IPP concluded that access to finance is necessary for MSME development in the KT. The inability to use land as collateral to increase access to finance for business development places limitations upon MSMEs, especially where alternative options for collateral are limited. The loan application process from a participating financial institution will contain fields to capture the community land constraint of members of the community that reside in the territory. Such applicants will receive an evaluation that takes this institutional limitation (lack of individual land titles) into account by overweighting other factors—such as the strength of the business plan and the projected and current cash flows. Additionally, focused and concentrated capacity development of MSMEs in business and entrepreneurship will be required by the contracted TA provider and state support programs. The final IPP that incorporates the comments from the consultations was disclosed on the World Bank website on April 9, 2018, and on the ECB website on April 13, 2018, and made available through each ECCU Member State through the ECCB's agency offices physically located in each ECCU Member State.

49. **The ESMF, the Operations Manual, and the MSME business development partner agreements incorporate the IPP findings.** It is important to note that members of the KT can apply for a loan guarantee anywhere in the OECS. They are not limited to the KT. The second area for input of the IPP findings is into the partnership agreement with partner MSME business development service providers. These partnership agreements will strive to have a stronger footprint for the KT. If the provider is travelling across the ECCU, the proportional time spent with the KT should be higher than otherwise. If the provider is residing in each participating Member State, then the person or organization should establish an entity within the KT or ongoing connection with the KT leadership. If the provider has an online presence, this will need to be tailored so that members of the KT can access these online materials.

50. **Another important social dimension of the project is the impact on women and female-owned or female-managed MSMEs.** In both 2010 and 2014, 24 percent of firms in the ECCU had female managers. This is higher than the Latin America and the Caribbean average of 15 percent.[19] The corresponding number for Africa is 13 percent and 8 percent for South Asia. St. Vincent and the Grenadines is the highest in the region, with 35 percent of firms having a manager who is female. Despite these high numbers, reaching women who are business owners is a challenge. For example, the Dominica Women's Entrepreneurship Fund had not disbursed a loan or grant in its first 18 months of operation as of November 2017.

51. **The project will seek to increase access and usage of financial services by women, with a target of allocating at least 30 percent of loan guarantees to women-owned or women-managed MSMEs.** Even though the OECS region has relatively more encouraging levels of participation by women-owned/managed MSMEs, there is room for improvement and the project aims to support their access to

[19] Enterprise Surveys (2010) and Compete Caribbean (2014).

finance. A specific indicator in the results table tracks the gender of guarantee beneficiaries. The project's focus on women is well aligned with the World Bank Group's RPS objective of expanding opportunities for women. There are no statistically discernable differences between access to finance for women-managed MSMEs in comparison to men-managed MSMEs in the OECS.[20] The Corporation will therefore explore how to encourage financial providers to specifically target women to ensure that they can benefit equally from the products offered.

F. Environment (including Safeguards)

52. **The project has been categorized as Category FI as per World Bank OP/BP 4.01 (Environmental Assessment).** The project triggers Safeguards Policy OP/BP 4.01, given the potential for negative E&S impacts from MSME operations. For guarantees sold by the Corporation, specific MSME activities and location are not yet defined, but they are expected to be services, retail trade, tourism, and small-scale light manufacturing. Potential impacts are anticipated to be relatively minor to moderate. With appropriate standard mitigation measures, potential negative impacts will be managed effectively. Small and minor works are likely under Component 2 of the project related to the refurbishment of office facilities and the installation of necessary computer hardware. These minor works financed by the project are not expected to have downstream social or environmental implications.

53. **Due to the importance of the agriculture and tourism sectors for the economy, the World Bank OP/BP 4.09 (Pest Management), Natural Habitats (OP/BP 4.04), Physical Cultural Resources (OP/BP 4.11), and Forests (OP/BP 4.36) are triggered.** The project may support activities in agriculture, which might be associated with the use and purchase of pesticides. To ensure that harmful pesticides are not used, pesticides financed by the project must comply with requirements and standards acceptable to the World Bank, according to OP/BP 4.09. The Natural Habitats (OP/BP 4.04) and Physical Cultural Resources (OP/BP 4.11) policies have been triggered because of the possible participation of ecotourism-related MSMEs, which could negatively affect natural habitat or physical cultural resources if not properly managed. Finally, the Forests (OP/BP 4.36) policy is triggered as some MSMEs may have interest in bamboo or teakwood harvesting on private lands.

54. **The ESMF that has been prepared for the project is consistent with the participating governments' environmental and regulatory requirements and World Bank Group's safeguards policies.** According to the ESMF, MSMEs are required to certify conformance with requirements for E&S performance, and PLs are required to effectively screen the MSMEs (including the World Bank Group exclusion list, permit status, and good practice), to verify if the IPP findings for the KT are met, and ensure that E&S requirements are clearly included in Guarantee Agreements. The ECPCGC will require that PLs provide periodic reports on the status of their E&S management efforts and portfolios, and the ECPCGC itself must conform to relevant E&S requirements. The final ESMF that incorporates the comments from the consultations was disclosed on the World Bank website on April 9, 2018, and on the ECCB website on April 13, 2018, and made available through each ECCU Member State through the ECCB's agency offices physically located in each ECCU Member State.

[20] Using firm-level data from 2014 Compete Caribbean survey, regressions of having a loan on the gender of the MSME manager and other controls yields a statistically insignificant estimate of differences across gender in the OECS. This is also true across 13 countries in the Caribbean. For large firms, there is an estimated statistically significant negative gender gap across the Caribbean of 11.3 percentage points for access to finance for women-managed large firms. This is not the case for MSMEs. For the 2010 Enterprise Survey data there is a statistically significant negative gender gap across the OECS of 7.0 percentage points for access to finance for women-managed, which seems to have closed as of the 2014 data.

G. Other Safeguard Policies

55. **Screening and exclusion criteria are provided in the ESMF to ensure that any MSMEs or activities that would trigger any other World Bank Safeguard Policies would not be eligible for funding under the project.** These additional screening and exclusion criteria would exclude any subprojects related to the construction or rehabilitation of dams (which could trigger the policy for Safety of Dams OP/BP 4.37). Projects affecting International Waterways (OP/BP 7.50) are also excluded. Finally, any projects on the World Bank Group Exclusion List would not be eligible for funding nor any Category A projects.

H. World Bank Grievance Redress

56. **Communities and individuals who believe that they are adversely affected by a WBG supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit http://www.inspectionpanel.org.

57. **The Corporation will develop a robust Grievance Redress Mechanism to register, track, address, and resolve any complaints or related issues associated with the project.** All complaints or related issues can be sent to the designated e-mail account or by telephone or fax. Reported issues should include a name, date, and contact information, with a detailed description of the case. All reported cases will be logged by the ECPCGC and directed to the CEO's attention, who will assign the case to the Environmental, Social, Health, and Safety Specialist and provide resources for the investigation. There will be a normal response time of 7 days for each case; however, high-level cases may require up to 14 or more days for a response. The ECPCGC will maintain a database to log all complaints and to track each from date received to date resolved and highlight how each case was resolved. The Corporation will partner with PLs to ensure a timely response to complaints where they occur.

I. Citizen Engagement

58. **The project will incorporate a CE feedback loop for MSMEs through surveys.** A questionnaire will be designed for the Corporation's MSME beneficiaries. A selected subset of beneficiaries will receive the CE questionnaire, which will be designed to assess overall satisfaction of services (including the ease of access, quality, process, disclosure, responsiveness of needs) of the loan guarantee facility. The CE questionnaire and enumeration will be managed and reported by the PCT. The CE questionnaires would be developed after the start of implementation and closer to the midterm review. The CE questionnaire results will be analyzed and drafted into a project report that will contain key recommendations to improve the project (for consideration) during the review period. The report will be shared with government partners, financial institutions, and other relevant stakeholders.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY : OECS Countries
OECS MSME Guarantee Facility Project

Project Development Objectives

The development objective is to facilitate additional financial intermediation for MSMEs by supporting the establishment of a regional partial guarantee corporation.

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Number of Guaranteed Loans		Number	0	400	Semi-annual	Project Report	ECPCGC
Description: This will be calculated as the cumulative number of guaranteed loans approved by the Corporation, a given share of which will be targeted to women. The Corporation will track approved guarantees, expired or cancelled guarantees, and the net number of guarantees used. Each category will be tracked by participating country and will be tracked by year of approval with a total calculated for the duration of the project. If an MSME receives two or more loans in the life of the project, this will count for two guarantees. The indicator will be calculated on the total number of loans approved across all participating countries (not the net number after expirations or cancellations).							
Name: Total amount of outstanding guaranteed loans through Project		Amount(USD)	0	12,000,000	Semi-annual	Project Report	ECPCGC

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: This is the total amount of guarantees approved during the project in US dollars to lenders in all participating countries. The exchange rate between the US dollar and the EC dollar is pegged, so there is no foreign exchange translation adjustment required. As with the number of loans, total approved guarantees will be tracked along with those that are expired or cancelled to provide a cumulative approved amount. The total approved amount will provide a gauge of the amount of work accomplished by the Corporation and will be used to calculate the indicator.							
Name: Number of loan officers trained in MSME credit assessment		Number	0	45	Semi-annual	Project Report	ECPCGC
Description: This is the number of loan officers from the ECCU region that are trained by the project in MSME credit assessment. Training programs will be open to all lenders in the Currency Union. Participants will be asked to identify their country of residence when registering for the training. The project will track the proportion of women loan officers that received training. The total is across all years and all participating countries and is therefore cumulative.							

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Number of MSMEs receiving guaranteed loans through project		Number	0	400	Semi-annual	Project Report	ECPCGC
Description: This will be the number of MSMEs receiving one or more guaranteed loans during the life of the project. A MSME may receive a guaranteed long-term loan for an investment project and also a short-term guaranteed loan for the purchase of equipment or for working capital. The Corporation will give each business that receives a guarantee a unique number and will track the number of loans received by each business during the project. This indicator is therefore the number of guarantees issued to unique MSMEs by reducing any double or higher multiple MSME guarantee recipients. The definition of MSME refers to the definition in Article 42 of the ECPCGC Agreement.							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Share of guarantees issued to women owned or managed MSMEs		Percentage	0	30	Semi-annual	Project Report	ECPCGC
Description: Each guarantee application will require the lender to indicate if the applicant is an MSME that is female owned or managed. Female owned will be defined as 50 percent or more owned by a woman or group of women. The definition of MSME refers to the definition in Article 42 of the ECPCGC Agreement. Whether a business is female managed will be determined by the lender during the review of the credit application. This share indicator will be calculated on a cumulative basis across all years, all participating countries, and all guarantees issued (including expired or cancelled guarantees). This is therefore a stock measure.							
Name: Percentage of funding through guaranteed loans with maturity more than one year		Percentage	0	70	Semi-annual	Project Report	ECPCGC
Description: The maturity of loans will be defined as the original maturity of the underlying guarantee loan at guarantee issuance. This indicator will be calculated for the EC dollar value of guaranteed loans and is a stock measure. All guarantee loans will be included in this calculation, including those guarantees that subsequently expire or cancel. The total amount of guarantee loans with an original maturity in excess of 365 days will be divided by the total amount of approved guaranteed loans across time and across all countries.							
Name: The ratio of outstanding guarantees to equity		Number	0	1	Semi-annual	Project Report	ECPCGC
Description: This is the leverage of the fund, where equity is initially defined as initial capitalization, including any undispersed World Bank loans to the ECPCGC. All committed but undispersed loans or funds, including those for Component 2, will count towards initial equity as well as future equity. The total guaranteed amount outstanding (at the time of measurement) will be divided by the total equity. The calculation will be run on an ongoing basis and no less frequently than monthly. The running equity calculation will factor in incurred costs and recognized revenue, and will continue to include all committed loans and funds to the ECPCGC.							

