

**AUDITOR GENERAL'S DEPARTMENT
SPECIAL AUDIT REPORT
DEVELOPMENT BANK OF JAMAICA – LOAN AWARDS**

The Auditor General is appointed by the Governor General and is required by the Constitution, Financial Administration and Audit Act, other sundry acts and letters of engagement, to conduct audits at least once per year of the accounts, financial transactions, operations and financial statements of central government ministries and departments, local government agencies, statutory bodies and government companies.

The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial Administration and Audit Act.

This report was prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

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AUDITOR GENERAL'S
DEPARTMENT OF JAMAICA

'A better Country through effective audit scrutiny'



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Audit at a Glance

Special Audit Report findings on the Development Bank of Jamaica - Loan Awards



Key Data

- The DBJ provides funding and technical assistance to large projects in addition to assisting micro, small and medium-sized enterprises (MSME).
- The DBJ's operations are governed by the Development Bank of Jamaica Act 1969 (amended 2003), Companies Act 2004, the Public Bodies Management and Accountability Act as well as the Ministry of Finance approved Corporate Governance Framework for Public Bodies dated October 2012.
- DBJ awarded a total of 72,856 loans for the period 2015-16 to 2020-21 totalling J\$39,787M.

Main Findings

- Written disclosures of conflicts of interest not provided by members of DBJ's Board to Company Secretary, however, declarations were made verbally during meetings of the IFLC and the Board of Directors and reflected in the minutes.
- Based on the information provided, all conflicts of interest declared in relation to the ICT/BPO Sector were managed.



Conclusion & Recommendation

- Notwithstanding verbal declarations, DBJ's Board should ensure that conflict of interest declaration forms are signed and submitted to the Ministry of Finance and the Public Service as required by DBJ's Corporate Governance Framework to mitigate any risk of perception of a lack of transparency related to conflicts of interest.

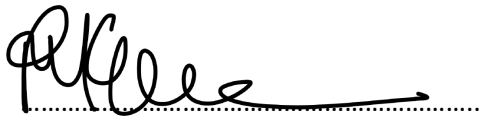
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Auditor General's Overview

The Development Bank of Jamaica's (DBJ) role in providing development financing for the productive sector at below market rate aims to support Jamaica's economic growth and development. Based on allegations regarding malpractice in the award of loans by the DBJ, I commissioned a special audit to assess the transparency of DBJ's loan practices and whether any company or connected party benefitted disproportionately from the concessionary loans granted by the DBJ.

We saw no evidence to support the allegations of malpractice surrounding loan awards for the ICT/BPO sector. We identified variances in DBJ's governance procedures, between the requirements of the Board approved Corporate Governance Framework for disclosure of conflicts of interest, and the observed actual practices by members of the DBJ Board. These variances, if left unresolved, will increase the perception of infringement on the Corporate Governance Framework, which will serve to undermine the integrity of DBJ's operations. I therefore urge the DBJ to consider the recommendation contained in this report, in order that confidence may be maintained in the integrity of its operations.

I take this opportunity to thank the management of the Development bank of Jamaica for the courtesies extended to my team during the execution of the audit.



Pamela Monroe Ellis, FCCA, FCA
Auditor General

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Executive Summary

The Auditor General’s Department (AuGD) conducted a Special Audit in response to anonymous allegations of malpractices in the awarding of loans, and conflict of interest made against certain members of the Board of Directors of the Development Bank of Jamaica (DBJ) for the period 2015-16 to 2021-22. We sought to assess whether there were breaches in the policies and procedures of the DBJ in addition to conflicts of interest and bias in the awarding of loans to companies operating within the ICT/BPO. We also sought to assess the extent to which any company or connected party benefitted disproportionately from the concessionary loans granted by the DBJ. The audit followed a performance audit that was executed in 2015.

Finding

We saw no evidence to support the allegations of malpractice surrounding loan awards for the ICT/BPO sector. Nonetheless, we saw evidence of conflict of interest and determined that verbal disclosures were made in the Board meetings and reflected in Board minutes. The evidence provided to us also indicated that instances of conflict of interest were managed by Board members recusing themselves from deliberations related to the ICT/BPO sector in which they had an interest.

Recommendation

Notwithstanding verbal declarations, DBJ’s Board should ensure that conflict of interest declaration forms are signed and submitted to the Ministry of Finance and the Public Service as outlined in DBJ’s Corporate Governance Framework (Board Charter Section 7.1) to mitigate any risk of perception of a lack of transparency related to conflicts of interest.

