Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 22-Feb-2018 | Report No: PIDISDSA23442

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
OECS Countries	P157715	OECS MSME Guarantee Facility	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
LATIN AMERICA AND CARIBBEAN	05-Mar-2018	07-May-2018	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Government of the Commonwealth of Dominica, Government of Saint Vincent and the Grenadines, Government of Saint Lucia, Government of Grenada, Government of Antigua and Barbuda	Eastern Caribbean Partial Credit Guarantee Corporation	

Proposed Development Objective(s)

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

Components

Capitalize the Partial Credit Guarantee Fund
Project Management, Operating Costs and Lender Training

Financing (in USD Million)

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

Environmental Assessment Category

F - Financial Intermediary Assessment

Decision

The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The Organisation of Eastern Caribbean States (OECS) consists of ten 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 (BOT), Antigua and Barbuda; the Commonwealth of Dominica; Grenada; Montserrat (BOT); Saint Lucia; Saint Kitts and Nevis; and Saint Vincent and the Grenadines. The Eastern Caribbean Dollar has been pegged at 2.7 XCD for one United States Dollar (USD) since 1976.

2. **The ECCU economies face five main challenges: low growth, high debt, fiscal deficits, financial sector weakness and vulnerabilities to external shocks.** 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 effected 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 towards 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 2009-11. 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 recurring natural disasters 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 2016 was 79.8 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 investment. However, some countries have embarked on debt restructuring since 2009 (Antigua and Barbuda, Grenada, Saint 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.

4. **Official poverty rates across the region vary from 22 to 38 percent but data is limited and outdated, while unemployment is high, especially youth unemployment.**[1] In the absence of up-to-date

[1] Official estimates of moderate poverty are: ATG and KNA < 22% (2007); DMA 28.8% (2009); LCA 25% (2016); VCT 30% (2008); GRD 38% (2008). LAC comparisons ~30% (2008) and 25% (2015).

statistics, the latest household surveys suggest that the region has low extreme poverty rates, but 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.[2] 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.

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 banking sector financial system assets in the ECCU represent 193 percent of GDP, compared to an average across Latin America and the Caribbean (LAC) of 54 percent. Between 2004 and 2008, credit in the ECCU grew at an average annual rate of 15 percent, mainly for the acquisition of personal property (see Figure 1). The onset of the global financial crisis reduced tourist and FDI inflows. This led to the failure of two insurance companies and an increase in NPLs; by 2013 NPLs had reached 18.3 percent (see Figure 2). By 2013 three banks in the region were placed under ECCB conservatorship.

Figure 1: Loans in the ECCU by Quality (XCD, bn)

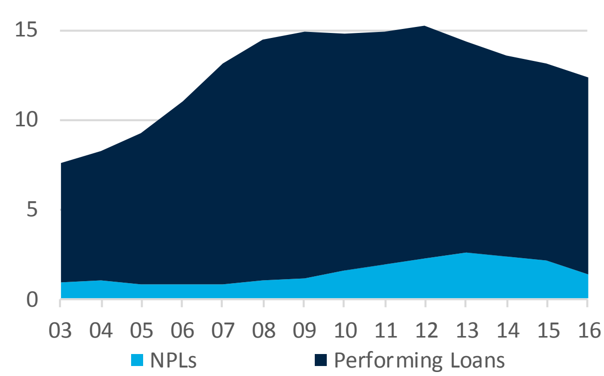
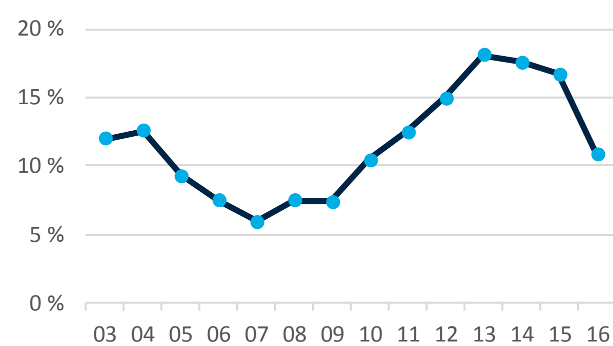


