Jamaica Microenterprise Development Project: Technical, Administrative, Economic, and Financial Analyses

GEMINI Technical Report No. 2

GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
624 Ninth Street, N.W., Sixth Floor, Washington, D.C. 20001

DEVELOPMENT ALTERNATIVES, INC. • Michigan State University • ACCION International •
Management Systems International, Inc. • Opportunity International • Technoserve • World Education

Jamaica Microenterprise Development Project: Technical, Administrative, Economic, and Financial Analyses

by

Paul Guenette
Surenda K. Gupta
Katherine Stearns
James Boomgard

June 1990

This work was supported by the U.S. Agency for International Development Mission in Jamaica through a buy-in to the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, contract number DHR-5448-Q-00-9081-00, and through the GEMINI core contract, number DHR-5448-C-00-9080-00.666

FOREWORD

Growth and Equity through Microenterprise Investments and Institutions (GEMINI) is a five-year applied research, development, and services project of the Office of Small, Micro, and Informal Enterprises in the Bureau for Private Enterprise, U.S. Agency for International Development. GEMINI offers technical assistance, training, economic research, and information to USAID missions and bureaus, implementing organizations, host-country governments, and other organizations involved with microenterprise development.

The project's core activities are organized into three applied research programs, focusing on growth and dynamics of microenterprises, frontiers of financing microenterprise development, and frontiers of nonfinancial assistance for microenterprises. The key issues addressed by the project include firm-level dynamics, subsector and sector-wide dynamics, poverty lending, growth and dynamics of microenterprise programs and institutions, integration of programs with financial markets, policy and regulatory reform, and leveraged microenterprise development.

Through its integrated service and research activities, GEMINI aims to have a catalytic effect on a broad spectrum of efforts to promote microenterprise development. The GEMINI Publication Series, comprising working papers, technical reports, and monographs, is intended to serve as an important vehicle for the sharing of information related to microenterprise development. Further information on GEMINI publications can be obtained from:

GEMINI Publications Series
Development Alternatives, Inc.
624 Ninth Street, N.W.
Washington, D.C. 20001
U.S.A.
Telephone: (202) 783-9110
Fax: (202) 783-2962.

TABLE OF CONTENTS

PREFACE

USAID/Jamaica called upon the GEMINI project to perform analyses for the Jamaica Microenterprise Development Project Paper. GEMINI fielded a three-person team, led by Paul Guenette (DAI) and including S.K. Gupta (ATI) and Katherine Stearns (ACCION), to perform technical, financial and economic, and administrative analyses.

The team spent three weeks in Jamaica, from 14 May through 2 June 1990. They interviewed staff of USAID and members of the broader donor community, private sector individuals, potential financial intermediaries, and merchant and commercial bankers. The GEMINI Project Director, James Boomgard (DAI) participated in the final week of discussions and analysis. The team presented its conclusions to the mission on 1 June. Written comments were forwarded to Washington, D.C., and incorporated into this final report.

ACKNOWLEDGMENTS

The team wishes to express its gratitude to Gary Vanderhoof of USAID/Jamaica for his patience and guidance in this effort; his cooperation was crucial for the creation of a supportive, intense and productive working environment. The Social-Soundness Analysis Team, comprising Heather Royce, Carleen Gardner and Sonia Harris, gave us the needed Jamaican perspective and kept us working for the good of the Jamaican people. The Mission Economist, Paul Crowe, provided helpful guidance on the appropriateness of our analysis.

TECHNICAL ANALYSIS EXECUTIVE SUMMARY

Technical analysis often encompasses the financial and economic analysis, and the administrative analysis. This summary first cites some of the serious issues outstanding at the close of our analysis period. It then offers a summary of the technical analysis, including the project's management and technical assistance needs, Implementation Plan, and the Policy Research and Monitoring Component.

Project Issues:

- No institution in Jamaica is currently capable of implementing the program with the characteristics outlined later in this document ie. small, short-term, no-collateral, working capital loans for microenterprises, commercial cost of capital, and market interest rates. Considerable training, technical assistance, and other inputs are required to enable such institutions to effectively implement a minimalist credit program.

- Jamaican government bodies, as well as non-government financial organizations, have strong "traditional" views of credit, preferring long-term, collateralized loans and subsidized interest rates; they believe that constraints on microenterprises are internal rather than policy-oriented, and that servicing the microenterprises involved in commerce would be promoting foreign exchange losses. The design team recommends a long-term approach to changing the financial sector's views toward credit.

