# PROJECT INFORMATION DOCUMENT / INTEGRATED SAFEGUARDS DATA SHEET (PID/ISDS)

## CONCEPT STAGE

Report No.: PIDISDSC16149

**Date Prepared/Updated:** 19-Jul-2016

## I. BASIC INFORMATION

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country:</th>
<th>OECS Countries</th>
<th>Project ID:</th>
<th>P157715</th>
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<tbody>
<tr>
<td>Parent Project ID (if any):</td>
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**Project Name:** OECS SME Guarantee Facility (P157715)

**Region:** LATIN AMERICA AND CARIBBEAN

**Estimated Appraisal Date:** 01-May-2017

**Estimated Board Date:** 15-Jun-2017

**Practice Area (Lead):** Finance & Markets

**Lending Instrument:** Investment Project Financing


**Implementing Agency**

**Financial Intermediary Assessment (FI-2)**

**Concept Review Decision:** Track II - The review did authorize the preparation to continue

**Is this a Repeater project?** No

**Is this a Transferred project?** No

**Other Decision (as needed):**

<table>
<thead>
<tr>
<th>Financing Source</th>
<th>Amount</th>
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<tbody>
<tr>
<td>BORROWER/RECIPIENT</td>
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<tr>
<td>International Bank for Reconstruction and Development</td>
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<td>International Development Association (IDA)</td>
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<td>Financing Gap</td>
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<td>Total Project Cost</td>
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**Environmental Category:** F-Financial Intermediary Assessment (FI-2)
B. Introduction and Context

Country Context

The Organization of Eastern Caribbean States (OECS) consists of small open economies - six sovereign states, three UK overseas territories and one French territory - with a total population of about 630,000. Eight are members of the Eastern Caribbean Currency Union (ECCU) under the supervision of the Eastern Caribbean Central Bank (ECCB). The Eastern Caribbean Dollar (ECD) has been pegged at 2.7 ECD for one USD since 1976.

The ECCU economies face five main challenges: low growth, high debt, fiscal deficits, financial sector weakness and vulnerabilities to external shocks. The loss of trade preferences to European markets in the late 1990s effected a reduction in growth. This was followed by deterioration in the terms of trade and reduced fiscal space. Following the 2008 global financial crisis, economic growth in ECCU countries contracted for four consecutive years, leading to a cumulative drop of 6 percent in total output during 2009-12. Per capita annual income declined on average by 4.5 percent from around US$9,200 in 2008 to US$8,800 in 2012. The recovery since 2012 has been less than desirable, though tourist arrivals have shown recent signs of growth.

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 (Gross Domestic Product) level at the end of 2013 was 87 percent. Debt service is high (averaging 3 percent of GDP in 2013), leaving the region with little fiscal space for growth-enhancing investment. Although some countries have embarked on debt restructuring since 2009 (Antigua and Barbuda, Grenada, Saint Kitts and Nevis), these interventions have not been enough to reestablish capital market access in an enduring way.

Official poverty rates across the region vary from 18 to 38 percent, and unemployment is rising. Poverty assessments show relatively low rates of extreme poverty but rates of moderate poverty are higher than would be suggested by ECCU countries’ level of income. Unemployment has been rising after the crisis to levels above 20 percent in reporting countries. Youth are unemployed at higher rates ranging from 34 percent in Saint Lucia to 42 percent in Grenada.

Sectoral and Institutional Context

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 SMEs (Small and Medium Sized Enterprises). The financial system consists of 14 locally owned banks (also known as indigenous or domestic banks), 26 foreign branches or subsidiaries, 61 insurance companies, 67 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 for their financial services. Across Latin America and the Caribbean (LAC) 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.

The OECS financial sector is characterized by both structural and cyclical challenges. According to 2010 Enterprise Survey data, 76 percent of loans to enterprises required collateral in the OECS, this is above the global average of 70 percent. According to the 2014 Compete Caribbean survey, 88 percent of all loans to enterprises were collateralized. Thus the credit market is over collateralized, and often the value of collateral pledged is more than the value of the loan. The other hindering structural challenge is the lack of information on borrowers. The OECS is one of the rare lower-middle income
country groupings that does not have a credit bureau or a credit registry. This complete lack of information on potential borrowers impedes the financing of many viable projects.