Figure 2: ECCU Non-Performing Loans (%)



6. **The cyclical stress that emanated from the global financial crisis has put pressure on the existing structural challenges in the ECCU financial sector and has increased credit risk.** Lending in the ECCU is over collateralized and without a credit bureau or a credit registry there is an absence of formal information on borrowers.[3] Indeed, for each ECCU country access to finance is a top-three obstacle for enterprises (Figure 3),[4] while 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; protracted insolvency regimes; and the 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

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[2] ATG 34.6% (2015); DMA 35.8% (2014); GRD 50.4% (2016); KNA 8.5% (2013); LCA 43.1% (2016); VCT 36.2% (2015). 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.
[3] 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. A new credit reporting bill has recently been approved by the Monetary Council of the ECCB, and is a critical step in improving the credit infrastructure.
[4] There is no ES or DB data for Anguilla or Montserrat which are BOTs

was 20 percent lower than the 2012 peak. This is equivalent to an annual decrease of 5.3 percent per year.

Figure 3: Access to Finance Main Constraint (%)

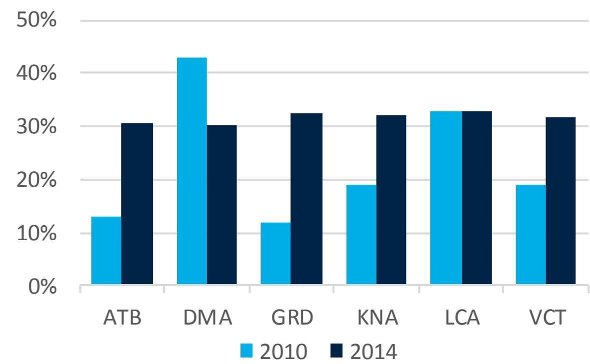
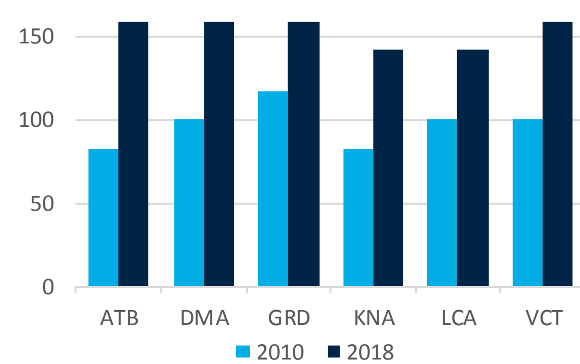


Figure 4: Doing Business Getting Credit Ranks



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 balance sheet weaknesses in light of the high NPLs in the region, has meant that financial institutions are less willing to expose risk capital to MSME lending. This cyclical factor in additional to the structural factors mentioned above means that there is an acute MSMEs 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.[5] Eleven existing MSME programs reviewed in the ECCU had funding or implementation challenges.[6] Consequently, these factors need to be addressed anew to help resume lending to MSMEs and contribute to a resumption in 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 market failure 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. 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. The appeal of PCGs is partly due to the fact that they typically combine a subsidy element with market-based arrangements for credit allocation, therefore leaving less room for distortions

9. **However, it must be noted that the problem is not only a supply side problem, there are also structural constraints on the demand side with MSME capacity and skills gaps.** Findings from an MSME survey 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.[7] MSMEs

[5] 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)
[6] World Bank (2015) Market Sounding Exercise for a PCG in the ECCU. *Unpublished*
[7] World Bank (2015) Market Sounding Exercise for a PCG in the ECCU. *Unpublished*

indicated that their most pressing technical assistance needs were in preparing loan applications and overall business management. Therefore aA PCG could also contribute to long term financial sector development in the ECCU region by enhancing the enabling environment of MSME lending. Providing technical assistance to financial institutions would 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 technical assistance, 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. This was because the existing regional institutions are legally not permitted to run such a scheme, and also because of differing legal precedents in each of the sovereign countries of the ECCU. 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] To date, five ECCU countries have passed (ratified) the corresponding legislation in their national parliaments.[9]

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 as well as the recently published Principles for Public PCGs.[10] The regional framework in the design of the legislation followed the recent harmonized Banking Act as well as the Eastern Caribbean Asset Management Corporation (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 can 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.[11]

12. **The Agreement also provides for 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.

