

PUBLIC

**INTERAMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND**

MEXICO

**ECOMICRO PROGRAM (RG-M1205)
DOCUMENT FOR PROJECT APPROVAL
TE CREEMOS**

ME-M1082

PROJECT DOCUMENT

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Under the Access to Information Policy, this document is subject to public disclosure.

Annexes

- ANNEX I.** LOGFRAME
ANEXO II. DETAILED BUDGET
ANNEX III. QED

Abbreviations

Term	Meaning
AOP	Annual Operating Plan
DNA	Diagnostic of Executing Agency Needs
EA	Executing Agency
EU	Executing Unit
IDB	Inter-American Development Bank
GHG	Greenhouse Gases
LAC	Latin America and the Caribbean
MEIC	MicroEnergy Consortium
MIF	Multilateral Investment Fund
MSME	Micro, Small, and Medium Enterprise
NDF	Nordic Development Fund
PSR	Project Status Report
TA	Technical Assistance
TCR	Te Creemos

PROJECT DOCUMENT: TE CREEMOS MEXICO (ME-M1082)

I. Basic Project Data

1. **Title:** Te Creemos EcoMicro Project (ME-M1082), a project under the EcoMicro Program (RG-M1205).
2. **Country:** Mexico.
3. **Executing Agency:** Te Creemos (TCR).
4. **Type of green finance product:** green finance for micro and small enterprises to implement clean and efficient technologies.
5. **Estimated costs and financing:**¹

Total cost:	US\$ 400,610.
MIF financing:	US\$ 280,000 (70%).
Counterpart financing:	US\$ 120,610 (30%).
6. **Estimated number of beneficiaries:** pilot phase will benefit 100 micro or small businesses. After 24 months, 2.5% of TCR total loan portfolio will benefit from a green finance product.
7. **Submission date:** September 26th 2012
8. **Execution Timing:** 18 month execution and 20 month disbursements.
9. **Consulting firm selected:** MicroEnergy Consortium (MEIC) including 4 consulting firms: MicroEnergy, AFI, Myclimate and Perspectives of Climate Change.

II. Background

- 2.1 **The Program.** The EcoMicro Program (RG-M1205) is a US\$ 7 million technical assistance (TA) Program, co-financed by the Nordic Development Fund (NDF) and the Multilateral Investment Fund (MIF), to pilot green microfinance for micro, small and medium enterprises (MSMEs) and low-income households in LAC. The goal of the Program is to facilitate green finance as a means to increase access to renewable energy and energy efficiency products and to assist in adaptation to climate change. The purpose of the Program is to train at least 12 MFIs to provide new green finance instruments to capitalize on new opportunities in green financing, while adjusting their risk management models to climate change risk, and incorporating climate impact into their internal policies and operations.
- 2.2 **Execution Mechanism and Delegation of Authority.** Donors delegated authority to the MIF General Manager for the approval of the projects under the Program. In total, 12 projects will be submitted to the MIF General Manager for approval following three selection rounds. In the first round, a MIF Selection Committee selected four MFIs to implement 4 projects: FDL (Nicaragua), Banco Los Andes ProCredit (Bolivia), CMAC Arequipa (Peru) and Te Creemos (Mexico).² This first project

¹ The Estimated Costs and Financing were defined and approved at program level by the Donors' Committee. See paragraph 4.3 in the EcoMicro Program (RG-M 1205) Donors Memorandum.

² Selection procedures and Selection Committee were described in Section V paragraph 6 of the EcoMicro Program Donors Memorandum RG-M1205. Selection documents and proposal scorings are available in the Program's technical files.

(ME-M1082) corresponds to the initiative of Te Creemos (TCR) in Mexico, to facilitate green finance for micro and small enterprises to implement clean and efficient technologies.