The source of the cyclical financial sector weaknesses developed before the global financial crisis as a result of a large expansion of consumer credit that was not matched by underlying GDP growth. Between 2003 and 2013, credit to the private sector in the OECS Member Countries expanded at 7 percent annually. However this average masks significant differences across the economies. For example, between 2003 and 2009, credit growth in Saint Lucia was 19 percent per year while it was 14 percent in Antigua and Barbuda. Over 50 percent of new credit was for the acquisition of personal property. The high prevailing level of credit to GDP (which reached 85 percent in 2013) combined with GDP growth of only 1.4 percent annually between 2003 and 2013, was not sufficient to support this level of credit growth, leading to a deterioration in asset quality.

The subsequent sharp increase in non-performing loans (NPL) and low provisioning rates at banks, set against obstacles in the overarching regulatory framework, have increased credit risk through the cycle. After the overextension of credit, provisioning levels remained low even though NPLs increased. The levels of provisioning across the OECS are below international standards. Data from Fitch reports that for the top 60 emerging market banks, the 2013 average provisioning level was 95 percent. These cyclical challenges which include an illiquid distressed asset market combined with the structural challenges of protracted insolvency regimes and the lack of credit bureaus and credit registries, have contributed to a more stressed banking system.

Over the past three years, the total stock of credit has begun to contract as a result of high NPL levels and elevated credit risk. Since 2012, bank credit has contracted by 13 percent across the OECS. This contraction is affecting both households and SMEs, since banks are the primary source of credit. This can in-turn slow job creation and economic growth. Experience from Europe in the aftermath of the financial crisis shows that at these levels of deceleration, a credit crunch is much more likely, which would further stress the economy given the important role of SMEs. Concomitantly, this has also led to high levels of liquidity across the financial system. In 2015, liquid assets as a percentage of total assets was 48 percent, while net liquid assets to total assets was 23 percent. For the latter, the average emerging market figure was 18 percent in 2013 according to Fitch. This evolving credit market failure requires attention. The competing solutions to address this market failure are; directed lending, direct liquidity support, building credit infrastructure, and a credit guarantee facility.

The International Monetary Fund (IMF), the Caribbean Development Bank (CDB) and the World Bank Group (WBG) are working together towards the strengthening of the OECS financial sector. This is in the context of the protracted consequences of the global financial crisis and its effect on asset quality and capital adequacy. They are also working on improving the insolvency framework to assist with the workout of current NPLs and further strengthen the financial system. Both of these activities are focused on stability and resiliency, but do not address the continued contraction of credit.

Both Enterprise Survey data and Doing Business rankings corroborate the findings of worsening credit conditions in the OECS. For each country, access to finance is a top-three constraint for doing business. With the increase in NPLs, it is likely that these access to finance constraints have increased in recent years. Data from the Doing Business surveys shows a decline in Getting Credit ranking in the OECS. This is a result of other countries improving their credit bureau and registry coverage and their depth of credit information, both which are absent in the OECS. This suggests that there is a high degree of asymmetric information in the marketplace and a shortage of private or public instruments in credit intermediation to SMEs by financial institutions in the OECS.
Market Failure and Options to Address It

As a result of the factors above, it can be determined that there is an acute SME credit crunch in the OECS, and therefore financial institutions are reducing their exposure to sectors that are critical for economic growth. 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 SME lending. This is despite the elevated levels of liquidity across the system. The lack of credit infrastructure – including credit bureaus and collateral registries – is contributing to asymmetric information in these markets. Unsupportive creditor rights further discourages financial institutions to extend credit in the prevailing stressed environment. Consequently, these factors need to be addressed to help resume lending to SMEs and contribute to a resumption in higher economic growth.