PART ONE

Introduction

1.1 The Development Bank of Jamaica Limited (DBJ) is a limited liability company that is registered with the Companies Office of Jamaica. The DBJ issued 1,757,539,000 ordinary shares valued at \$1.00 each as at March 31, 2021. These shares are held in trust by the Accountant General for the Capital Development Fund. The DBJ was formed out of a merger of the Agricultural Credit Bank Limited, the National Development Bank and the National Investment Bank of Jamaica Limited. As a government owned and operated company, the DBJ's parent ministry is the Ministry of Economic Growth and Job Creation. The Board of Directors of the DBJ is appointed by the portfolio minister. The core business functions of DBJ are stated as *“development banking, management, privatization of national assets, public private partnership, providing technical support services and acting as investment manager and administrator of its pension fund”*. The DBJ's operations are governed by the Development Bank of Jamaica Act 1969 (amended 2003), Companies Act 2004, the Public Bodies Management and Accountability Act in addition to the Ministry of Finance approved Corporate Governance Framework for Public Bodies dated October 2012.

1.2 The DBJ, prides itself as the only development financing organization in Jamaica and is focused on providing support to the productive sectors at all stages of their development. As a result, the DBJ provides funding and technical assistance to large projects in addition to assisting micro, small and medium-sized enterprises (MSME) which are widely regarded as the engine of economic growth and development for Jamaica. The Government of Jamaica (GoJ) has identified economic growth and development as an important outcome of its stewardship and a necessary achievement to uplift the standard of living of Jamaicans. In this regard, the Bank's Mission is to *“provide opportunities to all Jamaicans to improve their quality of life through development financing, capacity building, public-private partnership and privatization solutions in keeping with Government policy”*. Therefore, the DBJ also supports investments in publicly owned Jamaican businesses.

1.3 The DBJ funds are accessible through an island-wide network of Approved Financial Institutions (AFI) branches representing commercial and merchant banks, the Jamaica Credit Union League, the National People's Cooperative Bank (NPCB), the National Export-Import Bank, and Micro Finance Institutions (MFI's). These institutions support the work of the DBJ by providing the initial credit evaluation and loan supervision before on-lending to clients. The bank is also involved in research activities which seek to identify gaps within the MSME sector that require specific attention as well as ensuring that the DBJ understands its role in driving economic growth. The research activities provide information guiding decisions on initiatives to be supported including the development of appropriate impact assessment tools for the various products and projects.

1.4 The DBJ established its own Corporate Governance Framework (CGF) with principles and practices drawn from various local and international sources. The CGF covers all aspects of the operations of the DBJ’s Board, Executive Management and staff. As a result, it includes the Board Charter, the Code of Ethics, the terms of reference of the Board committees as well as anti-fraud, corruption prevention and whistle blowing policies. The DBJ has documented its commitment to the Framework and has mandated that periodic reviews are conducted as needed or at least every two years. According to Section 7 of the DBJ’s Corporate Governance Framework (CGF), the primary role of its Board is to *“provide leadership which will create and maintain an environment of transparency, accountability and customer relevance which will stimulate economic growth and development and promote entrepreneurship”*.

1.5 The Board also appointed four committees to address board-specific and highly technical issues that may considered too onerous to be thoroughly and appropriately explored during the board meetings. The Committees, which report to the Board periodically as set out in their respective Terms of Reference were as follows: -

- a) Audit and Corporate Governance Committee
- b) Investment, Finance and Loans Committee
- c) Human Resource and Compensation Committee
- d) Enterprise Risk Management Committee

1.6 These committees were required to examine specific matters and make recommendations which were then taken to the board for its decision. The Audit and Corporate Governance Committee operates differently from the other committees in that the Audit Services Department is functionally, a direct report. Additionally, the committee provides oversight of the DBJ’s overall governance as well as to monitor and evaluate the DBJ’s compliance with applicable regulations and legislation and board approved policies. Overall responsibility for monitoring issues of conflicts of interest is delegated to the Corporate Governance Committee which has as one of its primary responsibilities *“Overseeing the Bank’s standards of integrity and behaviour.”*

1.7 Over the period under review (2015-16 to 2020-21), DBJ approved 23 loans to the ICT/BPO sector totalling J\$8,189M estimated to create 24,229 new jobs. The financial year ended March 2020 recorded the highest number of 7 ICT/BPO loans. The highest number of estimated new jobs to be created (6,600) was in 2015-16 which coincides with the highest total of loans approved (\$2,086M). Similarly, the lowest number of estimated new jobs created (1,200) coincided with the lowest total of loans approved (\$595M).

