KNOWLEDGE for RESILIENCE

CASE study

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PPCR

CLIMATE INVESTMENT FUNDS

# Microfinance in the PPCR: Jamaica Case Study

Microfinance is a critical enabler of climate resilience. This is a first in a series of case studies that document best practice and innovation in climate directed microfinance mechanisms that have arisen from variety of Pilot Project for Climate Resilience (PPCR) funded country interventions.

## KEY FINDINGS

**Affective microfinance mechanisms are structured as concessionary loans that take local circumstances into account.**

**Using a private sector financial institution as an intermediary drives the message that this kind of financing is loan financing that needs to be repaid, and is not a free handout from the government.**

**Intermediaries need to have deep reach into rural communities and be prepared to offer lower lending rates.**

**Mutually owned cooperative banks are not primarily driven by profit and are thus open to offering a greater degree of concessionality.**

**Intermediaries need to be capacitated to guide borrowers through the application and repayment process.**

**The project implementing partners provide support to borrowers, following up on progress, to monitor investments and minimize risks.**

**CONTEXT:** As a small island developing state (SIDS) in the tropical hurricane belt region of the Atlantic Ocean Jamaica is particularly vulnerable to the effects of climate change. Climate change impacts are felt in increasingly unpredictable weather patterns - rising sea and air temperatures, more frequent and severe hurricanes resulting in storm damage, droughts, flooding, landslides, biodiversity loss, agriculture impacts, reduced freshwater.

**NEED FOR ADAPTATION:** Concerted adaptation efforts are required to mitigate against increased and recurring loss of life, property and livelihoods. Accessing and distributing funding for adaptation and resilience building efforts is a serious challenge to Jamaica as a small island and a developing country.

**PPCR MODEL:** Using a private sector cooperative Mutual Bank as the intermediary institution.


**Colonel Khan Finance Mechanism Talk**

**PPCR FINANCE AND IMPLEMENTING MECHANISM:** The Planning Institute of Jamaica (PIJ) is the main focal point providing finance for piloting climate change adaptation measures. The Ministry of Economic Growth and Job Creation (Ministry) is the implementing agency for the PPCR, reporting to the PIJ. The Ministry works with implementing partners,

**Rainwater harvesting Blue Mountain**

mostly government agencies, and of particular interest, a lead private sector institution. The Ministry followed the example model of the Government of Jamaica in providing loan financing to the private sector (Approved Financial Institutions - AFI) through the Development Bank of Jamaica (DBJ). The AFI then on-lends to enterprises under the conditions established by the Government. The DBJ monitors the AFI to ensure adherence to the conditions.

In March 2017 the Inter-American Development Bank (IADB) allocated US$17.5 million (J$2 billion) to the Adaptation Programme and Financing Mechanism (AP&FM) project, one of five falling under PPCR in Jamaica.

**REASON FOR CHOICE OF THE MODEL:** In order to achieve targeted reach, it was regarded as important to find a financial institution with access to rural areas, commitment to providing support after loans were granted, and willing to provide green loans, or financing for environmentally sustainable enterprises, and grant finance. The government therefore engaged in a pre-selection scoping exercise of all financial institutions to find appropriate partners. A mutual bank, JN Bank, was chosen because it had a deep reach into communities across Jamaica, including those in rural areas. In addition, being a mutually owned cooperative, it accepted lower profits and was able to offer lower lending rates than competitors.

**OPERATING STRUCTURE:** Through a ministerial open tender process, private sector banks were requested to partner to disburse finance directly to affected communities and small businesses for climate change adaptation. JN Small Business Loans Limited (JNSBL) was appointed to provide competitive loans through the extension of a line of credit in the form of loans to farmers and small enterprises and grants to communities in the tourism and agricultural sector - Jamaica's most vulnerable sectors to climate change. All loans and grants are under J$5 million, and are underwritten by funds from the PPCR.

**PROJECTS:** The focus is on adaptation support in agriculture and tourism. A major thrust has been communication and sensitisation of opportunities to potential clients in these sectors. The aim is to have 75 to 100 loans, issued and repaid, by 2020. Thus far 12 loans have been granted totalling US$300,000. Ten of these loans have been in agriculture and 2 were granted to small hotels in tourism sector to help them retrofit solar pumps to their water systems. The upcoming year is critical in terms of ramping up loans and grant issuances based on earlier learnings.