The implementation and funding challenges of existing national enterprise support programs precludes their strengthening as a viable option to address this market failure. The World Bank reviewed a total of eleven national and two regional enterprise support programs in the OECS. All the programs reviewed suffered from implementation challenges as well as funding challenges. For example, the Dominica Women's Entrepreneurship Fund has yet to disburse a loan or grant in its first eighteen months. While the Eastern Caribbean Enterprise Fund that was setup in the late 1990s has yet to see full fruition. Their almost exclusive focus on micro-enterprises has prevented them from scaling up to reach small and medium-sized enterprises. Further, the lack of continual budget allocations to these programs have underpinned many of their challenges. Nevertheless these do provide useful lessons.

Similarly, the lack of fiscal space and modest partner lending envelopes implies that directed lending or credit lines are also unviable. Firstly, the inefficiency of such liquidity support programs would be exacerbated in small markets. With an average debt to GDP level of 87 percent, OECS governments are unable to utilize public resources to lend directly to SMEs. Further, the small share of government financial institutions by assets negates the possibility of using directed lending policies to targeted sectors. In addition, the lending envelopes of partners such as the World Bank and Caribbean Development Bank are very modest in relation to the size of credit markets, which average 60 percent of GDP.

A partial credit guarantee (PCG) is the preferred instrument to address the market failure 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 SME credit risk that is a result of both structural and cyclical factors, and this would not be reduced through a liquidity support program. A PCG is strongly preferable as it would channel the existing liquidity to directly lower the elevated SME credit risk. This would also provide capital relief for financial institutions that are weary of exposing their risk capital. Although this approach would also involve increasing public debt, the ability to work on loan guarantees through leverage would substantially lower the fiscal costs.

PCG schemes provide third-party credit risk mitigation to financial intermediaries with the objective of increasing access to finance for SMEs. This is done through the absorption of a portion of the lender's losses on the loans made to SMEs 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 in credit markets than more direct forms of intervention such as state-owned banks. 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.

A PCG could also contribute to long term financial sector development in the OECS region by
enhancing the enabling environment. There is need for a regional institution to play a strong convening role in the enabling environment of SME lending. Improving the information available on SME borrowers will substantially improve the underwriting of credit. Enhancing the credit infrastructure - including collateral registries and credit bureaus - will be a step in this direction. Providing technical assistance to financial institutions would improve their lending instruments, and aiding SMEs in identifying sources of business development services. These are some critical areas where support and capacity for the entire sector is also needed. Moreover, the PCG could be leveraged to provide countercyclical financing to SMEs when risk aversion may heighten and a credit crunch is likely to set in.

Rationale for Public Intervention

The lack of fiscal space and the inefficacy of national SME support schemes strongly advocates for IFI (International Financial Institution) intervention. Economies of scale imply that a national PCG in each OECS territory would be overly costly. Regional leverage is therefore required. The individual country market failures have not been addressed by local stakeholders. Firstly the national and regional SME support schemes have been unable to solve the SME market failure due to their implementation and funding challenges, as well as their micro enterprise focus. Secondly, foreign banks have surprisingly not transferred their lending technologies from their more sophisticated home markets to the OECS. The World Bank Group is well-placed to address this SME market failure, given the Bank's multilateralism and ability to provide global-best practice to the market. It is important to revive the flow of new credit for SMEs, as they are an engine of economic growth and job creation.

Relationship to CAS/CPS/CPF

The Regional Partnership Strategy (RPS FY15-19) acknowledges the prevailing financial sector risks and contemplates a potential lending operation. The objective of the RPS 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 SME sector. With elevated credit risk, many financial institutions are no longer lending to SMEs. This has the potential to translate into a credit crunch with implications on the real economy. Given that SMEs are an engine of economic growth, this has implications for job creation, boosting shared prosperity and reducing poverty. An operation to facilitate additional access to finance for SMEs will therefore help meet the objective of the RPS.

Increasing access to finance and improving the enabling environment for SMEs are crucial for poverty reduction and shared prosperity. Facilitating access to finance will help unlock greater economic growth through improved financial intermediation. With a focus on the productive sectors of the economy, this PCG has the potential to redirect existing liquidity and reorient lending towards productive uses. There are creditworthy SMEs that currently do not have access to finance and are being excluded due to the worsening market failure for credit. These are the target SMEs. With low levels of informality and relatively high banking penetration there is scope for such an operation.

