

**DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND**

JAMAICA

SMALL ENTERPRISE DEVELOPMENT FACILITY

Second Line of Activity for the Strengthening of Financial Institutions for Microenterprise

LINE OF ACTIVITY MEMORANDUM

EXPANDING ACCESS TO RURAL MICRO CREDIT IN JAMAICA

(JA-M1010)

This document was prepared by the project team consisting of: Bibiana Vasquez (MIF); Fitzroy Williams (COF/CJA); Kathryn Hewlett-Jobes (MIF); Juan Carlos Perez-Segnini (LEG/OPR); and Alejandro Escobar (SDS/MSM), Project Team Leader.

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ACRONYMS AND ABBREVIATIONS

ABIS	Agri-Business Information Services
BNSJ	Bank of Nova Scotia Jamaica
CABA	Caribbean Agri-Business Association
CARDI	Caribbean Agricultural Research and Development Institute (CARDI)
CIDA	Canadian International Development Agency
EU	European Union
GOJ	Government of Jamaica
IADB	Inter-American Development Bank
IICA	Inter-American Institute for Co-operation on Agriculture
JAS	Jamaica Agricultural Society
KRC	Kingston Restoration Company
MEDA	Mennonite Economic Development Associates
MEFL	Micro Enterprise Finance Ltd.
MFI	Microfinance Institution
RADA	Rural Agricultural Development Authority
TA	Technical Assistance
WB	World Bank

I. EXECUTIVE SUMMARY

Executing Agency:	Micro Enterprise Financing Limited (MEFL)		
Target Beneficiaries:	The primary project beneficiaries are the approximately 4,500 microenterprises of the rural and peri urban areas of Jamaica who will be provided enhanced access to financial services.		
Project cost and financing:	Modality	Nonreimbursable	Facility
	MIF:	US\$200,000	67%
	MEFL:	<u>US\$100,000</u>	33%
	TOTAL:	US\$300,000	100%
Objectives:	The goal of the project is to increase the access to financial services to at least 4,500 microenterprises in the rural areas and secondary cities of Jamaica. The purpose of the project is to strengthen the capacity and sustainability of MEFL, so that it can diversify its services and reach a greater number of microenterprises in rural areas and secondary cities.		
Execution and disbursement timetable:	Execution Period:	36	Months
	Disbursement Period:	42	Months
Special Contractual Conditions:	Prior to the first disbursement of the contribution of the Bank, MEFL will demonstrate the commitment on the part of the Bank of Nova Scotia Jamaica (BNSJ), to the project and MEFLs expansion, through a written agreement or document.		
Exceptions to Bank policy:	None		
Environmental and Social Review:	The activities of the project will not have a direct relation with the environment. Nevertheless, the project includes funds to hire a consultant specialist in environmental aspects, so that it can assist MEFL in the definition of a policy and procedure for incorporating criteria of environmental protection and labor health in its operations.		
Coordination with other development organizations.	The Canadian International Development Agency (CIDA) has supported the initial stages of formation of MEFL, and although the financial support is ending in 2007, it will maintain a position in the board of the organization to provide oversight.		

II. BACKGROUND AND JUSTIFICATION

- 2.1 **Microfinance in the Caribbean.** Recent studies suggest that the microfinance sector in the English-speaking Caribbean has not shown sustained levels of growth and sustainability. In fact, Bank analysis¹ reveals that many of the various well-known microfinance institutions (MFIs) have difficulty reaching scale and growth. Other studies point out to various factors, which limit the growth of the sector, such as the relatively small size of the population and the limited markets of microenterprises and the various kinds of subsidies by government and other programs, which have distorted markets. Governments of the region continue to cater to the microenterprise sector with large subsidized programs that undermine the effectiveness of existing MFIs. But the study also suggests that there are a few cases in the region of MFIs which are doing things right, applying the correct technologies and methodologies, and some of these programs, while not 100% financially sustainable, are increasing their level of self sufficiency, maintaining low levels of arrears and expanding their scale.
- 2.2 **The Microfinance market in Jamaica.** Jamaica has a population of 2.5 million people. Its economy is primarily based on mining (bauxite, alumina), exports of sugar, and other agricultural commodities and tourism. It is estimated that there are close to 400,000 microenterprises in Jamaica, including the self-employed category. This presents a great opportunity for MFIs in the country who are operating with limited levels of clients and programs. While there is no recent data and analysis on the specifics of the microfinance sector in Jamaica, the following was observed during the analysis mission. The microenterprise sector in Jamaica is served by four distinct financial service providers: the credit unions, government sponsored programs, consumer loan companies, and the microfinance institutions. The credit unions play an important role in the market, with close to 860,000 members in the island and about US\$350 million in lending. However, the percentage of actual microenterprises served by this sector is low, and most financial services are limited to security backed loans often tied to housing, appliances, auto loans, and some consumer lending. In the case of subsidized credit schemes, often set up by the government, these tend to cater the rural areas and are limited in scale. Some government programs, like the ones run by Rural Agricultural Development Authority (RADA), provide grants for small and medium enterprises for processing and marketing.
- 2.3 In terms of the current MFIs operating in Jamaica, while their numbers are still small and their outreach limited, there is a recent growth in operations, and some of them have started to move into rural areas. The largest MFIs for which some information is available are: (i) Micro Credit Limited, an independent and private foundation with about 2,500 clients, a gross loan portfolio of US\$580,000 and an average loan size of US\$233; (ii) Jamaica National Small Business Loan Limited, with some 8,000 clients and a gross loan portfolio of about US\$8 million; (iii) Access Financial Services, a primarily consumer loan company, with an estimated loan portfolio of US\$4 million and 4,000

¹ Microfinance in the Caribbean: How to go Further. Glenn D. Westley. Inter-American Development Bank, September 2005.

clients; and (iv) Micro Enterprise Financing Limited, a non profit organization with a loan portfolio of US\$577,265 and a total of 1,615 clients. All of these organizations seem to be in the process of expanding, and some of them have already a good number of branches and regional presence.