- 2.3 **Consulting firm involvement during design phase.** In accordance with the procurement policies described in the paragraph 5.4 of the Donors Memorandum of the EcoMicro Program RG-M1205, and with the procedures described in 5.5, 5.6, 5.7, 5.8 and 5.9 of the same document, Donors approved the selection of consulting firms by the MFIs prior to project approval.³ Since the beneficiary (TCR) is an entity of the private sector, this project is governed by Appendix 4 of the Procurement Policies GN-2350/9 and the involvement of the MEIC Consulting consortium during the design phase is compliant with the Bank's policies.
- 2.4 This Project Document constitutes a proposal for the MIF General Manager's approval of the EcoMicro project for TCR (See section XI. MIF General Manager's approval). In accordance with the Bank's Environmental Safeguards Review, this project has been reviewed and classified as a category "C" operation on September 2nd, 2012.

III. Project Description

- 3.1 **Diagnostic of the Problem.** In Mexico, MSMEs provide 80% of employment and are crucial for sustained economic growth. However, MSMEs are losing market participation to larger and more competitive companies, causing higher unemployment in the informal sector where MSMEs are the primary source of economic activity. This market shift seems to be particularly harmful to smaller players i.e. micro and small enterprises.⁴ Most micro entrepreneurs develop their business from home, require very low investments and quick turnovers to respond to their households' needs. However these micro and small entrepreneurs seem to be failing to successfully manage their economic activities. In Mexico, only 17.5% of micro entrepreneurs continue to be in business after two years.⁵ Although there are many reasons that can explain this very low survival ratio, according to Fundación de Desarrollo Sostenible (Fundes), 43% of micro enterprises disappear due to administrative errors, and 25% disappear during their first year of activity due to improper financial management and inefficient management of costs. Given that most of micro and small entrepreneurs develop their activities from home, understanding households' cost structure, including utility and energy costs, can help identify factors that can improve their performance.
- 3.2 Since 2005, Te Creemos (TCR), a Mexican MFI, has provided financial products to micro entrepreneurs and small companies. Three out of four develop their informal activities from home. In an attempt to better understand the economic challenges of this specific segment, TCR hired international consultants in August 2011 to study micro entrepreneurs' energy and basic services cost structures at the household level.⁶ The study highlighted that Mexican government subsidies for residential segments only covered up to 200 KWh of households' energy expenditures per month. For 31% of micro and small entrepreneurs with consumption of 400kWh energy per month or

³ See section IX Execution Mechanism: paragraph 9.9 for more detailed information on procurement process prior to project approval.

⁴ Source: *ENAMIN* (Encuesta Nacional a Micronegocios, INEGI, 2010)

⁵ Tan, Lopez-Acevedo and others 2007

⁶ Study: *Habitos de Consumo de Energía en Mexico*, by ACTE Microfinance (Commercial Institute of Nancy, France)

above, the price per unit of electricity (i.e. per kWh) increased by 2.26 times in relation to cost of electricity unit below 200 kWh. Micro and small entrepreneurs whose economic activities required more than 400KWh a month, manifested great difficulties in dealing with their energy costs and described them as expensive or very expensive. In these cases, facilitating these clients' access to clean and efficient technologies through green finance could increase their competitiveness by alleviating energy costs.

- 3.3 **Lessons learned from past experiences in green finance.** Although a few initiatives for green financing with MFIs in LAC have been piloted, these projects have traditionally been narrowly focused, disregarding the problems of a larger system. These initiatives have usually been concentrated on only one of the following areas: training institutions on energy efficiency practices, training management to develop green energy lending, or developing clean energy programs subsidized by government or donors. The project will leverage these lessons learned and be implemented with the aim of reaching a sustainable business model. As a result, the project will apply a holistic approach that encompasses three modules intended to ensure management buy-in and will "mainstream" green finance into the daily operations of TCR rather than superficially address the problem through partial treatments.
- 3.4 **Project Objectives.** The Project goal is to increase micro-entrepreneur and small companies' competitiveness through better management of energy costs. The purpose will be to develop micro entrepreneurs and small companies' use of a green finance product that will finance clean and efficient energies solutions that can reduce operational costs through energy savings.
- 3.5 **Model or Proposed solution.** The EcoMicro intervention model will implement three modules at the institutional level. TCR will be: (i) greening the institution by developing environmental policies, reducing carbon footprint and educating management and staff in green habits at its 80 branches⁷; (ii) assessing its loan portfolio vulnerability to climate change, and (iii) developing a sustainable green finance product based on TCR clients' demand. This green finance product will facilitate micro entrepreneurs and small companies' use of clean and efficient technologies that can reduce their energy costs. TCR's green finance product will be tested in a pilot that will allow for revising the product prior to a larger scale launch. The success of the project will be dependent on designing and implementing a successful product for both the MFI and its clients.