C. Proposed Development Objective(s)

Development Objective(s) (From PCN)

The objective is to facilitate additional financial intermediation for SMEs and strengthen the enabling environment for SME lending, by setting up a regional partial guarantee fund.

Key Results (From PCN)

Results will be measured for the Project as a whole and across the three components of the Project.
PDO-level Indicators
*Indicator 1: Number of Loans Outstanding (SME Finance)
*Indicator 2: Amount of funding leveraged to improve the SME enabling environment

Component 1: Setup a partial credit guarantee fund.
*Indicator 1: Measuring outreach: Number of SMEs receiving guaranteed loans through Project
*Indicator 2: Measuring outreach: Total size of outstanding guaranteed loans through Project
*Indicator 3: Measuring outreach: Share of guarantees issues to women owned or managed SMEs
*Indicator 4: Measuring additionality: Number of direct new jobs created through guaranteed loans
*Indicator 5: Measuring additionality: New investment from guaranteed loans
*Indicator 6: Measuring additionality: Percentage of long term funding through guaranteed loans
*Indicator 7: Measuring sustainability: Equity ratio (the ratio of equity to outstanding guarantees)
*Indicator 8: Measuring sustainability: Number of guarantees paid-out

Component 2: Technical Assistance (TA) for financial institutions and SMEs
*Indicator 1: Financial institutions: Number of loan officers trained
*Indicator 2: Financial Institutions: Number of credit policies improved
*Indicator 3: SMEs: Number of SMEs assisted
*Indicator 4: SMEs: Number of partner Business Development Services (BDS) collaborating

Component 3: Improving the Enabling Environment
*Indicator 1: Number of credit information workshops held
*Indicator 2: Number of insolvency workshops held

D. Concept Description
The Project will setup and capitalize a regional partial guarantee fund in the OECS. There will be three principal components:

Component 1: A regional partial guarantee fund will be setup, capitalized, and put into operation. The fund will underwrite partial credit guarantees for productive purposes to eligible financial institutions in the OECS. It is anticipated that the fund will be between US$12 million and US$15 million.

Component 2: Technical assistance to financial institutions and to SMEs in the region. The technical assistance to financial institutions will improve their lending practices and instruments for SMEs. The technical assistance for SMEs will aide SMEs in preparing improved business plans. The TA to SMEs will be undertaken by partner institutions and the PCG will help identify the relevant TA provider.

Component 3: Technical assistance for strengthening the enabling environment for SME lending. This will include assistance for developing credit information systems including credit registries and a credit bureau as well as technical assistance to strengthen foreclosure laws across the OECS.

The three components are described below:

Component 1: A regional partial guarantee fund will be setup, capitalized, and put into operation.

It is envisaged that OECS Member Countries will borrow IDA (International Development Assistance) or IBRD (International Bank for Reconstruction and Development) resources, supplemented by bilateral donor investments, in order to capitalize the fund. The partial guarantee fund will be funded through two or three main mechanisms. The first is that World Bank member countries will borrow from either their IDA or IBRD allocations and directly invest these funds into the partial credit
guarantee fund. The second mechanism will be open to countries (as co-financing) and to other partners who wish to directly invest in the guarantee fund. These partners include the Caribbean Development Bank (CDB) and the International Finance Cooperation (IFC). These investments will come directly from the partners into the fund. The third mechanism that is being explored is whether the PCG unit will issue debt or fixed income instruments for social investors.

The fund will take into consideration the recently published World Bank Group principles on designing credit guarantee schemes, in particular the governance aspects. It is envisaged that the fund will be privately managed with a balanced regional corporate governance structure and will draw global best practice, including from other WBG operations. The scheme will be designed in a consultative manner. It will strive to be simple and equitable, especially on issues such as capital contributions and voting rights. The fund will be domiciled within the ECCU and as such will be supervised by the ECCB. As this would be the first institution of its kind in the region, this will require drafting specific supervisory guidelines - including for capital relief if feasible.

