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MULTILATERAL INVESTMENT FUND

REGIONAL

CARIBBEAN MICROFINANCE CAPACITY-BUILDING PROJECT (CARIB-CAP)

(RG-M1106 AND RG-X1005)

DONORS MEMORANDUM

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<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

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EXECUTION:

ABBREVIATIONS

ACP	African, Caribbean and Pacific
CBPs	Capacity-Building Plans
CCU	Co-operative Credit Union
CDB	Caribbean Development Bank
CESI	Committee on Environment and Social Impact
CF	Consultancy Firm
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
CMN	Caribbean Microfinance Network
COFAB	Grant Co-financing Contribution Administered by the Bank
CTCS	Caribbean Technological Consultancy Services
CUS	Credit Unions
EC	European Commission
EOI	Expressions of Interest
EU	European Union
FSS	Financial Self Sufficiency
GPI	Good Practice Incentive
IADB	Inter-American Development Bank
LAC	Latin American and Caribbean
ME	Microenterprise
MFIS	Microfinance Institutions
MGP	Microfinance Guarantee Program
MIF	Multilateral Investment Fund
MIX	Microfinance Information eXchange
MOU	Memorandum of Understanding
OECS	Organization of Eastern Caribbean States
OR	Operational Regulations
PC	Project Coordinator
ROA	Return on Assets
ROE	Return on Equity
SC	Steering Committee
TOR	Terms of Reference

I. CARIBBEAN MICROFINANCE CAPACITY-BUILDING PROJECT (CARIB-CAP)

(RG-M1106 AND RG-X1005)

EXECUTIVE SUMMARY

Countries	Bahamas, Belize, Jamaica, Barbados, Trinidad &Tobago, Suriname, Guyana, and the Organization of the Eastern Caribbean States (OECS) countries.		
Beneficiaries:	Primarily, the microfinance institutions of the English-speaking Caribbean countries, including the OECS. Secondly, all the microfinance institutions Caribbean-wide given that the Caribbean Microfinance Network benefits the entire region. As a result of the project, the microentrepreneurs and low-income people of the Caribbean who need access to financial services will be the ultimate beneficiaries of the project.		
Executing agency:	The Inter-American Development Bank (IADB) through the MIF office will be executing agency for this project		
Financing:	MIF	US\$	1,899,683
	Co-financing and counterpart (MFIs)		
	European Commission (EC)	US\$	599,205 ¹
	Caribbean Development Bank (CDB)	US\$	276,000
	Microfinance Institutions (MFIs)	US\$	268,875
	Total:	US\$	3,043,764
Objectives:	The overall objective of the project is to contribute to the development of the microfinance industry in the Caribbean. The specific objective is to implement a capacity-building project that will enable the Caribbean MFIs to improve financial performance and outreach.		
Execution timetable:	Execution period:	36 months	
Special contractual conditions:	Disbursement period:	42 months	
Exceptions to Bank Policies	The signature of the agreements with the EC and the CDB is a condition prior to disbursements.		
Environmental and social review:	The Committee on Environment and Social Impact (CESI) reviewed this Project document in its meeting CESI 22-07 on June 8, 2007, and had no comments or recommendations.		
Coordination with other Donors:	The project is co-financed by the European Commission through the African Caribbean and Pacific (ACP) Microfinance Project, and by the Caribbean Development Bank (CBD). The Consultative Group to Assist the Poor (CGAP) is one of the key-implementing partners of the EU/ACP Project. The project has been discussed with the Canadian International Development Agency (CIDA), via their representative in Barbados. Canada may be interested in a subsequent MFI operation to complement the MIF/EU effort..		

¹ The EC's contribution will be in the amount of €420,000. The amount of US\$599,009 assumes the exchange rate of US\$1.428=1 €.

I. BACKGROUND AND JUSTIFICATION

- 1.1 Access to financial services is uneven in the Caribbean. While most countries in the region have fairly sophisticated financial systems, access to a range of financial services is limited for low-income people, the self-employed and small businesses. Especially in the English-speaking Caribbean,¹ micro and small business finance is not well developed. Although there are more than 50² Microfinance Institutions (MFIs)³ operating in this part of the Caribbean region, their development lags considerably behind that of their counterparts in Latin America, Haiti, and the Dominican Republic, where the microfinance industry is thriving.
- 1.2 Several studies have shown that there are many reasons for the slower pace in the development of microfinance in the English-speaking Caribbean, including: the small scale of operations due to smaller populations, lower poverty rates, and lower informality levels (except for Jamaica, country with high levels of informality); poor loan recovery, high delinquency rates, and direct subsidized government intervention, which has had a negative impact on the sustainability and growth of the microfinance sector.⁴
- 1.3 The relatively sophisticated formal financial sector found in several Caribbean countries offers a range of financial services to middle and high-income individuals, but low-income people (women, rural, etc.) who in many instances earn their living from micro and small enterprise are poorly served. They are dependent on informal mechanisms, their own savings and government subsidized schemes that are unpredictable and do not guarantee a longer-term solution to access to finance for those currently outside the mainstream banking system.
- 1.4 In the English-speaking Caribbean, MFIs face many challenges⁵. They operate on a small scale and have low levels of outreach. The team surveyed 50 MFIs (receiving responses from 28). From the due diligence mission and the results of the survey, it was concluded that although some MFIs do deliver microfinance according to good practices, the bulk of them are risk averse, do not know the microfinance technologies and therefore prefer the slightly larger entrepreneurs, to whom they also offer training services. This is understandable considering that the size of the informal economy in the English-speaking Caribbean is not as large as in the rest of the region⁶, and that the GNI per capita is in most cases twice or three times larger than in the rest of the region. This means that the average