Table 1: New Loans To the ICT/BPO Sector (Direct Loans and Loans to AFI’s)

Year Ending	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Total
No. of Loans	6	3	4	1	7	2	23
Amt. Approved (J\$M)	2,086	1,751	1,095	595	1,843	819	8,189
Est. New Jobs	6,600	4,500	5,086	1,200	4,963	1,880	24,229

Rationale for the Audit

1.8 The rationale for undertaking this Special Audit is in response to allegations received that there were malpractices in the award of loans made by the DBJ, which also served as a follow-up to the audit executed in 2015. The audit sought to assess whether there were breaches in the policies and procedures of the DBJ in addition to conflicts of interest and bias in the awarding of loans. We also sought to assess whether special consideration was being given to any company or connected party resulting in that entity disproportionately benefiting from the concessionary loans granted by the DBJ.

1.9 We planned and conducted our audit in accordance with the ISSAIs (International Standards of Supreme Audit Institutions) which supports our special audit manual, along with data interrogation techniques. These standards are issued by the International Organization of Supreme Audit Institutions (INTOSAI). We conducted a risk assessment and developed an audit programme based our objectives in order to form our opinions and conclusions. We gained knowledge of the operations of the Development Bank of Jamaica and the role it plays in spurring economic growth in the Jamaican economy by reviewing internal and external information, interviews with management, staff and other stakeholders, observations, walkthroughs, and analytical reviews. We conducted fieldwork between January and February 2022 to gather sufficient and appropriate audit evidence on which we based our conclusions.

PART TWO

Allegations and Findings

2.1 The allegations by an anonymous source were provided by way of letter which indicated the following:

1. There is a conflict of interest involving members of DBJ's Board of Directors who also allegedly have significant investments in the ICT/BPO sector and are adjudicating loans to those companies as well as those of their competitors in the sector.
2. There is malpractice in the awarding of loans associated with Companies in which members of the DBJ have interests and these companies are the major recipients of loans from DBJ.

2.2 To ascertain the facts surrounding the allegations, we identified 284 companies in which DBJ's Board of Directors had interests between fiscal years 2015-16 and 2020-21. Two of these companies **Company A** and **Company B** were also beneficiaries of three loans from the DBJ of approximately US\$12.32M in total. The first of the three loans to both entities were approved in September 2015 for US\$5.0M to **Company A**, representing approximately 22.5 per cent of the total loans to the ICT/BPO sector approved in that fiscal year (total of US\$22,164,146 - 1 of 6 loans). The Second loan was approved in January 2020 for US\$6.0M to **Company B**, while in March 2020 another loan was approved for **Company B** for US\$1.32M representing 53.4 per cent of the total loans (US\$13,692,822 - 2 of 7 loans) to the ICT/BPO sector during that fiscal year.



Allegation #1: Malpractice in the Awarding of Loans

2.3 An assessment of the loan portfolio was conducted to determine the extent to which the Bank awarded loans to companies in which Board members were directly affiliated, in comparison to other loan recipients. DBJ awarded a total of 72,856 loans for the period 2015-16 to 2020-21 totalling J\$39,787M. Of the total loans offered by DBJ for the period, 2,377 loans were awarded to approved financial institutions (AFI's) totalling J\$24,366M, while 70,446 were awarded to micro financing institutions (MFI's) amounting to J\$8,658M for on-lending to other entities. DBJ awarded 19 direct loans to entities totalling J\$6,454M and the remaining \$309M related to 14 NPCB loans.

2.4 In determining if there were any malpractices in the awarding of loans, the loan files for both affiliated companies were assessed. The purpose of this assessment was to determine whether the loans awarded were in keeping with the provisions of DBJ's Loan Policy, or if there were any biases in the awarding of these loans. According to the loan policy, in addition to achieving project eligibility, companies receiving direct loans from DBJ should possess the following characteristics:

- Registered and operating in Jamaica
- Should not be sole proprietorship
- Demonstrate sound management practices and capability
- Be current with all statutory deduction payments evidenced by a Tax Compliance Certificate (TCC)
- Be current with property taxes, where applicable
- Disclose all its associated companies and subsidiaries
- Possess effective internal operational control system
- Project must be viable based on loan policy
- The loan is fully secured with collateral

2.5 Along with the above-mentioned requirements for loan applicants, the loan policy also established certain criteria/threshold to which the Bank must adhere to when approving direct loans. The Bank's adherence to these criteria was also assessed to determine if the loans to **Company A** and **Company B** were approved in keeping with the loan policy. The criteria/stipulations for the Bank when approving direct loans as seen in the loan policy were :

- Where projects are co-financed or DBJ participates in a syndication, the Bank will lend a maximum of 65 per cent of the project cost not financed by other financial institutions.
- The project debt to equity ratio must be a minimum of 70:30.
- With respect to land acquisition, the DBJ will only provide financing of up to 10 per cent of DBJ's agreed loan amount
- DBJ may consider lending up to 20 per cent of the loan amount for working capital.
- The maximum limit for direct lending is US\$5M or (or J\$ equivalent) for any one project, company or group. (The limits applicable to a project are expanded to a company or group of companies, where a group of companies would be defined to include companies with common ultimate shareholders holding in excess of 70 per cent their equity).
- If DBJ is the sole lender, the Bank will lend a maximum of 70 per cent of the overall project cost.