IV. Components

4.1 Component 1: Greening the MFI.

- **Description:** In order to achieve a strategic commitment to green finance, this module is set to facilitate an institutional "change of mind". The greening of the institution will include the design of an institutional environmental policy; a diagnosis of energy efficiency at the TCR institutional level, and the implementation of an energy efficient action plan that will reduce TCR's direct carbon footprint.

⁷ Green habits include: habits that reduce electricity consumption (lighting, office equipment, air conditioning and heating); habits that reduce materials consumption (paper, disposal cups, marketing materials etc.) and habits that reduce of natural resources consumption (paper, disposable cups, etc.).

- Activities: diagnosis of energy efficiency at TCR institutional level, methodology for accounting carbon footprint (GHG accounting methodology) and GHG baseline; design and implementation of one environmental policy, and measuring results of energy efficiency policies in terms of percentage of GHG reduction.⁸
- Expected Results: The amount of energy saved in kWh at the institution and reduction of TCR's direct carbon footprint will be determined once the energy efficiency diagnosis and GHG baseline are determined. The environmental policy will result in better energy use and environmental "safeguards" for their lending activities.

4.2 **Component 2: Loan Portfolio assessment of Climate Change risk**

- Description. The consulting consortium will analyze the TCR's loan portfolio to assess its vulnerability to climate change. The analysis will include a map of climate change risks and their specific impact for TCR's clients. The consulting consortium will develop a monitoring tool for this new type of risk and will provide recommendations to reduce TCR exposure with specific courses of action, when appropriate.
- Activities include: mapping of climate change risk for TCR's clients, design of risk management tool to monitor climate change impact on TCR's loan portfolio.
- Expected Results: report on climate change risks for TCR's loan portfolio, monitoring tool for climate change risk developed, and recommendations on how to mitigate the risk will help TCR take strategic decisions that take climate risks into consideration.

4.3 **Component 3: Develop a sustainable green finance product.**

- Description: The project's main goal is to identify opportunities for demand driven green finance that will help micro entrepreneurs access and use clean energies and energy efficiency. The consulting consortium (MEIC) will first complete a market study to determine whether energy efficiency, clean energy or a combination of both is required. Once the market potential has been identified, the consortium will design a green finance product that will be tested in a pilot project for 100 micro and small entrepreneurs. The pilot will then be evaluated with the objective of adapting the product for larger scale. The consortium will support TCR during the launching of the larger scale initiative.
- Activities include (i) TCR portfolio segmentation by client economic activity and energy consumption; (ii) demand side market analysis; (iii) supply side market analysis; (iv) evaluation of green technology suppliers/energy efficiency initiatives; (v) hiring technical assistant for energy to be responsible for the green finance product (vi) design of green finance product and elaboration of operational guide; (vii) technical assistance for sales force and management; (viii) implementation of pilot project; (ix) pilot evaluation with recommendations for (ix) launching the product at a larger scale.
- Expected Results will include one market study, one operational guide of the green finance product including technologies to be financed, sales force trained, implementation of a pilot project for at least 100 micro and small entrepreneurs,⁹ pilot project final report with key considerations for scaling up strategy and launch.

4.4 **Component 4: Knowledge capturing and dissemination activities.**

⁸ The percentage of GHG reductions to be achieved will be determined once the baseline is determined.