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Name: Proportion of guarantees paid-out		Percentage	0	5	Semi-annually	Project Report	ECPCGC
Description: This is defined as the amount of net losses on disbursed guarantees due to default. This is calculated post recovery of the guaranteed loan. The financial model uses a 6 percent default rate and a 30 percent recovery rate which results in a 4.2 percent net loss rate. The calculation will occur semi annually and will be cumulative from the beginning of operations. The numerator of this indicator is the cumulative amount across all participating countries in EC dollars of net losses since the beginning of operations, and the denominator is the cumulative amount across all participating countries of guarantees issued in EC dollars including those guarantees that are expired or cancelled.							
Name: Percentage of beneficiaries that feel project activities reflected their needs (Citizen Engagement Indicator)		Percentage	0	75	Semi-annual	Project Report	ECPCGC
Description: A survey will measure the satisfaction of the Project's final beneficiaries regarding the activities implemented under the project. During mid-term review and every year after that, the ECPCGC will organize workshops (including online virtual workshops) targeting different project stakeholders or beneficiaries. Workshops will be organized taking into account the type of product or activity, the type of beneficiary, and geographical location. To measure the level of satisfaction amongst the beneficiaries, the ECPCGC will develop a set of questions and other tools with the support of the WB team. Field visits and interviews in situ will also be considered.							

Target Values

Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Number of Guaranteed Loans	0	0	50	100	200	400
Total amount of outstanding guaranteed loans through Project	0	0	1,500,000	3,000,000	6,000,000	12,000,000
Number of loan officers trained in MSME credit assessment	0	0	10	20	30	45

Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Number of MSMEs receiving guaranteed loans through Project	0	0	50	100	200	400
Share of guarantees issued to women owned or managed MSMEs	0	0	20	30	30	30
Percentage of funding through guaranteed loans with maturity more than one year	0	0	25	50	60	70
The ratio of outstanding guarantees to equity	0	0	0.12	0.25	0.50	1
Proportion of guarantees paid-out	0	0	5	5	5	5

Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Percentage of beneficiaries that feel project activities reflected their needs (Citizen Engagement Indicator)	0	60	65	70	75	75

ANNEX 1: DETAILED PROJECT DESCRIPTION

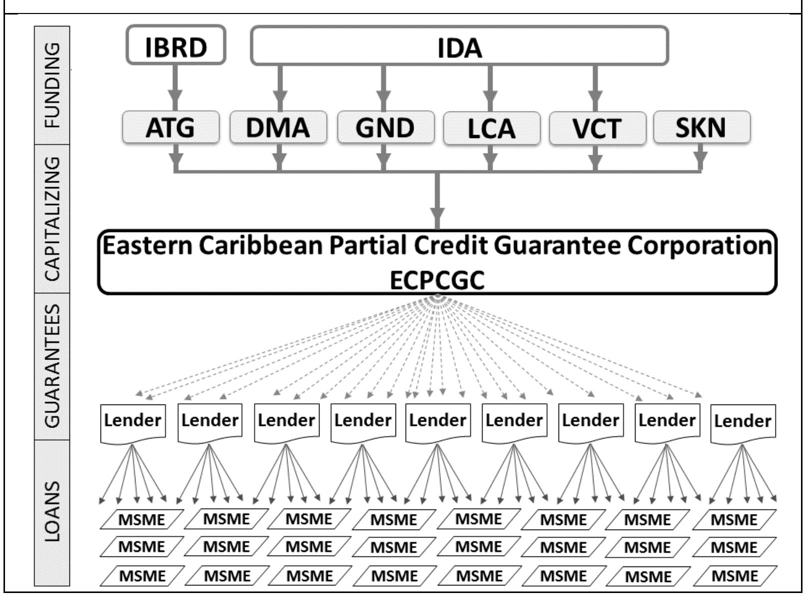
COUNTRY: OECS Countries
OECS MSME Guarantee Facility Project

1. **To address credit risk while utilizing the existing liquidity in the system, the Corporation will provide guarantees to lenders on loans to MSMEs in return for a fee.** It is intended that the fee income and the earnings generated by investing the capital base will provide sufficient revenues that will be used to pay loan losses and operating expenses. The ECPCGC will be run with a minimum number of team members who will have significant expertise and be responsible for a range of duties within their areas of expertise.

2. **The Corporation's interaction with lenders will be run electronically—with all applications being received and processed through a web portal designed for guaranteed lending.** Electronic means of personal communication, including video, will be used to the fullest extent possible. The web portal will also contain tutorials on topics of interest to small business owners and to loan officers who work with them.

3. **The ECPCGC will be overseen by a Board of Directors consisting of nine members.** This includes one member from each of the participating governments, one member representing the banking industry from the ECCU Bankers' Association, and two members representing the MSME business community, from the Chambers of Commerce of two member territories chosen by alphabetical rotation from the Chambers of Commerce of the Member Territories. The board will provide policy direction and be responsible for establishing broad parameters, implementing general corporate governance, and specific governance items in the enabling legislation. The day-to-day operations of the ECPCGC will be managed by a CEO and conducted by supporting team members.

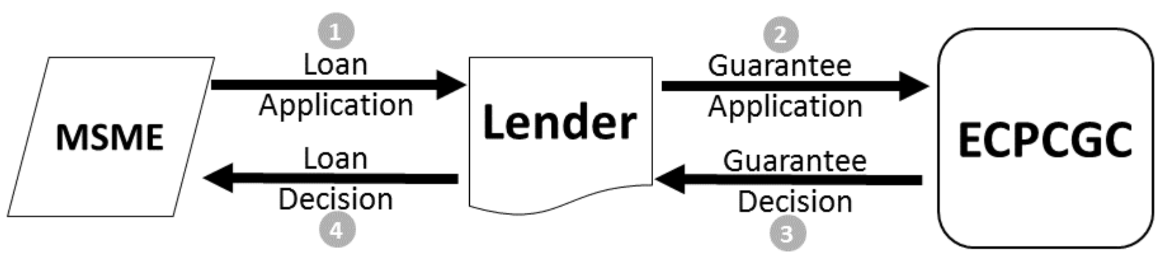
Figure 1.1. Flow of Funds



4. **According to the World Bank's Articles of Agreement, the World Bank can only disburse loans to its members.** Thus, there is a need for subsidiary agreements between the borrowing member countries and the ECPCGC, as well as the co-financing agreement between St. Kitts and Nevis and the ECPCGC. It is also important to note that IBRD loans are disbursed in U.S. dollars while IDA loans are disbursed in either U.S. dollars or SDR (Special Drawing Rights).[21] Figure 1.1. shows the flow of funds: both of World Bank funds and of funds to beneficiaries, which are the MSMEs. It is important to note that the funds flowing to MSMEs are provided by lenders.

5. **Owners of MSMEs will apply to their local lender for a loan.** If the lender is not able to approve the application using the MSME's conventional credit standards, it may decide to request a guarantee. The ECPCGC team will review the application and determine if a guarantee is appropriate (see figure 1.2.). The target customer is a business owner who has adequate cash flow to make the loan payments but may not have adequate assets to pledge as collateral, presents more risk than usual or is in an area of business that is relatively new for the lender—such as the creative industries or medical services. Most, but not all, types of small businesses will be eligible. The lender will collect payments directly from the borrower and will be responsible for liquidating collateral in the event of a default. A guarantee fee will be charged and the proceeds used to help offset any losses absorbed by the Corporation.

Figure 1.2. Decision Flow Chart



6. **The maximum guarantee percentage offered will be 80 percent[22] on loans that may not exceed XCD 300,000 (which is equivalent to US$111,500).**[23] The amount paid on the guarantee will be at most 80 percent of the loan balance on the date of request for payment of the guarantee, plus three months of accrued interest. It is likely that the scheme will begin with a maximum guarantee of slightly lower than 80 percent (likely 75 percent) to ensure significant private sector participation. The ECPCGC will not pay a default rate of interest, default fees, or any other fees triggered by the default by the borrower. The tenor of the loan will be determined by the lender, but the guarantee may not exceed the tenor of the loan or 10 years, whichever is shorter. The interest rate will be set by the market; however, lenders must prove in the guarantee application that the borrower has sufficient cash available to service the debt.

7. **Initially, the guarantee fee will be fixed at a level between 1.5 percent and 3 percent annually based on the guaranteed amount of the loan.** The fee will be due upon first disbursement and annually thereafter based on the amount outstanding on the yearly anniversary of the loan's origination date. As

[21] For more information, see http://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR.
[22] According to the provision provided in Article 43(3) of the ECPCGC Agreement and the laws passed in five countries (as of April 10, 2018).
[23] This dollar threshold is a recommendation to the board; according to Article 43(4)(a) of the Agreement, the board must establish the maximum aggregate liability of the principal and interest of all qualifying LAs.

data is collected on activity, pricing may be adjusted in a transparent way to reflect the different risk characteristics of various types of businesses or other factors. Loan proceeds may be used for typical business purposes, including the purchase of equipment and for working capital. It is envisaged that the ECPCGC will move to a portfolio model after a number of years of experience with the retail model of selling individual guarantees. Risk-based pricing may be considered once the project has reached a level of familiarity in the market.

8. **A lender may submit a request for a guarantee payment when a borrower has been in uncured default for 90 consecutive calendar days.** The request must include documentation establishing that the loan was disbursed according to the disbursement instructions and that all proceeds were used for the purposes outlined in the authorizing document. During this period, the lender must continue to work with the borrower to restructure the loan. Lenders will be required to continue with loan liquidation and other collection activity after receiving payment on the guarantee. When a lender receives proceeds from the sale of collateral, it must send a portion of the proceeds to the ECPCGC. That portion will be based on the guarantee percentage. For example, if a lender had a 75 percent guarantee, it would send 75 percent of the proceeds to the ECPCGC. The ECPCGC will also share the cost of liquidation. If a lender hired an auctioneer to sell collateral and the fee was XCD 100, then the bank would pay XCD 25 and the ECPCGC would pay XCD 75.

9. **Team members will be required to operate the ECPCGC to meet its goals and manage the risks.** Staff members should be hired as needed while the program grows. The scenario suggested herein (and explained further in the financial model) is to grow the staff count to a maximum of six staff under the baseline scenario.

Table 1.1. Baseline Core Team Plan (First 10 Years, Project Ends End of Year 5)

Year (End)	1	2	3	4	5
CEO	1	1	1	1	1
CFO	1	1	1	1	1
Senior Operations Officer	1	1	1	1	1
Credit Officer	0	0	0	0	1
ESHS Specialist	0	1	1	1	1
Administrative Assistant	1	1	1	1	1
Total	**4**	**5**	**5**	**5**	**6**

Note: ESHS = Environmental, Social, Health, and Safety.

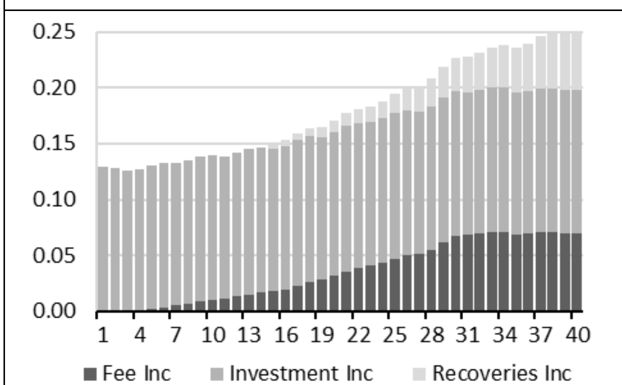
10. **A Credit Officer will not be needed initially as guarantee volume is expected to be low and the CEO and Senior Operations Officer can be the two signatories on the approval documents.** The CFO will be needed to establish controls and to be a member of the Investment Committee. The Investment Committee will consist of the CEO, CFO, and Senior Operations Officer. (This Committee will handle the management of the investment of the capital funds. The Investment Committee of the board will determine the investment policy and select broad categories of investments). The CEO should have a credit background and will guide the establishment of the ECPCGC and supervise the development of products that will facilitate the provision of loans to MSMEs. Prior experience in working with or running a guarantee program would be helpful. The CFO will be responsible for designing and implementing all financial systems necessary to operate the ECPCGC. This includes payment of day-to-day expenses as well as guarantees owed to lenders in the event of a borrower default. The Senior Operations Officer will

establish the risk management function in a manner consistent with the level of risk the ECPCGC is willing to accept, including management of risks associated with program operations. More team roles and draft terms of reference can be found in the draft Operations Manual.

11. **As the ECPCGC is a new operation, a detailed financial model was built to achieve a number of goals.** These goals include (a) ensuring financial sustainability, (b) understanding its risk tolerance, (c) managing liquidity, (d) costing the key line items, (e) understanding the sensitivity to critical factors, and (f) providing a heuristic tool to aid decision making. The ECPCGC intends to cover its costs by generating enough revenues to ensure it remains financially sustainable. The main items included as revenue in the model are returns on investment of its capital and fee income generated from providing guarantees. In terms of costs, the key items identified include salary expenses, payroll overhead expenses, and general and administrative expenses. Team member training is included under general and administrative expenses. The model relies on a number of assumptions which are used as inputs for estimating the fund's performance. The input variables which include variables such as the leverage rate, default rate, recovery rate, investment return, guarantee fee, and usage rate can be adjusted to create different scenarios and project the fund's cash flow and income.

