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MULTILATERAL INVESTMENT FUND

JAMAICA

**ACCESS FINANCIAL SERVICES: GREEN MICROFINANCE FOR
CLEAN AND EFFICIENT ENERGY**

(JA-X1010)

**ECOMICRO FACILITY
(RG-M1205) (RG-X1131)**

PROJECT DOCUMENT

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PROJECT SUMMARY

ACCESS FINANCIAL SERVICES: GREEN MICROFINANCE FOR CLEAN AND EFFICIENT ENERGY

(JA-X1010)

Jamaica has the third highest electricity rate in Latin America and Caribbean, a consequence of the country's heavy reliance on imported fossil fuels for electricity generation.¹ According to IDB's Jamaica national plan one of the big impediments for growth is the price of energy with electricity prices for Jamaican residents and business among the highest in the world. Moreover, studies from the World Watch Institute in 2013, suggest that one of the solutions to this energy challenge could come through the use of renewable energy.

The EcoMicro project will support the microfinance institution Access Financial Services Limited (AFSL), one of the largest MSME lending institutions in Jamaica, with technical assistance to develop a new green financial product. Its clients are already experiencing difficulties in running their business due to high electricity costs. Moreover, in a complex and fragmented microfinance market, AFSL emerges as one of the few financial institutions that have a clear social focus to serve microentrepreneurs.

The MIF in partnership with the NDF, through the EcoMicro facility (RG-M1205) (RG-X1131) provides technical assistance to microfinance institutions to develop and test green finance products. This is the tenth EcoMicro project, and the first in an English speaking country. The consulting firm Frankfurt School of Finance and Management (FSFM) will work with AFSL to develop the green finance product. This product is targeted to low income households and micro, small and medium enterprises across Jamaica. The project expects to increase micro-entrepreneurs and small companies' competitiveness and to increase low-income households' disposable income through better management of energy costs.

Together with the other EcoMicro projects, the MIF expects to expand its knowledge of climate change mitigation and climate adaptation interventions through MFIs. The project with AFSL will contribute to demonstrate that the green financial products can be sustainable over time and that they are an appropriate mechanism to ultimately increase disposable income of low-income households as well as small companies' competitiveness.

¹ Climatescope 2014, <http://global-climatescope.org/en/>

ANNEXES

ANNEX I	Logical Framework
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ACRONYMS AND ABBREVIATIONS

AFSL	Access Financial Services Limited
AOP	Annual Operating Plan
DNA	Diagnostic of Executing Agency Needs
FSFM	Frankfurt School of Finance and Management
IADB	Inter-American Development Bank
LAC	Latin America and the Caribbean
MFI	Microfinance Institution
MIF	Multilateral Investment Fund
MSME	Micro, Small and Medium Enterprise
NDF	Nordic Development Fund
OR	Operating Regulations
PCU	Project Coordination Unit
QED	Quality for Effectiveness in Development
TOR	Terms of Reference

ACCESS FINANCIAL SERVICES: GREEN MICROFINANCE FOR CLEAN AND EFFICIENT ENERGY

(JA-X1010)

Country and Geographic Location:	Jamaica. The project will be implemented in the parishes of Kingston, St Catherine, Manchester and Montego Bay		
Executing Agency:	Access Financial Services Limited (AFSL)		
Access Area:	Access to Basic Services and Green Growth		
Agenda:	Expanding access to clean and efficient energy		
Green Financial Product type:	Green loan for MSMEs and low-income households for the purchase of energy efficiency and renewable energy technologies		
Direct Beneficiaries:	The pilot project will benefit 100 MSMEs and low-income households		
Indirect Beneficiaries:	Other AFSL clients and other Microfinance Institutions in Jamaica through dissemination of experience and lessons learned		
Financing:	Co-financing from the Nordic Development Fund:	US\$ 284,000	68%
	Counterpart:	US\$ 129,700	32%
	TOTAL PROJECT BUDGET:	US\$ 413,700	100%
Execution and Disbursement Period:	21 months of execution and 27 months of disbursement.		
Special Contractual Conditions:	Special conditions prior to first disbursement will be: readiness of the terms of reference for the consulting firm Frankfurt School of Finance and Management		
Environmental and Social Impact Review:	This operation was screened and classified as required by the IDB's safeguard policy (OP-703). Given the limited impacts and risks, the proposed category for the project is C.		
Unit with Disbursement Responsibility:	This project will be supervised by the MIF Country Office Jamaica (MIF/CJA)		
Selected Consulting Firm:	The selected consulting firm is Frankfurt School of Finance and Management ²		