¹For purposes of this proposal, the term “English-speaking Caribbean” is used to refer to Jamaica, Trinidad & Tobago, Barbados, Bahamas, Guyana, Belize, the OECS countries, and Suriname, even though the latter is Dutch-speaking.

²Survey done by the team. The results of this survey are part of the technical files of the project.

³An MFI is defined as an institution that provides financial services to micro and small enterprises and low-income people, and thus includes specialized microfinance institutions (whether subject to financial sector regulations or not), NGOs, credit unions, finance companies, building societies and banks that target such customers with their financial products.

⁴von Stauffenberg, Damian, Microfinance in the English Speaking Caribbean (2000); Wenner, Mark and Geoffrey Chalmers, Microfinance Issues and Challenges in the Anglophone Caribbean (2001); Westley, Glenn, Microfinance in the Caribbean: How to go Further (2005); and Navajas, Sergio and Luis Tejerina, Microfinance in Latin America and the Caribbean: How Large is the Market? (2006).

⁵Westley (2005), and confirmed by a Study of Microfinance in Latin America and the Caribbean: recommendations for Technical Assistance and Investment from DAI for the IFC (2006).

⁶Vuletin, Guillermo “The Size of the Informal Economy in the Caribbean” Country Report No. 07/2007 International Monetary Fund.

loan per borrower is rarely less than the equivalent of US\$1,000, much higher than in the more developed microfinance environments. The Caribbean MFIs, in general, prefer asset-based collateral as compared to character-based collateral. In this sense, they differ from their Latin American peers, increasing the burden of steps and cost of credit.

- 1.5 From the results of the survey, it is difficult to obtain the number of clients and the value of the portfolio because many institutions (i.e., Credit Unions (CUs)) do not separate their normal portfolio from the microenterprise portfolio.⁷ Regardless of this differentiation, it is clear that Caribbean MFIs mainly operate in a rural environment. In fact, in the survey, 39.6% of the clients were reported as rural clients. This is a major issue, particularly in the Organization of Eastern Caribbean States (OECS) countries, where delinquency rates are also related to the recession of the economies. In addition, in all the English-speaking Caribbean where governments have subsidized microfinance programs, the recovery of those loans has not been adequately enforced. Thus, loan recovery is problematic⁸ and high cost structures result in low levels of sustainability. In some cases, there are interest rates restrictions for loans and savings.
- 1.6 Despite efforts to gather information on Caribbean MFIs and study the sub-sector, the level of transparency on the financial performance of Caribbean MFIs is lower than in other parts of the world. Out of 1,037 MFIs listed on the Microfinance Information eXchange (MIX)⁹, 266 are from Latin America and the Caribbean. Only 18 institutions from the Caribbean are currently reporting but only 5 are from the English-speaking Caribbean, with the characteristic that 3 of them are part of the same group, being subsidiaries of Microfin Caribbean Holdings Limited from Trinidad & Tobago. Increased transparency, better tracking of key indicators by the MFIs themselves and benchmarking across institutions could help improve performance as well as the capacity to attract resources needed for future growth. The MFIs need to improve their methodology, learning to design products tailor made for their clients while at the same time acknowledging the specific cultural environment and training needs that the Caribbean region demands. If they are able to do this, they can attract more resources.
- 1.7 Another characteristic of the Caribbean is the increasing Diaspora created by migration to the European Union (EU) and North America. This leads to significant levels of remittances sent back home that could be channeled through Banks and MFIs for financing of productive programs and could also be used to cross-sell other financial services. However, without strong MFIs this process of banking the unbanked recipients of remittances cannot be achieved.
- 1.8 In May 2006, the Caribbean MFIs established the **Caribbean Microfinance Network (CMN)**. The CMN aims to facilitate training, access to information on sound microfinance and exchange of lessons learned across Caribbean borders, and it seeks to influence the policies and practices of governments, monetary authorities, financial sector institutions and NGOs through research, advocacy, policy dialogue, awareness-raising and

⁷ There is no common definition of microenterprise in the whole region, which varies from country to country depending on the emphasis on revenues, employees or assets and other qualifications. For the purposes of this project, the definition of Microenterprise (ME) is an enterprise that employs up to ten persons, and which has assets and annual sales not exceeding the equivalent of US\$20,000 and US\$100,000 respectively.

