



**KEY FINDINGS**

Effective 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.

# Minimising first-mover adaptation costs: Jamaica

Microfinance is a critical enabler of climate resilience, in that it provides communities with direct access to the financial resources they require to address their most pressing needs. This case study is part of a series that documents emerging trends in adaptation-directed microfinance. These findings have emerged from a variety of country interventions funded by the Pilot Program for Climate Resilience (PPCR).



**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, agricultural impacts, and reduced freshwater availability.

**NEED FOR ADAPTATION:** Drought and shifting patterns of rainfall are adding strain to local water resources, resulting in daily water supply interruptions. Many customers are having to buy very expensive trucked water from private vendors.

**PPCR MODEL:** Using a private sector cooperative Mutual Bank as the intermediary institution for adaptation finance intermediated by the regional MDB, the Inter-American Development Bank (IADB) through concessional finance funds.

**PPCR FINANCE AND IMPLEMENTING MECHANISM:** The Planning Institute of Jamaica (PIOJ) is the PPCR Focal Point facilitating access to finance for adaptation aligned with the climate resilience objectives of Jamaica’s Vision 2030. The Ministry of Economic Growth and Job Creation is the implementing agency, reporting to the PIOJ. The Ministry works with implementing partners, mostly government agencies and private sector institutions. The Ministry applies

Col. Oral Khan, Chief Technical Director, Ministry of Economic Growth and Job Creation, fields questions about climate change adaptation at Jamaica’s premier agricultural event in Clarendon recently. Climate financing was one of the topics discussed.





**This rainwater harvesting pond was built by a recipient of the Climate Change Line of Credit in the Blue Mountains of Jamaica. Access to a reliable source of water was identified as a significant issue affecting the recipient's eco-tourism business.**

**“ The outreach to the MSME sector through this project is an attempt to mainstream adaptation, to involve the private sector more, and to use these businesses as agents to promote adaptation in two of the most climate sensitive sectors in Jamaica. Together these sectors account for about one-third of the employed labor force. ”**

PPCR JAMAICA

the 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 compliance.

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 micro, small and medium sized enterprises (MSMEs) in the agriculture and tourism sectors - Jamaica's most vulnerable sectors to climate change. All loans and grants are under J\$5 million (USD 477 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 (USD2.5M), issued and repaid, by 2020. Thus far 12 loans have been granted totalling USD300,000. Ten of these loans have been in agriculture and 2 were granted to small hotels in the tourism sector to finance irrigation, water harvesting, and storage systems. The upcoming year is critical in terms of ramping up loans and grant issuances based on earlier learnings.

For further information see this [video](#) produced by PPCR Jamaica.

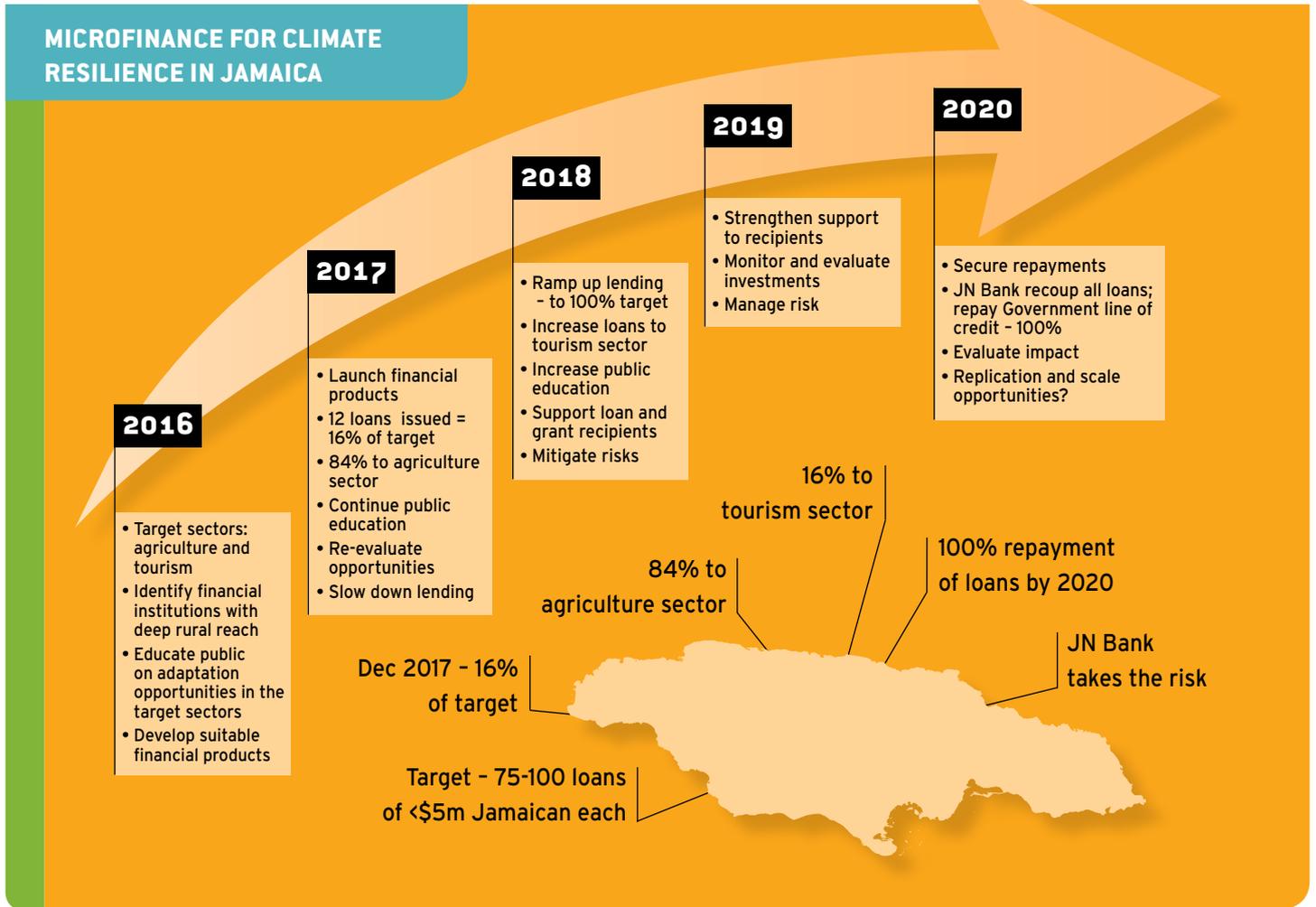
**FINANCIAL RISK MANAGEMENT:** The IADB is not involved in implementation, but plays a close monitoring role. The Ministry, through the AP&FM-PPCR sets the framework, provides guidance to, and monitors the work of the JNSBL. The PEU also liaises with the DBJ which is being paid by the project to carry out its usual financial judiciary role on behalf of the Government of Jamaica. The administrative fee paid by the AP&FM-PPCR to the DBJ is in lieu of an up-front fee and interest which the DBJ usually charges the AFI for this service. The DBJ lends the money to the JNSBL at zero interest rate. The AP&FM-PPCR also pays an administrative fee to the JNSBL. These payments by the AP&FM are to ensure that the usual charges are not passed on by the DBJ and the AFI to the MSME, hence enabling a low interest rate of no more than 4% per annum to these borrowers.