13. **The OECS Regional Partnership Strategy (RPS FY15-19) contemplates a potential lending operation and this PCG model maximizes finance for development.** The RPS' objective is to help lay the foundations for sustainable and inclusive growth. This guarantee project addresses inclusive growth by ensuring that credit flows to the critical MSME sector. With elevated credit risk, many financial institutions are no longer lending to MSMEs. The lack of fiscal space and the inefficacy of national MSME support

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

[9] Antigua and Barbuda; Grenada; Saint Kitts and Nevis; Saint Lucia; and Saint Vincent and the Grenadines. Dominica has yet to pass the legislation in its national parliament, however this is because it was severely affected by hurricane Maria in September 2017. On March 2 2017, the Commonwealth of Dominica did sign the ECPCGC Agreement. The ratification of the Agreement by five countries is sufficient, as per the Article 72 of the Agreement, for the Corporation to enter into force. The Agreement stipulates that the initial authorized capital of the Corporation shall be approximately XCD 30 million, this is equivalent to USD 11.1 million.[9] Without Dominica, the project would have an initial capital of USD 10 million, which is 11 percent short of the initial authorized capital.

[10] World Bank (2015) Principles for Public Credit Guarantee Schemes for SMEs. Washington, D.C. : World Bank Group. http://documents.worldbank.org/curated/en/576961468197998372/Principles-for-public-credit-guarantee-schemes-for-MSMEs

[11] Under the fourth pillar of the ECCB's 2017-200 strategic plan is a commitment to establish a partial credit guarantee corporation to increase access to finance and spur economic growth.

schemes strongly advocates for international financial institution (IFI) intervention. Economies of scale imply that a national PCG in each ECCU territory would be overly costly, regional leverage is therefore required and this PCG model leverages its own funds and maximizes finance for development by unlocking the private sector liquidity in the market.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The proposed development objective is to facilitate additional financial intermediation for MSMEs by establishing a regional partial guarantee corporation.

Key Results

14. Key indicators for measuring the PDO include:

(a) Number of guaranteed loans
(b) Total amount of outstanding guaranteed loans through the Project
(c) Number of loan officers trained in MSME credit assessment

D. Project Description

15. The project proposes two main components: (i) capitalize the partial credit guarantee fund; and (ii) project management, operating costs and lender training

16. Component 1: capitalize the partial credit guarantee fund (USD 8.2 million). This component will support the underwriting of guarantees by the ECPCGC to participating lenders (PLs) to facilitate additional financial access to MSMEs. This fund is intended to be self-sustaining, with revenues from guarantee fees on each loan that it supports. In addition, it will invest its capital and earn interest on these funds. To minimize 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. Both the underwriting of guarantees and the investment of the funds will be managed by professional staff, supported by an operations manual that the ECPCGC Board will approve.

17. Component 2: project management, operating costs, and lender training (USD 1.8 million). This component will support the ECPCGC, who is responsible for the coordination, implementation, and supervision of the Project. The Project will finance: (i) the recruitment and training of ECPCGC team members; (ii) training of loan officers at ECCU supervised lenders; (iii) equipment, software and furniture for the ECPCGC, and; (iv) monitoring and evaluation (M&E) activities. These funds will be used to cover the annual audits of the firm’s activities, which are required by the Corporation’s legal Agreement. It will be important to review the contractual arrangements for the audit including the terms of reference.

E. Implementation

Institutional and Implementation Arrangements

18. The Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC) will be the implementing

agency for this Project. This is a new institution that has been created by the ECCU Member States. It is a body corporate with full legal personality. The final location of the ECPCGC has yet to be determined, however it is likely to be domiciled on the island of Saint Kitts in the Federation of Saint Kitts and Nevis. The ECPCGC will be responsible to coordinate, implement, supervise, finalize, and document all the activities related to the Project.