⁸ Out of 22 responses to the survey, 6 have delinquency above 30% and 7 between 10% and 15%.

⁹ The MIX, is a highly respected non-profit organization that provides information on MFIs and funders. More than 850 MFIs are reporting to the MIX

information-sharing. Nevertheless, the CMN needs to be strengthened in order to be able to play such a role.

- 1.9 **Summary of Challenges**. The challenges facing MFIs in the English-speaking Caribbean can therefore be summarized as follows: (i) the small scale of MFI operations due to very small markets; (ii) generally, poor adaptation of products and methodologies to rural environments and to clients needs; (iii) difficulty with loan recovery and high delinquency rates (Jamaica in a much lower extent); (iv) direct government intervention; (v) larger microentrepreneur clients as compared to the rest of the region; (vi) the incipient stage of development of the regional network of microfinance institutions.
- 1.10 **Demand**. One of the results from the above-mentioned survey was the interest of the MFIs in participating in the project. In fact, 88% of the respondents are interested in implementing a capacity-building plan that helps improve financial performance and outreach; 100% of the MFIs interviewed during the due diligence mission answered positively to the request to share the cost of the implementation of these CBPs.
- 1.11 **Joint funding leverages expertise and resources**. The MIF/IADB is partnering with the European Commission (EC) and the Caribbean Development Bank (CDB) for the co-financing and implementation of this project. The EC is currently financing a Microfinance Framework Program to help low-income people in the African; Caribbean and Pacific States (ACP) countries get better access to appropriate financial products and services. The Program (EU/ACP) seeks to strengthen the capacity of microfinance actors and improve efficiencies and transparency in the microfinance markets. Another partner of this project is the CDB, which has been providing support to microenterprises via direct assistance to MFIs, or through the Caribbean Technological Consultancy Services (CTCS) Network. The CTCS links individuals with business and technical expertise to micro and small entrepreneurs in need of this advice, via skills training, management and business development workshops and short-term individual technical assistance. The CDB will support the MFIs that are beneficiaries of this project to obtain funds via its own Microfinance Guarantee Program (MGP).¹⁰ Worth mentioning is the cooperation between the MIF and the CDB for the Strengthening of Disaster Mitigation Efforts of MFIs in the Caribbean and Latin America, recently approved by the Donors Committee (MIF/AT-868). Working together in the CARIB-CAP project, the MIF as well as the CDB and EU/ACP will be leveraging their expertise and resources. Finally, this project is closely linked to the IDB Regional Strategy for Support to the Caribbean Community (2007-2010).
- 1.12 **MIF additionality**. The English-speaking Caribbean represents the final stage on the roadmap for the strengthening of the MFIs of the Latin American and Caribbean (LAC) Region. This same type of intervention, albeit on an individual basis, has been implemented by the MIF in several MFIs in Haiti and the DR. In addition, the partnership with the CDB and the EU, which are interested as well in building the capacity of local MFIs, is a unique opportunity for the MIF, but is also in line with the spirit of

¹⁰ The \$5 million Microfinance Guarantee Program (MGP) was established in 2000 and provides a guarantee from the CDB for a line of credit from commercial banks to MFIs. These funds are then on lent to micro and small enterprise clients. The guarantee covers up to 80% of the commercial bank loan. The Program has not worked as anticipated due to the inability of many MFIs to qualify for this funding, due to challenges outlined above. The current project, with its focus on capacity building of Caribbean MFIs, will enable the CDB to re-start this Guarantee Program.

collaboration and alliance-building implicit in the MIF II agreement. Finally, it represents the opportunity to build upon the initial successes of the CMN established under the Partners in Innovation Program.¹¹

II. PROJECT DESCRIPTION

A. Project goal and purpose

- 2.1 The overall objective is to contribute to the development of the microfinance industry in the Caribbean. The specific objective is to implement capacity-building project that will enable over thirty Caribbean MFIs to improve financial performance and outreach. The project has five components: (i) performance assessments; (ii) implementation of Capacity-Building Plans (CBPs); (iii) Good Practice Incentive (GPI) award; (iv) strengthening of the capacity of the Caribbean Microfinance Network; and (v) dissemination of lessons learned.
- 2.2 **Eligibility Requirements for the Project** The eligibility criteria for the selection of the beneficiary MFIs for the Project are: (i) the MFI must demonstrate at least one year of operations; (ii) if an NGO, demonstrate that the microfinance portfolio represents at least 50% of the total portfolio; (iii) if a Co-operative Credit Union (CCU), demonstrate that it has a microenterprise/microfinance project within the CCU, with at least 2,500 clients and that it can separate the microfinance portfolio from the main CCU portfolio for analysis; (iv) audited financial statements, or a clear the commitment from the Boards of beneficiary MFIs to external auditing beginning in the current fiscal year; (v) portfolio of at least US\$400,000, net of government or other type of donor tied resources; (vi) the MFI will commit to share information about its performance, specifically, the MFI should commit to send its information to the MIX; (vii) MFIs that will commit an ex-post evaluation; (viii) the microfinance/microcredit project should be financially and operatively independent from other activities the institution might have; and (ix) the MFI must provide co-financing of at least 10% of the cost of the performance assessment and the CBP in cash. In addition, if the organization is a recipient of other projects from the IDB group: (i) the MFI should not be in arrears and should be in compliance with all aspects of agreements for projects in execution; (ii) the grant for technical cooperation should be oriented to activities complementary to those already financed. The eligibility criteria have been deliberately designed to obtain participation of a large share of the MFI universe in the English-speaking Caribbean.