- 2.4 **Micro Enterprise Finance Limited (MEFL).** The study done by the Bank previously referred to, highlights four microfinance organizations in the Caribbean that are clearly showing that microfinance can grow in the region in a sustainable manner. One of these MFIs is Micro Enterprise Financing Limited (MEFL), whose central office is located in Kingston, less than a mile away from Jamaica's largest market. From its origins, in 2002, MEFL has focused on serving microentrepreneurs with quick and small loans for marketing and production, using both the group lending methodology and a forced savings component. In light of market conditions in Kingston and the possibility to grow in other parts of the country, the MEFL Board encouraged expansion and in 2005 a branch was established in Santa Cruz, parish of St. Elizabeth, known as the "bread basket" of Jamaica. Currently, MEFL continues to seek expansion and is considering opening operations and branches in other rural areas such as Savanna-la-Mar, parish of Westmoreland and Linstead, St. Catherines.
- 2.5 As mentioned above, MEFL has a total loan portfolio as of September 2006, of US\$577,000 and 1,615 clients. For the past four years, MEFL has demonstrated to be an MFI committed to its client base and implementing best practice in its management and growth. MEFL has maintained a low average loan size (US\$586 for 2006) and has continued to serve microenterprises with products that are geared to retail and wholesale trade, production, and manufacturing, while other MFIs have been slowly moving towards consumer type loans.
- 2.6 Even though MEFL does not strictly meet the 70% financial sustainability criteria for support from the Line of Activity (currently it is only 60% sustainable), it was decided that the Multilateral Investment Fund (MIF) would support the organization, due to the fact that it is expanding in to new areas, it has become a leading MFI in the region, and that it is increasingly covering all of its costs from operating revenue. While there are other good MFIs operating in the Caribbean that could use MIF financing, MEFL is a recognized leader in the industry due to a variety of factors such as consistent customer service focused on low income microentrepreneurs, no collateral requirements, and the possibility of increasing loan sizes for repeat clients. MEFL has seen steady growth in its operations since it started in 2002, in spite of some difficulties in late 2005 due to climatic disasters and adverse market conditions. MEFL is looking to expand its activities and is well positioned to do so, with capital support from the Bank of Nova Scotia, with whom it has an agreement to support its portfolio expansion as needed with up to US\$1.5 Million. The ability to reach underserved rural clients and markets will enhance MEFL's position to attain financial sustainability.
- 2.7 **Specific problems and challenges.** In order to tap into these new markets, MEFL needs to identify cost-effective service mechanisms and develop risk mitigation strategies for its rural portfolio. MEFL also needs to adapt its methodologies and technologies and processes to the rural environment. In light of the organization's recent expansion and

growth, the following are specific challenges that MEFL must respond to in order to adequately grow in the rural areas:

- (i) **Weak human resource capacity to expand and venture into rural areas.** While MEFL has significant experience in urban group and individual lending, there is little in house experience, or non at all, in rural microfinance practices. The new branch office in Santa Cruz has been performing well, but it needs to grow in the agribusiness sector as well as other rural enterprise sectors. MEFL's credit officers are committed people with a dual mandate of social impact and rigorous arrears controls. On average, each credit officer manages up to 200 clients, with the top officer managing 320 and the newest officer managing 100. Staff retention is a problem, particularly with credit officer and mid management positions. These issues need to be addressed specially in the rural areas where there is less available staff with technical skills.
- (ii) **Branch office development.** MEFL has considerable room for market expansion given the high demand for financing from potential clients in the rural sectors. The ability to reach this market will depend largely in its capacity to position itself in the regions where the perceived demand is developing. In order to expand into new branches, MEFL needs to systematize and streamline its procedures and credit approval processes, and ensure that the portfolio control mechanisms are in place, so that quality and performance is not affected by the opening of new branches. MEFL has the main office in Kingston, and a branch office in Santa Cruz, but is seeking to open new branches in Savanna-La-Mar and Linstead.
- (iii) **Need for new products and methodologies.** Expansion into new geographical regions also means adapting existing methodologies and loan products to the demand for new kinds of financing in the rural economies. Currently MEFL has two distinct methodologies for its loans, group lending and individual lending. In both methodologies, the breakdown by business sector is as follows: retail and wholesale trade 68%, services 15%, manufacturing and production 13%, and agribusiness 3%. However, in its expansion into rural areas, MEFL foresees further growth in the rural enterprise sectors, which in turn requires refinement and adaptation of its existing products and methodologies. In addition to these business sectors, MEFL has been exploring possibilities with education, and housing improvement loans, which are directed to microenterprises. These ventures into new products and testing of the methodologies need to be systematized and further enhanced in order to cater to the specific needs of rural markets.
- (iv) **Information systems need to be enhanced.** Finally, with the expansion into rural areas and the development of new branch offices, MEFL needs to upgrade, enhance and improve its information systems and decision making procedures, in order to maintain its competitiveness. Online communication and consolidation of reporting with the main office is crucial in order to control arrears and delinquency. Credit officers and branches need equipment and technology that will allow them to serve a more disperse population and make better use of MEFLs existing management information system.