19. The Board of the ECPCGC will be appointed as per the ECPCGC Agreement Article 11 by the Monetary Council of the ECCB. The Monetary Council will vet and appoint by majority vote the initial Board of the ECPCGC. The Board of the ECPCGC comprises of between eight to eleven members depending on the number of Participating Governments in the ECPCGC.[12] The qualification and responsibilities for Board members is specified in the ECPCGC Agreement. In order to provide support to the ECPCGC Board, the Monetary Council may, as per 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 of the Corporation team members is available in the draft Operations Manual.

20. 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 prior to its publication. Areas that the Operations Manual cover includes 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.

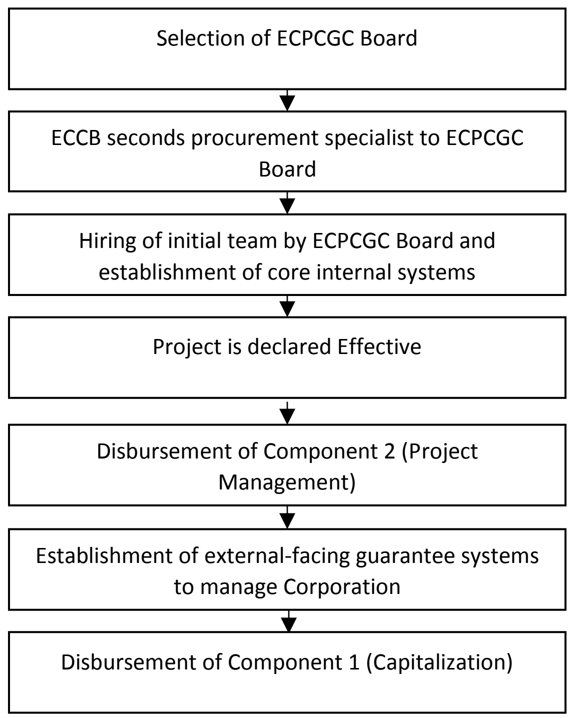
21. The implementation arrangement commences with three steps for the operationalization of the Corporation. The first step is the establishment of the Board. Article 11 and 47 of the Agreement establishes the composition, requirements and minimum criteria for determining whether a person is fit and proper. The second stage is the secondment of an ECCB staff member to the Board of the Corporation to undertake the procurement process of the CEO (Chief Executive Officer), CFO (Chief Financial Officer) and the procurement specialist. The Board of the Corporation will undertake the selection decisions. Once hired by the Board, the third stage is the establishment of the internal systems of the Corporation by these initial Corporation team members. These systems include human resources, procurement, accounting, and trustee accounts systems.

22. Across these three stages will be a concurrent assessment process after which effectiveness of the project will be established. The effectiveness condition is therefore the completion of these three steps. The assessment by the World Bank will be undertaken at each stage. The World Bank will determine whether the initial Board selection complies with the Agreement. Through training of the secondee, the World Bank will guide the Board to undertake the procurement, which will be open and competitive. The World Bank will provide no objections to the Board for the initial hiring. The incipient team and operating costs will be paid by Saint Kitts and Nevis (counterpart funding) and distributed pro rata once the other countries' funds have been disbursed. The fiduciary assessment of the systems established by the initial team will also undertaken by the World Bank.

[12] As per Article 11 of the Agreement, the ECPCGC Board: (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 micro, small and medium-sized business 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.

23. There will be an initial disbursements, one for operating costs and the other for capitalizing the guarantee fund. The first disbursement of operating costs under Component 2 will be subject to the effectiveness condition above being met. The second and larger disbursement of Component 1 for capitalizing the guarantee fund will be subject to the establishment of the larger external system of the Corporation. This includes the ability of the Corporation to assess guarantee applications and undertake the accounting for guarantees sold to participating lenders.

Figure 5: Implementation Arrangements



24. 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, 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.

25. 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. Other support such as legal, procurement, and accounting, will not be permanently staffed. but will rely on consultants as needed; during the first year, Environmental and Social (E&S) training for PLs will be prioritized and will be handled by the Environmental and Social Specialist who will be a full-time team member. The baseline projection is for two starting team members for the first six months, an additional three people at the end of the one year mark and the final team member at year two. The Chief Executive Officer (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 Chief Financial Officer (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 Financial will develop systems to manage the risks associated with program operations generally with an emphasis on program operation and investment management. This includes payment of day to day expenses as well as guarantees owed to lenders in the event of a borrower default. The Senior Credit Officer will 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 ECPCGC. Experience as a lending officer would be helpful. The Administrative Assistant handles the routine tasks necessary for a properly functioning office.

