

MULTILATERAL INVESTMENT FUND

(HONDURAS)

MIF Delegation of Authority to Country Offices
Plan of Operations1. GENERAL INFORMATION

A.	<i>Project Title</i>	New credit products for clean energy
B.	<i>Project No. (TC#)</i>	HO-M1044
C.	<i>Executing Agency</i>	Fundación José María Covelo ("Fundación Covelo")
D.	<i>Target Beneficiaries</i>	10 financial institutions (Covelo and 9 1st tier MFIs)
E.	<i>Sources of Funding</i>	Total Cost: 200,000 USD MIF Contribution: 140,000 (70%) Counterpart Resources: 60,000 (30%)
F.	<i>Objectives</i>	<p>General Objective: Strengthen the capacity of Fundación Fundación Covelo, a second tier financial institution, to promote access to finance for off-grid clean energy products and services in Honduras.</p> <p>Specific objective: The project will support Fundación Covelo in developing tailored financial products for off-grid energy (e.g. solar panels), for establishing commercial partnerships with established technology suppliers, and with implementing a training of trainers program to support first tier microfinance institutions (MFIs) with off-grid clean energy lending.</p> <p>This mini-MIF will be implemented in partnership with a recently approved OMJ credit line to Fundación Covelo (RG-L1030) for clean energy lending and is expected to derive important synergies with the rural electrification component of the Scaling Up Renewable Energy Program (SREP) in Honduras.</p>
G.	<i>Execution Timetable</i>	The project will be executed in 18 months The period for Disbursement will be 24 months

2. BACKGROUND AND JUSTIFICATION

In Honduras, approximately 2.3 million people do not have access to the commercial electricity grid. The lack of energy services closely correlates with many of key elements of poverty, such as low education levels, inadequate healthcare and limited employment opportunities. For these reasons, the government of Honduras has made expanding electricity access through grid expansion a priority to be financed under the SREP program. However, according to the initial SREP preparation analysis, of the total population of Honduras an estimated 10% of rural households cannot be served by the grid for economic reasons due to the high level of isolation

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and dispersion of housing, difficult access and very low demand for domestic electricity. This translates into a market of about 80,000 households (approx. 480,000 people) which will need to be served through off-grid energy solutions, such as solar PV systems.

Promoting access to sustainable sources of clean energy relates not only to physical infrastructure (e.g. electricity grids), but also to energy affordability, reliability and its commercial viability. The rural poor and low income populations do not generate major cash surpluses, thereby limiting their purchasing power and opportunity to shift to modern energy services. Solar PV systems cost between US\$750 to US\$ 1,000. The high upfront costs of these technologies put them out of reach for many low income households in the absence of appropriate end-user financing with longer repayment schedules.

There is still little knowledge about the appropriateness of using second tier financial institutions to develop green consumer lending for low income households. Experiences in other regions of the developing world show that green finance for clean energy in remote rural areas can be financially viable through first tier MFIs. However, success in this second tier structure will very much depend on the relationship between first tier and the second tier institutions, such as alignment of strategic goals, coordination and accountability of decision making units, degree of participation in management decisions and transfer of knowledge and capacities

In addition, the financial intermediaries that serve low income households, particularly MFIs, have limited knowledge on how to develop self-sustainable financing products for clean energy products. Major challenges relate to incorporating higher upfront costs and longer maturities that are typical in clean energy lending. Credit officers require training to offer finance products for clean technologies. The limited experience with providing this type of consumer financing for clean energies in the region could prevent them from operationalizing a credit line recently approved by OMJ to Fundación Coveló to facilitate the development of financing mechanisms with suitable repayment periods for off-grid energy.

The Project will contribute to the MIF's private sector mandate by building the capacity of a second tier financial institution to provide a sustainable and commercial line of financing for off-grid clean energy for 1st tier MFIs. The Project will also contribute to MIF's poverty objectives by facilitating access to finance for clean energy in rural poor and low income areas and households in Honduras. Finally, the project contributes to the Clean & Efficient Energy agenda by increasing access to financing for clean energy products and services. The project contributes to the following Clean & Efficient Energy agenda indicators: (i) number of poor and low income households with access to clean energy solutions, , (ii) reductions in energy costs of MSMEs and poor and low income households, and (iii) number of financial institutions offering financing products for clean energy.

The MIF's role in the design and execution of SREP program will help Fundación Coveló to derive synergies from the rural electrification component of SREP and the MIF's various partner networks developed through the program. the MIF has acquired significant knowledge and expertise in promoting clean energy finance through EcoMicro and SEP loans to ECAMI and

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Tecnosol. These experiences, in partnership with OMJ, have provided important inputs into the design of this project, complementing those of the executing agency and OMJ.