- 2.8 **Bank strategy in Jamaica.** This project is consistent with the Bank's Country Strategy, as presented in the document GN-2422-1, as it supports the development of microenterprises and small businesses. The project also seeks to reduce poverty through the expansion of financial services to microenterprises. The project's activities are geared to strengthen the capacity of a private sector service provider, with focused technical assistance which will allow the executing agency to further expand its services to low and mid income families.

III. PROJECT DESCRIPTION

- 3.1 The **goal** of the project is to increase the access to financial services to at least 4,500 microenterprises in the rural areas and secondary cities of Jamaica. The **purpose** of the project is to strengthen the capacity and sustainability of MEFL, so that it can diversify its services and reach a greater number of microenterprises in rural areas and secondary cities. This will be accomplished through the development of new products, the establishment of new branch offices and the targeting of new clients.² The four main components of the project are described below.
- 3.2 **Component 1: Human resources for rural expansion and scale.** The key activities of this component will include: (i) assistance in the recruiting and training procedures of MEFL in the rural areas; (ii) technical assistance for the adaptation and development of human resource management policies and procedures; (iii) development of a consistent and adequate performance monitoring scheme for rural micro credit offices; (iv) training in the areas of agriculture and rural enterprise development for credit officers and branch staff; (v) exchange visits to recognized rural microfinance practitioners in the region; and (vi) training in the areas of credit risk analysis, cash flow projections, and payment capacity for rural micro enterprises and agriculture.
- 3.3 The results of this component after the three years of implementation will be: (i) at least 8 credit officers and four branch managers trained in the areas of rural microfinance best practice and agricultural lending (1 existing branch and 3 new ones); (ii) a complete package of policies and procedures for human resource management and training for rural branches; and (iii) a performance monitoring scheme implemented in the branch offices for credit officers and branch managers.
- 3.4 **Component 2: Establishment of two new branch offices.** The project will assist MEFL in the expansion of its operations and the establishment of two new branch offices, in order to reach a total of 2,500 new clients over the next three years (in these new branch locations). The key activities of this component will include: (i) in depth market study and assessment of selected regions for branch offices, with a special emphasis on characterization of the demand and supply of microfinance services; (ii) implementation of three new branch offices which includes the physical adaptation of office space and office supplies; (iii) establishment of security equipment and monitoring to better serve

² The project will specifically assist MEFL in the establishment of three new branch offices, located in the Parish of St. Catherine's and the Parish of Westmoreland.

rural clients; and (iv) the purchase of computer equipment and technology for communications with the central office. While MEFL will cover all the costs related to the building and infrastructure for the new branches, MIF funds will be directed to implementing the new branch offices with equipment and technology. The results of this component will be: (i) the establishment of two new branch offices that serve at least 2.500 new clients; (ii) improved operational efficiency indicators for the central office due to a broader client base; and (iii) a total portfolio of at least US\$1 million for the two new branches.

- 3.5 **Component 3: Design and deployment of three new financial products for microenterprises.** The following activities will be implemented under this component: (i) a diagnostic analysis of the existing financial services offered by MEFL, with specific recommendations on how these can be enhanced or improved on to better serve the rural areas; (ii) a market analysis of other potential products such as remittances, differentiated savings, agricultural and value chain loans, among others; (iii) development of a marketing strategy to promote the new products and services, specially among the rural enterprises and farmers; and (iv) training to the MEFL leadership and staff on the management and marketing of the new products. The results of this component will be the development and implementation of at least three new products within the branches and main office of MEFL along with its corresponding manuals, policies and procedures, and software and hardware adjustments necessary for implementation.
- 3.6 **Component 4. Establishment of an enhanced information system for portfolio growth and streamlining of credit approval and processing time.** Under this component, the project will implement the following activities: (i) carry out a systems and procedures assessment and diagnostic, to verify and identify key constraints of the existing information and credit approval system; (ii) identify and present alternative technologies and platforms to implement with MEFL in its branch offices, that will enable the organization to streamline and reduce the transaction costs of the application, analysis and approval procedure for rural clients; (iii) the implementation of the selected system within the organization; and (iv) training of the key branch staff and credit officers in the use of the technology . As a result of this component, MEFL will have a cost effective information system and platform to manage the loan portfolio and credit system at the branch level, which will in turn allow for: (i) improved processes for identification, analysis and approval of loans; (ii) cost reduction and improved efficiencies at the credit officer level and their productivity; and (iii) enhanced consolidated reporting between branch offices and the central office.

IV. PROJECT COST AND FINANCING

- 4.1 The total budget for the project is US\$300,000, of which the MIF will finance US\$200,000 (67% of the total of the project) with non reimbursable funds. These resources will be used for: (i) the contracting of consulting services for design and implementation of various tools and procedures that will allow MEFL expand its operations in rural areas; (ii) the procurement of equipment and software for the implementation of systems in the new branch offices; (iii) the financing of training and exchange visits for mid level management and credit officers, so that regional best

practice can be explored; and (iv) the funding of expenses related to the management of the project, external evaluations and audits. The remaining US\$100,000 will be financed by MEFL, and these resources will be directed to: (i) complete some of the costs related to consulting and training; (ii) complete some of the costs related to the purchase of equipment and software as well as office implementation; and (iii) finance the coordination of the project. At least 50% of these counterpart resources will be in cash.