Financial institution eligibility criteria will be transparent and strictly enforced, and will also be designed in such a way as to incentivize the continual addition of newly sound financial institutions. A critical precondition for any guarantee fund is a sound financial system. This is not the case for the whole of the OECS financial system. However, there is a sizeable segment of the financial system - both foreign and domestically owned - that is currently sound. As of today, at least 60 percent of the system assets are in institutions that would likely be eligible for such a scheme. The fund's eligibility criteria will be based on capital adequacy, liquidity, credit policies, safeguard policies and corporate governance standards. Those institutions which do not meet the criteria at the inception of the Project, will be allowed to re-apply. As such, the fund will strive to incentivize financial institutions to meet the criteria and will admit newly eligible ones on a rolling basis. Further, criteria will be chosen to ensure that the loans are for productive purposes. Nevertheless it is important to bear in mind that the ultimate beneficiaries of this Project are the SMEs and the type of financial institutions that the instrument is directed through is an intermediary.

The fund will most likely operate on an individual loan basis and pricing will be designed in order to minimize market distortions. Assessing enterprise default risk and recoveries conditional on default in the OECS is not straightforward as the existing data on such transactions is not centrally held nor have detailed models been developed. As a result, it is likely that the fund will operate on an individual loan level rather than a portfolio level. This will therefore require the development of pricing and recovery models through the course of the Project design in such a way so as to minimize market distortions. A loan eligibility criteria is also being explored in this retail guarantee model, rather than financial institution eligibility criteria.

Coverage will be partial and loan subrogation will be clearly defined, taking into consideration the diversity of foreclosure legislation across the OECS. The World Bank task force that convened the principles for credit guarantee schemes strongly advocates for partial coverage. This reduces moral hazard and best practice suggests that coverage should be between 50 to 70 percent. The definition of loan subrogation will be explored within the context of the differing foreclosure laws across the OECS. This is expected to be linked to component three so that the enabling environment for SME lending can be improved through the creation of this regional entity.

The fund will have a monitoring and evaluation framework that will include good baseline information. Measuring any impacts of the fund will be important as this will be the first such fund in the sub-region. Further, understanding the degree and extent of any impact on SMEs will provide a second bottom line to the fund's other mandate of managing its reserves and pricing competitively. In
addition, the PCG framework will be gender informed. As of 2014, 24 percent of enterprises in the OECS were managed by women, compared to a global average of 17 percent. All these baselines will help guide the downstream decisions for the duration of the fund. During the course of the design phase, the baseline will be constructed in parallel with the framework in order to ensure that the variables being measured can be compared across time.

This component will utilize the majority of the resources and will require upstream technical assistance for its design. It is envisaged that approximately 85 percent of the Project resources will be put into the fund itself. Initial operating expenses will be drawn from the fund. The fund will have a Strategic Asset Allocation (SAA). The revenue stream includes guarantee premiums and investment returns. The scheme's costs will include operational costs and guarantee payouts. These will be determined jointly with the objective of financial sustainability. The upstream technical assistance for its design will include: (i) legal and tax analysis; (ii) drafting the legal and regulatory documents including for capital relief; (iii) drafting of the operational manuals; (iv) developing the business plan and pricing of equity and debt offerings; (v) developing OECS specific loan pricing models for probability of default and loss given default models and (vi) staff capacity building and training. It is expected that the majority of these TA needs will be funded through existing trust funds.

The ECCB will be approached to investigate whether and how capital relief can be formulated for this guarantee scheme. In jurisdictions which follow the Basel II rules, guarantees are treated as credit protection and may decrease the risk weight applicable to the covered exposures. Thus the value of risk-weighted assets used in calculating the capital adequacy ratio also change. The regulatory treatment of SME credit guarantees is an important issue for financial institutions, in particular the regulatory capital relief obtained for the use of guarantees can be an important incentive for financial institutions to use the PCG. A study done by the Vienna Initiative Working Group on Credit Guarantee Schemes in 2014 shows that obtaining regulatory capital relief is a valued component of guarantees in such scheme from emerging Europe.

Component 2: Technical assistance to financial institutions and to SMEs in the region.