MIF's financial contribution is critical for this Project to fill a skills deficit in Fundacion Covelo for rolling out a credit product on off-grid clean energy. Currently the approved OMJ loan will provide a line of credit to Fundacion Covelo for lending to MFIs to provide dedicated credit lines for clean energy to low income families. MIF resources will provide critical and complementary funding to develop the appropriate credit methodologies, train Covelo's staff and develop commercial partnerships with technology suppliers that are not covered by the OMJ loan. Without resources from the proposed mini-MIF, it would be difficult for Covelo to enter into this market.

3. EXECUTING AGENCY AND BENEFICIARIES

Fundacion Covelo, a second-tier financial institution with a portfolio of 25 microfinance institutions in Honduras and two more in El Salvador. Fundacion Covelo is one of the promoters of the Network of Microfinance Institutions of Honduras (REDMICROH) and is also a founding member of the Network of Microfinance Institutions of Central America (REDCAMIF), which seeks to strengthen the microfinance industry and consolidate microfinance institutions regionally. The foundation currently holds the chair of both REDMICROH in Honduras and REDCAMIF in Central America.

Fundacion Covelo's core business is to provide financing, advisory services, and training for microfinance institutions through its second-tier structure. The foundation has managed a variety of programs for institutional strengthening, technical assistance, direct lending, and training. The development of a new business line for providing credit to off-grid populations to purchase energy products is completely aligned with its core mission and strategic objectives and its role as a second tier institution.

The Project will have both direct and indirect beneficiaries. The direct and primary beneficiaries will be ten financial institutions, including Fundación Covelo and nine MFIs, which will increase capacity to promote, analyze and offer financing for clean energy access in rural areas. Training will be provided to five officials within Fundacion Covelo and 15 loan officers across the nine MFIs. The indirect beneficiaries will be approximately 1,000 households (6,000 people) in poor and low income rural areas of Honduras that gain access to clean energy as a result of the Fundacion Covelo credit lines facilitated by this mini-MIF.

4. PROJECT OBJECTIVES AND DESCRIPTION

The intended impact of this project is that financial institutions in Honduras expand their portfolio (gross loan and clients) of financing for off-grid clean energy in Honduras targeted at low income clients. Specifically, the proposed mini-MIF will seek to strengthen the capacity of Fundacion Covelo to provide advisory support to 1st tier MFIs on financing off-grid clean energy technologies and to develop commercial partnerships with technology providers ("Suppliers") to

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guarantee both the quality and durability of the products as well as the provision of after sales services.

OMJ has already approved a credit line to Fundacion Covelo to on-lend to 1st tier MFIs to finance the purchase of solar PV systems, which will support the long-term sustainability and viability of the model. The proposed intervention will complement the OMJ line of credit to Fundacion Covelo with support for the development and roll out of new credit products, carrying out upfront market research to identify key areas of demand and client profiling, implementing of a Training of Trainers program to enable Fundacion Covelo's team to provide advisory support to loan officers in first tier MFIs, and establishing commercial partnerships with technology suppliers. Within this model, Fundacion Covelo will provide longer-term financing to 1st tier MFIs along with advisory support for implementing the new credit product. Covelo will also establish agreements with technology suppliers to guarantee technology warranties, and the provision of after sales services, among other things as a way to mitigate risks to Fundacion Covelo and MFIs.

Project Components:

Component 1: Demand mapping and market analysis

The first component will finance a strategic demand assessment for financing for clean energy products that will be financed as cash counterpart by Fundación Covelo. The mapping exercise will identify key pockets of demand based planned grid extension, a review of previous initiatives (e.g., the World Bank funded PROSOL program), and assess client energy needs, current energy expenditures, client willingness and client ability to pay and MFI presence in Honduras and in other Central American Countries (as part of phase II post-mini MIF). Furthermore, this component will also support the identification of technology options and providers that can address the demand for energy services and will inform the design of credit products in component 2. The results of the study will be shared in a workshop with key stakeholders.

Component 2: Credit Product Development and Roll Out

The second component will develop tailored credit products for Fundación Covelo and for 1st tier MFIs related to off-grid clean energy finance, including a special line to replace the solar PV system batteries, which have 3-5 year lifespan and need to be replaced. More specifically, this component will provide support for the adaptation of credit policies and procedures to financing solar PV systems and other clean energy products as well as for the development of credit manuals. The credit manuals and procedures designed for 1st tier MFIs will be tailored and accompanied by advisory support from Fundacion Covelo as an outcome of the training of trainers program in component 3. The design of credit products will also be developed and validated in consultation with technology suppliers in component 4. This component will also support Fundacion Covelo in developing a marketing and promotion strategy to support product roll out.