26. In order 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. The project works in the following way. When an MSME applies for a loan, the PL will determine whether or not to apply to the Corporation for a guarantee. It is envisaged that the guarantee applications will be for the more marginal MSME applications. The Corporation assesses this application and determines, independently, whether to offer a guarantee and if so, the Corporation specifies the terms of the guarantee. These terms are mainly the costs, the tenor and the coverage. Then the lender decides if it would like to buy this guarantee from the Corporation. Therefore, the Corporation needs to understand risk management. Also, the Corporation is not MSME facing, it is lender facing. Finally, no money from the Corporation is channeled to MSMEs. If the MSME does not default on its loan to its lender, the lender keeps paying the guarantee fee as long as the contract stipulates. If the MSME defaults, the Corporation will pay out to the lender the agreed covered amount. This guarantee gives the lender the comfort it needs to approve the loan. The lender will continue to be at risk for approximately 25 percent of the loan. This is intended to give lenders an incentive to perform a thorough credit analysis and to properly service the loan. Lender risk helps enforce a private sector discipline on the program.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The specific location of the individual MSMEs to be financed under the Project are not known at this time but they could be located anywhere in the ECCU where the Project is being implemented. The type and scale of activities may vary widely across the geographic and environmental landscapes of the eastern Caribbean. MSMEs to be supported will likely include tourism and services, but will most likely include agriculture, small scale light manufacturing, construction, and real estate development.

G. Environmental and Social Safeguards Specialists on the Team

Gibwa A. Kajubi, Social Safeguards Specialist
Michael J. Darr, Environmental Safeguards Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The Project is proposed to be classified as Category F given the potential impacts associated with financing of MSMEs in Component 1. Specific MSMEs, activities or locations are not yet defined but they are expected to be largely related to machinery financing or small and medium scale projects in agriculture, small scale light manufacturing, construction & real estate development, and tourism. An Environmental and Social Management Framework (ESMF) has been developed to manage the potential associated environmental and social impacts and risks related to the types of projects to be financed (e.g., MSMEs , productive purposes) and the financial instrument (e.g., guarantee), including screening and exclusion criteria to ensure that Category A projects or those on the WBG Exclusion List are not eligible. Standard checklists for screening, documentation, and reporting are included in the ESMF, commensurate with the inherent level of risk. Training of participating lenders (PLs) will be prioritized over the first year of implementation to ensure development and application of the ESMF. Capacity-building for PLs and MSMEs will be advanced throughout implementation to increase the MSME financing potential by the Facility and reduce the potential environmental and social risks and reduce associated financial risks.
Natural Habitats OP/BP 4.04	Yes	Natural Habitats (OP/BP 4.04) has been triggered because of the prevalence of ecotourism-related MSMEs in the OECS, which can negatively affect natural habitat.
Forests OP/BP 4.36	Yes	Forests OP/BP 4.36 is triggered as a precaution because some MSMEs may have interest in bamboo products and a forest harvesting initiatives.
Pest Management OP 4.09	Yes	The project screening criteria will likely exclude procurement or use of significant quantities of pesticides. The Project may support activities in