B. Components

- 1. Performance Assessments (PA) (MIF US\$50,760; Co-financing US\$211,345 and counterpart from MFIs US\$20,400)**
- 2.3 The objective of this component is to provide the Caribbean MFIs with an objective, third party performance assessment that can help identify strengths and weaknesses. An external firm will be selected to perform these assessments. The selection will be based primarily on the experience and knowledge of microfinance in the Caribbean, and the

¹¹ The Program approved by the Donors Committee in 2004, established 5 networks of MIF executing agencies in the areas of microfinance, alternative dispute resolution, skills standards and certification, quality management standards, and venture capital. The goal of the Program was to promote knowledge-sharing and creation within networks, and to generate new ideas for second generation programs. The CMN was established as an outgrowth of the Microfinance Network. See MIF/GN95-2 for an overview of the Partners Program achievements.

process for the selection will adhere to the Bank's procurement rules (GN-2350-7). The assessments will include the following information: (i) **Overview** – vision, mission, and organizational strengths and weaknesses; (ii) **Institution**- ownership, management, organization structure, human resources management, information and communication technology, internal controls, auditing, availability of information, business planning and regulation and supervision; (iii) **Products**- savings, lending, other financial and non-financial; (iv) **Loan portfolio quality** - credit regulations, how the loan portfolio quality is measured, how it is monitored, how it is managed including delinquency and write-offs, portfolio statistics, reviews and comparisons with financial statements and analysis of statistics; (v) **Financial performance and risk management**; and (vi) outreach to low-income clients.

- 2.4 The assessment will help institutions benchmark their performance against that of others in the region, as well as institutions in Latin America, and will improve transparency in Caribbean microfinance. These performance assessments will become the baseline of the project for measuring its outcomes.
- 2.5 The performance assessments on the supply side will be complemented by a study to assess demand for a range of financial services among poor people. The MIF will hire specialized consultants who will analyze other services than credit, like payment and savings, which often are more needed by poor people than credit. The study will look at the limitations to the existing financial system to serve the financial service demand of poor people. The results of the study will be used to serve as a base line for the project as well as assist in prioritizing our capacity building support.
- 2.6 The expected outcomes of this component are: (i) to have within a year of the approval of the project, around 34 technical PAs completed and (ii) one study about the demand for financial services. The terms of reference (TOR) for the consultant(s) executing this component can be found in the Operational Regulations (OR), Annex III.

2. Implementation of the CBPs (MIF US\$831,375; Co-financing US\$535,650; and counterpart from MFIs US\$248,475)

- 2.7 Institutions that have participated in the assessment phase and wish to utilize the analysis generated to develop and carry out a plan to improve their performance would be eligible to receive support for preparation of a CBP with quantitative and qualitative objectives. There may be certain collective needs, e.g., for training in basic issues like delinquency management, credit risk assessment, training of employees (operative and managerial), how to expand outreach, general monitoring of credit businesses, and governance improvement. However, there are also MFIs that need a tailor made CBP aimed at the improvement of their financial performance and their outreach to low-income people. The collective training effort will be offered to all the MFIs participating in this process. The CBP will be hands-on and tailor made training for eligible MFIs and will only address one or two specific areas in critical need of improvement according to the results of the PA. The plans will be submitted to a competitive process to obtain grant financing to carry out the CPB. The process for giving this grant is described in the OR. The consultants needed for the implementation of this component will be different from the consultants used for the performance assessments. The beneficiaries will be asked to contribute at least 10% of the cost of the implementation of the CBP.

- 2.8 It is expected that: (a) around 15 MFIs with PA will have a CBP implemented; and (b) participating institutions will report their performance data to the MIX no later than 12 months after launching their CBPs. Finally, this component will also support other collective training efforts such as 5 knowledge exchanges among other Caribbean MFIs and MFIs from Latin America, Asia and Africa.