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Component 3: Design and implementation of a Training of Trainers program.

This component will implement a training of trainers program for Fundacion Covelo staff. The objective is to build the capacity of Fundacion Covelo's team to be able to provide advisory support and training to first tier MFIs and their loan officers on the new financial product(s) for solar energy and promotion of the product and technology to clients. This component expects to result in at least 5 Trainers trained in Fundacion Covelo and 15 MFI loan officers trained by the Fundacion Covelo team.

Component 4: Building Business Partnerships with Technology Suppliers.

This component will support Fundacion Covelo in developing contractual agreements with technology suppliers. Establishing agreements with strong suppliers will be a key risk mitigation measure for Fundacion Covelo and MFIs. Key issues to be established in these agreements will include after provision of after sales services, maintenance guarantees, technology warranties for life of the credit products, system removal in cases of non-repayment, training of community members in basic maintenance, among other things. These agreements will be critical for reducing technology and maintenance risks to lenders and end-users and serve as an important component of a comprehensive package Fundacion Covelo will offer to 1st tier MFIs. The agreements will also serve to create new opportunities for the technology suppliers to expand business to clients that previously could not afford to purchase a clean energy product without access to credit. It is expected that agreements will be established with at two to three strong suppliers and aligned goals and missions of bringing clean and affordable energy to rural, low income populations, such as Tecnosol or Sol Luz.

5. SUMMARY BUDGET OR PROJECT FINANCING

The cost of the proposed project is presented in the following summary table:

Cost Elements	MIF	Counterpart	Total
Component I: Demand mapping and market analysis	2,000	21,500	23,500
Component II: Credit Product Development and Roll Out	50,000	10,000	60,000
Component III: Design and implementation of a Training of Trainers program	23,000	0	23,000
Component IV: Building Business Partnerships with Technology Suppliers	7,000	2,500	10,000
Administration, Unidad Ejecutora	45,500	26,000	71,500
Evaluación, Gestión del conocimiento	7,000	0	7,000
Financial Audit	5,500	0	5,000
Total	140,000	60,000	200,000
All figures expressed in US \$	70%	30%	100%

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5.1. Sources of Funding:

MIF will finance 70% of the project and the Fundación Coveló will finance 30% of the project, of which approximately 56% will be provided in cash.

5.2. Disbursements:

Project disbursements will be contingent upon the achievement of milestones. These milestones will be verified using the means of verification, which will be agreed upon between the Executing Agency (EA) and the MIF. Achievement of milestones does not exempt the EA from the responsibility of reaching the Logical Framework indicators (See Annex 1) and project objectives.

6. MECHANISMS FOR PROJECT EXECUTION

6.1 Execution and Disbursement Periods.

The Project's execution period will be a period of 18 month, with a disbursement period of 24 months. Disbursements of grant funds will be conducted in line with Fundación Coveló's and MIF's policies and procedures.

6.2 Program Implementation Readiness. (Results of QED)

The Executing Agency (EA) for the operation will be Fundación Coveló. The Fundación Coveló Executive Director, supported by the organization's Board of Directors, will provide oversight for technical implementation and will be responsible to the MIF for ensuring compliance with contractual commitments associated with the project financing. The Fundación Coveló Executive Director may however delegate responsibility for specific activities and reports to officers or consultants contracted by the Fundación Coveló.

The EA will contract a project coordinator, who will be directly responsible for technical implementation and reporting of the project, including but not limited to the development of terms of reference for technical services required for project implementation and the collaboration and co-ordination with other consultants and service providers. The project coordinator will also be responsible for co-ordination and liaison with MIF project team members in the Honduras Country Office.

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According to the Performance and Risk-based Project Management approach, project disbursement amounts will be based on the project's liquidity needs, for a maximum period of 6 months. These needs must be agreed upon between the MIF and the Executing Agency and will reflect the activities and costs scheduled in the annual planning exercise. The first disbursement will be contingent on reaching Milestone 0 (conditions prior). Subsequent disbursements will be issued as long as the following two conditions are met: i) MIF has verified that milestones have been achieved, as agreed to in the annual plan; and ii) that the Executing Agency has justified 80% of all cumulative advances.