The agricultural projects will support:

- 1,800 dams constructed
- 250 communal rainwater harvesting systems installed
- 3 rain water ponds and post-harvest storage and processing facilties rehabilitated
- 5 aquaponic systems installed
- 3 greenhouses / shade houses established
- 6,400 metres of grass and live vegetation barriers created

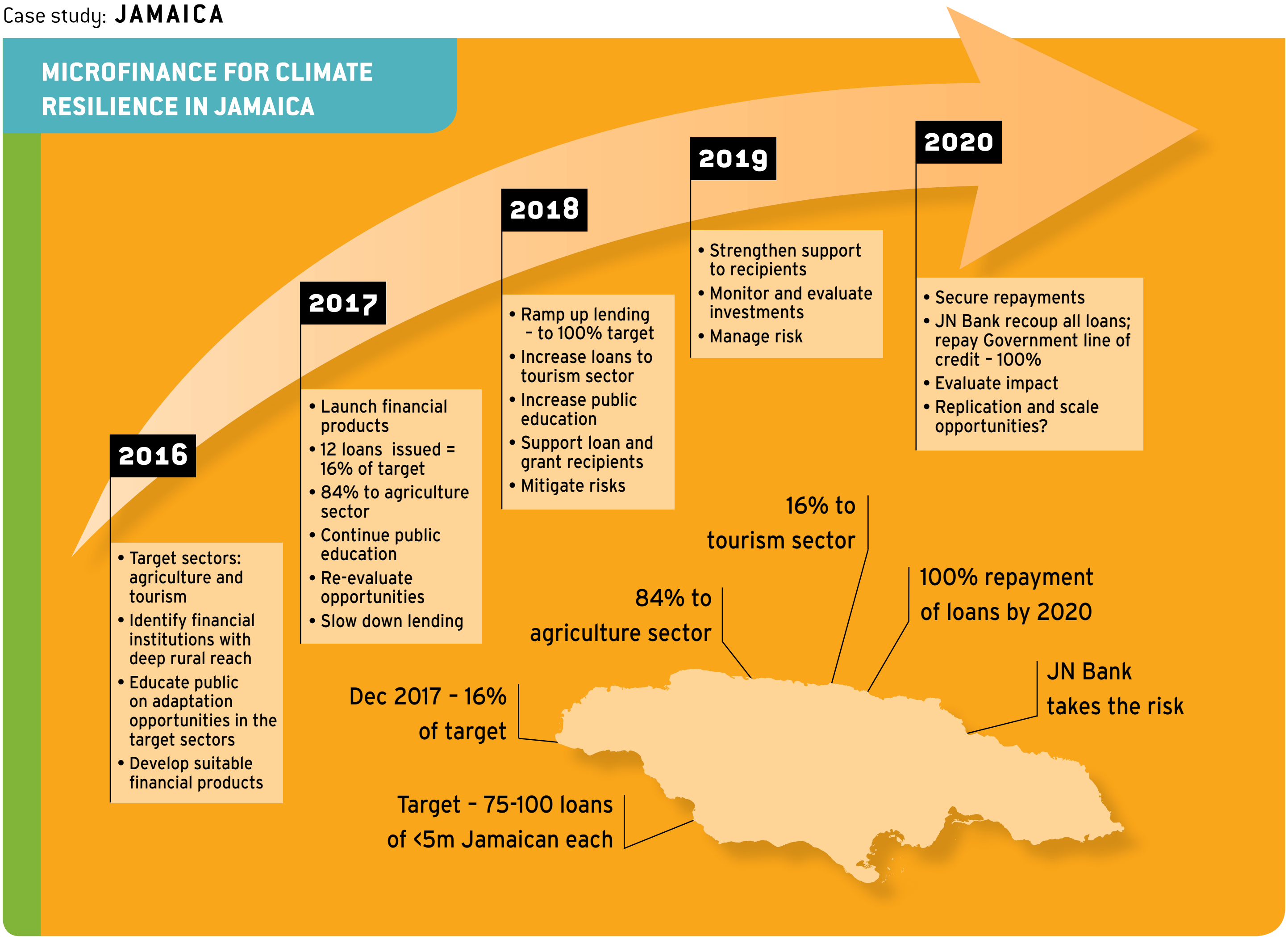
*For further information see this* **video** *produced by PPCR Jamaica.*

**RISK MANAGEMENT:** The IADB is not involved in implementation, but plays a close monitoring role. The Ministry, through the Project Executing Unit (PEU) of the Adaptation Programme and Financing Mechanism for the PPCR (AP&FM-PPCR) sets the framework, provides guidance to, and monitors the work of the JNSBL.