3. Good practice incentive (GPI) (MIF US\$375,000; Co-financing US\$25,000)

- 2.9 The project will create an incentive system for good performance. Based on the short-term results of the implementation of the capacity-building plans, as well as on the commitment of the MFIs' executives and operations personnel, MFIs will have access to awards that can be directed towards activities aimed at further expansion of their microfinance business, provided they are linked to the needs identified by the PA, such as specific technical assistance, design of workshops, knowledge exchanges with other MFIs, development of microfinance products, and studies, such as market research, impact evaluation, etc. The MIF will verify the use of the award by giving eligibility to the expense through the verification of the contract of the provider of the goods or services to be acquired with these resources. This will allow the institutions to better utilize their newly strengthened capacities. The incentive system provides a motivation for the MFIs to make the best use of the technical assistance provided and to continuously improve the quality of their services. Participating MFIs that have completed their CBPs will be eligible to compete for these awards.
- 2.10 Two types of prizes would be given. Two prizes for large MFIs and ten prizes for smaller MFIs. The prizes for larger MFIs will be for an equivalent of US\$ 75,000; the prizes for the latter will be for an equivalent of US\$25,000. The eligibility criteria to participate are: (i) successful implementation of a CBP; (ii) improvement in Return on Assets (ROA), Return on Equity (ROE), Financial Self Sufficiency (FSS) and delinquency¹²; and (iii) a substantial increase in outreach towards low-income clients as defined in footnote #8 above. The prizes will be granted by a Steering Committee whose members will be microfinance experts assigned by the EU, the CDB, and the MIF. The procedures are defined in the OR. Also, the CBD will make available the MGP to those MFIs that have completed the CBP (See ¶ 1.11 above). This will give the MFIs access to funds through commercial lenders. The project prize plus the guarantee of the CDB will be a breakthrough for those MFIs with real sustainability prospects.

4. Strengthening of the CMN (MIF US\$42,500; Co-financing US\$73,250)

- 2.11 The overall objective of this component is to support and strengthen the capacity of the CMN to build effective knowledge-management and advocacy capacity at the level of the regional network. This component of the project aims to benefit microfinance providers in the English-speaking Caribbean and in the wider Caribbean countries, such as Haiti and the Dominican Republic where the CMN can also market its services. It will assist in the implementation of the CMN business plan by supporting a number of specific activities requested by its members, such as: (i) a study of the impact of microfinance in the region; (ii) strengthening of the CMN through a sustainability strategic planning consultancy; and (iii) assistance to help the network develop its advocacy capacity vis-à-vis policymakers through workshops to be held during the Annual Caribbean Roundtables.

¹² The level of improvement will be established after the completion of the Pas, which will serve as a baseline.

5. Dissemination and Lessons Learned (MIF US\$19,550)

- 2.12 After a careful selection, the Steering Committee (SC) - see ¶4.1- will decide which MFI experiences in the project are interesting to document and catalogue. Consultants will be hired to examine cases, to do in-depth analysis of those cases and to document the lessons learned. A book containing all the cases compiled will be edited and distributed throughout the region.

III. COST AND FINANCING

- 3.1 The total project cost is expected to be US\$3,043,763 million, of which MIF will contribute US\$ US\$1,899,683 with a co-financing from a COFAB of €420,000 (approximately US\$599,205 at an average conversion rate of US\$1.428= 1 €) from the EC's EU/ACP Program, and the equivalent of US\$276,000 from the CDB. The local MFIs will contribute US\$268,875 as counterpart, both in-kind and cash.
- 3.2 Pursuant to the Operation Procedures for COFABs (Document CC-5732),¹³ the contribution from the EC indicated in the previous paragraph will be subject to the terms of administrative agreement between the EC and the Bank. As per Bank procedures, this contribution will be subject to an administrative fee charged by the Bank (currently 5% of the contribution).

Components	MIF	Co-financing and counterpart USD				TOTAL	%
		EU/ACP	MFIs Cash	MFIs In-kind	CDB		
Financial Assessments	50,760	211,345	20,400			282,505	9.3%
Implementation of Capacity Building Plans	831,375	288,150	164,100	84,375	247,500	1,615,500	53.1%
Good practice incentive	375,000				25,000	400,000	13.1%
Strengthening of the CMN	42,500	69,750			3,500	115,750	3.8%
Dissemination & Lessons	19,550					19,550	0.6%
Evaluation	85,000					85,000	2.8%
Administration	486,000					486,000	16.0%
COFAB Administrative Fee		29,960				29,960	
Sub-total	1,890,185	599,205	184,500	84,375	276,000	3,034,265	99.7%
Impact Evaluation Account	9,498					9,498	0.3%
TOTAL	1,899,683	599,205	184,500	84,375	276,000	3,043,763	100%

- 3.3 The Bank is negotiating an administrative agreement with the EC for a Grant Co-financing Contribution Administered by the Bank (COFAB). A Memorandum of Understanding (MOU) will be signed between the IADB/MIF and the CDB in order to formalize its participation in the project include disbursement timeframe and activities to be financed. The CDB Board approved its participation in this project on December 13th, 2007. There will be no pari-passu but rather each donor will be financing specific activities.
- 3.4 **Sustainability.** The sustainability of the project will be fostered by the following mechanisms: (i) the good practice incentive is in itself a way of promoting sustainability for the project because it is rewarding good execution and implementation of the project;

¹³ As indicated in Document CC-5732, COFABs “are co-financing grants administered by the Bank on behalf of public sector institutions and non-for profit organizations to co-finance specific Bank programs, programs or other activities that benefit the borrower member countries.”