- Despite the above-noted view of credit, the design team found the GOJ and these institutions very receptive to information; they would like to hear more about the minimalist credit approach; they would like us to update relevant studies; they would like to be persuaded. The design team has increased the emphasis on the policy information and research and monitoring in the project. The open door to policy dialogue is an opportunity that USAID should not pass up.

- The credit model hypothesizes that the PID-identified US$900,000 for a credit program will be insufficient to mount a stand-alone credit component which can cover its costs, becoming self-sustaining in four years while paying near market interest rates for its capital. The amount is likely to be a minimum of US$1,250,000.

- The design team feels, however, that institutional development and policy information and research are critical to the project's success. We recommend that their required technical assistance be budgeted as a priority over the credit fund. We further recommend that a smaller credit fund could be a pilot, or demonstration program, particularly given the potential for other funding.

- The Inter-American Development Bank (IDB) is exploring ways with the Government of Jamaica in which the IDB could place a significant amount of funds ($10M) in a microenterprise credit program in several years. This is an opportunity for USAID to use its project as a pilot project, educating the intermediate financial institutions and developing their capacity, allowing them to demonstrate their ability to manage microenterprise credit. This would position them to be eligible for IDB or other sources of additional funding.

- There remains a question of channeling the funds to the credit program. An umbrella organization of some sort presumably will be identified to act as "grantee" prior to onlending to the eligible institutions.

Management:

Project management will be by an American or international project advisor organization (PAO), working under the supervision of USAID's Project Officer. This level of management resource is required because of the high levels of negotiation with, and education of, the IFIs involved. The long-term success of the project depends on the achievements of the PAO during the early phase of the project.

The Administrative Analysis identifies the following intermediate financial institutions (IFIs) as potential financial intermediaries for the project: the National Development Foundation of Jamaica (NDFJ), the MEDA-supported Mini Enterprise Services (MES), the Agency for the Selection and Support of Individuals Starting Trade (ASSIST), and the City of Kingston Cooperative Credit Union (KCCU). The list includes those organizations which were examined during this design mission. It is not intended to be an all-inclusive list; in fact, none of the organizations is entirely appropriate and prepared to accept the conditions of the project at this time. The prospect remains open for other institutions, be they a merchant bank or private credit body, to demonstrate the capacity and willingness to manage the credit component of the project.

Technical assistance includes: (a) the international project management assistance mentioned below; (b) institution-building help provided for the IFIs as a part of the original credit "package", and (c) technical assistance given to groups of microenterprises to overcome specific sectoral constraints. The assistance must be kept relatively undefined for the moment, in order to maximize flexibility to respond to market opportunities.

Implementation:

The first phase of project implementation will entail serious program development. Prior to any movement of credit funding, it is necessary that the PAO work hand-in-hand with potential intermediate financial institutions (IFIs). The work will focus on the tailoring of a credit package to their program, negotiating terms and program budgeting details such as office locations, staffing patterns and training support. In brief, the Implementation Plan includes three phases:

> During the early implementation phase of the project (Months 1-6), the PAO will develop with eligible IFIs, a microenterprise credit program tailored to the organizations, designed to become self-sustaining.
>
> During the mid-implementation phase (Months 7-36), the PAO's primary purpose will be to coordinate the wholesale channeling of funds to financial intermediaries. It will also coordinate the project's technical assistance and monitoring components.
>
> In the last phase of the project (Months 37-48), the PAO will concentrate on institutionalization of the credit scheme, focusing on other financial sources for the program and on the ability of the IFI programs to be self-sustaining. An Implementation Plan follows.

Monitoring and Evaluation:

This component of the project handles both policy information flows and program monitoring activities. The policy information activity includes: follow up work to update the 1979/80 baseline survey of small and microenterprises (UWI & MSU); Subsector studies to identify opportunities and constraints facing microenterprises; and Regulatory Assessments documenting the microenterprise regulatory environment.

The Program Monitoring activity is comprised of three types of activity: standard USAID monitoring with mid-point and end of project evaluations; regular assessments of institutional development progress and the program assistance being delivered to microenterprises; and program-level monitoring which charts the performance of assisted firms.

The PAO would be responsible for developing linkages to channel the information to the appropriate bodies through a series of workshops with representatives of interested groups including policy makers, implementing organizations, microentrepreneurs, and donors. While capacity to implement the information component should be an important criteria for selection of the PAO, it is recommended that the surveys be carried out and data analyzed under the supervision of the PAO at the University of the West Indies, in coordination with the original researchers from MSU through GEMINI.

