

**APPROVAL BY MAIL: JAMAICA: FINANCING WATER ADAPTATION IN JAMAICA'S NEW
HOUSING SECTOR (PPCR) (IDB)**

IDB Response to the United Kingdom

Approval by mail: Jamaica: Financing Water Adaptation in Jamaica’s New Housing Sector (IDB) (PPCR) (PPCRJM505A). IDB Responses to UK Comments.

UK Comments	IDB Response
<p>1. It would be useful to understand further how the programme will incentivize a change in market demand – for example:</p> <ul style="list-style-type: none"> • What impact will the PPCR’s loan rate of 5% have on the on-lending rate? What is this currently, and is this the main barrier to uptake? • How strong is JNBS’s relationship with the target group of construction companies and housing developers? What is the new housing growth projection? • On what basis has the loan size been chosen? Considering that there are not many eligible construction companies. 	<ul style="list-style-type: none"> • The PPCR loan is not primarily intended to impact interest rates, but rather to provide proof of concept for a viable market for water efficient technologies in Jamaica in new home buildings. The expectation is that the market will develop this business with little further need for multilateral climate finance. Currently, dedicated lending for water efficient technologies does not exist in either the construction or residential real estate sector in Jamaica or elsewhere in the Caribbean. Currently, the Jamaican National Building Society on-lends to commercial construction and house builders in the range of 13%, with an average cost of a capital at around 9%. However, given that this market is new, JNBS is considering lowering the rate of these loans below that of construction loans. The 5% rate of this PPCR loan reflects in part (i) a risk premium for developing and undertaking a new lending product for JNBS, one that currently does not exist in the Jamaican market; (ii) the attendant transaction costs (staff and other resource allocation) that must be undertaken by JNBS to launch this new lending product; and, (iii) this rate compensates Builders and/or Contractors in part for the higher construction cost incurred of installing water efficient technologies in their housing developments (while keeping prices low to ensure the proof of concept and confirm value to this client). The main barrier to uptake will not be the rate, but a lack of awareness as to the availability of this product, coupled with uncertainty as to the value added of water efficient technologies in residential housing. The technical assistance portion of this operation is aimed at helping to overcome these two barriers. • The demand for construction and housing development lending is increasing at JNBS, with over J\$2 billion in demand among a core of target companies and developers.

	<p>According to a Jamaica National Housing Policy, this demand reflects in part the annual requirement of approximately 20,000 units for the next ten years in Jamaica. Added to that, historically low costs of mortgages In Jamaica and the expansion of mortgage lending for the lower middle to middle income growth segments are supporting demand for residential housing, particularly in the middle income segment. Construction and housing development loans have traditionally been a smaller part of the JNBS portfolio than retail mortgage lending, but JNBS (the largest mortgage lender in the Caribbean) also sees promising growth for a product of this type in neighboring markets. Moreover, with successful proof of concept in this market segment, it is hoped that there will be scope for scaling water efficient technologies and practices in other housing segments, such as Government subsidized housing.</p> <ul style="list-style-type: none"> • The loan size reflects JNBS’ projection that it can productively deploy the full amount among construction and house builders over the term of the loan. This forecast is based on the interest in housing packages with water saving technologies in the Jamaican market, and rising awareness concerning the need to conserve water. Moreover, JNBS felt that this loan size was sufficient to prove the concept for other Caribbean markets where JNBS is a major player in the residential mortgage market.
<p>2. We would welcome the IDB’s views on whether working with the utility (ie a direct install public private partnership) was considered as an approach given evidence that this can be very effective for rolling out large scale home water efficiency improvements (for example, from the IFC’s analysis for the Caribbean)?</p>	<p>In the preparatory work for our PPCR concept note, we considered something along these lines. This is a promising idea. However, we found great interest among financial institutions in developing loan products for addressing water efficiency in the residential housing market. We though that this would be an ideal private sector PPCR operation when combined with our PROADAPT Facility which provides technical assistance to support the loan. A direct install PPP might be an ideal follow up for scaling a positive proof of concept by JNBS.</p>
<p>3. Along with the technical assistance activities already mentioned in the proposal, could the IDB clarify whether there will be the scope to consider:</p> <ul style="list-style-type: none"> • Ongoing market analysis which would help address the risk of low loan take-up 	<ul style="list-style-type: none"> • The ongoing market analysis which would help address the risk of low loan take-up or targeting (Section 6.1.1. indicates consultations were positive in terms of demand but there is no further elaboration).

<p>or targeting (Section 6.1.1. indicates consultations were positive in terms of demand but there is no further elaboration)</p> <ul style="list-style-type: none"> • How regulation reform could be supported more strongly, as this was identified as a key barrier. 	<ul style="list-style-type: none"> • The project will include consultation and extensive information sharing with regulatory authorities in Jamaica. There is wide awareness and agreement that regulatory reform is needed with respect to water service. It is hoped that this project can catalyze greater promotion by regulatory authorities of water saving technologies and practices in Jamaica.
<p>4. It would be good to understand the rationale behind the size of the entrepreneurship support, which seems to be on a smaller scale – what data regarding absorption capacity/number of actors is this based on?</p>	<p>The entrepreneurship portion of this project is on a smaller scale in terms of budget, in part because the project will avail itself of the new entrepreneurship training facilities at the Jamaica National Foundation, which is the part of the JNBS Group responsible for the management of the PROADAPT technical assistance in this project. Further, the target group of entrepreneurs will be fairly small. We will be looking for promising prospective entrepreneurs, start-ups, micro and small businesses that are entering or already in the market for climate resilience. By this we mean ventures that are currently or planning to sell products and/or services that help to protect businesses, households, and public entities from climate risks that threaten property, livelihoods, organizational continuity and assets from climate risks. These risks include high winds, flooding, droughts, heat waves, precipitation variability, wildfires, invasive pests etc. The market in private climate resilient solutions is thriving. There is growing demand for products such as low drip irrigation systems, storm resilient building materials, insulation against heat, energy efficient cooling, adaptive flood control, drought resistant seeds, data analytics for better, local forecasting, early warning systems, new risk transfer mechanisms, among thousands of other solutions, that are driven in part by anthropogenic climate change. This represents a growing opportunity for entrepreneurs in Jamaica and elsewhere.</p>