

Financing Water Adaptation in Jamaica's New Housing Sector *Amendment*

Request submitted to the PPCR Subcommittee
by the Inter-American Development Bank Group

February 2020

SUMMARY

1. The Financing Water Adaptation in Jamaica's New Housing Sector project, [submitted](#) by the Inter-American Development Bank (IDB) Group, was approved by the PPCR Subcommittee on October 28, 2015, with resources from the PPCR Private Sector Set-Aside.
2. The Donors Committee of the IDB Group's Multilateral Investment Fund (MIF) approved in May 18, 2016 a loan for USD 5.75 Million under agreement 3698/SX-JA, to be on-lent by the JN Bank to housing developers in Jamaica at preferential rates to incentivize the installation of water adaptation technologies in new housing developments. (The MIF was subsequently rebranded as IDB Lab.)
3. This loan was complemented by two Non-Reimbursable Technical Cooperation Agreements (TCs); ATN/ME-15576-JA funded by MIF resources and ATN/NV-16231-JA funded by the PROADAPT facility. Both TCs are executed by the Jamaica National Foundation, a non-profit foundation that promotes social sustainable development in Jamaica and supports 3698/SX-JA.

CURRENT STATUS

4. The PPCR loan to JN was approved in 2016 to "Finance Water Adaptation in Jamaica New Housing Sector". The primary intention of the loan was not to impact interest rates, but rather to provide proof of concept for a viable market for water adaptation technologies in Jamaica in new home buildings. The expectation was that the market would develop with support from multilateral climate finance, as there was no dedicated lending for water adaptation technologies in either the construction or residential real estate sector in Jamaica or elsewhere in the Caribbean. At the point of approval, JN on-lent to commercial construction and house builders in the range of 13%, with an average cost of a capital at around 9%. The intention was for JN to offer lower rates for the water adaptation segment of these loans at a rate below that of construction loans.
5. Following signature, JN began preparing the documents needed to satisfy the conditions precedent to the disbursement of the first tranche of funds. During this time, JN expressed concern regarding several items in the loan agreement. Given their uncertainty of the demand for the loan product by the home developers in the corporate area, a demand study was commissioned and paid for using support resources assigned to the project. This study found that while several housing developers use their own resources to finance the construction of new developments, they would be willing to access a loan at preferential rates to finance the adoption of water adaptation technologies in these new homes. This study also discovered that given the overall reduction in interest rates in Jamaica, the rate proposed by JN could no longer served as an incentive as they would be on par with regular loans in the market. JN therefore submitted a request to reduce the interest rate from 5% to 3.5% to incentivize developers to access the loan when launched.
6. Supporting this request is the fact that interest rates in the market for the past 12-18 months have been on a downward trajectory. The Central Bank (Bank of Jamaica) has been the leader in rate reductions with a posted rate of 0.5 % on overnight deposits and a 90-day Treasury Bill rate of 1.5%. The retail banking market has been very competitive with commercial banks offering rates from a low of 5% to 7.75% (as compared with year 2017, when the rates were between 9% and 12%). The rate of 5% to JN does not provide a risk premium for developing

and undertaking a new lending product, which still does not exist in the Jamaican market; nor does it allow for JN to be compensated for the transactional cost associated with launching a new loan product. The rate of 5% under the PPCR to JN is that of the current rate available in the market to builders or contractors. As such, there would be no incentive to the builders or contractors to be compensated for the higher construction cost incurred of installing water adaptation technologies in their housing developments (while keeping prices low to ensure the proof of concept and confirm value to this client).

7. Further, JN realized early in process that a number of the activities under the Technical Cooperation (TC) Agreement were critical to the successful roll out and take-up of the loan product and to assist in overcoming obstacles for the adoption of the water adaptation technologies in homes as well as in sensitizing the market that will be made available. Jamaica National Foundation has undertaken the following activities under the TC that accompanied the loan: (i) it undertook a demand study for water adaptation technologies; (ii) it carried out an assessment of the suppliers of water adaptation technologies; (iii) it started the business case for the use of 10 water adaptation technologies, and (iv) it commenced a pilot to retrofit homes with water saving technologies to track their savings in consumption over a year. The information and results of this foundational work has fed into the development of the loan product to finance water adaptation in the new housing sector.

PROPOSED AMENDMENTS

8. In view of the current context in Jamaica, the IDB Group requests changes in the financial terms, in order to incentivize developers to access the loan. The requested changes are as follows:

Loan condition	Original	Requested change	Justification
Interest rate	5%	3.5%	To reflect current market conditions
Term	Up to seven years	Up to nine years	To accommodate the delay in the disbursing of sub-loans due to changes in market conditions
Disbursement Amounts and Procedure	The loan will be disbursed in three or four instalments. Each drawdown will be of no less than \$750,000 and no more than a maximum of \$2,500,000. Disbursements would be limited to one per quarter	Each drawdown will be no more than a maximum of \$2,500,000. Disbursements would be limited to one per quarter	In order to provide JN Bank with more flexibility to accommodate disbursements based on market demand indicated in the Demand Study