² The selection of consulting firm followed the criteria established in the EcoMicro Facility document (RG-M1205)

1. BACKGROUND AND JUSTIFICATION

A. Diagnosis of the Problem to be addressed by the Project

- 1.1. **The program.** The EcoMicro Program (RG-M1205) is a US\$ 7 million facility, 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 Latin America and the Caribbean (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 facility is to train at least 12 microfinance institutions (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.
- 1.2. **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 third round, a MIF Selection Committee selected four MFIs to implement 4 projects: Fundacion Paraguaya (Paraguay), Sembrar Sartawi (Bolivia), Fundacion Coomeva (Colombia) and Access Financial Services Limited (AFSL) (Jamaica)³. This project (JA-X1010) corresponds to the initiative of AFSL in Jamaica, to facilitate green finance for MSMEs and low-income households to implement clean and efficient technologies.
- 1.3. **Consulting firm involvement during design phase.** In accordance with paragraphs, 5.4, 5.5, 5.6, 5.7, 5.8 and 5.9 of the Donors Memorandum of the EcoMicro Program RG-M1205, the selection of consulting firms by the MFIs occurred following a competitive process prior to project approval. Since the beneficiary 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 consulting firm during the design phase is compliant with the Bank's policies.
- 1.4. This project constitutes a proposal for the MIF General Manager's approval of the EcoMicro project for AFSL (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 week 23, 2015.

B. Diagnosis of the problem to be addressed by the project

- 1.5. According to IDB's Jamaica National Plan, one of the big impediments for growth is the price of energy. Electricity prices for Jamaican residents are among the highest in the world, at around 40 U.S. cents per kilowatt-hour, having more than doubled between 2005 and 2011 as a result of rising global oil prices and electricity grid losses. The price of electricity is a major barrier to Jamaica's economic development and a leading cause of business failure in the country. Moreover, the reliance on fossil fuels for power generation also results in high local pollution and healthcare costs and contributes to global climate change⁴.

³ 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.

⁴ Worldwatch Institute 2013. Jamaica Sustainable Energy Roadmap

- 1.6. An informal assessment run by AFSL to its clients in the parish of St Catherine highlighted clients' concerns about high electricity costs as well as their interest in remedying this situation. Yet, the assessment also showed that these businesses and households lacked the information and resources required to make their business and home more energy efficient. Moreover, on the supply side, perceived risk and the need for capacity building impede microfinance institutions investments in sustainable energy solutions for their clients⁵. Major challenges faced relate to the absence of financial sustainability of green financial products once subsidies disappear and to the management of credits that are typically longer in tenor and for a larger amount; unusual for these MFIs.
- 1.7. This project will help AFSL respond to the energy efficiency needs of their clients. The project will conduct market studies to assess the demand for energy solutions across different sectors and demographics. It will also identify the most appropriate technology to meet the needs of that demand and help AFSL develop a sustainable green financial product.
- 1.8. Moreover, the Microcredit sector in the Caribbean remains small despite the growth experienced in the past two years. Given the high percentage of entrepreneurs that are not given access to credit, the microcredit sector offers potential for significant expansion. Particularly in Jamaica, AFSL has made a significant contribution to the microfinance sector development, which is essential to job creation and economic growth. Given the difficulty to delimit boundaries between "true" microcredit and professional moneylending⁶ in Jamaica, AFSL has emerged in the Jamaican market as one of the few private institutions with a clear social focus targeting formal and informal micro-entrepreneurs with business loans. Licensed moneylending⁷ institutions serve the low income market. These institutions count among them, MFIs affiliated with major banks, as well as independent providers like AFSL. AFSL' micro business clients operate in all major sectors of the economy including the service, manufacturing, trading and agricultural sectors.
- 1.9. **Lessons learned from previous experiences in green microfinance and in microfinance in the Caribbean.** This project will take into account lessons learned from other green microfinance projects financed by EcoMicro in the region, from the Carib-Cap initiative (RG-M1106 and RG-M1208) and the SEP project being currently executed by AFSL (JA-S1002). From the Carib-Cap initiative, an MFI capacity-building program in the Caribbean to increase financial performance of MFIs, a key lesson learned is that in order for technical assistance to be effective, the MFI needs to consider the new product that will come out of the technical assistance as part of its strategic growth plan and dedicate adequate resources to it.
- 1.10. AFS has been executing a SEP project with the MIF on improving access to financial services of rural micro-entrepreneurs in Jamaica during the last 2 years; several lessons have been learned as explained by the project coordinator, including that (i) building capacities through training the trainers methodology was not successful, it worked better when training was received directly, and (ii) changing the mindset of credit officers through awareness and training as well as alignment of incentives is essential.