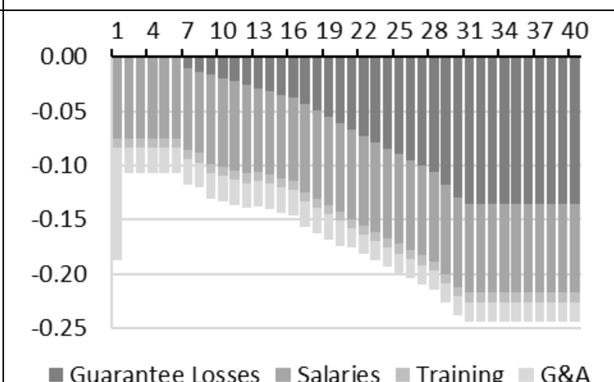
12. **There are two main sources of revenue.** The first is the guarantee fee on all outstanding guarantees. The second is the investment income from the capital. The fund may invest its capital to earn interest on the amounts disbursed for capitalization, on the terms and conditions established in the Operations Manual and considered acceptable by the World Bank. It is also important to note that there is a third source of income, which is the deferred revenue from collections. These are shown in figure 1.3. The model considers two types of costs—the first are salaries for the team members including team member services; the second type is for general and administrative expenses. The annual training budget for lender loan officers is included in the general and administrative category. The up-front costs are mainly for technology and hardware. The other costs are for ongoing operations. The total training and general and administrative yearly costs are included as expenses. Procurement, accounting, and legal includes accounting services and any needed legal services. A continuous need for legal counsel is not anticipated, however, and this is therefore in general and administrative, although there are some reasons to have included this in the consulting services section. This is shown in figure 1.4.

Figure 1.3. Quarterly Income Stream (US$, millions)



Source: ECPCGC Financial Model.

Figure 1.4. Quarterly Expense Stream (US$, millions)



Source: ECPCGC Financial Model.
Note: G&A is General and Administrative costs

13. **The CEO should obtain the services of a skilled information technology platform developer with experience in the financial services industry.** Local banks may be a source of leads for potential contractors. The web portal must perform, at a minimum, the following functions: the e-mail and other day-to-day electronic communications necessary for a functioning office, including offering a remote access option, and the ability to transmit PDF and other types of documents from lenders to the ECPCGC and from the ECPCGC to lenders. The ability for the ECPCGC to interact with a money transfer mechanism that will permit the electronic transfer of funds from the lender to the Corporation for the payment of guarantee fees and the Corporation's portion of collections on defaulted loans and from the ECPCGC to the lender for the payment of claims on loan guarantees or such other payments as may be necessary.

14. **A lender must be an institution that is regulated and operates in the ECCU, and to participate, it must meet the eligibility criteria set forth by the Corporation on a yearly basis.** It must provide, or intend to provide, loans in the ordinary course of business to MSMEs that qualify for a guarantee and must be approved by the ECPCGC to participate in the scheme and agree to comply with the requirements of the scheme. To participate in the program, a bank regulated by the ECCB must be in good standing with the ECCB and must have the experience and ability to make and service MSME loans as evidenced by the number of MSME loans currently in the lender's portfolio and the length of time the lender has been making MSME loans. Other lenders such as credit unions and development banks that are regulated by country-specific financial sector authorities are eligible, and similar criteria will apply to them. The lender must have at least 15 loans in its portfolio and must have been serving the MSME community for at least three years. Eligibility will be reviewed on an annual basis. Annex 4 has important financial soundness indicators for lenders in the ECCU. New banks that have recently been approved by the ECCB will be reviewed based on the experience of the staff and the proposed business plan.

15. **A bank that is no longer in good standing, according to the supervisory process, with the ECCB will be removed from the program until it is in good standing with the regulator.** If a lender's portfolio falls below the minimum number of MSME loans, it will be on probation for one year. If the portfolio remains below the minimum threshold, the ECPCGC will consider whether the lender still has adequate loan processing skills and determine whether the lender may continue to submit applications for guarantees. Existing guarantees will remain in place even if a lender's eligibility to participate in the program is terminated.

16. **Credit unions and development banks may apply to the ECPCGC to participate.** The ECPCGC, in consultation with its Board of Directors, will determine if the lender is eligible based on its standing with the financial sector regulator in the home country of the lender and other information available regarding the financial stability of the lender. A key factor will be whether the lender has sufficient staff and expertise to process, service, and liquidate MSME loans.

17. **A governing contract—a basic contract between the ECPCGC and the lenders shall be drafted by the team and executed by the ECPCGC and lender before accepting an application for a guarantee from a lender.** The purpose of this contract is to provide a direct link between the ECPCGC and the lender regarding loans that are guaranteed and to ensure that the lender has committed to agree to all the requirements of the ECPCGC.

18. **Initially, the fee level will be between 1.5 percent and 3 percent of the guaranteed amount, charged at the time of first disbursement.** Subsequent payments will be due in the anniversary month of

the first disbursement of the loan and will be in the range of 2 percent of the guaranteed amount that is then outstanding for amortizing loans and in the range of 2 percent of the approval guarantee amount for revolving credits.

19. **The first step is to create a digital record for the application.** This process will be automatic with the web portal application process. All information submitted will be validated by the system meaning that the information supplied fits the parameters set for each data item. Lenders will be prompted to add any missing information before submission to the ECPCGC. An application will not be accepted by the web portal until it is complete. The system will prompt lenders to contact the ECPCGC team if they are having trouble inputting the required information. It is envisaged that this application process is simple, easy to use, and is congruent with the current systems that lenders use in the region to avoid duplication.

20. **The ECPCGC shall use a risk management strategy that includes teaching ECPCGC team and team members at PLs to recognize the characteristics of small businesses that make it appropriate to use a guarantee.** These MSMEs have a problem in their application package that can be mitigated by providing a guarantee on a portion of the loan. The following is a list of examples where the guarantee would be appropriate, assuming the borrower has adequate projected cash flow to repay the loan: (a) a fast-growing business with a good market and a good business plan needs additional cash to finance the growth of the business, or (b) a service business that does not have a significant amount of real estate to pledge as collateral can use the guarantee to obtain financing to purchase equipment necessary for its business.

21. **The ECPCGC's Board of Directors will establish an Investment Committee, consisting of board members who have knowledge in the field of investment management.** The Investment Committee will act in a fiduciary capacity with respect to the portfolio and is accountable to the Board of Directors. It will have a strong governance role in the management of the institution's investments. While the CFO is responsible for daily investment and cash management activities, the Investment Committee is responsible for the governance and management of the longer-term aspects of the investment program, including development and approval of any changes made to the investment policy statement regarding: (a) governance, (b) acceptable investments, and/or (c) ensuring that the investment activity conducted by the CFO is audited and found to be consistent with the investment policy.

22. **The ECPCGC will need to provide frequent and accurate training to PLs.** The training curriculum should take into account frequent staff turnover for lenders and that the training will therefore have to be offered on a regular basis. The comments and issues raised by those loan officers being trained will also provide good feedback to determine ways to improve the guarantee program. The Senior Operations Officer should consider whether there is sufficient demand to conduct a monthly training session or consider offering to conduct a session for a specific lender. Initially, it is appropriate for the team to visit the various islands to conduct the training. In addition, the team should develop training that can be conducted as a webinar with a question and answer opportunity and finally, the team should develop a web-based training that loan officers can use by themselves to complete an application on the web portal. The Environmental (including Climate Change), Social, Health, and Safety Specialist would assist PLs in developing or adapting E&S procedures consistent with the ESMF. The training will need to include a module for lenders to use to assess the ability of MSMEs to manage the E&S, as well as climate change risks associated with their businesses.

23. **The content of the training should include basic cash flow calculations, if necessary along with guidance on the types of businesses that are eligible for a guarantee, the maximum amount of a guaranteed loan, and other items that are specific to the program.** Since MSMEs are at considerable risk from natural disasters and climate change, the training for PLs would also include overall awareness raising on climate change risks in the ECCU countries, as well as the ways of addressing them at the MSME level. By developing loan officers' capacity on climate change-related issues, they will be better equipped to identify and inform interested MSMEs about the benefits of deploying low carbon and climate-resilient technologies in their practices, including through the investments in energy efficiency and renewable energy, reduction of flooding and landslide risks, and so on. There is an annual budget for training which is intended to address a critical deficiency in lender MSME underwriting capacity that was discovered during the due diligence of the project. This is also a recognition that the first point of contact for many business owners are loan officers.

24. **Special steps should be taken to work closely with business development providers that work directly with MSMEs.** German Savings Bank is currently working in the region on this topic and would be a potential partner. The Branson Centre for Entrepreneurship in the Caribbean is also working with the OECS Commission on a possible ECCU expansion from its current base in British Virgin Islands and Jamaica. There are also national providers such as Grenada Industrial Development Corporation and St. Lucia Export. There should be close collaboration between the ECPCGC and existing organizations such as these.

25. **Existing MSME business development providers should be evaluated before any collaboration agreements are signed.** The TA provided should include showing small business owners how to approach lenders if they are not already providing this service. This should include preparing proper financial statements as well as teaching the small business owners how to tell the story of their business so the loan officer will understand the product being sold and how the small business owner expects to find customers. Business plan assistance may also include improving E&S practice or regularizing permit status.

26. **MSME business development providers should be given basic information on how the guarantee program operates, the important details of the plan, and guidance on the types of businesses that qualify for assistance.** Depending on the decision regarding whether to market directly to small businesses, the TA providers could also encourage their clientele to suggest a guarantee to the lender if the business is turned down for a loan. However, it is important not to raise expectations that receiving TA will ensure that a guarantee will be issued.

27. **The guarantee program should be marketed to the lending community, the business community, and professionals who service the MSME community.** The approach to marketing will differ for each group. The primary outreach should be directly to the lending community. Lenders will be the direct users of the program and must be familiar with it to include it in their list of products offered. It is important to reach out first to senior management to secure a decision to add the guarantee to the product mix. Secondary outreach should be to those professionals that work directly with MSMEs such as accountants, attorneys, and business consultants.

28. **Maintaining a consistent brand will be important for the ECPCGC.** Its visual identity is part of this process. Because the ECPCGC is a lean organization, there will be no dedicated marketing or branding team. Draft brand guidelines have been fully developed in the Operations Manual for the ECPCGC team's consideration.

ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY: OECS Countries
OECS MSME Guarantee Facility Project

Project Institutional and Implementation Arrangements

1. **The ECPCGC will be the implementing agency for this project.** This is a new institution that has been created by the ECCU Member States. It became a corporate body with full legal powers on May 7, 2018. The final location of the ECPCGC is yet to be determined; however, early conversations among the borrowing countries suggested it may be domiciled on the island of St. Kitts in the Federation of St. Kitts and Nevis. The ECPCGC will be responsible for coordinating, implementing, supervising, finalizing, and documenting all the activities related to the project.

2. **The board of the ECPCGC has been appointed according to the ECPCGC Agreement Article 11 by the MC of the ECCB.** The MC has vetted and appointed, by majority vote, the initial board of the ECPCGC. The initial board of the ECPCGC comprises up to nine members. The qualifications and responsibilities for board members are specified in the ECPCGC Agreement. To provide support to the ECPCGC board, the MC may, according to Article 52, provide initial policy guidance for the first year. The board has full legal authority to hire qualified personnel to manage the Corporation, and the chairperson of the board has decision-making powers. The board was appointed on May 9, 2018. The terms of reference for the Corporation team members are available in the draft Operations Manual.

3. **The ECPCGC Agreement makes provisions for the use of an Operations Manual for the areas of the Corporation's functioning that are not suited for legislation.** Article 39 stipulates that an Operations Manual should be prepared to provide guidance to the ECPCGC. The board must approve the Operations Manual before its publication. Areas that the Operations Manual covers include policies and procedures for dealing with financial institutions, pricing, criteria to evaluate guarantee applications, and guidelines for requesting that the ECPCGC pay on a defaulted guarantee.