		agriculture which might be associated use and purchase of pesticides. A list of excluded pesticides and guidance for a Pest Management Plan in case of significant pest management issues is included in the ESMF.
Physical Cultural Resources OP/BP 4.11	Yes	The policy for Physical Cultural Resources (OP/BP 4.11) has been triggered because of the prevalence of ecotourism-related MSMEs in the OECS, which can negatively affect national heritage sites. The ESMF also includes, as a precaution, chance find procedures, to ensure the protection of cultural heritage resources encountered during earth-moving activities.
Indigenous Peoples OP/BP 4.10	Yes	The Kalinago Community (KC), residing in the Kalinago Territory (KT) in Dominica, meets the definition of Indigenous Peoples as articulated in OP 4.10. For this an Indigenous Peoples Plan (IPP) analysis has been conducted and is pending clearance. The IPP analysis was conducted with the following objectives: (i) establish and maintain an ongoing relationship based on Informed Consultation and Participation (ICP) with the Kalinago Council (KC) and Community throughout the MSME activity’s life-cycle; (ii) anticipate and avoid adverse impacts of MSME activities on the Kalinago Community, or when avoidance is not possible, minimize and/or compensate for such impacts, and; (iii) to promote sustainable development benefits and opportunities for the Kalinago Community in a culturally appropriate manner. Two consultations were undertaken in the Kalinago Territory (KT) with the Chief, Council of Elders and community representatives. It is important to note that members of the KC can apply for a loan guarantee anywhere in the ECCU. They are not limited to residents of the KT in Dominica.
Involuntary Resettlement OP/BP 4.12	No	Screening in the ESMF will exclude activities that could potentially lead to involuntary resettlement and land acquisition. In order to ensure OP 4.12 is not triggered, OP 4.12 will be part of the exclusion list in the Environment and Social Management Framework (ESMF) and Operations Manual (OM) and excluded firms will be

		denied assistance through a rigorous screening process of potential applicants. The ESMF and the operations manual will 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.
Safety of Dams OP/BP 4.37	No	The ESMF will include an exclusion list for activities involving dams.
Projects on International Waterways OP/BP 7.50	No	Subprojects which could potentially affect international waterways will be excluded in the ESMF.
Projects in Disputed Areas OP/BP 7.60	No	Subprojects in dispute areas will be excluded in the screening criteria of the ESMF.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

Environment and social risk is substantial and is mainly due to the fact that the ECPCGC is new and that capacity at the region's lenders for E&S is low. Specific environmental and social risks for tourism and services will include impacts on biodiversity, noise, pesticide use, waste management and emissions; and for manufacturing, agriculture and agro-processing, impacts may include control of emissions, discharges, or wastes, community and traffic safety, labor practice and working conditions, permit gaps and regulatory issues. Failure to adequately address these risks may result in higher insurance and operational costs and associated liability and reputational risks. These risks will be mitigated by the Environmental and Social Management Framework (ESMF) for the project, which has been included in the Operations Manual, and which specifies screening, documentation and reporting for the PLs and oversight by the ECPCGC. In-country permitting systems and World Bank EHS Guidelines will be referenced for MSMEs with potentially significant environmental and social issues. 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 or members of the Community given their collateral constraints. Due to the importance of the agriculture and tourism sectors in some OECS economies, 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 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 as per 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 can negatively affect natural habitat or physical cultural resources if not properly managed. Finally, the Forest (OP/BP 4.36) as triggered as some MSMEs may have interest in bamboo or teakwood harvesting on private lands. In addition, the World Bank (WB) Policy on Involuntary Resettlement, OP 4.12, will not apply as investments will not be financed, under this project or in the future, that result in involuntary taking of land or loss of income sources or means of livelihood, whether or not the affected persons must move to another location;

or involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the displaced persons.
There are no large scale, significant, or irreversible impacts identified.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
The project is expected to improve MSME compliance with national laws, and will provide technical support to MSMEs and PLs to identify areas for improvement to environmental practice, resulting in long-term, indirect benefits.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
Alternatives would be addressed in the context of technology improvement for individual MSMEs through standard permitting measures, or through the application of WBG EHS Guidelines for complex or larger projects (if applicable).