⁵ Worldwatch Institute 2013. Jamaica Sustainable Energy Roadmap

⁶ Moneylender are also pejoratively known as "loan sharks"; their loans are generally short-term, disbursed quickly and with no cash collateral.

⁷ In Jamaica all non-bank lending operations are subject to the "Moneylending Act", including payday lenders professional moneylenders and microfinance institutions. Institutions are licensed, regulated and supervised under the act, though supervision is much less stringent than for banks, focusing mostly on the protection of credit consumers. An interest rate cap of 40% applies, but lenders with social focus, such as MFIs may apply for an exemption.

C. Project Beneficiaries

- 1.11. Direct beneficiaries of this project will be 100 MSMEs and low-income households⁸ in the parishes of Kingston, St Catherine, Manchester and Montego Bay. AFSL will implement the pilot project in different areas and markets of Jamaica in order to get enough information for the roll-out of these new green loans across all their branches. AFSL will target two client groups: micro-entrepreneurs for whom the average loan size is US\$ 550 and low-income households with an average loan size of US\$ 900. It is expected that MSMEs will improve their competitiveness through a reduction of their energy costs as a result of the use of the clean energy or the energy efficiency. This pilot will be the base for the larger scale launch; AFSL's goal is to roll-out the new green financial product in all of its branches making it a financial product they offer to all their clients. More specifically, their strategic objective is to increase the MSME portfolio from a current 20% to up to 50% within the next three years. Both MIF projects (SEP) and EcoMicro will be the major contributors to reach this goal.
- 1.12. AFSL is facing increased competition from other MFIs, this new product will allow them to diversify their product offerings and differentiate themselves from other institutions providing microcredit. The product design and pilot phase will be crucial to determine required results to achieve break-even and to make the new financial product sustainable and financially attractive to clients. AFSL 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 responsibility.
- 1.13. **Gender considerations.** Indicators will be disaggregated by gender. The market study will analyze demand and will determine which clients – men or women - would be best suited to participate in the pilot project. In this respect, the market study will also analyze the preference of different client segments, including women-led businesses and female headed households. 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.
- 1.14. **Benefits for the environment.** The environment will also be benefited. Tourism and agriculture are the largest employers in Jamaica and contribute to most to its GDP. Current higher oil-based generation increases the concentration of local pollutants in the air, hurting the agricultural sector by damaging crops and fisheries and hurting the tourism sector by exponentially increasing beach erosion.

D. Contribution to MIF Mandate, Access Framework and IDB Strategy

- 1.15. **Relation of AFSL project to EcoMicro program objectives.** The execution of the AFSL project will seek to prove a sustainable business case in clean and efficient energy for MSMEs and low-income households. Additionally, the project will contribute to MIF's knowledge on innovative business models and sustainable financing structures for clean energy and energy efficiency. This knowledge is being compiled and it is used for the design and execution of all EcoMicro projects. Various knowledge products generated at different EcoMicro projects, such as, fact sheets, case studies and the standard semiannual reporting are used to design subsequent EcoMicro projects. This knowledge will be shared with international audiences under Component 3 of the

⁸ The market study will be used to further define the target population.

broader program: Knowledge Capturing and Dissemination.⁹ In particular, this project will help build critical knowledge of green microfinance in the Caribbean to be used in a potential extension of the EcoMicro program to a larger number of Caribbean countries.¹⁰

- 1.16. **Link to the Agenda.** This project is part of the MIF's Access Framework to Basic Services and Green Growth, within the strategic clean and efficient energy agenda. This project is in line with the agenda's objective of facilitating access for MSMEs and households to energy that is clean and efficient through commercially viable business models.