(ii) the strengthening of the CMN, which will enable the network to have more visibility and outreach in all the Caribbean; and (iii) the continued efforts by MFIs to maintain transparency through the reporting to the MIX.

IV. EXECUTING AGENCY AND EXECUTION MECHANISM

- 4.1 **Executing Agency.** The Bank through the MIF office execute this project. However, external support for the execution will be contracted in accordance with Bank policies and a Steering Committee (SC) composed of 5 members, (3 from the MIF, 1 from the EC and 1 from the CDB) will act as an advisory board assisting with decisions related to the qualifying of MFIs, consultants, bids, etc. This SC jointly with the MIF has the following responsibilities: (i) oversight of the entire project; (ii) selecting and contracting the consultants for the PAs; (iii) selecting and contracting the consultants for the CBPs; (iv) selecting the MFIs winning the GPI; and (v) hiring and supervising a Consultancy Firm (CF) to assist with the overall execution of the project.
- 4.2 **Executing mechanism.** Under MIF supervision, the (CF) will be responsible for: (i) designing a working plan; (ii) assisting the MIF with the day-to-day project activities in accordance with the action plan; (iii) supervising the consultants hired; (iv) assisting the project team oversee management of the budget; (iv) assisting with the processing of applications for disbursements of the Bank and CDB contributions; (v) preparing administrative and technical reports; and (vi) coordinating any actions that need to be taken with international partners and other entities working in this field, specifically with the IDB Country Offices (CO). The CF will assign a Project Coordinator (PC) that will be in charge of the day-to-day operations and the relationship with the project team, the MFIs, and the consultants. The Terms of Reference (TOR) for the contracting of the CF can be found in the OR. IDB Country Offices will be invited to be part of the SC, help qualify the bidders technical proposals, help with the verification of the pretended use of the GPI and perform inspection visits.
- 4.3 **Execution and disbursement periods** Execution and disbursement periods of the project will be 36 and 42 months, respectively. The Bank will sign a Memorandum of Understanding (MOU) with the CDB stating the main responsibilities of the parties. Given that most of the co-finance resources are coming from the EU/ACP Programme and that the Bank will process these resources as a COFAB, the Bank will establish a disbursement schedule and budget per year, using the EC format. The disbursements involving resources from this COFAB will end December 31st, 2009. The rest of the project can continue disbursing until it completes the 42 months previously mentioned.
- 4.4 **Procurement of services.** The consultants for the project will be selected and contracted in accordance with the provisions of Document GN-2350-7.

V. BENEFITS AND RISKS

- 5.1 The project is expected to provide: (i) the basis for a sound and strong microfinance industry in the English-speaking Caribbean with better performing institutions and quality financial services accessible to low-income people (ii) a more transparent Caribbean microfinance industry and improved knowledge management capacity of the regional network; (iii) advocacy capacity of the CMN to engage in a policy dialogue Governments to create appropriate conditions for the development of sustainable microfinance; (iv) alternative ways of financing for MFIs by preparing them to take

advantage of the CDB Guarantee Fund to access funds from commercial sources; and, in general (v) a harmonized approach to support Caribbean microfinance from various donors active in the region.

- 5.2 One risk the project faces is the presence of government subsidized programs that in some countries are crowding-out private initiatives. The project will face this risk in two ways. Through the CMN, the advocacy aspect will be covered via workshops and seminars with policy makers and government agencies. Also, the project will strengthen the MFIs making them more qualified and increasing their skills to face competition from government programs. A final risk is not being able to find enough committed MFIs to participate in the project. To mitigate this risk, the project includes the GPI and the day-to-day work of the CF with Board members and Directors to convince them of the benefits of participating.

VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** The MIF will be responsible for supervising and monitoring the project. The CF will play a key role by submitting progress reports to the SC within thirty (30) days after the completion of each semester and a final report within 30 days from the final disbursement. These reports will follow a format previously agreed with the MIF and other members of the Steering Committee and will address project activities as well as results measured in terms of the indicators and benchmarks identified in the project's logical framework. The MIF and other members of the Steering Committee will utilize these reports to monitor project implementation progress and to prepare the Project Completion Report (PCR) within three months of the last disbursement.
- 6.2 **Evaluations.** The Bank, using project funds will contract consultants to conduct a mid-term and a final evaluation. The mid-term evaluation will be prepared 18 months after the commencement of project implementation (i.e. after first disbursement) or when 50% of the resources have been committed, whichever occurs first; and a final evaluation when 90% of the Bank's contribution has been disbursed. The Bank will develop the terms of reference for these evaluations, with input from the CF, the EU, and the CDB. The mid-term evaluation will analyze progress and overall performance of the project, with particular attention to: (i) the degree of participation in the collective training efforts; (ii) the interest in sharing information; (iii) the quality of the PAs; (iv) the commitment of the MFIs; (v) the progress of the CMN; and (vi) the counterpart resources from the MFIs. For the final evaluation, in addition to these factors, the consultant will also take into account: (i) the quality of the CBPs as measured by the improvement of the financial ratios and outreach indicators of the participant MFIs; (ii) the uptake of the GPI, and (iii) the knowledge management and advocacy capacity of the CMN.