4. **The ECCB and the St. Lucia Department of Public Service will provide interim FM and procurement support.** The ECCB will be the interim FM support partner to undertake the FM fiduciary functions as the ECPCGC builds its own capacity. The St. Lucia Department of Public Service will begin to undertake the procurement process of the CEO, CFO, the Senior Operations Officer, and the Administrative Assistant. The St. Lucia Department of Public Service staff have been appraised and have the requisite capacity. This service, as the interim procurement team for the ECPCGC, has been offered on a pro bono basis. The board of the Corporation will undertake the selection decisions. Once the initial team is in place, a fiduciary assessment will be made.

5. **Disbursements under Component 1 for capitalizing the guarantee fund will be made in a single tranche**. Retroactive financing, not to exceed 20 percent of the Loan or Credit amount, will be considered to cover eligible expenditures related to project management costs, including operating costs, paid by the ECPCGC prior to signing date of loan and financing agreements but on or after May 8, 2018.

6. **The board will be made up of representatives of the participating governments as well as lenders and MSMEs.** The ECPCGC's Board of Directors shall consist of the following persons who shall be nominated as follows: (a) one member from each of the participating governments; (b) one member

representing the banking industry from the ECCU Bankers' Association; and (c) two members representing the MSME community, from the Chambers of Commerce of two Member Territories chosen by alphabetical rotation from the Chambers of Commerce of the Member Territories, and (d) in accordance with a nomination procedure that the participating governments, the ECCU Bankers' Association, and the Chambers of Commerce of two participating governments chosen by alphabetical rotation, as the case may be, shall determine.[24]

7. **The general administration, direction, and management of the affairs and business of the scheme shall vest in the board.** The board shall:

(a) Ensure that the objectives of the ECPCGC are carried out;

(b) Set the strategic objectives and targets of the Credit Guarantee Corporation through the preparation of at least a two-year strategy plan that fully describes the activities of the Credit Guarantee Corporation and which shall be reviewed semiannually or as the board directs;

(c) Ensure the implementation of appropriate systems and procedures to achieve the Credit Guarantee Corporation's strategic objectives and targets;

(d) Review and adopt business plans of the Credit Guarantee Corporation;

(e) Establish eligibility criteria on an annual basis for the financial soundness of PLs;

(f) Establish and review the system and procedures of control and risk management that are adequate for the nature and scale of the business of the Credit Guarantee Corporation, including risk in relation to the management of the Credit Guarantee Fund;

(g) Adopt policies for clear organizational arrangements for delegating authority and responsibility;

(h) Adopt adequate internal practices and procedures that promote ethical and professional standards in the Credit Guarantee Corporation;

(i) Adopt and review the system of internal controls to ensure that the business of the Credit Guarantee Corporation is conducted in a prudent manner in accordance with policies and strategies established by it;

(j) Establish performance and long-term service, financial, and sustainability objectives;

(k) Perform credit guarantee planning based on demand forecasts and targeted service levels;

(l) Ensure the maintenance of reliable integrated credit guarantee records;

(m) Ensure that an investment strategy is developed which shall address mechanisms for ensuring the payment of credit guarantees by the scheme;

[24] Article 11(2), Eastern Caribbean Partial Credit Guarantee Agreement.

(n) Provide guidance on the establishment and maintenance of liquidity ratios; and

(o) Establish and monitor the maximum leverage of the Credit Guarantee Fund.[25]

8. **The ECCB will be the regulator of the ECPCGC.** These provisions are provided for in Article 53. The responsibilities of the regulator include risk management, compliance with the Agreement, and evaluation of policies and procedures for credit analysis. The ECCB has the powers to direct the Corporation to take remedial action to address any deemed deficiencies.

9. **The oversight includes onsite and offsite examinations.** These examinations will be conducted on a regular schedule and the ECCB is permitted to charge for its services. The review will include:

(a) Reviewing notifications of the appointment of directors and officers;

(b) Recommending the removal of officers who are disqualified from holding office from the Office of Directors;

(c) Taking remedial action to ensure compliance with this Agreement;

(d) Examining policies and procedures used by the Credit Guarantee Corporation for credit analysis, including loan guarantee application processing, monitoring of the guarantee portfolio, monitoring liquidation activities, guarantee payment procedures, and PL oversight;

(e) Ensuring that the Credit Guarantee Corporation is appropriately managing risk including credit risk from the guarantee program, reputational risk, E&S risk, and so on;

(f) Examining policies and procedures for human resource activities;

(g) Examining policies and procedures for procurement activities;

(h) Examining policies and procedures for accounting;

(i) Examining policies and procedures for investment of capital, fee revenue, and any other funds;

(j) Ensuring that the board's Audit and Risk Committee has hired an outside auditor and that the auditor has provided audited financial statements on an annual basis;

(k) Ensuring that the Credit Guarantee Corporation has established a Continuity of Operations Plan and that the employees understand the plan and know how to implement it;

(l) Ensuring that the Credit Guarantee Corporation has taken steps to protect sensitive data that it may acquire, including employee data and credit data; and

[25] Article 14, Eastern Caribbean Partial Credit Guarantee Agreement.

(m) Taking any such other actions as the Central Bank determines are appropriate for the responsible oversight of the Credit Guarantee Corporation.[26]

10. **The ECCB will have the authority to make recommendations to the Board of Directors for remedial actions.** Implementing such remedial actions will enhance the sustainability of the Credit Guarantee Corporation. These actions include the following:

(a) Restrict the Credit Guarantee Corporation from providing further credit guarantees;

(b) Require the Credit Guarantee Corporation to suspend for a specified period of time, alter, reduce, or terminate any activity that in the opinion of the Central Bank has caused material losses to the Credit Guarantee Corporation, or presents excessive risk to the Credit Guarantee Corporation;

(c) Require the Credit Guarantee Corporation to sell, liquidate, or otherwise dispose of part of its business;

(d) Prohibit payment of bonuses or incentive compensation to any director or officer;

(e) Prohibit the Credit Guarantee Corporation from paying a dividend or making a distribution on its share capital or issue rights, shares, or bonus shares to participating governments;

(f) Suspend or remove any officer of the Credit Guarantee Corporation or restrict the officer's powers;

(g) Remove any or all the directors or restrict their powers;

(h) Any other action necessary or appropriate to eliminate the basis for requiring remedial action.[27]

11. **The ECCB may also act against members of the Board of Directors, officers, or employees of the scheme.** These actions include requiring the relevant person to reimburse the Credit Guarantee Corporation for losses caused by a violation and suspending the relevant person from his/her position with the Credit Guarantee Corporation or the board or declare the person to no longer be fit and proper. In some circumstances, the ECCB may direct the dismissal of the relevant person from the Credit Guarantee Corporation or the board and prohibit the relevant person from serving in or engaging in the credit guarantee business for a stated period.

12. **Failure to comply with the ECCB direction can lead to financial penalties for board members or the scheme team.** The enabling legislation for each participating government includes a provision that implements financial penalties if the corporation, board member, or team member does not follow the recommendations of the ECCB. The penalties were included in the legislation to ensure that they can be enforced in all participating countries.

[26] Article 53(3), Eastern Caribbean Partial Credit Guarantee Agreement.
[27] Article 55, Eastern Caribbean Partial Credit Guarantee Agreement.

13. **The corporate governance structure selected has been used previously in the ECCU.** There are two significant legislative actions that were used as precedents for the structure selected to govern the scheme, the Banking Act of 2015 and the Eastern Caribbean Asset Management Corporation Act of 2016.

14. **The Banking Act of 2015 establishes various types of financial structures and provides authority for their oversight.** The act permits the ECCB to examine or cause an examination to be made of each licensed financial institution from time to time or whenever in its judgment an examination is necessary or expedient to determine that the licensed financial institution is in a sound financial condition and that the requirements of this Act have been complied with in the conduct of its business. This is the same type of authority that the Central Bank has over the Credit Guarantee Corporation.

15. **The Eastern Caribbean Asset Management Corporation Act is a more direct precedent to the Credit Guarantee Corporation.** This act creates the ECAMC which is intended to purchase NPLs from indigenous banks and either rehabilitate them or sell the available collateral and fully liquidate the loan. The ECAMC is responsible for reporting directly to the MC. In addition, the MC is responsible for appointing a team of independent evaluators to assess the extent to which the ECAMC has made progress achieving its objectives.

16. **Modifications were made to the structures referenced earlier to develop a corporate governance process that is specific to the scheme.** The MC will oversee the establishment of the Board of Directors. Once the board is established and operational, it will assume the responsibility for policy guidance to the scheme. The MC will no longer provide policy oversight. Because the board includes representatives from each of the participating governments, the ECCU members that have financed the scheme will have an opportunity to influence the policies and procedures that it uses.

17. **The Corporation is expected to run with a minimal team to keep the operation efficient.** It is envisaged that the Corporation will grow to a total of six people. These are listed in annex 1, table 1.1. FM has been allocated to the senior management, while the Administrative Assistant will handle procurement. Safeguards will rely on an Environmental, Social, Health, and Safety Specialist for E&S expertise. This is proportionate to their needs and to maintain costs at a low level for a new institution, excepting the first year when E&S training will be prioritized to ensure that PLs have adequate screening, documentation, and reporting protocols in place consistent with the ESMF requirements. The CEO should have a credit background and will guide the establishment of the ECPCGC and supervise the development of products that will facilitate the provision of loans to MSMEs. Prior experience in working with or running a guarantee program would be helpful. The CFO will be responsible for designing and implementing all financial systems necessary to operate the ECPCGC. This includes payment of day-to-day expenses as well as guarantees owed to lenders in the event of a borrower default. The Senior Operations Officer will establish the risk management function in a manner consistent with the level of risk the ECPCGC is willing to accept including management of risks associated with program operations generally with an emphasis on program operation and investment management. He/she will also provide overall guidance of the financial programs offered by the ECPCGC. Along with management skills, this individual must be an expert in credit analysis for MSMEs. Prior experience with a financial institution is required. The Credit Officer will perform the first credit review of all applications for guarantee received by the ECPCGC. Experience as a lending officer would be helpful. Along with procurement, the Administrative Assistant will handle the routine tasks necessary for a properly functioning office. The complete terms of reference for these team members is available in the draft Operations Manual. There are also provisions for

committees that these team members will participate in. These are the board committees for finance, policy, and audit and risk.

Financial Management

18. **The Agreement establishing the scheme requires several annual reports and these will be harmonized for the World Bank and ECCB reporting so as not to overburden the Corporation.** These include various reports by board committees as well as an annual report from the board and an annual audit by an independent auditor. The board committees for finance, policy, and audit and risk must provide reports to the board. The finance committee shall report to the board four times per year within one month of the end of each quarter in the fiscal year.[28] A quarterly reporting timetable was chosen for this committee due to the desire to keep the board fully informed on the scheme's financial position and adherence to the budget. The other committees do not have to report as frequently.

19. **Risk assessment.** The FM of this project will eventually be undertaken by the Corporation, which is a new entity that is not yet operational. Once the Corporation is operational, an FM assessment will be performed on the Corporation to ensure it is able to manage the FM fiduciary functions before transferring this responsibility and function to them. As such, the overall FM risk rating assigned to this project component at the project Concept Note stage is Substantial. In the meantime, the ECCB has agreed to be the FM support partner to undertake the FM fiduciary functions until the ECPCGC builds its own capacity. The FM assessment of the ECCB's systems as the interim FM support partner has been undertaken by the World Bank and is deemed adequate.

20. **Staffing.** The Corporation will hire a CFO, who will be responsible for the overall FM aspects of the project and the Corporation. The project's Financial Management Specialist (FMS) will provide input to the terms of reference and assess the qualifications of the selected CFO to ensure that they are capable of performing the expected FM functions. The FMS will provide hands-on training on the World Bank's policies and guidelines to the newly selected CFO.

Accounting and Accounting Systems

21. **Budgeting.** A budget for all the activities of the project for the entire implementation period will be prepared at the beginning of the project by the management team of the Corporation and reviewed and approved by the board of the Corporation and the World Bank for reasonableness. The budget will be revised quarterly and on an ad hoc basis based on implementation progress. Detailed variance analysis on the actual verses the budget should be provided as part of these quarterly reports.

22. **Reporting and external audit.** Interim financial reports (IFRs) are required quarterly and should be submitted within 45 days after each calendar quarter. Initial financial reports will be provided by the ECCB on behalf of the ECPCGC. Annual external audits, performed by acceptable ('no-objection' from the World Bank) auditors are required with each audit covering one fiscal year (ending March 31). The audit reports are due to the World Bank no later than four months after the end of each audit period. The annual audit of the Corporation should suffice and no separate project audit is required given that the Corporation is majority established and funded by the project.