2.6 The assessment of the loan files for **Company A** and **Company B** indicated that both entities met the criteria for receiving direct loans, and the Bank also adhered to the stipulations of the loan policy when approving these loans. A total of 23 loans were awarded to the ICT/BPO sector amounting to J\$8,189M between 2015-16 and 2020-21. There were 3 loans with a combined total of US\$12.32M awarded to **Company A** and **Company B** which were the only entities we found operating in the ICT/BPO sector, affiliated to members of DBJ's Board of Directors, which also received loans from DBJ for the period under review (3 out of 23). Of the total number of companies (15) which received ICT/BPO loans, the two

companies represented 13 per cent of that number of companies. The combined value of the loans to both companies (US\$12,320,000) represented approximately 18 per cent of the total loans DBJ awarded to the sector (US\$68,348,992) for the period 2015-16 to 2020-21. We saw no evidence to support the allegations of bias in the Bank's awarding of loans to these entities compared to other entities operating in the ICT/BPO sector.

Allegation #2: Conflict of Interest

2.7 Among the core values established in DBJ's Code of Ethics as outlined in their Corporate Governance Framework, is the Board of Directors "*Establishing and maintaining the principles outlined in its Code of Ethics*". The Code of Ethics stipulates that the existence of a financial interest in projects financed by the DBJ¹ might give rise to situations of Conflicts of interest and should be avoided. In this regard, such conflicts **must** be disclosed in writing². As such the Code of Ethics mandates that knowledge of and failure to report incidents of real or perceived conflicts of interest constitutes an act of **misconduct**. Ultimately the following applies to all members of the board of directors: -

In cases where an employee or a member of the Board has knowledge of or is involved in approving a benefit e.g. loan, contract, and that employee or director is a benefactor or is related to or associated with such a benefactor, that employee or director should declare his/her interest or disclose the nature of the relationship with the potential benefactor and should recuse himself/herself from the decision-making process.

2.8 Further, each board member, upon their appointment, is required to complete a "Declaration of Interest" form which is to be maintained by the Company Secretary. A copy of each board member's declaration of interest form must be submitted to the Minister responsible through the Permanent Secretary³. Additionally, each director has a duty to immediately report all actual or potential conflicts of interest setting out all relevant information including spouse and other related parties and associates. The details must be recorded by the Secretary.

2.9 A request was made for a copy of all declarations of conflicts of interest made by the members of the DBJ Board of Directors regarding their association/involvement in other entities doing business with DBJ. Set out below is the DBJ's response to our query in email dated January 26, 2022.

¹ Code of Ethics Section 3(vi)(f)

² Code of Ethics Section 3(vi)(i)

³ Board Charter Section 7.1

The DBJ updated policy in respect of Conflict-of-Interest (COI) procedure to include the Annual COI Declaration Form was approved at the Board of Directors Meeting held June 24, 2021. The use of the Annual COI Declaration Form will commence on April 1, 2022 (the start of DBJ's Financial Year).

We advise that subsequent to the approval of the updated COI policy, COI had been included as an agenda item on Board and Sub-Committee Meetings. Members make individual declarations at the meetings which is recorded in the minutes.

2.10 Section 7.1 (3) of the DBJ Corporate Governance Framework states that members of the organization (including the Board of Directors) should abide by this guideline in matters where conflict of interest will arise. Sections 4 (3) and (4) of the Development Bank of Jamaica Act 1969 (amended in 2003) makes provisions for disclosures by Directors who are directly or indirectly interested in a contract made or proposed to be made by the Bank. The audit team sourced and assessed the minutes from Board meetings as well as the Investment Finance and Loans Committee (IFLC) meetings of the DBJ from January 2015 to November 2021. A total of 121 copies of minutes were reviewed to determine whether members declared their interests in companies during the approval process and recused themselves from the deliberations and decision-making process with respect to contracts awarded to companies in which they had an interest.

2.11 The minutes of the meeting of the IFLC, dated January 21, 2020, indicated that the Chairman declared his interest in **Company B** and recused himself from the deliberations. Similarly, the minutes for a meeting of the Board of Directors dated September 26, 2015, documented the Chairman's declaration of interest in **Company A** and his subsequent exit from the meeting during the deliberation process.