⁹ The data of the pilot will be disaggregated by gender

- **Description:** One of the main components of the EcoMicro Program relates to capturing, synthesizing and disseminating the knowledge generated at the project level, including lessons learned, best practices, and key factors for success.
- **Activities:** The consulting consortium will provide a full report, compiling project deliverables, the credit methodology, and highlighting major challenges and key factors for success. The report will include a case study of no more than 5 pages in the format provided by the MIF and will feed into the General Program's Knowledge and Dissemination Component, which will disseminate credit products, methodologies, and case studies through publications, the program website, and events.
- **Expected results:** one full report on overall project implementation which includes a case study. TCR has agreed to provide data at impact level by 2015 and will be willing to participating in future workshops and seminars organized by the MIF in order to share its business case and lessons learned.

4.5 **List of Standard Indicators for the Program.** The project will contribute to develop the MIF Agenda "Expanding access to clean and efficient energy" in developing financing structures that are suitable to attend the demand of green financing from MSMEs and low income people. The project will also contribute to the Adaptation agenda by implementing activities of Module 2: Assessing Loan Portfolio Vulnerability to climate change. The Project will include different sets of indicators depending on the beneficiaries.

- When considering the MFIs as a beneficiary, project indicators will include the following Clean Energy Agenda indicators: (i) number of finance products for clean energy and energy efficiency provided, (ii) financing mobilized in US\$ for financing of clean energy and energy efficiency and (iii) energy savings in kWh. The tool for monitoring climate change risk impact in loan portfolio will contribute to the Adaptation Agenda: "implementation of adaptation models".
- When considering MSMEs as a beneficiary, project indicators will include the following Clean Energy Agenda indicators: (i) number of MSMEs receiving at least one green finance product, (ii) energy costs savings (in \$) for MSMEs, (ii) energy savings in kWh for MSMEs (as consumers).
- When considering the environment as a beneficiary, the project will include the following Clean Energy Agenda indicators: GHGs emissions reduced.

4.6 **Relation of TCR's project to the EcoMicro Program objectives.** The execution of the TCR project under the Program will seek to prove a sustainable business case in clean energy and energy efficiency for MSMEs and low-income people. Additionally, the project will contribute to building MIF's knowledge on innovative business models and sustainable financing structures for clean energy and energy efficiency. This knowledge will be compiled and used in the execution of future projects of EcoMicro and will be shared with international audiences under Component 3 of the broader Program: Knowledge Capturing and Dissemination.¹⁰

4.7 **Project relation to MIF objectives.** Although the project does not have a specific gender angle and will serve both women and men indistinctively, data provided by

¹⁰ Activities of the EcoMicro Program Component 3 knowledge and dissemination include: compilation of case studies of each project executed, a how-to guide to facilitate extrapolation of the Program lessons learned, annual workshops and dissemination events that will take place at least twice a year, and a wrap up publication that will gather all relevant experiences at the end of the Program.

TCR in order to complete the indicators will be disaggregated by gender. The focus on micro entrepreneurs in the poorest areas of Mexico including Chiapas (where TCR has the highest number of agencies) will contribute to poverty targets.¹¹ Furthermore, indigenous people will benefit from the project as they currently represent 9% of TCR's loan portfolio. The innovative aspect of the project seeks to develop sustainable green finance that ensures market viability of the product and develops markets of clean and efficient technologies for MSMEs and low-income people. TCR has already identified a clean energy provider GENERSYS interested both in supplying clean energy devices during pilot phase and in participating in the scaling up phase if pilot is successful.

V. Budget

- 5.1 The total budget of the project is US\$ 400,610. The MIF will contribute with US\$ 280,000 of non-reimbursable resources. Counterpart contribution will be US\$ 120,610; half in cash and half in kind. The expected execution period for this Project is 18 months and the expected disbursement period is 20 months. The project budget does not allocate resources for Contingencies, Audit and Evaluations as these are already covered in the budget by the broader Program RG-M1205.