In Project preparation interviews, both financial institutions and SMEs in the region highlighted the need for technical assistance. Many financial institutions expressed a desire to lend more to SMEs but noted that they did not have the instruments nor the staff training to do so. The Project will hold training sessions for loan officers, risk officers and management to enhance their ability to lend to SMEs. This could be fashioned in a similar structure to the CDB’s technical assistance to development banks in 2014. The Project will also work on business development services for SMEs. This reflects the responses to the World Bank survey which showed that many SMEs required help with the preparation of business plans. This will be provided in coordination with providers of such services, in particular through the CDB’s regional network called the Caribbean Technological Consultancy Services (CTCS). It is envisaged that this component will require 10 percent of the Project funds and will strive to partner with existing agencies as much as possible.

Component 3: Technical assistance for strengthening the enabling environment for SME lending.

The enabling environment for SME lending in the OECS requires significant long-term strengthening to support more efficient lending. In the context of a market failure due to a credit overhang in a prevailing weak SME credit market, it is imperative that the Project also help strengthen the enabling environment. The Project will work towards improving credit information systems in the region and support a regional endeavor to develop a credit registry and a credit bureau. The Project will leverage the existing work done by the WBG in the Caribbean Regional Credit Bureau project. It will also work
towards harmonizing insolvency laws across the OECS. Here the WBG has been engaged with St. Lucia on re-drafting their insolvency law, and this may be used as a regional champions. These activities will initially be undertaken in the capacity of a convener. It is envisaged that this component will require 5 percent of Project funds. Additional financing may be considered once the Project is implemented for direct work on the insolvency framework and on secured transactions.

II. SAFEGUARDS

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

The specific location of the individual SME projects to be financed under the Project are not known at this time but they could be located in any OECS country where the Project is being implemented.

B. Borrowers Institutional Capacity for Safeguard Policies

As a new entity is being setup for the Facility (Partial Credit Guarantee), a substantial amount of preparatory work will be required during Project preparations in order to incorporate a company or new institution domiciled in the OECS. This will include development of an Environmental and Social Management System (ESMS) with procedures adherent to World Bank Group Performance Standards requirements and defining technical support needed for environmental and social management. It is anticipated that the Facility will need to adapt the procedures of its chief anticipated investors, the Caribbean Development Bank (CDB) and IFC, in the creation of the ESMS. The Operational Manual of the Project will reference the ESMS and define staffing and training (capacity building) needed to execute the ESMS. Requirements and options for institutional capacity and training (e.g., for the PCG Facility, participating banks) to implement the ESMS will be explored during Project preparation.

C. Environmental and Social Safeguards Specialists on the Team

Cristina Elizabeth Coirolo(GSU04)  
M. Yaa Pokua Afriyie Oppong(GSU04)  
Michael J. Darr(GEN04)  
Robert H. Montgomery(GEN04)

D. Performance Standards that Might Apply

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<th>Performance Standards (please explain why)</th>
<th>Yes</th>
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<th>TBD</th>
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</thead>
<tbody>
<tr>
<td>PS 1: Assessment and Management of Environmental and Social Risks and Impacts</td>
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The Project has been categorized as Category F (more specifically FI-2 per OP/BP 4.03) given the potential impacts associated with financing (partial risk guarantee) of SMEs in Component 1. The specific individual SME projects to be financed under the Project will not be known until after Project approval. However, during Project preparation the range of potential sectors will be further defined, but will likely focus on productive sectors as a priority. The potential environmental and social impacts associated with the likely (presently anticipated) type of SMEs to be financed are anticipated to be relatively minor to moderate, and with appropriate standard mitigation measures the potential negative impacts should be managed appropriately. As mentioned, specific SME sub-projects and
activities are not yet defined. An Environmental and Social Management System (ESMS) will be developed to manage the potential associated environmental and social impacts and risks related to the types of sub-projects to be financed (e.g., SMEs, productive purposes) and the financial instrument (e.g., guarantee). The ESMS will establish requirements and apply both to the PCG Facility and to the eligible/participating financial institutions (FI) for the targeted asset class as part of the eligible/participating FI’s portfolio (e.g. SME lending).