**SUMMARIZED BUDGET in US\$
JA-M1010**

	IDB/MIF	Total Counterpart	Total	%
Component 1. Human Resources for Rural Expansion	61,600	-	61,600	21%
Component 2. Establishment of Three New Branches	27,800	90,000	117,800	39%
Component 3. New Product Development	42,000	3,000	45,000	15%
Component 4. Establishment of Enhanced Information System	20,000	7,000	27,000	9%
Support for the Execution, Evaluation and Audit	48,600	-	48,600	16%
Technical Assistant to the Coordinator	36,000	-	36,000	12%
Mid-term evaluation	3,000	-	3,000	1%
Final evaluation	3,000	-	3,000	1%
Auditing	3,000	-	3,000	1%
Contingencies	3,600	-	3,600	1%
TOTAL	200,000	100,000	300,000	100%
	67%	33%	100%	

V. EXECUTING AGENCY AND MECHANISM

- 5.1 Institutional aspects.** Micro Enterprise Financing Limited (MEFL) was incorporated as a not-for-profit corporation in 2002 with the objective of providing microfinance services to low income, urban and rural micro-entrepreneurs in Jamaica. After three years of operations in urban Kingston, MEFL concluded that growth and expansion in Kingston would be challenging given the ongoing security situation, and the entry of other MFIs in the same market area. MEFL was started and continues to receive support from its founding members, which include the Canadian International Development Agency (CIDA), the Bank of Nova Scotia Jamaica (BNSJ), and the Kingston Restoration Company (KRC). The Bank of Nova Scotia Jamaica Ltd. (BNSJ) sponsors MEFL in providing revolving loan fund capital. To date the BNSJ has provided close to US\$1 Million in capital. Kingston and the branch office of Santa Cruz have accessed roughly half of the capital and the remaining amount is still available for rural expansion. BNSJ is willing to continue support for MEFL's expansion to other communities in Jamaica. KRC also sponsors MEFL and provides networks for potential clients. CIDA has supported the birth, development and growth of MEFL through the funding of specific operating subsidies in the areas of accounting and staffing, and will continue to support MEFL for 2007 at a reduced level.
- 5.2 Credit Operations.** MEFL started offering credit services through a group lending methodology. While in the initial years this method allowed it considerable growth specially in Kingston, three factors are making MEFL slowly move into the individual lending methodology: (i) market conditions, where competitors are starting to offer individual loans under competitive terms; (ii) MEFLs own clients have evolved and

therefore average loan size has increased along with their repayment capacity and a demand for lower interest rates on these larger loans; and (iii) expansion into rural areas where group lending is not adequate given the geographic and socio economic conditions. MEFL has 1.615 clients and a loan portfolio of about US\$600,000. Of these clients, 25% are individual loan clients, and the remainder is under groups.

- 5.3 **Financial Statements and Sustainability.** Overall, financial performance of MEFL has demonstrated favorable trends, although slower than original targets. In late 2005 and early 2006, two hurricanes (Dennis and Emily) affected Jamaica, and flooding which resulted from the hurricanes affected numerous clients of MEFL in their capacity to conduct their daily business and make repayments. The performance of clients in the goods producing sector was also impacted by the fall off in the construction sector. This sector experienced a decline as a result of shortages in cement and the ripple effects were felt across microenterprises who provide services to this larger sector, such as food provision, micro transport and produce marketing. In spite of these issues, MEFL was able to grow its portfolio from US\$316,000 to US\$577,265 from September 2005 to September 2006, while at the same time containing the issues of arrears, which resulted from the problems described above. As of June 2006, portfolio at risk (PAR) over 30 days stood at 8.5%, while PAR on renegotiated loans stood at 3.9%. For the same period, the write off rate was 5.8% and the risk coverage ratio was 86%. MEFL is taking concrete steps to improve on its arrears portfolio, and has hired a full time delinquency control officer, to follow up with clients who are in arrears.
- 5.4 As of September 2006, MEFL has total assets of US\$1.5 million, and net income of US\$141,000. Income from services and operations represents about 60% of total income. MEFL has been receiving grant support from the Canadian International Development Agency (CIDA) for the past three years on a declining scale. While MEFL has depended on this funding in order to expand its operations and grow, interest and operations income has been increasing at close to 80% per year, and the projections indicate that this will continue. CIDA funding will end by the end of 2006, and the Bank of Nova Scotia has agreed to continue to support MEFL, as needed with loan capital, in order to expand its operations and increase revenue.
- 5.5 **Responsibilities:** The Bank will sign an agreement with MEFL in order to execute this project. The General Manager of MEFL will be responsible for coordinating all aspects of the execution of the project and will be supported by an operations assistant, which will be hired with resources from the Bank. The General Manager will be responsible for selecting and hiring the consultants, for organizing the training seminars as well as the purchase of any of the equipment or software needed to implement the technical aspects of the project. The operations assistant will provide support to the General Manager to ensure that there is an adequate flow of information to the Bank, on the monitoring and follow up of the activities and results of the project. The goals and indicators of the project will be used to monitor the performance of MEFL and the advances made during the project.
- 5.6 **Executing and Disbursement Periods:** The project will be executed in 36 months and disbursement will be made during 42 months. Given the fact that MEFL will purchase a

good amount of services and equipment during the first year of operations, it was established that the rotating fund would be set at 20%, in order to facilitate the execution of the project.