¹¹ Chiapas region scored a poverty index of 75.4 vs. total Mexico poverty index of 52.0 (2010 data) Poverty map: <http://geocommons.com/maps/182270>

Components	Funding (in US\$)				
	MIF funds	Counterpart in Cash	Counterpart in kind	Total	%
Component 1: Greening the Institution	23,860	320	-	24,000	6 %
Component 2: Address Loan portfolio vulnerability to climate change	40,000	1,860	-	41,860	10.5%
Component 3: Develop sustainable green finance product	181,820	46,700	10,000	244,050	62.7%
Component 4: Knowledge Capturing and Dissemination	29,000	-	-	29,000	7.3%
Administration	5,500	5,500	50,700	61,700	15.4%
Total in US\$	280,000	59,910	60,700	400,610	
Total per line of funding in %	70%	15%	15%	100%	100%

VI. Beneficiaries

- 6.1 Access to green finance will benefit both TCR clients and TCR itself. TCR will target two main client groups: micro-entrepreneurs for whom the average loan size is below US\$ 5,000 and small companies for which the average loan size is more than US\$5,000.¹² The pilot project will target 100 micro-entrepreneurs in Chiapas and Sonora, and once the product is launched, TCR goal is to achieve 2.5% of green finance within its total loan portfolio by 2015.
- 6.2 TCR will diversify its product offer and increase sales and profits. The product design and pilot phase will be crucial to determine required results to achieve break-even. TCR will also benefit from the implementation of the three module approach by decreasing its operational energy costs, improving climate change risk management and strengthening its corporate social and environmental responsibility.
- 6.3 The Environment is also a beneficiary. TCR will reduce its direct environmental footprint and will follow environmental management policies and safeguards for their lending activities.

¹² TCR will provide data consistent with MIF classification of micro entrepreneurs and small companies.

VII. Executing Agency

The Executing Agency: Te Creemos

- 7.1 The Project will be executed by Te Creemos, a regulated MFI created in 2005 that provides loans, savings and micro insurance for MSMEs and low-income population in Mexico. TCR serves 80,000 clients with an average loan size of US\$ 386 through a network of 80 offices and more than 1000 employees. In the report: 'Microfinance 100 LAC', developed and published by the MIF in 2011, TCR was ranked 26th of the top 100 MFIs in the region and the 5th fastest growing institution.¹³ Offices are spread throughout the country but have the highest number of office in Chiapas and Sonora.¹⁴ TCR gross loan portfolio is US\$ 28.1 million and deposits are US\$ 17.8 million.
- 7.2 An Executing Unit (EU) will be created and will directly report to management. The Director of green product will be a permanent staff of TCR who will devote special time to this project. His/her responsibilities will include: a) annually develop and approve the Annual Operative Plan (AOP), and b) evaluate supervise progress made in each Module. The EU will also hire Technical Assistant that will be having a twofold role: a) control all administrative and financial processes; and b) be knowledgeable of the technical specificities of the underlying technologies to be financed.

VIII. Risks

- 8.1 **Limited appetite of clients for TCR green finance instruments.** The Project will address limited demand by devoting significant resources to market study and product design. TCR will have a Technical Assistant within the Executing Unit that will have expertise in the underlying green finance products (i.e. clean energies and energy efficiency). This will be crucial for ongoing training and reference of TCR credit officers. Finally, the pilot project will serve to evaluate the green finance product and adjust it to demand before launching at a larger scale.
- 8.2 **Previous negative experiences with low quality clean energy devices can become a big barrier for green finance appetite.** In Mexico, previous experiences with solar devices of poor quality provided by government programs have created bad precedent for demand of these devices. The Project will address this limited appetite by offering a guarantee period in the case of clean energy devices and savings calculations in case of energy efficiency.
- 8.3 **Green finance instruments could require new credit methodologies that will affect TCR asset-liability management.** Green finance loans could imply larger loan amounts and longer repayment periods. TCR might find it risky both to increase loan size and repayment periods as their success is based on managing small short-term loans. Consulting consortium will address this risk by considering asset liability management of TCR balance sheets and train risk management officers on this matter. New credit mechanisms might include energy savings as part of loan repayment reducing the amount of regular payment installments and collateral by using clean energy devices as the