Screening and exclusion criteria will be developed to ensure that Category FI-1 sub-projects are not funded or other forms of financing not eligible for guarantees (e.g., project finance, etc.). Additional screening/exclusion criteria will be established during Project preparation as determined appropriate for the Project, such as any sub-project that would trigger a World Bank Group (WBG) Performance Standard that is determined to be excluded for financing under this Project (Component 1) or defined high risk sectors (e.g., those that would make the project environmental rating FI-1). The ESMS may exclude certain sub-project types given the likelihood that the PCG facility or individual banks would likely not be in a position to perform the necessary due-diligence to confirm compliance with Performance Standard requirements. Alternatively, the ESMS may list some of these as financeable but requiring an adequate environmental and social impact evaluation and management by the specific SME and an adequate level of due-diligence and supervision by the individual banks (FIs) and the PCG Facility commensurate with the level of project-specific SME risk. Standard checklists for screening, inspection, and reporting would be included in the ESMS, and be commensurate with the inherent level of risk related to type of financings (SME, guarantee) and likely SME sectors. The ESMS defines the requirements for eligible/participating FIs, including implementation of an acceptable ESMS to their lending operations in the Project targeted asset class (e.g. SME lending) in terms of meeting WBG Performance Standards requirements consistent with FI-2 projects.

During Project preparation, in relation to Component 2, potential ideas for environmental, health and safety staffing and capacity building for SMEs, eligible/participating FIs and the PCG facility will be assessed and included in the Project. The intent would be to enhance capacity in order to increase the SME financing potential by the Facility and reduce the SME potential environmental and social risks (including those that could create financial risks). During project preparation, to the extent potential participating FIs can be identified, a review of some FI existing systems/approaches for SME financing and for environmental and social risk management, in general, will be performed.

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<th>PS 2: Labor and Working Conditions</th>
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<td>Some workforce will be required for the SME projects receiving a PCG under Component 1. In addition some staff will be required for the PCG facility and the FI providing the loan to the SME. Thus, proper worker management is necessary. The ESMS will outline measures to protect workers and promote safe and healthy working conditions in line with this Performance Standard related to employees of the PCG Facility and the participating FIs.</td>
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<thead>
<tr>
<th>PS 3: Resource Efficiency and Pollution Prevention</th>
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<tbody>
<tr>
<td>Pollution prevention and response to accidents involving pollutant releases will be addressed as part of ESMS. The expected projects associated with SMEs are not anticipated to generate significant impacts on air quality, water quality, solid waste, and noise level, etc. The project screening criteria will likely exclude procurement or use of significant quantities of pesticides and hazardous materials. The extent of applicability of this PS will be assessed during Project preparation.</td>
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<thead>
<tr>
<th>PS 4: Community Health, Safety, and Security</th>
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</thead>
<tbody>
<tr>
<td>The types of SME activities that presently are anticipated to receive a PCG are not expected to result in significant community safety issues. However, this policy may apply to some of the SME productive projects eligible for financing. This applicability will be determined during Project</td>
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preparation. The ESMS will include appropriate mechanisms for screening and impact management (e.g., related to transport/road safety, emergency response). As needed, the ESMS may exclude certain project types (e.g., those involving use of security personnel, transport of significant quantities of hazardous materials) given the likelihood that the PCG facility or individual banks would likely not be in a position to perform the necessary due-diligence to confirm requirements with these in line with this Performance Standard. The ESMS will include provisions to ensure that the PCG Facility and eligible/participating FIs will be expected to meet PS4 requirements for emergency preparedness and response.

**PS 5: Land Acquisition and Involuntary Resettlement**

The types of SME activities that are presently anticipated to receive a PCG are not expected to result in land acquisition/resettlement. However, this policy may apply to some of the SME productive projects eligible for financing. This applicability will be determined during Project preparation. The ESMS will define the due-diligence required by the PCG Facility and eligible FIs, which will include screening to identify and exclude high risk sub-projects anticipated to result in significant adverse impacts related to land acquisition/resettlement. Low to moderate risk sub-projects will comply with exclusion criteria, as well as with applicable host country laws relating to land acquisition and resettlement.