- 5.7 **Special Conditions:** Prior to the first disbursement of the contribution of the Bank, MEFL will demonstrate the commitment on the part of the Bank of Nova Scotia Jamaica (BNSJ), to the project and MEFL's expansion, through a written agreement or document. In addition, the following conditions apply for the disbursements of the contribution: (i) for the disbursement of more than 20%, MEFL will provide evidence that the level of its loan portfolio at risk (>30 days) has been reduced by at least one percentage point (1%) from its level in 31 December 2006; and (ii) for the disbursement of more than 60%, MEFL will provide evidence that the level of its loan portfolio at risk (>30 days) has been reduced by at least two percentage points (2%) from its level in 31 December 2006.
- 5.8 **Purchasing of Services and Equipment:** MEFL will comply with all the Bank's policies and procedures in procuring both the consulting and training services required for the implementation of the project. In particular, MEFL will observe the guidelines and manuals pertaining to the procurement from private sector executing agencies, as described in Appendix 4 of the manuals GN-2349-7 and GN-2350-7. MEFL will present a procurement plan, which will have a detail of the proposed purchases, the method of purchase and the quantities.

VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** Within 60 days of the completion of each six-month period, MEFL will submit reports to COF/CJA, which will include at minimum: (i) information on progress toward project objectives; (ii) a description of technical assistance and training received and its quality and outcomes; (iii) a summary of budget execution and counterpart contributions; (iv) statistical and financial information on performance, indicator situation and trends and on whether the annual targets set for the indicators established have been met; and (v) information on MEFL's financial situation. Specifically, the progress reports will contain information on: (i) the level of completion and implementation of the new products developed with the project; (ii) the strengthening of the managerial and human resource capacity within the organization and specially in the branch offices; (iii) the learning and implementation of lessons learned from exchange visits to other microfinance organizations in the area; and (iv) the level of growth and financial sustainability of the organization as a whole and for each branch opened with the assistance of Bank funds.
- 6.2 COF/CJA will have the basic responsibility for the supervision of the operation and ensure that all the components are coordinated and executed as planned, assisting MEFL on key issues regarding training, supervision and quality of service delivery. In reviewing progress reports, COF/CJA will verify that there does not exist a 20% negative deviation from the indicators proposed in the project, specially the indicators tracking progress in the sustainability of the organization. In case of a deviation, the Bank could stop further disbursements until the issues or problems which are affecting the accomplishment of the goals, are adequately addressed to the Bank's satisfaction.

- 6.3 **Evaluations:** A mid term evaluation will be conducted after 50% of the project budget has been disbursed or after 18 months of execution. With funds provided for in the project budget, IDB, through COF/CJA, will select and hire an external consultant specializing in financial cooperatives to carry out the evaluation. The evaluation will look at the progress achieved in meeting project intended objectives, results and performance targets by MEFL, and will use the logical framework as a reference point.
- 6.4 A final evaluation will also be performed, when at least 95% of IDB/MIF funds have been disbursed, and the contents of which must include: (i) measurement of the impact of the project on MEFL's financial performance; (ii) measurement of the impact of the project on the quality and quantity of service delivery by MEFL to its clients; and (iii) the identification of best practice and lessons learned from the project.

VII. PROJECT BENEFITS AND RISKS

- 7.1. **Benefits.** The main project benefit would be improved financial services for microentrepreneurs in rural areas of Jamaica. MEFL and its clients would benefit in particular through the enhanced ability of the organization to expand its services to rural areas, with a wider range of products and services offered more efficiently.
- 7.2. **Risks.** Two risks have been identified. **Climate.** Jamaica is vulnerable to the impact of climatic disasters such as hurricanes and flooding. These disasters can have serious negative impact in the low-income populations of especially rural areas, which depend largely on agricultural and rural enterprises for their livelihood. Given that these populations are the main clients of MEFL, a natural disaster could have a negative effect on the performance of the organization. **Subsidized credit.** The implementation of aggressive government backed and heavily subsidized credit programs and schemes, could have an effect on the demand and repayment performance with MEFL. Combined, these two issues could seriously affect the delinquency level of the organization and could jeopardize the implementation of the project.
- 7.3. These risks will be mitigated in part by the implementation of this project, through which, MEFL will become better prepared to face external forces and disasters. As a result of the project, MEFL will have in place products and mechanisms to counteract negative conditions. Already MEFL has demonstrated a capacity to overcome difficult situations in the urban areas, and the project will help the organization be equally prepared to confront situations in rural areas.

VIII. ENVIRONMENTAL AND SOCIAL ASPECTS

- 8.1. The activities of the project will not have a direct relation with the environment. Nevertheless, the project includes funds to hire a consultant specialist in environmental aspects, so that it can assist MEFL in the definition of a policy and procedure for incorporating criteria of environmental protection and labor health in its operations, in the framework of the "Guidelines for the Analysis of the Social and Environmental Impact of Operations for the Microenterprises" (SDS/MSM 2003).