¹³<http://www.themix.org/sites/default/files/2011%20Microfinance%20Americas%20The%20Top%20100.pdf>

¹⁴ TCR covers several regions with high index of poverty. The highest number of offices is in the poorest region of Chiapas 30 offices in a region with poverty index of 78.4. TCR also have offices Puebla (poverty index 61), Tlaxcala (poverty index 60), and Guanajuato, Yucatan and Campeche with poverty index above 45. <http://geocommons.com/maps/182270>.

guarantee for the repayment of the loan, therefore reducing risk. Finally, partnerships with energy companies or other players might help reach greater scale and reduce unit costs and therefore loan amounts.

IX. Execution of the project

- 9.1 The annual execution mechanism will be detailed in the Annual Operating Plan (AOP) that will clearly define responsibilities of the MEIC consulting consortium and, more specifically, of each firm within the consortium.
- 9.2 **Project Supervision.** TCR will be responsible for compiling and analyzing relevant information for the ongoing monitoring of project execution and the indicators established in the Logical Framework (see Annex I). TCR's management information system will generate the institutional information required for that purpose.
- 9.3 Within the IDB/MIF, MIF staff at the Bank's Country Office in Mexico will be responsible for the activities of monitoring and supervision of the Project, ensuring the compliance with the contractual clauses and disbursement procedures. It will be supported by MIF/ABS for technical supervision, and will be supported by MIF/DEU and MIF/KSC for the exchange of information and lessons learned from similar projects, and communication and dissemination activities, respectively. MIF/ (CME) will also be in charge of receiving the audited financial statements or similar. To that end, the EA will provide with all reports required by the MIF for the correct execution of the Program.
- 9.4 **Reports.** TCR 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. These reports are necessary to comply with the Program Evaluation Plan that requires annual reports to the Donors' Committee describing the progress performance and all recorded results.
- 9.5 **Results-based disbursements.** The Project will be monitored by the MIF specialist in Mexico in accordance with the performance and risk management policies (fulfillment of milestones) established by the MIF in April 2008. Project disbursements will be contingent upon verification of the achievement of milestones¹⁵. These milestones will be verified using their means of verification, which will be agreed upon between the

¹⁵ Milestones are activities or outputs critical to achieving the development objectives and must be determined jointly by the executing agency and the MIF. They may be revised and reprogrammed during the project implementation. The Executing Agency may also request that the Bank modifies the milestones with a limit of 2 times and provided that the corresponding deadlines have not expired. Fulfillment of milestones does not relieve the EA of the responsibilities to meet the indicators set forth in the Logical Framework

Executing Agency and the MIF. Achievement of milestones does not exempt the Executing Agency from the responsibility of reaching the logical framework indicators and project's objectives. 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 EA and will reflect the activities and costs scheduled in the annual planning exercise. Disbursements will be made when the EA requests them to continue normal project implementation and after it is confirmed that no milestones are pending at the time of the request.

- 9.6 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. In the event that milestones are not reached, the MIF and the MIF/(CPE) will assess the severity of the situation and take appropriate measures to ensure that this does not have an impact on project implementation and /or achievement of the objectives. The amount of subsequent payments will be calculated based on the needs derived from each activity scheduled within the scope of next milestone. Supporting documentation of requests for replenishments will be required by the MIF and will be revised in an ex-post basis.
- 9.7 **Conditions Prior.** The first disbursement (Milestone 0) will be made when the operation is approved. Approval will be granted once the MIF General Manager signs the contract and upon fulfillment of the following conditions in addition to those set by the Bank's Agreement: presentation of an EU including a Project Director and a Technical Assistant as well as the terms or reference for the consultants. The second disbursement will require the approval of the annual plan and the signed contract of the consultants. The amount of successive disbursements will be calculated based on the Project's spending needs to cover the costs of the activities programmed for the period in question.
- 9.8 **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 <http://mif.iadb.org/projects/prjdocTech.aspx?proj=ME-M1082>. 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.