2. PROJECT DESCRIPTION

A. Objectives

- 2.1. **The objective.** The Project goal is to increase MSMEs' competitiveness and to increase low-income households' disposable income through better management of energy costs. The purpose will be to develop MSMEs and low-income households' use of green finance product for clean and efficient energies solutions that can reduce operational costs through energy savings.
- 2.2. **Project Impact.** The project will improve competitiveness of MSMEs through reduction of energy costs and increase of disposable income of households through lower energy costs.
- 2.3. **Systematic Impact.** This project with AFSL will contribute to the EcoMicro's program systemic impact: facilitation of the use of green financing instruments by MSMEs and low-income people in order to either (i) increase access to clean and efficient energy products and services, and (ii) assists in adaptation to climate change.
- 2.4. **Project Results.** The expected result of this project is that clients of AFSL use green loans to access clean and efficient energy solutions.

B. Description of Model

- 2.5. **The Model or proposed solution.** The EcoMicro intervention model takes a holistic approach with three modules at the institutional level. AFS will be: (i) greening the institution by developing environmental policies, reducing carbon footprint and educating management and staff in green habits; (ii) assessing its loan portfolio vulnerability to climate change, and (iii) developing a sustainable green finance product based on AFS 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. AFS green finance product will be tested in a pilot that will allow revising the product prior to a larger scale launch. The success of the project will be dependent on achieving a successful product for both the MFI and its clients.

C. Components

Component I: Greening AFS Operations (NDF: US\$ 48,000; AFS: US\$ 16,500)

⁹ 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.

¹⁰ Potential extension of EcoMicro in the Caribbean is currently being considered.

- 2.6. 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 AFSL Headquarters and 3 selected branches and the implementation of an energy efficient action plan that will reduce AFSL direct carbon footprint.
- 2.7. The activities and products of this component are the following: diagnosis of energy efficiency of AFSL at the institutional level, development of a methodology and tool for measuring its carbon footprint (GHG accounting methodology and a GHG baseline); design and implementation of an environmental policy, and an energy efficiency baseline of AFSL. The results and impacts of this component include reductions in AFSL's energy costs and CO2 emissions. These will be determined once the energy efficiency diagnosis and GHG baseline are determined.

Component II: Loan portfolio assessment of climate change risk (NDF: US\$ 35,000; Counterpart: US\$ 7,600)

- 2.8. The objective of this component is to analyze AFSL loan portfolio to assess its vulnerability to climate change. The analysis will include a map of climate change risks and their specific impact for AFSL clients. The consulting firm will develop a monitoring tool for this new type of risk and will provide recommendations to reduce AFSL exposure with specific courses of action, when appropriate. AFSL relevant staff will be trained on how to use the climate change risk management tool.
- 2.9. The activities of this component include mapping climate change risk of AFSL clients, designing risk management tool to monitor climate change impact on AFSL's loan portfolio. The products include a report on climate change risks of AFSL's loan portfolio, a monitoring tool for climate change risk, and recommendations on how AFSL can mitigate this risk and make strategic decisions that take climate risks into consideration.

Component III: Development of a green financial product (NDF: US\$ 128,000; Counterpart: US\$ 71,100)

- 2.10. The objective of this component is to identify opportunities for demand driven green finance that will help micro entrepreneurs access and use clean and efficient energy solutions. The consulting firm 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 MSMEs and low-income households. The pilot will then be evaluated with the objective of adapting the product for larger scale. The consortium will support AFSL during the design of the larger scale initiative.
- 2.11. The activities and products of this component are the following (i) AFSL 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) design of green finance product and elaboration of operational guide; (vi) technical assistance for sales force and management; (vii) implementation of pilot project; (viii) pilot evaluation with recommendations for launching the product at a larger scale. The products 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 and low-income households¹¹, pilot project final report with key considerations for scaling up strategy and launch.