6.4 Procurement:

For the procurement of goods and contracting of consulting services, the Executing Agency will apply the IDB Policies (GN-2349-9 y GN-2350-9). Given that the Diagnostic of Executing Agency Needs (DNA) generated a medium level of need/risk classification, the project team has determined as stipulated in Appendix 4 of the IDB Policies, the Executing Agency which belongs to the private sector, will use the private sector procurement methods specified in Annex 1 of the Operational Guidelines for Technical Cooperation Projects (OP-639). In addition, the review of procurement and contracting processes for the project will be conducted ex-post and on a semi-annual basis. With project resources, the IDB/MIF will contract consultancy services to support and train the Executing Agency in procurement areas that require further strengthening as identified through the DNA. Before project contracting and procurement begins, the Executing Agency must submit the project Procurement Plan for the IDB/MIFs approval which should be updated annually and when there are changes in the methods or goods or services to be procured.

7. MONITORING AND EVALUATION**7.1 *Project Status Reports:***

The Executing Agency will be responsible for presenting Project Status Reports (PSRs) to the MIF within thirty (30) days after the end of each semester, or more frequently as determined by the MIF by providing at least sixty (60) days advance notice to the Executing Agency. The PSR will contain information on the progress of project execution, achievement of milestones, and completion of project objectives as stated in the logical framework and other operational planning tools. The PSR will also describe issues encountered during execution and outline possible solutions. Within ninety (90) days after the end of the execution term, the Executing Agency will submit to the MIF a Final Project Status Report (Final PSR) which will highlight results achieved, project sustainability, evaluation findings, and lessons learned.

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7.2 Evaluation:

On conclusion of this project an independent consultant, contracted by the Bank and financed from MIF resources available in the project budget, will undertake a Final Evaluation. The evaluation will focus on the extent to which project objectives and targeted results, as outlined in the logical framework, have been attained and the underlying factors that enabled or impeded project implementation. The consultant will be required to distill key lessons learned as well as recommendations for future efforts of the Executing Agency, the MIF and other stakeholders in this project, as well as key learning applicable to similar projects in Honduras and the wider region.

7.3 Financial Management:

The Executing Agency will establish and will be responsible for maintaining adequate accounts of its finances, internal controls, and project files according to the financial management policy of the IDB/MIF. Given that the Diagnostic of Executing Agency Needs (DNA) generated a medium level of need/risk in financial management, the review of supporting documentation for disbursements will be conducted ex-post and on a semi-annual basis. With project resources, the IDB/MIF will contract consultancy services to support and train the Executing Agency in financial management areas that require further strengthening as identified through the DNA.

The Fundación Covelo will contract independent auditors to carry out the ex-post reviews of procurement processes and of supporting documentation for disbursements. Ex post reviews will include an analysis of the Financial Statements that the EA should prepare annually as part of its financial management. The costs associated with this contract will be financed with the MIF contribution resources according to IDB procedures.

During project execution, the frequency of ex post reviews for procurement processes and supporting documentation for disbursements as well as the need for additional financial reports can be modified by the MIF based on the results of the ex post review reports conducted by external auditors during the project execution.

8. KNOWLEDGE-SHARING AND DISSEMINATION STRATEGY

The proposed project has been designed to promote scale up and replication as part of a joint effort between MIF and OMJ. Fundación Covelo is 2nd tier financial institution that provides support 1st tier MFIs across the Central America region. Fundación Covelo is also founding member and the chair of the Network of Microfinance Institutions of Central America (REDCAMIF), which seeks to strengthen the microfinance industry and consolidate microfinance institutions regionally.

Attachment II

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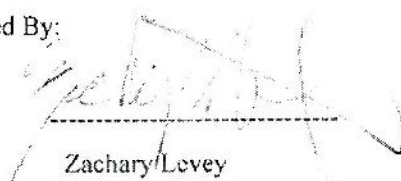
While this project will focus exclusively on Honduras, it is specifically designed to build the knowledge in Fundacion Covelo to scale up the project beyond Honduras through its existing networks and presence throughout the Central America region. In addition, the proposed project has been designed to derive potential synergies with the SREP program, which will further facilitate the rapid expansion and scaling of the market in Honduras.

The knowledge objective of this mini-FOMIN is to learn about the effectiveness of promoting access to finance for off-grid clean energy through testing financing models and strengthening the capacity of second tier financial institutions.

9. APPROVAL

This project is recommended and approved for financing under the MIF Program of Delegation of Authority (MIF/GN-62-7).

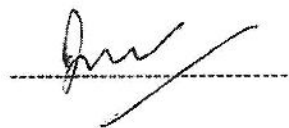
Recommended By:


Zachary Levey
MIF/ABS

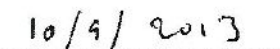
Date:


9/10/2013

Approved By:


Ian Walker
IDB Representative Honduras

Date:


10/4/2013

Annexes:

Annex I- Logical Framework

Annex II- Detailed Project Budget

Annex III- Project Execution schedule

Annex IV - Procurement Plan

Annex V- QED