ADMINISTRATIVE ANALYSIS EXECUTIVE SUMMARY

The organizations examined as possible intermediary financial institutions (IFIs) for the informal financial sector development component of this project are five non-governmental organizations currently providing financial services to the microenterprise sector. This selection for the institutional analysis does not imply that the program is limited to considering only these organizations for implementation of the credit program.

Instead, the selection of organizations to be analyzed was based on the Project Identification Document (PID). The PID implies that a secondary objective of the project is to be an educational process that leads existing microenterprise credit programs to a different methodology that enables them to be financially self-sufficient while lending to the microenterprise sector, and eventually capable of accessing funds at commercial interest rates in order to expand their portfolios[1]. Therefore, this analysis covers those organizations currently providing financial services to the microenterprise sector.

As subsequent analysis shows, however, limiting possible IFIs to those analyzed here would probably compromise other project objectives which might be of more importance. Each organization analyzed has at least one major discrepancy with the objectives of the project. For example, to date, no organization appears willing to charge the final borrower an interest rate higher than the commercial rate. The credit model indicates that, in order for self-sufficiency to be reached in a program paying 18% for its funds, the interest charged to the borrower must be higher than current commercial rates.

AID must decide which is more important:

Establishing a self-sufficient credit program capable of accessing capital at or near commercial rates; or

Guiding current programs through a process that will help them adapt more efficient methodologies for disbursing credit to microentrepreneurs, while covering their operating costs.

This second option would open the door to a future project that might take these organizations one step further, to a level

---

[1] The PID states that the project objectives will be promoted by "increasing the capacity of Jamaican organizations to provide microenterprise credit on a largely self-sustaining basis..." and that funds will be made available to "organizations that demonstrate the ability to make the necessary changes in their operations to achieve financial self-sufficiency over time and expand their operations."

where they could be capable of accessing capital at or near commercial rates. However, it appears unreasonable at this point to expect this project, with its limited funding, to take the organizations from where they are today and enable them to reach self-sufficiency and access capital at or near commercial rates.

One alternative to sacrificing the commercial viability objective is to look outside of the NGO community for IFIs. One credit union is analyzed as an option. Other possible IFIs include commercial banks, a large private business that has many linkages to the microenterprise sector, a new non-profit or even profit-making organization to be created, or some other entity interested in the project. This option, in the short-run, would not have the same direct impact on the NGOs currently offering credit. On the other hand, it might be a more direct route to the final goal of establishing a self-sufficient, microenterprise lending program, capable of accessing commercial funds to expand its portfolio.

Conversations with commercial bankers indicated very little interest in the microenterprise market. However, the merchant banks appear to be a more aggressive banking sector emerging in Jamaica; one representative of a merchant bank was intrigued with the possibilities in the microenterprise sector. The last section of the administrative analysis discusses some organizational options for this project beyond the five institutions described.

Given the project objectives, five groups of criteria were used to assess the capability of the institutions to carry out the proposed project. These groups are: institutional capability (financial and technical ability), achievements of the institution, institutional commitment to expansion, institutional commitment to self-sufficiency, and compatibility of the institution's operations with the objectives and methodology of the proposed project. Each institution is evaluated according to this criteria and the results are shown in Table 16.

Using this criteria, four of the five institutions appear as possible IFIs. As discussed above, while four of the five organizations appear feasible, none of them is ideal or appears capable of fully meeting project objectives. To carry out even a compromised version of the project, extensive technical assistance would be required. This assistance is described in the Technical Analysis.

The analysis is based on visits to the organizations by the author that were carried out in February as part of the IDB Mission assessing the Government of Jamaica's microenterprise development project proposal. At that time, discussions were held with the directors of the organizations and several staff people. Visits were again made to each organization for this AID mission. Conversations were held with the directors and with upper level staff and board members of the larger organizations (see source list), as well as several microentrepreneurs. While an attempt has been made to give an honest and fair appraisal of each organization, it is important to realize that even two missions are inadequate to completely and accurately assess the workings and dynamics of any organization. This section is based on the author's opinions of the institutions after a rapid appraisal of each one, and is in no way a definitive description of the organizations.

ECONOMIC AND FINANCIAL ANALYSIS EXECUTIVE SUMMARY

Macro-economic Setting:

Ranking among the middle group of developing countries, Jamaica's external per capita borrowings is one of the highest. The economy has been stagnating at best and, at worst, declining. The structural adjustment policy regime (SAPR) has been in place for some time and has started yielding positive gains. On September 12, 1988 Hurricane Gilbert undid most of what the SAPR had begun but the economy is now recovering from the aftermath of the Hurricane.