Component IV: Knowledge Management and Communications Strategy. (NDF US\$12,000; Counterpart US\$ 0,00)

- 2.12. The objective of this component is to capture, synthesize and disseminate the knowledge generated at project level, including lessons learned, best practices, and key factors for success. One of the main components of the EcoMicro facility is directly related to the systematization, documentation and dissemination of the knowledge generated by each of the individual projects of the facility.
- 2.13. The activities and products of this component are an annual fact sheet and a case study, highlighting major challenges and key factors for success of no more than 5 pages long and it will be produced in a format provided by the MIF. It 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. Additionally, an event will be organized to gather local clean energy technology providers and other interested MFIs in the country to showcase the results from the project. It is also expected that AFSL will participate to showcase its experience with MIF projects during Foromic 2016 to be organized in Jamaica.

D. Project Governance and Execution Mechanism

- 2.14. AFSL will be responsible for the execution of this project and will establish and executing unit within the organization. This unit will be at AFSL premises in Kingston and it will be composed of one project coordinator that will be supported by one project officer will both will ensure that activities are executed according to plan. The coordinator will also be in charge of reporting on progress of the project as well as its administration according to guidelines of the IDB/MIF. Some other responsibilities of the coordinator will include: (a) the preparation and update of the Annual Operating Plan (AOP) (b) supervision and coordination of consulting firm activities and of those any other strategic party in the project to ensure relating products and results are delivered in time and (c) control and administration of project's activities as well as all financing activities required by FOMIN. The executing unit will have the support of the Credit and Operations Group, responsible for all microfinance operations including risk and business development. These departments will have access to decision making points and will work in close collaboration with the executing unit to ensure effective execution of all activities and administration of its resources.
- 2.15. Supervision of the consulting firm and other partner in the project. The annual execution mechanism will be detailed in the Annual Operating Plan that will clearly define responsibilities of the consulting firm. AFSL will be responsible for collecting and analyzing the information required to control de execution of the project as well as the indicators detailed in the Logframe (see Annex I). AFSL will also coordinate all parties involved in order to generate information relative to the achievement of impact and results. Finally AFSL will complete Progress Status Reports every 6 months. The project will be supervised from the Jamaica MIF office.
- 2.16. According with Bank's policies described in the Appendix 4 of Bank procurement policies GN-2350/9, the selection of consulting firms was executed prior to project approval. It is market practice that consulting firms support executing agencies during

¹¹ This data will be disaggregated by gender.

the design phase, without any contractual assurances that funds will be disbursed to them¹². Once approved by MIF General Manager, AFSL will hire Frankfurt School of Finance and Management.

E. Sustainability

- 2.17. AFSL is a well-established financial institution with 14 years in the market. They are one of the leading financial institutions in Jamaica providing financial services to micro-entrepreneurs with 20% of its portfolio in MSME loans. While this amount seems low compared to other markets in Latin America, it is high in Jamaica. This market is very particular due to the large number of licensed Moneylending entities that serve low-income populations.¹³ Moneylenders are entities that serve the low income market, including business loans. AFSL is also registered with the junior stock exchange of Jamaica to which they report on a quarterly basis. This listing is a tool to obtain funding at a reasonable cost as they are not allowed to take on deposits from the public. Lessons learned to be generated during the pilot phase as well as all the knowledge generated will be used to scale the green loan and implement it across all the branches. One of the key elements of the green financial product to be closely analyzed during the pilot phase will be its profitability so it is self-sustainable in the long term. The new loan that will be created will help them diversify their offer in a very competitive market as well as to lower their internal operational costs through the recommendations on how to become a greener institution.