[28] Article 23(7), Eastern Caribbean Partial Credit Guarantee Agreement.

Disbursement and Funds Flow

23. **The following disbursement methods will be available—Advance, Reimbursement, and Direct Payment.** Disbursements for Project management (Component 2) will be primarily based on the use of Advances. For Component 2, The World Bank will disburse loan proceeds to the Corporation into a pooled Designated Account (DA) denominated in US dollars and currently maintained at the ECCB. Disbursements for the capitalization of the Credit Guarantee Fund (Component 1) will be made in a single tranche (through Direct Payment method) against fulfillment of disbursement conditions established in the legal document. For Component 1, disbursement will be made directly from the World Bank into a specific account of Credit Guarantee Fund held at a commercial bank acceptable by the Bank and designated by ECPCGC, for the purposes of providing Credit Guarantees to Participating Lenders.

24. **Designated Account.** Funds will be transferred from the DA to a correspondent local currency project account in the name of the Corporation. This is currently at the ECCB and will later likely be at a commercial financial institution acceptable to the World Bank. Reporting on the transfers from the DA and use of funds must be done in the same currency as that of the DA. The exchange rate in effect on the date funds were transferred out of the DA to the Corporation account should be used for all reporting purposes. Any foreign exchange losses arising from such transfers to accounts in other currencies are not eligible to be financed.

25. **Disbursements will be report based.** Advances will be provided to the DA-based on six-month's forecast and subsequent quarterly IFRs will be used for documentation of expenditures. The minimum application size for Direct Payments and Reimbursements is US$100,000 equivalent. Overall disbursement arrangements will follow standard disbursement policies and procedures established in the Disbursement Guidelines for Investment Project Financing, dated February 2017, and in the Disbursement and Information Letter of the project.

26. Table 2.1. specifies the category of eligible expenditures that may be financed out of the proceeds of the loan and financing.

Table 2.1. Project Component-Wise Expenditures by Borrower and Recipients

	ATG		DMA		GRD		LCA		VCT	
Category	**Amount of the Loan**	**Percent of Expenditures to be Financed by the Loan***	**Amount of IDA Credit**	**Percent of Expenditures to be Financed by the Credit***	**Amount of IDA Credit**	**Percent of Expenditures to be Financed by the Credit***	**Amount of IDA Credit**	**Percent of Expenditures to be Financed by the Credit***	**Amount of IDA Credit**	**Percent of Expenditures to be Financed by the Credit***
Currency	US$		SDR		US$		US$		US$	
Capitalization of Credit Guarantee Fund	1,620,000	100% of amount specified for the capitalization of the CGF as per the Subsidiary Agreement	1,134,000	100% of amount specified for the capitalization of the CGF as per the Subsidiary Agreement	1,620,000	100% of amount specified for the capitalization of the CGF as per the Subsidiary Agreement	1,620,000	100% of amount specified for the capitalization of the CGF as per the Subsidiary Agreement	1,620,000	100% of amount specified for the capitalization of the CGF as per the Subsidiary Agreement
Goods, works, non- consulting services, consultant services, training and operating costs	375,000	16.5%	266,000	16.7%	380,000	16.7%	380,000	16.7%	380,000	16.7%
Front-end fee	5,000	Amount payable pursuant to Section 2.03 of the LA in accordance with Section 2.07 (b) of the General Conditions	n.a.	—	n.a.	—	n.a.	—	n.a.	—
Interest rate cap or interest rate collar premium	0	Amount due pursuant to Section 4.05 (c) of the General Conditions	n.a.	—	n.a.	—	n.a.	—	n.a.	—
Total	2,000,000	—	1,400,000	—	2,000,000	—	2,000,000	—	2,000,000	—

Note: Dominica's credit is denominated in SDR. * Inclusive of taxes.

Procurement

27. **Procurement for the project shall be carried out in accordance with the World Bank's Procurement Regulations for IPF Borrowers for Goods, Works, Non-Consulting, and Consulting Services dated July 1, 2016, revised November 2017, hereinafter referred to as 'Regulations'.** The project shall be subject to the World Bank's Anticorruption Guidelines, dated October 15, 2006, and revised in November 2017. All procurement for the project will be carried out by the ECPCGC.

28. **Procurement assessment.** The ECPCGC will be responsible for coordinating, implementing, supervising, finalizing, and documenting all the activities related to the project. This is a new institution that has been created by the ECCU Member States. It is a corporate body with full legal personality but its final location has not yet been determined and its operating staff have not been selected yet. The board of the ECPCGC was appointed on May 9, 2018. Due to the recent creation of this institution and the fact that it is not yet operational, it is not possible to assess its capability. The Department of Public Service in St. Lucia has already seconded temporarily two members of their staff to support the hiring process of the CEO, CFO, the Senior Operations Officer, and the Administrative Assistant. The Department of Public Service in St. Lucia has already been appraised and they have the requisite capacity to undertake the said tasks. Their main role at the setup stage of the project will be to hire the key staff. The World Bank has provided procurement training for this temporary team on procuring of individual consultants. The procurement processes to hire the permanent staff of the ECPCGC will be open and competitive. The World Bank will provide post reviews to these initial hirings, given the thresholds for the OECS for prior review.

29. **Procurement under the project.** Procurement regulations will not apply to Component 1 of the project according to paragraph 2.2 of the Regulations. Under Component 2, it is envisaged that the project will finance mainly individual consultants, training costs, external audit, and operating costs, including the equipment and office furniture to put in place the operation.

30. **Project Procurement Strategy for Development.** The PPSD has been prepared but an updated version will be prepared by the implementing agency with support and guidance by the World Bank once it is operating. An acceptable Procurement Plan was also prepared and will be included in the new Systematic Tracking of Exchanges in Procurement (STEP) system.

Environmental and Social (including safeguards)

31. **The draft ESMF was prepared in November 2017, and feedback has been incorporated into the final version of the document.** Key findings of the consultations have been summarized and included in the final revisions of the ESMF. Dates of the consultations were the following: (a) St. Lucia, November 14–15, 2017; (b) Antigua and Barbuda, November 17, 2017; (c) Grenada, November 20, 2017; (d) St. Vincent and the Grenadines, November 22, 2017; (e) St. Kitts and Nevis, November 28, 2017; and (f) Dominica, March 2, 2018.

32. **The project environmental management aspects, including responsibilities, are described in detail in the project's Operations Manual and the ESMF.** MSMEs will be required to certify conformance with requirements for E&S performance, and PLs must effectively screen the MSMEs, verify their eligibility, and ensure that E&S requirements are clearly included in Guarantee Agreements. The ECPCGC

will require that PLs provide periodic reports on the status of their E&S management efforts and portfolios, and the ECPCGC itself must conform to relevant E&S requirements.

33. **The MSME screening and processing procedure involves the following steps:** (a) compare to the World Bank Group's exclusion list; (b) check local permit status; (c) assign E&S risk category; (d) undertake field visits (optional); (e) prepare documentation; and (f) guarantee administration, evaluation, and reporting. The ECPCGC will build the E&S functions into its Environmental, Social, Health, and Safety Specialist position to ensure that they are integrated into project management.

34. **For PLs requesting to participate in the project, the ECPCGC shall ensure that the PL will follow an adequate environmental risk management procedure for MSME financing, consistent with the procedures in the ESMF.** The ECPCGC's Environmental, Social, Health, and Safety Specialist will provide training to PLs on E&S risk management and the ESMF procedures, particularly during the first year of implementation, and will take reasonable efforts to provide technical support, as needed, to the PLs in their development of E&S risk management procedures. The ECPCGC will provide follow-on training and support during implementation to PLs to correct any identified issues related to implementation of the E&S requirements. The ECPCGC will perform a yearly review of a sample of the activity of the PLs to see if the current ESMF and the IPP are still valid or if they need to be updated. Based on the results of the annual reporting, the ECPCGC will utilize and evaluate this information to determine if a new E&S plan is required. The annual portfolio review will allow the process to be guided by how the market is changing. Follow-ups on individual MSMEs will be performed, if deemed necessary. This will be managed by the Environmental, Social, Health, and Safety Specialist, and there is a line item in the budget to hire specific E&S expertise to help an MSME with E&S performance issues.

Monitoring and Evaluation

35. **Guarantees will be monitored closely using an automated system.** The web portal described earlier will be used by lenders to report the status of their guarantees. The system will be designed to handle monthly reporting by lenders. The expectation is that as the scheme grows, lenders will develop software to interface directly with the scheme's web portal to fully automate the data collection process. The Senior Operations Officer will be responsible for M&E.

36. **The Corporation will have the ability to collect a substantial amount of data.** While initial data collection may be related specifically to payment amount, date of payment, current balance, and paid-to-date for interest, the system can be designed with the capacity to collect the number of employees, revenues, and other data that the scheme may desire to help determine the additionality of the scheme. Through confidentiality clauses and policies, the Corporation will be committed to safeguarding the privacy of all data from lenders and MSMEs.

37. **Reports on loans that are past due will be reviewed by the Corporation's team.** After the information is received from lenders, a report will be run showing all loans that are past due. Experience has shown that a quick intervention when a borrower is past due, yields better results in the long run. The scheme's team will contact lenders to ensure that they are in communication with the past due borrowers and are looking at options to help the borrower begin making payments.

38. **The scheme will offer flexibility for past due borrowers.** Because part of the loan is guaranteed, lenders have some additional flexibility to work with borrowers that are having payment difficulties. The

scheme's team will work with lenders to suggest an extension of the tenor, temporary reduction of payments, temporary reduction of the interest rate, or other loan modification to help the borrower ultimately repay the debt.

39. **Key indicators for measuring the PDO include the following:**

(a) Number of guaranteed loans;

(b) Total amount of outstanding guaranteed loans through project;

(c) Number of loan officers trained in MSME credit assessment.

40. **Key intermediate results indicators include the following:**

(a) Number of MSMEs receiving guaranteed loans through project;

(b) Share of guarantees issued to women owned or managed MSMEs;

(c) Percentage of funding through guaranteed loans with maturity more than one year;

(d) The ratio of outstanding guarantees to equity;

(e) Proportion of guarantees paid-out;

(f) Percentage of beneficiaries that feel project activities reflected their needs (Citizen Engagement Indicator).

ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY: OECS Countries
OECS MSME Guarantee Facility Project

Strategy and Approach for Implementation Support

1. **The implementation support strategy was developed considering the complexity of establishing a new PCGS.** The primary implementation support from the World Bank will be providing ongoing TA to the new Corporation and its team. While the Operations Manual contains a substantial amount of detail and is intended to be a road map for commencing operations, it is likely that the team may seek additional guidance on specific items discussed in the manual.

(a) **Technical support.** A team of financial sector specialists will provide technical support and guidance to the Corporation as each stage of the implementation plan progresses. This technical support includes financial, managerial, technological, or any other support necessary. After the initial setup of the Corporation is completed, the technical support team will be available for ongoing consultation for the duration of the project with a focus of more support in the initial two years.

(b) **Procurement.** A procurement specialist will provide ongoing guidance during the implementation phase as the Corporation establishes its procurement practices. While guidance is provided in the Operations Manual, the ability to ask a specialist various questions is valuable to the Corporation’s team.

(c) **Financial management.** An FMS will provide implementation support to the Corporation and especially the CFO. The CFO is responsible for establishing the financial systems used by the Corporation and creating internal controls to ensure that these systems function properly.

(d) **Operations.** After the Corporation begins accepting and processing guarantee applications, the World Bank will provide implementation support to the team members of the Corporation as issues arise. This includes application processing as well as working with the already developed financial model.

(e) **Safeguards.** The E&S Specialist will provide support and ongoing guidance to the Corporation on E&S safeguards, including the application of the guidance provided in the Operations Manual. In addition, the specialist will participate in project implementation support missions and site visits.