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
An ESMF has been developed which describes the environmental and social safeguards strategy and which is consistent with the participating governments' environmental and regulatory requirements and WBG's safeguards policies. According to the ESMF, MSMEs are required to certify conformance with requirements for Environmental and Social (E&S) performance, and Participating Lenders (PLs) are required to effectively screen the MSMEs (including the WBG exclusion list, permit status, and good practice), verify if the IPP findings for the KT are met, and ensure that E&S requirements are clearly included in guarantee agreements. The MSME screening and processing procedure involves the following steps: (i) compare to WBG exclusion list; (ii) check local permit status; (iii) assign E&S Risk Category; (iv) field visit (optional); (v) prepare documentation; and (vi) guarantee administration, evaluation & reporting. The ECGCPC will build the E&S functions into its Chief Financial and Risk Officer to ensure that they are integrated into project management. The ECGCPC will require that PLs provide periodic reports on the status of their E&S management efforts and portfolios, and the ECGCPC itself must conform to relevant E&S requirements.
The ECPCGC will grow to a total of six people, and safeguards will have a dedicated Environmental and Safeguards Specialist who will join from the outset. This is particularly important for E&S training, and this will be prioritized to ensure that PLs have adequate screening, documentation and reporting protocols in place consistent with the ESMF requirements.
The expected projects associated with MSMEs are not anticipated to generate significant impacts on air quality, water quality, solid waste, and noise level, etc., but if such situations are identified then the MSME must adequately address them using World Bank EHS Guidelines, or in-country laws, whichever is more stringent.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
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 Saint Kitts and Nevis on 14-15 November, 2016. A wide range of stakeholders from the ECCU attended: 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 draft ESMF was prepared in November 2017 and was disclosed and consultations with key stakeholders conducted as part of the awareness campaign conducted by the Eastern Caribbean Central Bank. Key findings of the consultations have been summarized and included in the final revisions of the ESMF. Dates of the consultations were the the following:

- Saint Lucia, Nov. 14-15, 2017
- Antigua and Barbuda, Nov. 17, 2017
- Grenada, Nov. 20, 2017
- Saint Vincent and the Grenadines, Nov. 22, 2017
- Saintt Kitts and Nevis, Nov. 28, 2017

For PLs requesting to participate in the project, ECGCPC shall ensure that the PL will follow an adequate environmental risk management procedure for MSME financing, consistent with the procedures in the ESMF. The ECGCPC 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 identifies issues related to implementation of the E&S requirements.
ECGCPC will develop a Grievance Redress Mechanism to register, track, address and resolve any complaints or related issues associated with the project, and provide resources for the investigation. The E&S Specialist will the focal person for this. There will be a normal response time of 7 days for each case, however ever high level cases may require up to 14 or more days for a response. The ECGCPC will maintain a Data Base to log all complaints and to track each from date received to date resolved and highlight how each case was resolved. Communities and individuals who believe that they are adversely affected may also submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).

Summary of Consultations with the Kalinago Territory Council
During the first day of the consultations (Tuesday May 2, 2017), Chief Williams, Kalinago Council stated: "…the ability to take a loan to do business in the first place depends on the economy, if the economy bad then taking any kind of loan is difficult especially for us here in the territory, you have to consider that if you're not getting business because the economy is bad, how will you repay your loan?" Chief Williams and the council members present offered support for the mission, its aims and objectives and hailed the OECS MSME Credit Guarantee Facility as a positive development. But his quote above resonated throughout the territory over the two days of focused engagement with MSMEs and residents of the territory.
Chief Williams' words reinforce the notion that macro-economic variables will play a part in the perceptions of interest and participation of rural MSMEs and the MSMEs of the KT in the ECPCGC. This was gleaned from overall interactions in the community, even though the community is aware that the lenders will have a guarantee on part of the loan. It is similarly understood that the use of the guarantee is for borrowers that would not qualify for a standard loan. It is known that the loans must be paid in full. The participants at the community consultations offered what they believe are useful considerations under which loans could be made available and accessible to them in the KT under this PCGS.
Importantly therefore, is not just the PCG aspect that is attractive in and of itself, but what conscious supportive options for accessing loans under the scheme avail to the MSMEs of the KT. The case scenarios presented by the Bank confirm the PCGS will go a long way towards addressing credit market failure and make financing available to MSMEs that otherwise would not have accessed financing, and the positive spinoff effects of MSME development such as job creation and overall local socio-economic development.
Having provided the council with an overview of the OECS Credit Guarantee Scheme, a review of the role of the consultant, the purpose of the consultancy and a review of the TOR of the consultancy, a purposeful dialogue ensued. With respect to the MSME PCG and the KT, however, the Council noted the aim and intent of the scheme and offered their considerations, perspectives and questions.
With respect to the MSME PCG, the KTC acknowledges that individual credit worthiness is important and is a responsibility of each loan applicant regardless of one's status or station or address and that must be a goal of anyone