A positive trend in the performance of the Jamaican economy has been the trend towards equity. Our explanation for this trend is the presence of a growing small- and microenterprise sector. The 1980s saw a clear expansion of the microenterprises in Jamaica, with the number of employees per enterprise increasing nearly one and a half times by the end of the decade. The workers rendered surplus by the large enterprises found employment, often self employment, in the microenterprise sector. The future is viewed optimistically by most microenterprises; they have plans for expanding their investments and employees.

Microenterprises generally deliver basic goods to consumers at prices lower than formal sector prices. The comparative cost saved is high in delivering food and low-cost shelter items, the most important items in the poor consumer's food basket.

Microenterprises also offer at least a partial solution to the emerging gender imbalances prevailing in Jamaica. The spread of education among women in Jamaica, and the lack of continued employment for women, is beginning to appear as a serious social problem. Gender issues are difficult to handle in the large manufacturing sector. Agriculture has it's own limitations. Microenterprises offer a nurturing environment for female entrepreneurs and employees.

Social Cost Benefit Analysis:

Frequent distortions in the input and output markets disturb marketprice-based investment decision making. To arrive at distortion free prices, there are two methodologies, the OECD and the UNIDO. The OECD methodology, which is widely used in the donor community, disaggregates a project into tradeables and unskilled labor. For tradeables, OECD uses border prices, and for unskilled labor, it uses shadow wage rate.

In Jamaica, three studies have been conducted on estimating national parameters. Two of these are by the ODA and the IDB. The ODA study was conducted in 1984 and that of the IDB in 1977. The third is a dissertation by a student of the University of Sterling. We have generally used these estimates, particularly for labor.

There are two major components of the microenterprise project: minimalist credit and technical assistance. For the credit delivered to microenterprises, both financial internal rate of return (FIRR) and economic internal rate of return (EIRR) are high. The microenterprises project meet the tests of financial soundness. For the TA component, some cross-country cost-effectiveness data are presented.

The FIRR works out to 73.6% and for the two cases that we have calculated, EIRR's are 162.93% and 138.93%. The seemingly high IRRs are because of the cumulative effect of high sales generated per dollar of credit ($1.87) and the high velocity of debt ($3.16 per dollar). These parameters are common to the credit model discussed in the technical analysis of the present document.

This being a credit project, the cost-benefit analytic framework must incorporate relationships between transaction costs and the velocity of credit and repayments size, schedule and portfolio composition. We have included that format in our credit modelling section.

The minimalist credit approach (MCA), works with micro-entrepreneurs, often self-starters by necessity. By providing them access to credit, MCA strengthens their working capital base. A stronger capital base enables a higher turnaround of existing assets and therefore helps achieve increased levels of capital productivity. This increased productivity is reflected in the increased sales and subsequent profits to microenterprises. The 73% FIRR reflects these benefits.

Since MCA addresses the credit needs of self-starters, its short-term impact on employment is more on <u>increased levels</u> of employment, or "fuller" employment, than it is on the immediate creation of new jobs. In the medium to long term, however, this MCA-style project <u>will</u> create new jobs. In Jamaica today, the reduction of underemployment is a social priority among microenterprises particularly because microenterprises tend to employ more workers supplied by owners' families rather than the wage market. This leads to increased self-employment and the desired reductions in underemployment.

This microenterprise project also addresses the regional imbalances in the Jamaican economy. The accrual of incomes to female microentrepreneurs in a secondary town has a higher value, as reflected by the allocation of poverty weights, than her counterpart living in Kingston. Table 12 in the social cost-benefit analysis brings out the highly positive impact that this project has on the poverty levels of the Jamaican economy.

<u>Limitations of our Analysis</u>:

Two weaknesses in our calculations are the near absence of risk analysis and a discontinuation of the benefits stream at the end of four years to coincide with the stoppage of AID funds. The exclusion of benefits after four years is not particularly worrisome because the EIRR and FIRR are sufficiently high even with only four years of benefits considered. And since even the pessimistic rates of return are higher than any conceivable hurdle rates, we have recommended that the project be implemented. There are two other variables which we would like to check further: Cost to sales ratio and sales to profit ratio.

There also remains a need to do risk analysis with respect to external factors like exceedingly high inflation that might take place in the Jamaican economy and the risks attached to the loss of assets due to disasters that continue to strike Jamaica. We have not yet figured these risk factors into our analysis.

Finally, a general note of caution: most good projects fail if implemented badly, and most low IRR projects turn around if implemented well. The present project is no exception to this universal rule.