F. MIF Additionality

- 2.18. **Non-Financial Additionality.** EcoMicro projects include activities relating to mitigation (reduction of GHG emissions) and adaptation to climate change.
- 2.19. These have traditionally been difficult to combine in projects with MSMEs, low-income households and smallholder farmers as beneficiaries, which are at the same time the most vulnerable to climate change. The MIF is a unique partner to lead projects with a significant level of risk and to generate the relevant knowledge to interested audiences (including public sector authorities involved with climate change policies, civil society and the international community).
- 2.20. **Financial Additionality.** The EcoMicro program includes institutional and financial capacity as selection criteria to comply with counterpart contribution rules.¹⁴ In exceptional cases, the MIF could also work as an intermediate party to mobilize additional resources. In the case of AFSL, all selection criteria were met and AFSL has enough resources for the counterpart contribution. MIF financial participation is critical for developing the project since it requires a very technical level of knowledge that EcoMicro has developed through its completed and in execution projects. Moreover, EcoMicro allows AFSL to access experienced consulting firms in the green microfinance space, qualified to help AFSL to address the risks in the Jamaican energy market. While MFIs are aware of energy problems their clients are facing they do not have tools, knowledge and strategies to address them. EcoMicro provides with capacity necessary for the MFI to tackle those problems in a sustainable way.
- 2.21. **Alignment with the Bank's country strategy.** In coordination with the Jamaican Government the Bank has identified three priority sectors for support. This initiative falls

¹² Funds can only be disbursed after project design and approval by MIF General Manager.

¹³ Building up Business: Microenterprise demand for credit in the Caribbean 2014

¹⁴ Section 3.11 Selection criteria in the Donors Memorandum in EcoMicro Program RG-M1205.

under the priority of supporting and facilitating private sector development¹⁵. Specifically through this initiative the MIF will complement ongoing MIF initiatives in particularly the Adaptation to Climate Change project within the Pro-Adapt facility.

3. COST AND FINANCING

- 3.1. The project has a total cost of US\$ 413,700, of which US\$ 284,000 (68%) will be provided by the NDF, and US\$ 129,700 (32%) by the counterpart. The execution period will be of 21 months and the disbursement period will be of 27 months. The budget does not contemplate funds for contingencies, evaluations, agenda account and impact evaluations since these are covered at the regional program level (RG-M1205).

	NDF	Counterpart in Cash	Counterpart in Kind	Total
Project Components				
Component 1. Greening Institutions	48,000	10,000	6,500	64,500
Component 2. Climate Change Risk Assessment	35,000	5,000	2,600	42,600
Component 3. Green Financial Product	128,000	50,000	21,100	199,100
Component 4. Knowledge Management and Communication Strategy	12,000	0	0	12,000
Execution and Supervision Components				
Administration	49,000	0	34,500	95,500
Ex post reviews	12,000	0	0	12,000
Grand Total	284,000	65,000	64,700	413,700
% of Financing	68%	16%	16%	100%

4. EXECUTING AGENCY

- 4.1. AFSL will be the Executing Agency of this project and will sign the agreement with the Bank. It is a leading provider of micro business, small business and personal loans. The company began operations in 2000 and was the first company to list on the Junior Stock Exchange of Jamaica in 2009. AFSL is one of the premier providers of microloans to Jamaica's microenterprise sector. The company's mission is to provide financial services to micro-entrepreneurs and individuals who are underserved by traditional financial providers. Their over 150 staff serves more than 13,000 clients through 17 branches across the country. It has a medium-sized portfolio of US\$ 10 million with an average loan size of US\$500. Consumer and business loans represent 80% and 20% of their lending operations. The typical clientele of AFSL are low income entrepreneurs and small business owners. AFSL has a PAR30 of 8.7% well below the Jamaican average of 12%.
- 4.2. AFSL will be in a good position to continue to grow the microfinance market in Jamaica thanks to its participation in the program Carib Cap II (RG-M1208) a program whose

¹⁵ See IDB Country Strategy with Jamaica:

[file:///C:/Users/mloza/Downloads/IDB Country Strategy with Jamaica 2013-2014 .pdf](file:///C:/Users/mloza/Downloads/IDB%20Country%20Strategy%20with%20Jamaica%202013-2014.pdf)

goal is to create a more developed microfinance industry in the English-speaking Caribbean countries. It also benefits from its membership in the Caribbean Microfinance Alliance, and the knowledge-sharing benefits offered by the Alliance.