VII. ENVIRONMENTAL AND SOCIAL REVIEW

- 7.1 Given the nature of the proposed project, adverse environmental impacts are not expected. On the other hand, the project is expected to lead to several positive social impacts such as a significant increase in the number of entrepreneurs with increased awareness of environmental issues. The CBPs include a section on environmental issues that will help raise awareness not only among MFI staff, but among their clients as well.

LOGICAL FRAMEWORK

RG-M1106 AND RG-X1005 CARIBBEAN MICROFINANCE CAPACITY-BUILDING PROJECT (CARIB-CAP)

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL: to contribute to the development of the microfinance industry in the Caribbean.	Three years from the end of the project: MFIs not benefiting from the project are interested in improving their financial management using this methodology MFIs in the project who had only an assessment are interested in a CBP and implementing it.	Inquiries about the project to the CMN/CDB	Macroeconomic conditions (exchange rate regime, inflation) do not affect demand for microcredit and the financial system remains stable for an extended period of time. Although governments still maintain subsidized microcredit programs, they are aimed toward the poorer of the poor with a clear social orientation.
PURPOSE: to implement capacity-building project that will enable the English-speaking Caribbean MFIs to improve financial performance and outreach.	At the end of the project the participant MFIs are improving their main financial ratios as well as their outreach. The MIF and the Steering Committee composed of members of the EU, CDB, and MIF will establish the performance indicators after the completion of Component 1, which will become the baseline for measuring the improvement of the MFIs. The benchmark under which the Caribbean MFIs are going to be compared is going to be prepared on an ad hoc basis by the MIX upon request from the MIF. It will compound small MFIs, Non FSS and broad reach.	<ul style="list-style-type: none"> • Baseline • Management information system, portfolio reports, financial statements, • Project reports; • Project performance monitoring report (PPMR); • Semiannual and final reports from the executing agency; • Midterm evaluation by outside consultant; • Project completion report (PCR). 	Demand for microcredit allows expansion of the microfinance market; Supply of microcredit remains within the parameters of responsible competition
COMPONENTS			
COMPONENT I: Performance Assessments (PA). To provide the Caribbean MFIs with an objective, third party performance assessment that can help identify strengths and weaknesses.	Within a year of the approval of the project, around 34 technical performance assessments completed.	For all Components: <ul style="list-style-type: none"> • Project performance monitoring report (PPMR); • Semiannual and final reports from the executing agency; • Midterm evaluation by outside consultant; • Project completion report (PCR) 	Qualified consultants can be contracted to conduct quality assessment plans within the timeframe prescribed by the project.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
COMPONENT II: Implementation of the CBP. Institutions that have participated in the assessment phase and wish to utilize the analysis generated to develop and carry out a plan to improve their performance would be eligible to receive support for preparation of a CBP with quantitative and qualitative objectives	Around 15 MFIs with PA will have a CBP implemented; At least 70% of participating institutions will report their performance data to the MIX no later than 12 months after launching their CBPs. 5 knowledge exchanges among other Caribbean MFIs and MFIs from Latin America, Asia and Africa.	CBPs produced and accepted by MFIs. # of MIX reports posted # of exchanges arranged and completed	Qualified consultants can be contracted to conduct quality CBPs within the timeframe prescribed by the project, and MFIs are interested in implementing the Plans, and sharing their information with other MFIs.
COMPONENT III: Good practice incentive. The incentive system provides a motivation for the MFIs to make the best use of the technical assistance provided and to continuously improve the quality of their services.	Two prizes for large MFIs (equivalent of US\$ 75,000) Ten prizes for smaller MFIs (equivalent of US\$25,000)	# of prizes awarded # of prizes awarded	The incentive award motivates the MFIs to improved their financial performance
COMPONENT IV: To support and strengthen the capacity of the Caribbean Microfinance Network (CMN).	CMN increased membership by around 75% over the life of the project CMN is able to provide services to MFIs in the Caribbean region. CMN is recognized by the governments in the region as a technical organization of the microfinance sector.	CMN statistics Consultant reports Reports from the Annual Caribbean Roundtable	MFIs recognize the benefits of the CNM, and see it as an effective advocate for their interests.
COMPONENT V: Dissemination and Lessons Learned	A CD-ROM with cases and lessons learned is distributed in the Region.	# of CD's distributed among stakeholders in the region and extra-regionally.	Consultants will select the best cases, which are representative in terms of lessons learned.
ACTIVITIES			
Component I : Performance Assessments (PA) Selecting and hiring a consulting firm specialized on financial assessments Performance assessments of the MFIs	(MIF \$ 50,760; Counterpart \$211,345) 34 assessments of MFIs in 7 countries and the OECS	For all Activities: <ul style="list-style-type: none"> Project performance monitoring report (PPMR); Semiannual and final reports from the executing agency; Midterm evaluation by outside consultant; Project completion report (PCR 	MFIs selected are willing to have a performance assessment.