seeking to obtain loans from FIs. This is the case for all loan applicants for the OECS PCG across the Member States of the ECCU.
The council however noted that notwithstanding the importance of individual and business creditworthiness, collateral has been an issue for MSMEs in the KT and noted that the following had been used as a substitute: (1) Letter of guarantee from a third party from within or outside the KT, especially an outside guarantor, (2) Property (house) insurance, (3) Life insurance, and (4) Bill of sale on vehicle. All of these substitute vehicles would be considered by the ECPCGC.
With respect to experiences engaging financial institutions in Dominica, the council holds the view that high lending rates have been an issue and consequently a deterrent for MSMEs in the territory seeking loans from Financial Institutions.
The recent poor performing economy is the biggest issue for the territory as a whole. The poor performing economy has resulted in a major decline in visitors, tours and other customers passing through the territory.
The Council did question whether the World Bank Group (WBG) as part of this OECS MSME Credit Guarantee scheme will support Financial Institutions (FIs) in Dominica to lend to MSMEs from the KT at lower rates than currently prevail. The Council wondered aloud whether this should not be a factor under the scheme considering that the WBG would be capitalizing the MSME Credit Guarantee Fund.
The WB decided not to follow the route of subsidizing loans because it is expensive and it causes an economic distortion. Furthermore, the financial system is already high in liquidity. This means that some financial institutions are holding onto excess liquid assets with lower profitable loan opportunities. This has been interpreted as a combination of market risk as well as MSME readiness risk.
The IPP incorporated the recommendations from the Kalinago that certain alternatives to land mortgaging be considered and included guidance on how to operationalize this consideration in the Operations Manual. The Kalinago recognize that each loan must stand on its own and have sufficient cash flow to service the debt.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
10-Nov-2017	13-Nov-2017	

"In country" Disclosure

Antigua and Barbuda
14-Nov-2017

Comments

Dominica
14-Nov-2017

Comments

Grenada
14-Nov-2017

Comments

St. Kitts and Nevis
14-Nov-2017

Comments

St. Lucia
14-Nov-2017

Comments

St. Vincent and the Grenadines
14-Nov-2017

Comments

Indigenous Peoples Development Plan/Framework

Date of receipt by the Bank	Date of submission for disclosure
27-Jul-2017	31-Jul-2017

"In country" Disclosure

Dominica
02-Aug-2017

Comments

Pest Management Plan

Was the document disclosed prior to appraisal?	Date of receipt by the Bank	Date of submission for disclosure

"In country" Disclosure

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

The ESMF and the IPP will be disclosed prior to appraisal.

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
Yes
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
Yes
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
Yes

OP/BP 4.04 - Natural Habitats

Would the project result in any significant conversion or degradation of critical natural habitats?
No
If the project would result in significant conversion or degradation of other (non-critical) natural habitats, does the project include mitigation measures acceptable to the Bank?
NA

OP 4.09 - Pest Management

Does the EA adequately address the pest management issues?
Yes
Is a separate PMP required?
No
If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?
NA

OP/BP 4.11 - Physical Cultural Resources

Does the EA include adequate measures related to cultural property?
Yes
Does the credit/loan incorporate mechanisms to mitigate the potential adverse impacts on cultural property?
Yes

OP/BP 4.10 - Indigenous Peoples

Has a separate Indigenous Peoples Plan/Planning Framework (as appropriate) been prepared in consultation with affected Indigenous Peoples?
Yes

If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes

If the whole project is designed to benefit IP, has the design been reviewed and approved by the Regional Social Development Unit or Practice Manager?
Yes

OP/BP 4.36 - Forests

Has the sector-wide analysis of policy and institutional issues and constraints been carried out?
Yes

Does the project design include satisfactory measures to overcome these constraints?
Yes

Does the project finance commercial harvesting, and if so, does it include provisions for certification system?
No

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
No

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

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APPROVAL

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