2. **The Implementation Support Plan will be reviewed periodically to ensure that it continues meeting the implementation support needs of the project.**

Implementation Support Plan and Resource Requirements

Time	Focus	Skills Provider	Resource Estimate	Partner Role
First 12 months	Implementation	Task Team Leader/Financial Sector Specialist	12	—
	Procurement	Procurement Specialist	4	1
	FM	FMS	2	2
	Safeguards	E&S Specialist	6	—
	Operations support	Operations Officer	6	—
	Technical support	Financial Sector Specialist, Technology Specialist	18	—
12–60 months	Ongoing operations	Task Team Leader/Financial Sector Specialist	32	—
	Procurement	Procurement Specialist	8	—
	FM	FMS Specialist	8	—
	Safeguards	E&S Specialist	12	—
	Operations support	Operations Officer	8	—

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First 12 months	Initial start-up support	Operations, FM and financial sector skills, technical support, procurement, and safeguards	54	3
12–60 months	Meeting results and financial sustainability	Financial sector skills, FM, procurement, and safeguards	76	—

Skills Mix Required

Skills Provider	Number of Staff Weeks	Number of Trips	Comments
Team Leader/Financial Sector Specialist	44	10	n.a.
Procurement Specialist	12	4	n.a.
FMS	10	5	n.a.
Environmental Specialist	18	6	n.a.
Operations Officer	14	2	n.a.
Technical support	18	3	n.a.

Partners

Name	Institution/Country	Role
ECCB	Regional Central Bank	Interim Financial Management Support Framework
St. Lucia Department of Public Service	St. Lucia	Interim Procurement Liaison Support Team

ANNEX 4: FINANCIAL SECTOR OVERVIEW

COUNTRY: OECS Countries
OECS SME Guarantee Facility

1. **The ECCU financial sector is mainly bank based and is large relative to regional peers, making the banking sector the main source of credit for households and MSMEs.** The financial system consists of 11 locally owned banks (also known as indigenous or domestic banks), 24 foreign branches or subsidiaries, 163 insurance companies, 75 credit unions, and other non-bank financial institutions. The sector contributes 8.1 percent to annual GDP. Total financial system assets in the ECCU represent 221 percent of GDP, with 193 percent of GDP coming from the banking sector. Therefore, almost all households and enterprises rely almost exclusively on banks or credit unions for their financial services. Across Latin America and the Caribbean, these numbers are much smaller, with the financial sector contributing an average of 5.1 percent to GDP and financial system assets averaging 54 percent. Tables 4.4., 4.5., and 4.6. (at the end of the annex) provide the names of all the banks, credit unions, and development banks in the ECCU. These will be the lenders the Corporation will work with.

2. **The non-banking sector is gaining importance in the ECCU with credit union membership on the rise.** As of 2016, there were 75 active credit unions, which manage total assets of about US$880 million (13 percent of the region's GDP) and have a membership base of 366,581, which is just under 50 percent of the region's population. Credit union membership in the ECCU is high as compared with other countries, and its membership increased steadily during 2001–2010 despite a decline in the number of credit unions. See table 4.1. Credit unions have come into prominence considering stringent credit conditions in the banking sector following the global financial crisis. Its assets and deposits experienced steady growth, especially for 2005–2010, a period over which its total asset size almost doubled. In particular, in 2016, credit union assets accounted for as much as 44 percent GDP in Dominica. For Grenada, St. Vincent and the Grenadines, and St. Lucia, credit union assets vary between 14 percent and 16 percent of GDP.

Table 4.1. Number of Credit Union Members in ECCU

Member State	2006	2011	2016
Anguilla	n.a.	n.a.	n.a.
Antigua and Barbuda	21,990	25,892	39,695
Dominica	68,530	62,683	75,310
Grenada	31,580	43,849	65,539
Montserrat	3,865	5,155	5,596
St. Kitts and Nevis	9,660	18,523	23,766
St. Lucia	58,472	81,022	92,113
St. Vincent and the Grenadines	42,448	56,741	64,562
Total	**236,545**	**293,865**	**366,581**

Source: World Council of Credit Unions.

3. **The insurance sector in the ECCU is relatively large and is characterized by regional conglomerates.** The two major insurance companies are the Sagicor Financial Group and Guardian Holdings. Assets for the sector constitute approximately 17 percent of regional GDP. The January 2009 collapse of Trinidad and Tobago based CL Financial Ltd. (CLF) and related companies (such as CLF's insurance subsidiaries, the Colonial Life Insurance Company [CLICO], CLICO International Life, and the

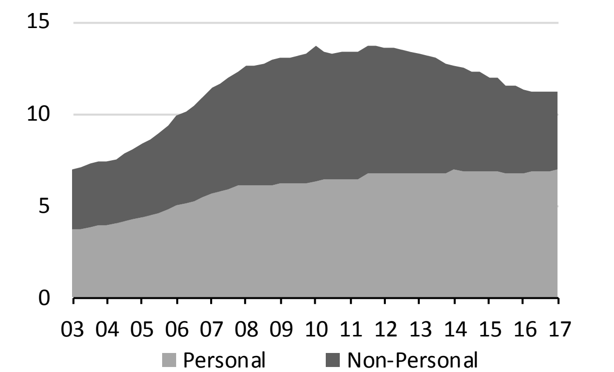
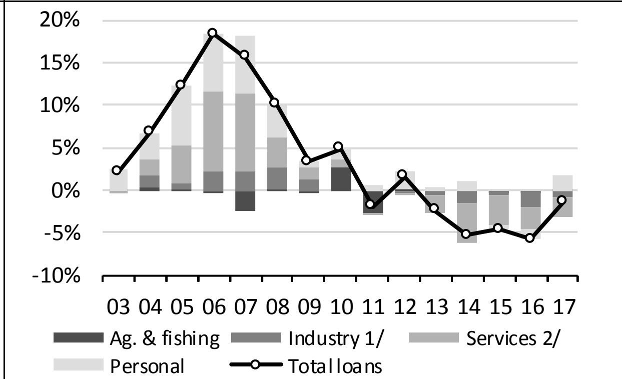
British American Insurance Company [BAICO]) affected the Caribbean but hit the OECS region the hardest because of its high exposure to CLICO and BAICO that was estimated at 15 percent of GDP in 2009.

4. **Offshore financial sectors in the region have been developed to increase fiscal revenues, while not taxing their population.** The ECCU Member States have a relatively small share of worldwide offshore activity, while they offer financial services ranging from international banking for corporations and individuals, to FDI and insurance. Within the ECCU, Anguilla, Antigua and Barbuda, and St. Kitts and Nevis have the most active offshore financial sectors. However, the offshore sector has been under pressure due to: (a) the Organisation for Economic Co-operation and Development Global Forum's efforts to fight tax evasion; (b) the Anti-Money Laundering (AML) regulation of the Financial Action Task Force (FATF); and (c), more recently, the U.S. Foreign Account Tax Compliance Act (FATCA).[29]

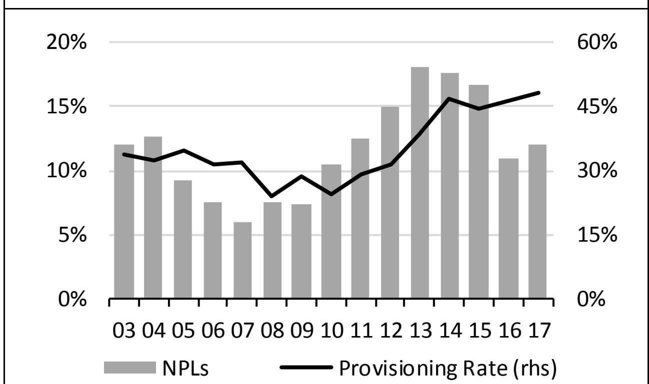
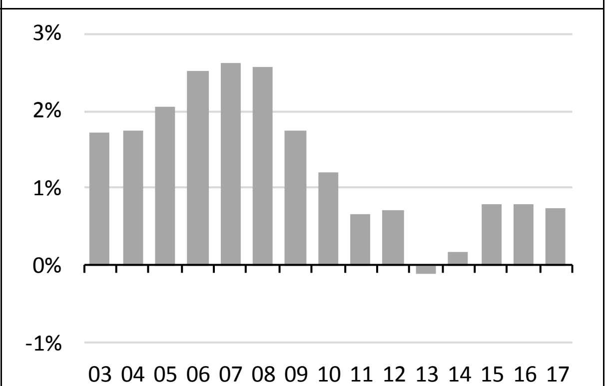
5. **The ECCU has a regional capital market that remains underdeveloped.** The Regional Government Securities Market (RGSM) was established in 2002 for the primary issuance of government debt securities for eight ECCU member countries to create a single regional financial space for government debt. Since the establishment of the RGSM, the holding of sovereign debt across borders has also increased. The increased exposure of banks to sovereign debt increases their liquidity and solvency risks of other governments than their own. Only five of the eight member countries—Antigua and Barbuda, Grenada, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines—have thus far issued securities in the regional market, with St. Lucia and St. Vincent and the Grenadines being the most active issuers. However, the ECCB has not succeeded in creating a proper sovereign debt market as there is no secondary market, and as a result, financial institutions buy and hold debt to maturity. Secondary market activity in government securities has also been precluded under the RGSM, on account of a broker/dealer system that is not conducive to secondary market trading. There is also an Interbank Market and Repo Market administered by the ECCB and Eastern Caribbean Home Mortgage Bank which also include the long-term debt capital market.

6. **Before the 2008 global financial crisis, credit in the ECCU expanded rapidly and was not supported by underlying economic growth.** The banking sector in the ECCU expanded rapidly in the early 2000s due to a credit boom during the runup to the 2007 Cricket World Cup, and rapid credit expansion to the public sector to help finance governments' public-sector investment programs. Between 2003 and 2008, credit to the private sector across the OECS grew at an average annual rate of 13.7 percent, as shown in figure 4.1. and figure 4.2. In St. Lucia, private credit to the private sector grew at 19 percent a year. Over 50 percent of this credit was for the acquisition of personal property and the growth of lending for services also grew sharply. Given the high prevailing level of credit to the private sector to GDP (which reached 85 percent in 2013), GDP growth of only 1.4 percent annually between 2003 and 2013 was not sufficient to support this level of credit growth. This then led to a deterioration in asset quality.

[29] The original FATF Forty Recommendations were drawn up in 1990, aimed at combating the misuse of financial systems through money laundering. After several rounds, the revised FATF AML regulation addresses new and emerging threats. The FATF standards have also been revised to strengthen the requirements for higher-risk situations. The FATCA is a U.S. federal law that requires U.S. firms, residents and citizens, including those who live outside the United States, to report their financial accounts held outside of the United States to the Financial Crimes Enforcement Network, if the total of these accounts exceeds US$ 10,000 on any day during the year.

Figure 4.1. Private Sector Credit (XCD, billions)	Figure 4.2. Private Sector Credit Growth (%)
	
Source: ECCB.	*Source:* ECCB. *Note:* 1/ Includes manufacturing and construction. 2/ Includes distributive trades, tourism, entertainment, transport, public utilities, professional services, and financial institutions.

7. **At the onset of the global financial crisis, economic activity contracted sharply, leading to a sudden increase in NPLs.** After a significant credit expansion to the private sector during 2000–2007, regional economic activity experienced a sharp contraction as a result of the 2008 global financial crisis. This has put significant stress on the banks' balance sheets and exposed vulnerabilities in the banking system. Credit growth to the private sector continued to fall and since 2013 is now negative (figure 4.2.). Most of the credit tightening has occurred in services (such as tourism-related services) although the highest share of loans is to individuals (54 percent) for acquisition of property and home construction and renovation, which has been rising in recent years.

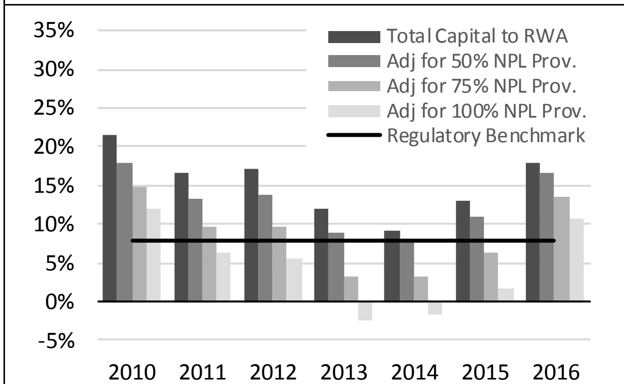
Figure 4.3. NPLs and Provisioning	Figure 4.4. Return on Average Assets
	
Source: ECCB.	*Source:* ECCB.