Logical Framework
EXPANDING ACCESS TO RURAL MICRO CREDIT IN JAMAICA
(JA-M1010)

Objectives	Indicators	Verification Methods	Assumptions/Observations																				
Goal																							
The goal of the project is to increase the access to financial services to at least 4.500 microenterprises in the rural areas and secondary cities of Jamaica.	<p>Three years after completion:</p> <p>At least 4.500 microenterprises are served with sustainable financial services in the rural and urban areas of Jamaica.</p>	<ul style="list-style-type: none"> Monitoring system of MEFL 	<ul style="list-style-type: none"> Macro economic situation remains stable. Financial sector is stable. 																				
Purpose																							
The purpose of the project is to strengthen the capacity and sustainability of MEFL, so that it can diversify its services and reach a greater number of microenterprises in rural areas and secondary cities.	<p>By the end of the project:</p> <ul style="list-style-type: none"> MEFL has the following indicators <table border="1"> <thead> <tr> <th></th><th>Year 1</th><th>Year 2</th><th>Year 3</th></tr> </thead> <tbody> <tr> <td>Loan portfolio US\$'000</td><td>850</td><td>1.400</td><td>2.300</td></tr> <tr> <td>Sustainability</td><td>80%</td><td>90%</td><td>110%</td></tr> <tr> <td>Rural branches</td><td>2</td><td>3</td><td>4</td></tr> <tr> <td>Clients served</td><td>2.156</td><td>3.466</td><td>4.573</td></tr> </tbody> </table>		Year 1	Year 2	Year 3	Loan portfolio US\$'000	850	1.400	2.300	Sustainability	80%	90%	110%	Rural branches	2	3	4	Clients served	2.156	3.466	4.573	<ul style="list-style-type: none"> Selected financial indicators: Progress and Final Reports. PPMR Mid and Final Evaluation Report Project Completion Report (PCR) Sustainability and Completion workshops between the Bank and the Executing Agency. Base line 	
	Year 1	Year 2	Year 3																				
Loan portfolio US\$'000	850	1.400	2.300																				
Sustainability	80%	90%	110%																				
Rural branches	2	3	4																				
Clients served	2.156	3.466	4.573																				

Objectives	Indicators	Verification Methods	Assumptions/Observations
Component 1: MEFL has the human resources capacity for rural expansion and scale.	<p>At the end of Year 1:</p> <ul style="list-style-type: none"> • MEFL has at least 3 credit officers and 1 branch manager applying rural microfinance best practices • MEFL has a complete package of HR management and training for 1 rural branch • MEFL has a performance monitoring scheme for rural staff and credit officers of 1 rural branch • MEFL has best practice in HR management for rural microfinance credit officers in 1 branch <p>At the end of Year 2</p> <ul style="list-style-type: none"> • MEFL has at least 6 credit officers and 2 branch managers applying rural microfinance best practices • MEFL has a complete package of HR management and training for 2 rural branches • MEFL has a performance monitoring scheme for rural staff and credit officers of 2 rural branches • MEFL has best practice in HR management for rural microfinance credit officers in 2 branches <p>At the end of Year 3</p> <ul style="list-style-type: none"> • MEFL has at least 8 credit officers and 4 branch managers applying rural microfinance best practices • MEFL has a complete package of HR management and training for 3 rural branches • MEFL has a performance monitoring scheme for rural staff and credit officers of 3 rural branches • MEFL has best practice in HR management for rural microfinance credit officers in 3 branches 	<ul style="list-style-type: none"> • MEFL financial statements • Progress and Final Reports. • PPMR • Program mid and final evaluation reports • PCR • Event participation lists • Surveys • Annual reports of MEFL 	<ul style="list-style-type: none"> • Adequate professionals and technical people are identified for hiring in rural branches who can learn and apply all technical assistance and training.

Objectives	Indicators	Verification Methods	Assumptions/Observations
Component 2: Two new rural branches are established	<p>At the end of Year 1</p> <ul style="list-style-type: none"> • One new branch office established • Computer and equipment for communications is implemented and functioning in 1 new branch • At least 500 new clients served and a portfolio of US\$250.000 <p>At the end of Year 2</p> <ul style="list-style-type: none"> • Two new branch offices established • Computer and equipment for communications is implemented and functioning in 2 new branches • At least 1300 new clients served and a portfolio of US\$500.000 <p>At the end of Year 3</p> <ul style="list-style-type: none"> • Three new branch offices established • Computer and equipment for communications is implemented and functioning in 3 new branches • At least 2.500 new clients served and a portfolio of US\$1 Million 	<ul style="list-style-type: none"> • MEFL financial statements • Progress and Final Reports. • PPMR • Program mid and final evaluation reports • PCR • Event participation lists • Surveys • Annual reports of MEFL 	<ul style="list-style-type: none"> • Security issues around the rural areas are managed enough that the branch offices work normally. •
Component 3: Three new financial products are established and being offered by MEFL in rural branches	<p>At the end of Year 1</p> <ul style="list-style-type: none"> • One new product developed and implemented in the rural branches • Manuals and policies and procedures developed for each product • Staff and credit officers trained in new products. <p>At the end of Year 2</p> <ul style="list-style-type: none"> • Two new products developed and implemented in the rural branches • Manuals and policies and procedures developed 	<ul style="list-style-type: none"> • MEFL financial statements • Progress and Final Reports. • PPMR • Program mid and final evaluation reports • PCR • Event participation lists • Surveys • Annual reports of MEFL 	<ul style="list-style-type: none"> • Adequate consultants and rural microfinance experts are identified which can assist MEFL in implementing new products.