The JNSBL is required to pay back funding to the government, through recouping the loans made to public members, which incentivizes it to be thorough and proactive, exercising due diligence. The Ministry then needs to pay the money back to the IADB.

It is important for the model to manage expectations and perceptions, and for recipients to perceive the loans as a commercial process rather than as coming from government, even though the funds ultimately come from the Ministry. This is because government funding is seen as 'free money' and thus recipients are not keen to pay the money back.

The JNSBL uses a rigorous screening process. Once a decision is made, accepted applicants are given six months to start repaying the loan. The facility, now in its second year, is still in its infancy, is learning as it goes along, and is intentionally operating slowly in terms of loan decisions in this early phase.




Two technical coordinators in the PEU provide support to clients, follow up on progress to monitor investments and minimize risks. Working closely clients acts as a safeguard, providing an early warning system, alerting the JNSBL ahead of potential loan default situations. This is working to its advantage to promote loan repayment.

However, given that the programme has to be completed (with all loans repaid) by 2020, the intention is to now radically ramp up project allocations (especially in the lagging tourism sector) in order to meet the targets set. The JNSBL also has a monitoring initiative, using a variety of indicators, including gender based ones, to track progress.

**CHALLENGES:** A main challenge is ensuring poor communities were aware of, and had access to, the funding made available through the PPCR. This included ensuring that loan interest rates were reasonable and acceptable.

The existing capacity of NGOs, community groups and micro, small and medium sized enterprises required setting a viable loan ceiling that could be effectively handled and met by customers.

The willingness of financial institutions to invest in climate change adaptation enterprises was a significant challenge. There was little understanding on their part about business opportunities that could be made available and were unwilling to extend loans without collateral.

Climate finance access is usually at the project level and then filters down to the community level. The big challenge is closing the gap to ensure easily accessible finance.

**OBSTACLES AND BARRIERS:** Several obstacles to promoting microfinance required addressing, including:

- Risk averseness towards borrowing money of micro and small enterprises, especially in the agricultural sector
- Lack of knowledge about the impacts of climate change
- Lack of knowledge about the potential benefits of climate change adaptation measures
- Slow uptake of loans due to low awareness levels across both target sectors, with greater public understanding of the adaptation opportunities in the agricultural sector.

**SOLUTIONS:** Ensuring access by poor rural communities to the appropriate institutional mechanisms required high levels of education and sensitization of recipients about the funding institution and the opportunities available. In order to make loans affordable, further

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negotiations were necessary with the Jamaican Central Bank, which required them to set aside certain fees and to absorb various costs to reach the target 4% interest rate.

Through the partnership collaboration, a solution was developed to address the capacity issues of NGOs, community groups and SMEs that maximizes both access to finance through the JNSBL network across Jamaica, as well as affordability. The J$5 million loan ceiling was based on an estimation of the costs involved in implementing projects at the scale and level related to the capacity of NGO, community groups and micro, small and medium sized enterprises.

Borrowers fill out a loan application form and submit to the JNSBL. The JNSBL Staff specifically assigned to the Climate Change Adaptation Line of Credit (CCALoC) assist potential borrowers to navigate through the process, including implementing a communications strategy for the CCALoC.

The delivery of customised education, to and through, financial institutions was required to promote investment in SMEs to ensure more accessible funding to SMEs and poorer communities.

**KNOWLEDGE MANAGEMENT:** Education and training of and through financial institutions has played a major role in the programme. Financial institutions have been assisted in designing suitable products for poorer communities and SMEs, new types of technologies or investments that are more appropriate, and extension facilities to farmers.

The project is also implementing climate change awareness initiatives through its Communications Strategy. This deals with knowledge management, including the recent establishment of the Jamaican PPCR website. **Videos** of lessons learned thus far is in progress.

A communication working group with communication officers of other projects has been established. There is also a focus on educating finance institutions. The PEU is deeply involved in training on the product technologies and investments SMEs, along with training the institutions.

The CCALoC is promoted by both the JNSBL and the PEU through exhibitions and advertisements in the media (mainly radio and television).

**ACKNOWLEDGEMENTS**

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**NOTES**

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