- 9.9 In accordance with the procurement policies described in the paragraph 5.4, and with the procedures described in 5.5, 5.6, 5.7, 5.8 and 5.9 of the Donors Memorandum of the EcoMicro Program (RG-M1205), Donors approved the selection of a pre-qualified consulting firm by the MFIs prior to project approval.¹⁶ It is market practice in the private sector that consulting firms support executing agencies during the project design phase, with no contractual assurances that the funds will be disbursed and with the sole purpose of being awarded with project implementation.¹⁷ During the first round of the EcoMicro Program, the 4 selected MFIs evaluated and selected among pre-qualified consulting firms, through quality based selection method (QBS) in line with Bank's policies and procedures for the private sector.¹⁸ As a result, TCR selected MEIC consulting consortium. After the MIF General Manager approves the project, TCR will hire MEIC referring to the quality based selection method used before project approval.
- 9.10 **Financial Management and supervision.** TCR 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 <http://mif.iadb.org/projects/prjdocTech.aspx?proj=ME-M1082>.
- 9.11 TCR 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 as part of its financial management. The costs associated with this contract will be financed with the MIF contribution resources according to IDB procedures.
- 9.12 **Evaluations.** As part of component 3, a baseline study will be conducted in order to set the starting point of the indicators included in the logical framework. The baseline survey will include questions about the microenterprises current situation in their business performance and energy consumption patterns. A final project evaluation will be carried out when 90% of the MIF contribution has been disbursed or 16 months of the execution period have elapsed. This evaluation will include a survey to the microenterprises to assess the changes in their situation. The evaluation will identify the key factors needed to build a sustainable business case on green finance. Furthermore, the evaluation will include the following aspects: (i) analysis of the results achieved in comparison with the baseline and the objectives set forth in the Logical Framework; (ii) scalability of the project; (iii) institutional capacity of the Execution Agency; (iii) efficiency, efficacy, coverage, relevance and sustainability of execution; (iv) best practices and lessons learned for future replicability; and (v) fulfillment of the pari passu of the counterpart financing. This report should include lessons learned to achieve sustainable business models and will indicate any corrective

¹⁶ The MIF pre-qualified consulting firms as eligible for MFIs selection in accordance to the execution mechanism specified in the paragraph 5.4 of the EcoMicro Program (RG-M1205) Donors Memorandum.

¹⁷ Funds can only be disbursed after project design and approval by MIF General Manager.

¹⁸ MFIs completed a quality criteria evaluation matrix based on the IDB manual "Standard Request for Proposals" Section II in order to select one of the eight pre-qualified consulting firms.

measures needed to ensure a better execution of other Projects under the Program. The MIF will commission the evaluation with resources from its contribution. An evaluation and dissemination workshop will be held upon project completion to evaluate and disseminate project results

X. Recommendation

- 10.1 The project Team Leader, Gregory Watson recommends the approval of this operation by the MIF Manager, under the Delegation of Authority granted by the Donors Committee in October 5th, 2011 and the use of resources from the Fund totaling up to US\$ 280,000 in order to finance the corresponding project.

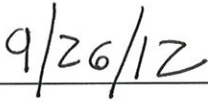
XI. MIF General Manager Approval

- 11.1 I hereby approve, in accordance to the Delegation of Authority provided by the Donors Committee on October 5th, 2011 MIF/AT-1143, up to US\$280,000 for the financing of the project "Te Creemos Mexico" ME-M1082, the "Project", to be considered as part of the EcoMicro Program.
- 11.2 That the resources of the Project shall be utilized to finance the activities described and budgeted in this document chargeable to the resources of the MIF under the EcoMicro Program (RG-M1205) in a non-reimbursable basis.
- 11.3 The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country.
- 11.4 No resources of the Program shall be made available to cover amounts greater than the amount certified herein above for the implementation of this TC Brief.

Approved



 Nancy Lee
 MIF General Manager



 [Date]