Objectives	Indicators	Verification Methods	Assumptions/Observations
	<p>for each product</p> <ul style="list-style-type: none"> • Staff and credit officers trained in new products. <p>At the end of Year 3</p> <ul style="list-style-type: none"> • Three new products developed and implemented in the rural branches • Manuals and policies and procedures developed for each product • Staff and credit officers trained in new products. 		
<p>Component 4: An enhanced information system is in place to allow for portfolio growth, consolidated reporting, and improved credit approval procedures.</p>	<p>At the end of Year 1</p> <ul style="list-style-type: none"> • Information system and credit approval process is streamlined in 1 new branch. • Credit approval and analysis system is integrated into information system in at least 1 branch <p>At the end of Year 2</p> <ul style="list-style-type: none"> • Information system and credit approval process is streamlined in 2 new branches. • Credit approval and analysis system is integrated into information system in at least 2 branches <p>At the end of Year 3</p> <ul style="list-style-type: none"> • Information system and credit approval process is streamlined in 3 new branches. • Credit approval and analysis system is integrated into information system in at least 3 branches 	<ul style="list-style-type: none"> • MEFL financial statements • Progress and Final Reports. • PPMR • Program mid and final evaluation reports • PCR • Event participation lists • Surveys • Annual reports of MEFL 	<ul style="list-style-type: none"> • Existing platform for information system can adequately handle growth of the client base as projected.
<p>Activities Component 1:</p> <p>1.1 Needs assessment for HR capacity in rural areas and agricultural lending.</p>	<ul style="list-style-type: none"> • Needs assessment finished and results analyzed by the end of month 3 	<ul style="list-style-type: none"> • Needs assessment document • Progress and Final Reports. • PPMR • Program mid and final evaluation 	<ul style="list-style-type: none"> • There is adequate staff and professionals that are identified and hired for new branches who can implement all the training

Objectives	Indicators	Verification Methods	Assumptions/Observations
<p>1.2 Consulting for the development of HR management policies applied to rural areas and branches</p> <p>1.3 Consulting for the improvement of adequate performance monitoring scheme for rural microfinance and agricultural lending in new branches</p> <p>1.4 Training in the areas of agriculture and agribusiness lending and assessment.</p> <p>1.5 Exchange visits to rural microfinance and agricultural lending best practice organizations of the region.</p>	<ul style="list-style-type: none"> • HR management policies implemented by month 12 of project • Adequate performance monitoring scheme for rural microfinance is implemented by month 12 • Staff and credit officers of 1 branch are trained and implementing best practice in HR management after Year 1 • Management and mid level management visit rural microfinance organizations in the region before the end of year 1 and apply lessons learned. 	<p>reports</p> <ul style="list-style-type: none"> • PCR • Results from training surveys and evaluations of participants • Event participation lists • Surveys • Annual reports of MEFL 	<p>and technical assistance</p>
<p>Activities Component 2:</p> <p>2.1 Market study done for the regions analyzed as potential branch locations</p> <p>2.2 Selection of site for new branches</p> <p>2.3 Office adaptation</p> <p>2.4 Purchase and implementation of technological equipment</p>	<ul style="list-style-type: none"> • Market analysis completed by month 6, 12 and 18 of the project, for each of the three branches. • Branch offices implemented and operating by months 12, 24 and 36 	<ul style="list-style-type: none"> • Progress and Final Reports. • PPMR • Program mid and final evaluation reports • PCR 	<ul style="list-style-type: none"> •

Objectives	Indicators	Verification Methods	Assumptions/Observations
for each branch office.			
<u>Activities Component 3:</u> 3.1 Diagnostic analysis of the current offerings of MEFL and proposed strategy to enhance existing products 3.2 Market analysis for new product development 3.3 Consulting for the development of three new products 3.4 Consulting for the deployment of three new products 3.5 Manuals and procedures developed for new products 3.6 Consulting for the adequate marketing of the new products 3.7 Staff trained in the new products	<ul style="list-style-type: none"> Diagnostic is completed by month 6 Market analysis is completed by month 8 At least 1 new product developed by month 12 1 new product deployed by month 12 Manuals and procedures developed for 1 new product Staff trained for 1 new product At least 2 new products developed by month 24 2 new products deployed by month 24 Manuals and procedures developed for 2 new products Staff trained for 2 new products At least 3 new products developed by month 36 3 new products deployed by month 36 Manuals and procedures developed for 3 new products Staff trained for 3 new products 	<ul style="list-style-type: none"> MEFL financial statements Progress and Final Reports. PPMR Program mid and final evaluation reports PCR Event participation lists Surveys Annual reports of MEFL 	
<u>Activities Component 4:</u> 4.1 Systems and procedures assessment for information system. 4.2 Information system implemented in branch offices for streamlined credit approval process 4.3 Key staff trained in the new system	<ul style="list-style-type: none"> System implemented in 1 new branch by end of year 1 System implemented in 2 new branches by end of year 2 System implemented in 3 new branches by end of year 3 	<ul style="list-style-type: none"> MEFL financial statements Progress and Final Reports. PPMR Program mid and final evaluation reports PCR Event participation lists Surveys Annual reports of MEFL 	

**SUMMARIZED BUDGET in US\$
JA-M1010**

	IDB/MIF	Total Counterpart	Total	%
Component 1. Human Resources for Rural Expansion	61,600	-	61,600	21%
Component 2. Establishment of Three New Branches	27,800	90,000	117,800	39%
Component 3. New Product Development	42,000	3,000	45,000	15%
Component 4. Establishment of Enhanced Information System	20,000	7,000	27,000	9%
Support for the Execution, Evaluation and Audit	48,600	-	48,600	16%
Technical Assistant to the Coordinator	36,000	-	36,000	12%
Mid-term evaluation	3,000	-	3,000	1%
Final evaluation	3,000	-	3,000	1%
Auditing	3,000	-	3,000	1%
Contingencies	3,600	-	3,600	1%
TOTAL	200,000	100,000	300,000	100%
	67%	33%	100%	

(*) Level of Effort based on estimates from prior consulting services in similar projects.