Part Three

CONCLUSION

Allegation #1: Malpractice in the awarding of loans

3.1. Based on the evidence obtained during this audit, allegations of bias on behalf of DBJ's Board of Directors in the awarding of loans to companies in the ICT/BPO sector were not supported. There were certain loan applications for companies within the ICT/BPO sector that were denied during their initial submission for approval from the Board on the premise that additional information/documentation were requested by DBJ's Board of Directors. Except for one company's loan application (**Loan Applicant A**), which was denied in a IFLC meeting as outlined in minutes dated January 16, 2018, all other ICT/BPO direct loans presented to the Board of Directors for approval between 2015-16 and 2020-21 were eventually approved. The fact that the vast majority of loan applications from companies within the ICT/BPO sector were approved by the Board, we could infer that there was no bias in awarding these loans. We identified three instances in which loans were awarded to companies operating within the ICT/BPO sector that were affiliated with a Board member. However, the relevant declarations of interest in these companies were made by affiliated Board members and we saw no evidence that the loans awarded to these companies were in breach of DBJ's loan approval process/requirements.

Allegation #2: Conflict of Interest

3.2. According to the stipulations outlined in section 3(vi)(i) of DBJ's Code of Ethics, members of the Board of Directors are not precluded from having interests in other companies. The Code of Ethics however requires members who have interest in companies that are being offered loans, to declare their interest and recuse themselves from deliberations. We noted from our review of the minutes from meetings of the Board of Directors and the Investment Finance and Loans Committee, that verbal declarations were made for **Company A** and **Company B**, two associated companies within the ICT/BPO sector and the affiliated members recused themselves from these deliberations.

Appendix

DBJ Loan awards 2015-16 to 2020-21

Appendix 1 - Number of ICT/BPO Loans Approved by DBJ in Financial Years								
No	Loan Recipients	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Total
1	Company 1	1						1
2	Company 2	1	1			1		3
3	Company A	1						1
4	Company 3	1				1		2
5	Company 4	2						2
6	Company 5		1					1
7	Company 6		1					1
8	Company 7			1				1
9	Company 8			1				1
10	Company 9			1		3		4
11	Company 10			1				1
12	Company 11				1			1
13	Company B					2		2
14	Company 12						1	1
15	Company 13						1	1
	Total	6	3	4	1	7	2	23

Appendix 2 - Loans To the ICT/BPO Sector							
Year Ending	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	Total
No. of Loans	6	3	4	1	7	2	23
Amt. Approved (J\$M)	2,086	1,751	1,095	595	1,843	819	8,189
Est. New Jobs	6,600	4,500	5,086	1,200	4,963	1,880	24,229

Appendix 3 - New Loans Approved by Financial Years							
Year Ending	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	Total
No. of Loans	11,796	16,532	12,580	14,485	14,117	3,346	72,856
Amt. Approved (J\$M)	7,030	6,394	6,633	7,663	7,595	4,472	39,787

Appendix 4 - Loans to the ICT/BPO As A Percentage Total New Loans Approved by Financial Years							
Year Ending	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	Total
Percentage (%)	29.672	27.389	16.500	7.764	24.259	18.322	20.580

Appendix 5 - NPCB Loans Approved by Financial Years							
Year Ending	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	Total
No. of Loans	9	5	-	-	-	-	14
Amt. Approved (J\$M)	135	174	-	-	-	-	309

Appendix 6 - AFI Loans Approved by Financial Years							
Year Ending	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	Total
No. of Loans	112	114	1,654	165	105	227	2,377
Amt. Approved (J\$M)	4,321	3,754	4,320	5,242	2,674	4,055	24,366

Appendix 7 - MFI Loans Approved by Financial Years							
Year Ending	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	Total
No. of Loans	11,668	16,410	10,924	14,319	14,006	3,119	70,446
Amt. Approved (J\$M)	1,105	1,519	1,449	1,826	2,342	417	8,658

Appendix 8 - Direct Loans Approved by Financial Years							
Year Ending	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	Total
No. of Loans	7	3	2	1	6	-	19
Amt. Approved (J\$M)	1,469	947	864	595	2,579	-	6,454

Appendix 9 - Loans Approved by Financial Years							
Year Ending	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	Total
No. of Loans	11,796	16,532	12,580	14,485	14,117	3,346	72,856
Amt. Approved (J\$M)	7,030	6,394	6,633	7,663	7,595	4,472	39,787
Est. New Jobs	8,660	5,347	5,688	2,187	5,439	2,895	30,216