5. COMPLIANCE WITH MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 5.1. **Baseline.** A baseline will be determined at the start of the project in order to establish the initial values of the indicators in the logical framework. This baseline will be based on client surveys and an assessment of the carbon footprint of AFSL. Indicators with ex-ante and ex-post data will be gender disaggregated. The baseline will include (i) GHG emissions and energy costs of AFSL (ii) the energy costs of each client accessing the green lending product. This data will be collected through a baseline report of GHG emissions and energy costs of AFSL to be done in component I and surveys of clients participating in the program. The evaluation of the pilot project to be done as part of Component III will serve as a key input to the scale-up plan. Certain information such as GHG emissions will not be observed during the duration of this project. AFSL will report this information 2 years after the completion of the project.
- 5.2. **Conditions prior.** The first disbursement (Milestone 0) will be made when the operation is approved 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.
- 5.3. **Reports.** AFSL 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.
- 5.4. **Results-based disbursements.** This project will be monitored by the MIF specialist in Jamaica 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 milestones¹⁶. These milestones will be verified using their means of verification, which will be agreed upon between the Executing Agency and the MIF. Achievement of milestones does not exempt the Executing Agency from the responsibility of reaching the logical framework indicators

¹⁶ 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

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.

- 5.5. 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 EA has justified 80% of all cumulative advances. In the event that milestones are not reached, the MIF and the MIF/(CJA) 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 amounts 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.
- 5.6. **Procurement and contracting.** 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 low level of 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) with the exception of the direct selection of the consulting firm which is in agreement with EcoMicro Facility (RG-M1205) rules. 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.
- 5.7. **Financial Management and Supervision.** AFS will establish and 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 low level of risk in financial management, the review of supporting documentation for disbursements will be conducted ex-post and on a semi-annual basis.
- 5.8. AFS 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. During the execution of the project the MIF will be able to modify the frequency of ex-post reviews of procurement processes and of supporting documentation for disbursements as well as the need to prepare additional financial reports depending upon results of ex-post revisions done by external auditors.
- 5.9. **Technical capacity.** AFS obtained a low level of risk in monitoring and technical capacity. MIF's tools to manage and monitor projects will support be beneficial to relevant DNA score.

- 5.10. **Knowledge Management and Strategic Communication Capacity.** The DNA generated a high level of risk in knowledge management and strategic communication capacity. This risk will be mostly mitigated because knowledge products will be generated by the consulting firm, pre-qualified by EcoMicro Facility (RG-M1205) and selected by AFS for this project. The consulting firm, Frankfurt School of Finance has extensive experience in producing knowledge products and in EcoMicro as this will be the third MFI they support.
- 5.11. **Evaluation.** 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 and low-income household's 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 21 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 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.

6. RISKS

- 6.1. Limited appetite of AFSL clients for green financing products. The Project will address limited demand by devoting significant resources to market study and product design. AFSL 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 AFSL 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.
- 6.2. The new green product may not be feasible from a financing standpoint. Green finance instruments could require new credit methodologies that will affect AFSL asset-liability management. Green finance loans could imply larger loan amounts and longer repayment periods. AFSL 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 AFSL 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 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.
- 6.3. Limited number of local technology suppliers. The market study will identify the maximum amount of technology suppliers as well as a tool to determine which are most appropriate.

- 6.4. Mitigation/reduction of emissions of GHG may require high investments which are not economically viable. A cost-benefit analysis will be done in order to give priority to those investments that have the most GHG and energy consumption impact relative to its required investment.

7. RECOMMENDATION

- 7.1. The project Team Leader, Maria Aranzazu Loza 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\$ 284,000 in order to finance the corresponding project.

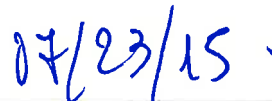
8. APPROVAL

- 8.1 I hereby approve, according with the Delegation of Authority provided by the President of the Bank¹⁷ and according with the facility approved by the Donors Committee on October 5th, 2011 (MIF/AT-1143), up to US\$284,000 for the financing of the project "Access Financial Services: Green microfinance for clean and efficient energy" JA-X1010, the "Project", to be considered as part of the EcoMicro Facility.
- 8.2 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) (RG-X1131) in a non-reimbursable basis.
- 8.3 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.
- 8.4 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



Fernando Jimenez Ontiveros
MIF General Manager a.i.



Date

¹⁷ Memorandum from May 6th 2008 "Delegation of authority"