ANNEX III
Expanding Access to Rural Microcredit in Jamaica
JA-M1010
Overview of Related Projects

A. Similar or Related MIF Projects in the Caribbean

Refer to table D.

B. Similar or Related Bank Projects

Project No. / Approval Date	Project Title, Sector, Executing Agency, Amount	Effective Date [sig. or leg. ratification], Disbursement Period	Percent Disbursed	Comments: Satisfactory or problematic execution, including delays, extensions, reformulations, changes in execution, etc.
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C. Related MIF Projects in the same Sector or with the same Beneficiary

Project No. / Approval Date	Project Title, Sector, Executing Agency, Amount	Effective Date [sig. or leg. ratification], Disbursement Period	Percent Disbursed	Comments: Satisfactory or problematic execution, including delays, extensions, reformulations, changes in execution, etc.
ATN/MT – 7091-BA 08/09/00	Strengthening the Capital Markets Ministry of Finance and Economic Affairs; Securities Exchange of Barbados \$650,000 (MIF: \$390,000)	12/15/2000 24 months (extended for 18 months)	3%	Project terminated after initial disbursement with U/HP ratings. Used balance canceled as the EA was unable to contract consultant within disbursement deadline.

D. Projects in cluster or same sector

Project No. / Approval Date	Project Title, Sector, Executing Agency, Amount	Effective Date [sig. or leg. ratification], Disbursement Period	Percent Disbursed	Comments: Satisfactory or problematic execution, including delays, extensions, reformulations, changes in execution, etc.
ATN/ME-9586-BA	Strengthening the Cooperative and Credit Union League of Barbados \$1,315,000 (MIF: \$840,000)	Signed 6/20/2006	0%	The project has just started.
ATN/ME – 6212 BH 10/30/98	Strengthening the Cooperative Credit Union Bahamas Co-operative League Limited (BCLL) \$1,100,000 (MIF: \$560,000)	12/02/98 30 months (extended for 10 months)	100%	Project complete with satisfactory progress. The assumptions have remained valid throughout execution even though it is unclear if CUMSA will receive the legal backing to effect corrections in the movement given the traditional role of Regulator played by the Dep. of Cooperatives Development (DCD).
ATN/ME-4763-JA 12/14/1994	Institutional Strengthening of the Jamaican Cooperative Credit Union Jamaican Cooperative Credit Union League \$1,960,000 (MIF: \$1,900,000)	12/14/94 125 months (extended for 38 months)	100%	This project received final evaluation of HS.
ATN/ME-5054-TT ATN/MH-5055-TT 11/01/95	Institutional Strengthening of the Credit Union System Ministry of Finance and the Cooperative Credit Union League of Trinidad and Tobago \$1,788,460 (MIF: \$945,610)	11/01/95 114 months (extended for 54 months)	100%	Project still in execution, though final disbursement has been made. In December 2004 the project received a satisfactory remark.
ATN/ME-8131-HA 12/11/2002	Institutional Strengthening Microcredit National; Micro Credit National S.A.; US\$506,000 (MIF US\$300,000)	03/27/2003	99.81%	Relative improvement of the sedentary climate facilitating the implementation of the components - geographical Expansion and consolidation of the branches - Development of new products - Reinforcement of the organizational structure of MCN
ATN/ME-8408-HA 08/26/2003	Institutional Strengthening of ACME-Line of Activity Microenterprise; Association pour la Cooperation avec la Micro Enterprise (ACME) US\$250,000 (MIF US\$175,000)	09/16/2003	27.44%	The situation socio-policy relatively improved. ACME continues its operations of credit through the metropolitan zone. ACME developed a more aggressive policy of promotion of microphone-credit. Improvement of the quality of the services offered by ACME thanks to the formations received by its frameworks within the framework of the project.

ATN/ME-7182-GY 10/20/2000	Institutional Strengthening of IPED; Institute for Private Enterprise; US\$247,000 (US\$142,000)	01/26/2001	100%	This project was completed April 2004. The credit methodologies and financial management systems have been integrated with the newly installed MIS system and IPED Staff is using the system
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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PROPOSED RESOLUTION MIF/DE-____/07

Jamaica. Nonreimbursable Technical Cooperation ATN/ME-____-JA
Expanding Access to Rural Micro Credit in Jamaica

The Donors Committee of the Multilateral Investment Fund

RESOLVES:

1. That the President of the Inter-American Development Bank or such representative as he shall designate is authorized, in the name and on behalf of the Bank, as Administrator of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the Micro Enterprise Financing Limited (MEFL), and to take such additional measures as may be pertinent, for the execution of the project proposal contained in Document MIF/AT-____ with respect to technical cooperation for expanding access to rural micro credit in Jamaica.

2. That up to the amount of two hundred thousand dollars of the United States of America (US\$200,000), or its equivalent in other convertible currencies, shall be authorized for the purpose of this resolution, chargeable to the resources of the Second Line of Activity for Strengthening of Financial Institutions for Microenterprise of the Small Enterprise Development Facility of the Multilateral Investment Fund.

3. That the above-mentioned sum is to be provided on a nonreimbursable basis.

LEGIII/JA-877653-07
JA-M1010