For sub-projects determined through the ESMS to be financeable that are anticipated to result in significant adverse impacts, land acquisition and resettlement will be avoided to the extent possible. If it is not feasible to avoid land acquisition/resettlement, a Social Assessment and Resettlement Plan (RAP) will be undertaken to assess and analyze options for minimizing adverse social and economic impacts from land acquisition or restrictions on land use. If required, the RAP would provide compensation for loss of assets at replacement cost and ensure that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected. The RAP would also improve, or at least restore, the livelihoods and standards of living of displaced persons, and improve living conditions among physically displaced persons through the provision of adequate housing with security of tenure at resettlement sites.

**PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources**

The ESMS screening criteria will exclude any projects that could potentially significantly affect critical habitat, natural habitat, protected or sensitive areas, or forest resources or their management. However, PS6 may apply to some of the SME productive projects eligible for financing (e.g., forest production). The applicability will be determined during Project preparation, and the ESMS will include appropriate mechanisms for screening and impact management.

**PS 7: Indigenous Peoples**

The Kalinago Community, residing in the Kalinago Territory in Dominica, meets the definition of Indigenous Peoples as articulated in PS7. The types of SME activities that are presently anticipated to receive a PCG are not expected to result in potential negative or positive impacts on the Kalinago Community. It is proposed that the ESMS will include screening tools that will exclude sub-projects that: (i) impact the lands or natural resources traditionally owned, or under customary use or claimed under adjudication, by the Kalinago Peoples; (ii) result in the relocation of the Kalinago Peoples from lands and natural resources subject to their traditional ownership or customary use; or (iii) have impacts on their cultural heritage, including commercial use of cultural heritage by the Kalinago Peoples, including natural areas with cultural and/or spiritual value such as sacred groves, sacred bodies of water and waterways, sacred trees, and sacred rocks. Low to moderate risk sub-projects will comply with exclusion criteria, as well as with relevant host country legislation on Indigenous
For sub-projects determined to be financeable that are expected to result in adverse impacts to the Kalinago Peoples, the PCG facility, individual banks or specific SMEs will perform the necessary due-diligence to confirm compliance with Performance Standard 7 requirements, the ESMS will include a stipulation that the client prepare an Indigenous Peoples Plan (IPP). The IPP will: (i) establish and maintain an ongoing relationship based on Informed Consultation and Participation (ICP) with the Kalinago Council and Community throughout the SME activity’s life-cycle; (ii) anticipate and avoid adverse impacts of SME 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.

An engagement process of informed consultation and participation with the Kalinago Community will be started during Project preparation to provide an opportunity for the Kalinago community to provide their views and particularly to promote the participation of SMEs that are owned by the Kalinago Peoples to ensure that they can reap benefits from the Project in a culturally appropriate manner. The Kalinago Community is well organized, providing a great opportunity for this Project to influence their development. Given that the PCG facility has yet to be formed, the Project team will investigate the possibility of leveraging the existing engagement of other WB projects with the Kalinago Community (e.g. Disaster Vulnerability Reduction Project in Dominica).

PS 8: Cultural Heritage

Screening in the ESMS will exclude activities that could potentially significantly affect physical cultural resources. The ESMS will include a need, as applicable, for a chance find procedure during construction works by a SME as part of overall environmental management (i.e., PS 1).

E. Safeguard Preparation Plan

1. Tentative target date for preparing the Appraisal Stage ISDS:
   A. Target date for the Quality Enhancement Review (QER), at which time the Environmental and Social Review Summary (ESRS) would be disclosed and the PAD-stage ISDS would be prepared: An ESMS will be prepared. Estimated date: November 2016
   B. For Category C or Category FI projects that do not require an ESRS, the target date for preparing the PAD-stage ISDS: NA

2. Time frame for launching and completing the safeguard-related studies that may be needed.
   The specific studies and their timing\(^1\) should be specified in the Appraisal-stage ISDS.
   December 2016

III. CONTACT POINT

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V. APPROVAL  

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Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially
affected persons.