The JNSBL is required to pay back funding to the government within the life of the AP&FM-PPCR, through recouping the loans made to public members, which incentivizes it to be thorough and proactive, exercising due diligence. The Ministry of Finance 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 a concessionary 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. Box 1 below elaborates this process further.

**MICROFINANCE FOR CLIMATE RESILIENCE IN JAMAICA**



**Implementation time-line of the small loans facility of the CCALoC**

**BOX 1: SMALL LOAN APPLICATION PROCESS**

**Borrowers need to show a basic business plan reflecting the capacity to repay the loan over the proposed repayment period.**

**Traditional and non-traditional collaterals need to be provided.**

**Borrowers need to fill out a loan application form and submit this to JNSBL.**

**Borrowers are assisted by the JNSBL staff who are assigned specifically to the Climate Change Adaptation Line of Credit (CCALoC) and who are capacitated to assist.**

Two technical coordinators in the PEU work with JNSBL to provide additional on-going support to clients, and follow up on progress, to monitoring the investments and mitigating potential risks. Working closely with clients acts as a safeguard, providing an early warning system and 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 PEU also has a monitoring initiative, using a variety of indicators, including gender based ones, to track progress.

**CHALLENGES:** A main challenge is ensuring that small businesses and vulnerable farmers understand that it makes financial sense to invest in adaptation mechanisms, and that they are aware of, and have 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 they 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 in Jamaica were identified by stakeholders, including:

- Risk averseness towards borrowing money of micro and small enterprises, especially in the agricultural sector
- Limited 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 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 Micro, small, and medium enterprises (MSMEs) 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.

The delivery of customised education, to and through, financial institutions was required to promote investment in MSMEs.

**LEVERAGE AND SCALE:** Concessional finance has been critical to enabling climate adaptation investments in the agriculture, and to a lesser extent, tourism sector. Concessional finance proved to be necessary to moving climate adaptation investment projects forward in a financial services market where dedicated lending for climate resilient technologies was non-existent. Collaborative investment between the IADB and the JNSBL and the Government of Jamaica helped greatly to mitigate project risk in an uncertain market. The line of credit extended to finance adaption through the JNSBL is yielding important lessons that will be critical to upscaling such investments beyond 2020, the year in which the current line of credit is to be repaid by.

**KNOWLEDGE MANAGEMENT:** Education and training of and through financial institutions has played a major role in the program. Financial institutions have been assisted in designing suitable products for poorer communities and MSMEs, 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 ([www.ppcrja.org.jm](http://www.ppcrja.org.jm)). Videos of lessons learned are being made.

PPCR Jamaica has established a communication working group with communication officers of other PPCR Jamaica projects, to coordinate the messages that are being driven. There is also a focus on educating finance institutions. The PEU is deeply involved in training on the product technologies and investments MSMEs, 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).

**ACHIEVEMENTS:** By November 2017 approximately USD 300,000 has been distributed using this microfinance mechanism, with twelve loans having been approved and disbursed. The funding has been used for projects such as establishing agri-business Irrigation systems, constructing a rainwater harvesting pond for a tourism enterprise, cash crop farming, as well as the contouring and preparation of land for farming.

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**Farmer Randy Finnikin showcases the onions in his field. He is a recipient of the Climate Change Line of Credit using funds to set up an irrigation system for his onion farm. In his estimation he would not have been able to do the farming without the irrigation system being located in a dry area with limited access to water. Shortly after taking this photo he lost some of his crop to flooding. He was however able to**

**save some of the existing crop and replant quickly enough to supply his customers. He speaks of learning that as a result of climate change farmers have to be equipped for multiple climate impacts, so while he had addressed the dry conditions through the loan he also had to go back and dig trenches on his farm to minimize future flood damage.**

**This case study and further information on the PPCR in Jamaica may be found at [www.ppcrja.org.jm](http://www.ppcrja.org.jm)**

**DISCLAIMER**

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PHOTOGRAPHIC CREDITS: PPCR Jamaica  
DESIGN: Pete Bosman ([pete@guineafolio.co.za](mailto:pete@guineafolio.co.za))