8. **As a result, there has been a deterioration in asset quality evidenced by a sharp increase in the share of NPLs in the regional banking sector.** Commercial banks' NPLs rose from 7.5 percent in 2008 to 18.1 percent in 2013 (see figure 4.3.). The overextension of credit proved to be unsustainable, and a credit overhang has been created. Protracted foreclosure processes, which in some countries require judicial reviews, have meant that the NPLs have remained on banks' balance sheets for the past six to eight years.

Although provisioning levels have increased for these NPLs, these are still below international standards for provisioning. As shown in figure 4.4., the deteriorating asset quality has weighed down significantly on profitability.

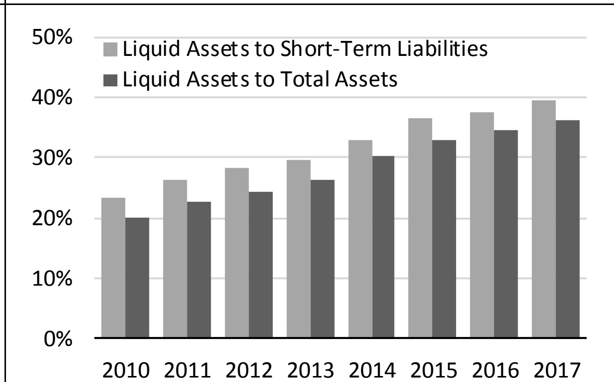
9. **Capital has therefore been improving and liquidity remains high.** Figure 4.5 and figure 4.6. show capital and liquidity. Capitalization is shown for indigenous banks and not foreign banks. These banks have historically only had to present yearly letters of comfort from the foreign bank headquarters. For indigenous banks, the reported numbers have historically been above the regulatory benchmark. However, equity has yet to fully account for the entire provisioning of NPLs. After adjusting for this, capital adequacy worsens significantly but has started to improve—part of this is due to the final resolution of the three banks under conservatorship. Concurrently, liquidity has been increasing. This is due to the NPLs only affecting a subset of banks and the system's liquidity moving to more sound institutions.

Figure 4.5. Capitalization of Indigenous Banks (%)



Source: ECCB and International Monetary Fund (IMF).

Figure 4.6. Liquidity at Commercial Banks



Source: ECCB and IMF.

10. **The new Banking Act has now been passed in each of the eight ECCU Member States, and this provides the framework for improved supervision and, if needed, resolution.** Important efforts have been made to improve the regulatory and supervisory framework. The new Banking Act, which is harmonized across the ECCU, has strengthened the regulatory and supervisory frameworks, including by introducing higher minimum capital requirements, a more effective resolution of failed banks, and a stronger depositor protection. Looking ahead, the currency union will need to operationalize the new Banking Act toward enhanced supervision and eventually strive to implement risk-based supervision and Basel II regulation for banks and non-banking financial institutions.

11. **Against this backdrop and the efficiency of the sector, there is need to build a stronger banking and financial system that will be able to contribute toward growth and reducing volatility.** In addition to the high number of branches per capita, commercial bank cost structures in the ECCU are expensive. The average 2014 cost-to-income ratio at the indigenous banks in the ECCU is 79 percent, which is well above the emerging market average of 45 percent. This, combined with the level of NPLs, suggests that efforts toward strengthening, modernizing and consolidating the sector will significantly aid its ability to contribute toward growth and development.

12. **Financial soundness indicators of banks and credit unions have been improving; however, it is important that the Corporation maintains strict rolling eligibility criteria, given the history mentioned**

earlier. Table 4.2. and table 4.3. show the financial soundness indicators for commercial banks and for credit unions. These numbers are improving over time. However, the effects of the financial crisis are still apparent. Therefore, as the ECPCGC conducts its eligibility review, it must ensure that the balance sheets of eligible lenders do not have negative effects on its own balance sheet. In particular, evergreening of non-performing loans through guarantees should be avoided. As mentioned earlier, capital levels do not reflect full provisioning, and therefore, the measure of capital adequacy should be adjusted for these changes.

Table 4.2. ECCU Financial Soundness Indicators of Commercial Banks

	2013	2014	2015	2016	2017
General government resident loans/total loans	10.06	8.73	9.52	9.59	10.18
Interest margin/gross income	64.34	64.43	63.82	62.38	61.75
Liquid assets/current liabilities (short-term liabilities)	29.51	33.05	36.47	37.54	39.73
Liquid assets/total assets	26.5	30.17	33.11	34.53	36.33
Non-interest expenses/gross income	82.12	76.56	71.75	67.57	69.94
NPLs net of provisions to capital	130	128.72	92.76	51.71	51.58
NPLs to total gross loans	18.12	17.6	16.75	10.93	12.04
Nonresident loans/total loans	2.41	2.72	2.75	3	2.78
Personal resident loans/total loans	46.43	49.78	51.03	52.68	54.89
Regulatory capital to risk-weighted assets	13.95	11.1	14.81	18.25	20.62
Regulatory Tier 1 capital to risk-weighted assets	12.95	10.75	14.69	16.95	17.9
Resident loans/total loans	97.57	97.28	97.25	97	97.21
Return on average assets	(0.11)	0.17	0.8	0.8	0.73
Return on average equity	(1.86)	3.99	20.34	14.59	11.91

Source: ECCB.

Table 4.3. ECCU Financial Soundness Indicators of Selected Credit Unions

State	Name of Credit Union	Assets (XCD, millions)	Return on Assets (%)	Return on Equity (%)	NPLs (%)
DMA	National Cooperative Credit Union Ltd	192	0.9	7.0	9.2
GRD	Grenada Public Service Cooperative Credit Union Ltd*	94	0.9	8.4	13.0
GRD	Grenada Union of Teachers Cooperative Credit Union Ltd*	49	1.1	7.2	5.6
LCA	Laborie Co-operative Credit Union	53	3.0	20.3	10.0
GRD	Communal Cooperative Credit Union Ltd*	44	0.9	8.4	19.5
KNA	St. Kitts Co-operative Credit Union Limited (SKCCU)	46	2.7	13.1	11.2
LCA	St. Lucia Teachers Co-operative Credit Union	22	2.0	6.2	5.8

Source: Individual Credit Union Annual Report.
Note: Data are for 2016, apart from institutions with a*; these are data for 2015.

Table 4.4. Commercial Banks in the ECCU (2017)

ECCU Member State and Bank Name	Type
Anguilla	
CIBC First Caribbean International Bank (Barbados) Limited	Foreign
Receivership of CCB and NBA	Indigenous
Scotiabank Anguilla Limited	Foreign
Antigua and Barbuda	
Antigua Commercial Bank	Indigenous
CIBC First Caribbean International Bank (Barbados) Limited	Foreign
Caribbean Union Bank Limited	Indigenous
Eastern Caribbean Amalgamated Bank Limited	Indigenous
Royal Bank of Canada	Foreign
Scotiabank	Foreign
Dominica	
CIBC First Caribbean International Bank (Barbados) Limited	Foreign
National Bank of Dominica Limited	Indigenous
Royal Bank of Canada	Foreign
Scotiabank	Foreign
Grenada	
CIBC First Caribbean International Bank (Barbados) Limited	Foreign
Grenada Co-operative Bank Limited	Indigenous
Royal Bank of Canada	Foreign
Republic Bank (Grenada) Limited	Indigenous
Scotiabank	Foreign
Montserrat	
Bank of Montserrat Limited	Indigenous
Royal Bank of Canada	Foreign
St. Kitts and Nevis	
Bank of Nevis Limited	Indigenous
CIBC First Caribbean International Bank (Barbados) Limited	Foreign
Royal Bank of Canada	Foreign
Scotiabank	Foreign
St. Kitts-Nevis-Anguilla National Bank Limited	Indigenous
St. Lucia	
1st National Bank St. Lucia Limited	Indigenous
CIBC First Caribbean International Bank (Barbados) Limited	Foreign
Bank of Saint Lucia Limited	Indigenous
Royal Bank of Canada	Foreign
Scotiabank	Foreign
St. Vincent and the Grenadines	
CIBC First Caribbean International Bank (Barbados) Limited	Foreign
Bank of St. Vincent and the Grenadines Limited	Indigenous
Royal Bank of Canada	Foreign
Scotiabank	Foreign

Source: ECCB.

Table 4.5. Credit Unions in the ECCU (2017)

ECCU Member State and Credit Union Name
Anguilla
Telecommunications Employees Co-operative Credit Union
Antigua and Barbuda
Antigua and Barbuda Police Credit Union
Antigua Public Utilities Authority (APUA) Cooperative Credit Union
Christian Cooperative Credit Union
Community First Cooperative Credit Union
SDA Cooperative Credit Union
St. John's Cooperative Credit Union Ltd
Dominica
Central Cooperative Credit Union Ltd*
Grand Bay Cooperative Credit Union Ltd
National Cooperative Credit Union Ltd*
North Eastern (Marigot) Cooperative Credit Union Ltd
South Eastern Cooperative Credit Union Ltd
St. Mary's Cooperative Credit Union Ltd
West Coast Cooperative Credit Union Ltd
Grenada
Birchgrove Cooperative Credit Union Ltd
Communal Cooperative Credit Union Ltd*
Gateway Cooperative Credit Union Ltd
George F. Huggins Employees Cooperative Credit Union Ltd
Grenada Public Service Cooperative Credit Union Ltd*
Grenada Union of Teachers Cooperative Credit Union Ltd*
Grenville Cooperative Credit Union Ltd*
Hermitage Cooperative Credit Union Ltd
River Sallee Cooperative Credit Union Ltd
Technical and Allied Workers Cooperative Credit Union Ltd
Montserrat
St. Patrick's Cooperative Credit Union Ltd
St. Kitts and Nevis
FND Enterprise Co-operative Credit Union Limited (FND)
Nevis Co-operative Credit Union Limited (NCCU)*
Police Co-operative Credit Union (St. Christopher and Nevis) Limited
St. Kitts Co-operative Credit Union Limited (SKCCU)*
St. Lucia
Choiseul Co-operative Credit Union*
Dennery Community Co-operative Credit Union
Elks City of Castries Co-operative Credit Union
Fond St. Jacques Co-operative Credit Union
Laborie Co-operative Credit Union*
Mabouya Valley Co-operative Credit Union
Mon Repos Eastern Co-operative Credit Union
National Farmers and General Workers Co-operative Credit Union
Royal St. Lucia Police and Allied Services Co-operative Credit Union
Saltibus Co-operative Credit Union
Seventh Day Adventist Co-operative Credit Union
St. Lucia Civil Service Co-operative Credit Union*
St. Lucia Hospitality Industry Workers Credit Union

	St. Lucia Teachers Co-operative Credit Union*
	St. Lucia Workers Credit Union
	West Coast Co-operative Credit Union
St. Vincent and the Grenadines	
	General Employers Co-operative Credit Union Ltd
	Kingstown Co-operative Credit Union Ltd
	St Vincent and the Grenadines Police Cooperative Credit Union Ltd
	St Vincent Teachers Cooperative Credit Union Ltd

Source: Financial Sector Authorities in ECCU Member States.

* Largest or most prominent credit unions in the respective member country.

Table 4.6. Development Banks in ECCU (2017)

ECCU Member State and Development Bank Name
Anguilla
Anguilla Development Board
Antigua and Barbuda
The Antigua & Barbuda Development Bank
Dominica
Agricultural Industrial & Development Bank
Grenada
Grenada Development Bank
Montserrat
none
St. Kitts and Nevis
Development Bank of Saint Kitts and Nevis
St. Lucia
Saint Lucia Development Bank
St. Vincent and the Grenadines
none

Source: Financial Sector Authorities in ECCU Member States.

ANNEX 5: ECONOMIC AND FINANCIAL ANALYSIS

COUNTRY: OECS Countries
OECS MSME Guarantee Facility Project

1. **The economic and financial analysis herein adopts two approaches.** The first approach is to measure the additional economic activity—as measured by firm revenues—over the life cycle of the project that can be attributed to the project. The second approach is more financial and seeks to measure the additional stock of credit that the project can contribute to against the prevailing decrease in aggregate credit within the ECCU.

2. **To measure the additional economic activity, the first step is to estimate the marginal effect of having a loan on revenues controlling for employment and economic sector.** Using a 2014 firm-level survey from across the Caribbean commissioned by Compete Caribbean, a data set of 1,891 observations of MSMEs across the Caribbean is used. In the regressions reported in table 5.1., the coefficient estimates of the effect of having a loan on revenue are statistically significant in three out of the four specifications. In the preferred specification in column (4), the marginal effect, in the cross-section of OECS MSMEs, of having a loan is an increase in revenue of 12.1 percent. This estimate is significant and below the estimated effect from across the Caribbean in column (2).