NARRATIVE SUMMARY	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Component II: Implementation of the CBP Development of Capacity-Building Plans	(MIF US\$831,375; Cofinance US\$ 535,650; Counterpart US\$248,475) Around 15 CBPs	Capacity-building plans developed	MFIs maintain their interest in developing a capacity-building plan, and that the assessments are sufficiently complete to enable CBPs to be done.
Component III: Good practice incentive <ul style="list-style-type: none"> MFIs sent application, the last audited financial statement and a copy of the PA from Component 1 to the SC indicating clearly the intended use of the funds. SC analyze all the applications. External jurors review the documentation and assign a rating, the SC will compare that rating with its own, and those receiving the highest rating will be the winning proposals. 	(MIF \$375,000; Counterpart \$ 25,000) After 12 months of implementation of the CBPs, # MFIs have applied for the Good Practice Incentive (GPI) # of applications analyzed by the SC & external Jurors # of winning proposals	Number of applications, received, reviewed and approved. Award letters sent	MFIs maintain their interest in the project
Component IV: Strengthening of the CMN Regional study on impact of microfinance in the region Workshop on strategic planning, and outreach to the rest of the Caribbean Annual advocacy workshop at the CNM Roundtable	(MIF US\$ 42,500; Cofinance US\$73,500) A regional study about the impact of microfinance implemented Strategic plan of the CMN developed. 3 workshops designed and executed during the Caribbean Annual Roundtables, with the participation of policy makers and government	Regional study distributed and published on CNM website. Strategic Plan approved by the CNM Board and endorsed by CNM membership Number of participants (policymakers and government officials) involved in the workshops	Governments in the region are receptive to working with the CMN to improve the environment for the microfinance sector.
Component V: Dissemination and Lessons Learned Selection of MFIs cases. Analysis of Cases and Lessons learned	(MIF US\$19,500) At least 2 cases selected and published A compilation of lessons learned, published.	Reports on cases and the publication	MFIs willing to share information on the results and implementation of the project in their institutions

DETAILED PROJECT BUDGET

Component	Unit	Quantity	Unit Cost	TOTAL	MIF	CO-FINANCING				TOTAL COUNTERPART	%
						IN KIND	CASH MFI	CASH EU	CDB		
Component 1 Financial Assessments				282,505	50,760	0	20,400	211,345	0	231,745	9.3%
1. Financial Services				18,000				18,000		18,000	0.6%
Study	1	1	18,000	18,000				18,000		18,000	
2. Performance Assessments	34			264,505	50,760	0	20,400	193,345	0	213,745	8.7%
Component 2: Capacity Building Plans				1,615,500	831,375	84,375	164,100	288,150	247,500	784,125	53.1%
1. Design modules for general training	1	15	500	7,500	7,500						
2. General training	15	15	1,500	337,500	281,250	22,500	33,750			56,250	
3. Institution Specific Capacity Building Plans	1	15	82,500	1,237,500	542,625	61,875	123,750	261,750	247,500	694,875	
4. Training overseas	1	5	5,500	33,000			6,600	26,400		33,000	
COMPONENT 3 - Good practice incentive				400,000	375,000	0	0	0	25,000	25,000	13.1%
Good practice incentive A (small)	1	10	25,000	250,000	225,000				25,000	25,000	
Good practice incentive B (2 large)	1	2	75,000	150,000	150,000					0	
COMPONENT 4 - Institutional				115,750	42,500	0	0	69,750	3,500	73,250	3.8%
1. Caribbean Microfinance Network											
Study of the impact of microfinance in the region	1	3	17,000	51,000	7,500			43,500		43,500	
Workshops with policy makers in each country (Caribbean)	1	3	17,500	52,500	26,250			26,250		26,250	
Strategic planning for sustainability	1	1	12,250	12,250	8,750				3,500	3,500	
COMPONENT 5 - Dissemination and lessons learned				19,550	19,550	0	0	0	0	0	0.6%
1. Documentation and writing the Case Study of the Caribbean Microfinance											
Consultant for the documentation and writing	1	45	290	13,050	13,050					0	
Editor	1	15	200	3,000	3,000					0	
Printing and distribution	1	1	3,500	3,500	3,500					0	
EVALUATION AND AUDIT				85,000	85,000	0	0	0	0	0	2.8%
1. Evaluation											
Midterm				15,000	15,000					0	
Final				15,000	15,000					0	
2. Contingencies				55,000	55,000					0	
MANAGEMENT				486,000	486,000	0	0	0	0	0	16.0%
Consulting Firm assisting in the execution	1	36	13,500	486,000	486,000					0	
SUB-TOTAL				3,004,305	1,890,185	84,375	184,500	569,245	276,000	1,114,120	98.7%
COFAB Management Fee				29,960				29,960		29,960	1.0%
Account of Impact Evaluation				9,498	9,498					0	0.3%
TOTAL				3,043,764	1,899,683	84,375	184,500	599,205	276,000	1,144,080	100.0%
%				100%	62%	9%		20%	9%	38%	