Table 5.1. Regressions of Log Revenue and Having a Loan in the Caribbean

	(1)	**(2)**	**(3)**	**(4)**
	Log Revenue	**Log Revenue**	**Log Revenue**	**Log Revenue**
Has Loan	0.399***	0.164**	0.165	0.121*
	(4.03)	(2.18)	(1.64)	(1.83)
Log Employment		1.201***		1.032***
		(37.58)		(31.65)
Constant	15.381***	11.632***	14.498***	11.471***
	(249.20)	(105.63)	(242.99)	(111.04)
Observations	1,891	1,891	772	772
R^2	0.059	0.464	0.050	0.593
Sector Fixed Effects	Yes	Yes	Yes	Yes
OECS Only	No	No	Yes	Yes

Note: t statistics in parentheses. *p < 0.10, **p < 0.05, ***p < 0.01.

3. **Using this marginal approach to the Results Framework, wherein the target number of loans is 400, an estimate of the net present value of the project can be calculated.** Table 5.2 outlines the results agreement in terms of new guarantees and by an estimate of the median MSME revenue at US$300,000 and an average loan size of US$30,000, estimates the present value for each year can be calculated. These are conservative estimates, especially on loan size. The estimated net present value is equal to US$1,753,811.

Table 5.2. Net Present Value Estimates

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
[1] New Guarantees		50	50	100	100	100
[2] Guarantees Value (US$)*		1,500,000	1,500,000	3,000,000	3,000,000	3,000,000
[3] Additional Revenue (US$)**		1,800,000	1,800,000	3,600,000	3,600,000	3,600,000
[4] Capital Deployed		1,500,000	1,500,000	3,000,000	3,000,000	3,000,000
Difference [3] – [4]		300,000	300,000	600,000	600,000	600,000
PV of [3] – [4] at 10%		272,727	247,934	450,789	409,808	372,553
Net Present Value (US$)	1,753,811					

Note: PV = Present Value. *Assuming each loan is US$25,000; **Using median MSME revenue of US$300,000.

4. **A further layer of economic benefit is through leverage and the partial coverage of the losses.** Although this is harder to model, there is additionality and MFD that is earned through leveraging the private sector liquidity in the model. These features could be modelled in a loss-focused economic rate of return that considers the providence of the capital rather than a revenue focus on MSMEs. Therefore, the estimates mentioned earlier are conservative because they are using the capital of the project and not the additional liquidity and capital of the system that are mobilized for MSMEs by PLs without a guarantee as a result of the example set by guaranteed loans.

Table 5.3. Estimates for Financial Additionality

in millions	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
[1] ECCU Corporate Credit*	1,700					
[2] Projected ECCU Corporate Credit		1,536	1,475	1,416	1,359	1,305
[3] No Growth ECCU Corporate Credit		1,600	1,600	1,600	1,600	1,600
[4] Assumed MSME Credit**		800	800	800	800	800
[5] ECCU GDP (US$)***		6,200	6,336	6,476	6,618	6,764
New Guarantees		50	50	100	100	100
Value of Guarantees (US$)****		1.50	1.50	3.00	3.00	3.00
Cumulative Guarantees		1.50	3.00	6.00	9.00	12.00
Cumulative Lending with 75% Coverage		2.00	4.00	8.00	12.00	16.00
Lending as percentage of MSME Credit [4]		0.25	0.50	1.00	1.50	2.00
Lending as percentage of GDP [5]		0.03	0.06	0.12	0.18	0.24

Note:
* Total credit for MSMEs and corporates;
** Assuming 50 of corporate credit is MSME credit;
*** 2017 data from IMF and using 2.2 as annual growth rate from IMF;
**** Using average loan size of US$ 25,000.

5. **The second approach to measure the financial benefit is a direct calculation of additionality over the total corporate credit in the system.** As of December 2017, the total corporate credit in the ECCU (which includes Montserrat and Anguilla) stood at US$1.6 billion. The project has a size of US$12 million and therefore the additional financing—after a leverage of 1 is reached past five years—is US$16 million. The current trend growth of corporate credit in the ECCU is estimated to be −4 percent. However, to be

conservative, this is adjusted to 0 percent or flat growth. Table 5.3 shows the calculations for this additionality in terms of total estimated MSME credit and total GDP.

6. **By Year 5 of the project, the additionality is 2.0 percent of projected MSME credit and 0.2 percent of GDP, which is in line with comparator countries.** As credit has been decreasing at approximately 4 percent per year since the financial crisis and likely more for MSME credit, an increase of 2.0 percent is commensurate with this loss given the size of the fund and the initially conservative estimates for leverage. In comparison to GDP, the estimates for additionality are 0.24 percent. The average ratio of outstanding guarantees to GDP is about 0.3 percent, as reported by Beck, Demirgüç-Kunt, and Martinez Peria (2008).[30] The average size of outstanding guarantees in benchmark group is much higher at 1.2 percent of GDP, due the greater weight of Asian countries.[31] These countries have much larger schemes with outstanding guarantees as a percentage of GDP reaching 5 percent in the Republic of Korea, 3.5 percent in Taiwan, China, and 1 percent in Malaysia. Canada, the Netherlands, and the United States have smaller schemes (about 0.2 percent of GDP), while France and Chile stand in an intermediate position (about 0.5 percent of GDP).

[30] Beck, T., A. Demirgüç-Kunt, and M. Martinez Peria. 2008. *Bank Financing for SMEs Around the World: Drivers, Obstacles, Business Models, and Lending Practices.*
[31] Benchmark economies are Canada, Chile, Colombia, France, Hungary, India, Korea, Malaysia, Netherlands, Romania, Taiwan, China, and the United States.

ANNEX 6: PARTIAL CREDIT GUARANTEE PRINCIPLES AND INTERNATIONAL LESSONS LEARNED

COUNTRY: OECS Countries
OECS SME Guarantee Facility

1. **Credit Guarantee Schemes (CGSs) or PCG schemes are one of the main tools used to address market failures deterring access to finance for MSMEs.** A PCG scheme provides third-party credit risk mitigation to lenders with the objective of increasing access to credit. This is through the absorption of a portion of the lender's losses on the loans made to MSMEs in case of default, in return for a fee from the financial institution. PCGs can play an important role in countries with weak institutional environments, by improving the information available on MSME borrowers and by building the credit origination and risk management capacity of lenders (for example, through TA for the setup of MSME units). PCGs are operated by a large number of countries. In developed countries, such schemes have been operational for over four decades while their use in developing countries is more recent.

2. **The objectives of a guarantee scheme can be assessed along three main dimensions: outreach, additionality, and financial sustainability.** Outreach refers to the scale of the guarantee scheme as measured by the number of guarantees issued to eligible MSMEs and the value of outstanding guarantees. The greater the outreach, the stronger is the impact of the scheme on the MSME sector. However, the impact of the guarantee scheme will also depend on whether guarantees are extended to firms that are credit constrained, and not to firms that would be able to obtain a loan anyway. This is why additionality is another key outcome that is taken into account. Furthermore, reaching firms that are credit-constrained involves risk-taking and financial losses. Even if the objective of a guarantee scheme is not to make a profit, the scheme should still be financially sustainable through sound rules, effective risk management, and regular funding.

Table 6.1. Global Coverage and Exposure of Guarantee Schemes

Economy	Coverage Ratio (%)			Link to Exposure
	Min	Median	Max	
Canada	85	85	85	No scalability
Chile	50	65	80	80% small firms (maximum sales - US$750,000, loan - US$100,000); 50% medium firms (maximum sales - US$3 million, loan - US$400,000)
Colombia	40	60	80	According to type of loan/firm
France	40	55	70	40%–50% in general, 60% innovation, 70% start-ups
Hungary	n.a.	n.a.	90	Maximum 80% in general, maximum 60% on agricultural loans, maximum 90% firms affected by the crisis (until end-2010)
India	75	80	85	75% in general 85% on loans to micro firms ≤US$10,000
Korea	50	70	90	Depending on firms' credit score: eligible firms with the lowest credit score - 90%, firms with the highest credit score - 50%
Malaysia	30	65	100	According to type of loan/firm
Netherlands	50	65	80	50% in general, 60% innovative businesses, 80% start-ups
Romania	n.a.	n.a.	80	According to type of loan/firm
Taiwan, China	50	65	80	According to type of loan/firm
United States	75	80	85	75% on loans >US$150,000 85% on loans ≤US$150,000

Source: Beck, Demirgüç-Kunt, and Martinez Peria. (2008).

3. **International experience and lessons learned suggest that effective PCG schemes require a number of external preconditions to effectively achieve their policy objectives.** These preconditions comprise: (a) a system of business laws, including corporate, bankruptcy, contract, collateral, consumer protection, and private property laws, which provide an acceptable degree of enforcement and a mechanism for a fair resolution of disputes; (b) a sufficiently efficient and independent judiciary, and reasonably well-regulated legal, accounting, and auditing professions; (c) a comprehensive and well-defined set of accounting standards and rules; and (d) a sound financial system able to originate and manage credit effectively. While these preconditions are outside the control or influence of PCGs, Government and stakeholders should be aware of them, and their potential negative effects for the achievement of the intended policy objectives.

4. Key lessons learned and good practices for effective PCG schemes are summarized as follows:

(a) **Unrestrictive eligibility criteria.** Eligibility criteria should target financially constrained MSMEs while providing for some flexibility. It is important to have some ceiling on firm size to discourage banks from using guarantees for larger firms, while at the same time the ceiling should not be too restrictive as to disadvantage certain sectors.

(b) **Balance between coverage ratio and effective risk management.** Coverage ratios should preserve incentives for effective loan origination and monitoring while providing sufficient protection against default risk. The coverage ratio needs to provide sufficient protection against credit risk while also preserving incentives for banks due diligence for loan origination and monitoring. Table 6.1 provides coverage ratios for a number of economies.

(c) **Risk-based fees.** Fees should be related to the risk exposure and contribute to the financial sustainability of the guarantee scheme. Moreover, fees are not only a critical source of revenue (and therefore, financial sustainability) for guarantee schemes; they also play an important role in building additionality. When fees are sufficiently high, banks are discouraged to use the guarantee for good clients who can obtain loans without additional guarantees. In the benchmark group, the level of fees ranges from 0.8 percent to 2.3 percent per year, with an average fee of 1.5 percent per year.

(d) **Quick and predictable payment rules.** The capacity to pay claims promptly is a key factor to induce banks to use the guarantee. However, the challenge is to design a payment rule which is reliable while providing incentives for loan recovery. International evidence shows that banks are responsible for the recovery of defaulting loans in 66 percent of guarantee schemes around the world. Moreover, in 34 percent of the schemes, payouts are made at the time of borrower default. In 42 percent of the schemes, payout takes place when the bank initiates legal actions.

(e) **Reasonable collateral and down-payment rules.** It is important to impose ceilings on collateral required otherwise the whole purpose of having a PCG in place is defeated. While one of the main roles of guarantee schemes is to compensate for the lack of collateral hindering MSME's access to finance, a complete absence of it may generate adverse selection and moral hazard effects. For example, in France and Canada, the schemes can require personal guarantees up to 50 percent and 25 percent of the loan value, respectively.

(f) **Appropriate operational mechanisms (between individual and portfolio approaches).** Guarantees can be delivered though individual, portfolio, or hybrid approaches. Each approach has its advantages and limits. The main advantage of the individual approach is its potential to better control credit risk and ensure financial sustainability. In the case of banking systems with limited experience with MSME lending, the individual approach also adds value by allowing for capacity building by the scheme to the bank through exchanges during the decision-making process. While schemes in most developing countries—around 72 percent—use the individual approach, evidence shows that benchmark countries have adopted either a portfolio approach (Canada, the Netherlands, United Kingdom, and Chile) or a hybrid approach (France, United States, Taiwan, China, Hungary, and Korea).

(g) **Effective risk management and regulation.** Effective credit risk management by the participating banks and the scheme itself can have a substantial impact on the sustainability of guarantee schemes. If PCGs comply with high prudential standards, financial supervisory authorities could consider PCG guarantees as credit mitigation for provisioning and capital purposes.

(h) **Capacity building to participating institutions.** Capacity building for financial institutions in the areas of credit evaluation and risk management are especially important in countries where MSME lending is limited and banks have inadequate expertise in this business line.