TECHNICAL ANALYSIS

The Microenterprise Credit Model (MCM)

Introduction:

The purpose of this model is to examine the financial viability of the project's credit program, varying such factors as the cost of capital, lending rates, loan sizes and terms, breakeven portfolio size, and bad debt estimates. The goal was to describe a course toward self-sufficiency, wherein an organization could borrow its capital and on-lend to microenterprises, covering its operating costs. The model is comprised of four components, namely:

- The portfolio summary, which includes program variables, performance indicators and loan portfolio characteristics;
- Proforma Profit & Loss Statements for 1991-1994;
- A detailed Loan Disbursement and Collection Schedule for Year 1 through Year 4; and
- Sensitivity analysis.

Model Findings and Observations:

In developing the credit model, we learned that a credit program of a certain volume was required to reach self-sufficiency within four years. We assumed that a start-up operation would be able to extend around 1,000 small loans in its first year, accelerating as its personnel were supplemented and became more familiar with minimalist credit methodology to a loan disbursement rate of 4,000 in its fourth year of operation. We designed a model budget based largely on the MEDA-supported MES program, a low-overhead operation staffed by competent but not highly qualified (ie. more costly) personnel. Using the MES as a basis for estimating the model's expenses has given the model a definite "lean" tendency. The model is optimistically efficient in delivering credit to microenterprises. It should be considered as a best-case model when estimating future program performance.

According to this model: In order for the program to achieve self-sufficiency, an inflow of US$1,250,000 of borrowed capital was required during its first four years.

At the end of Year 4, with self-sufficiency achieved, the model credit organization has not yet paid any principal on its outstanding loans; it also is facing Year 5 in need of new source of funding.

Implications:

As noted above, the model reveals several disturbing findings, including the fact that the financial institution arrives at the end of Year 4, newly self-sufficient (ie. covering operational costs) but facing a need for new capital inflows and carrying a sizeable debt. The first two program implications which might attract additional capital to address these problems are savings mobilization and equity funding.

Savings mobilization: In other countries' programs, savings mobilization is an important element to capitalize loan portfolios. These programs work best where commercial banks have ignored the informal sector, leaving microenterprises ripe for credit programs seeking deposit savings. In Jamaica, however, the commercial banks have captured savings from the poorer sectors of the economy, even though the commercial banks have largely ignored their credit potential. Further investigation may be warranted to examine the potential for a savings component. The outlook is not good, however, given that the program is unlikely to offer subsidized credit in order to attract savings.

Equity financing: It is also unlikely that this program could attract equity financing. No Jamaicans interviewed during the mission were of the opinion that it would be possible to operate the program on a 100% commercial basis. That sentiment, whether true or not, is indicative of the hard line that potential Jamaican investors would likely take.

If neither savings mobilization nor equity financing are viable alternatives, we now must consider the program other program alternatives. One such alternative is providing capital at lower rates initially, perhaps with a 2-year grace period, ratcheting up toward commercial rates at some time further in the future (Year 8-10?). These interest rate "concessions" could be translated into the financial institutions' building up its own equity, which could then be leveraged with other sources of capital.

The project might also provide incentive performance benchmarks on the basis of which the project would grant concessionary rates. For example, as long as the minimalist credit approach were being applied, loans were being made to targeted microenterprises, the interest rate would be waived during Years 1 and 2. These alternatives would obviously need to be further examined before inserting them into the project.

Program Variables:

The model allows the operator to adjust critical factors and observe the resulting performance changes. The program variables in the MCM include:

(a) the cost of capital (COC) to the IFI, which is assumed at 18%; this rate, while somewhat below the present commercial banking rate, is justified by removing distortions due to (i) the currently high transaction costs in Jamaican banks and (ii) the overvalued Jamaican dollar;

(b) the interest rates that are charged to microenterprise loan clients, currently set at 32% and commissions at the time of loan disbursement of 8%; this combined charge to microenterprises of 40% is our considered "ceiling", above which capital productivity would be seriously hampered.

(c) the loan term, which is assumed for modeling purposes to be at 4 months in years 1 & 2, extending for repeat loans of 6-months during years 3 & 4;

(d) on-time recovery rates are currently set at 85%, considered an acceptable rate in the NGO community (USAID's 1985 Manual to Evaluate Small-scale Projects identifies 80-90% as "adequate"); and

(e) loan sizes, set at US$200 for first loans in years 1-4, and at US$300 for repeat loans in years 1 & 2, rising to US$500 in years 3 & 4. These figures are illustrative.

Performance Indicators:

In order to simplify the evaluation and financial examination of a credit organization's portfolio, and to better track the model's progress toward self-sufficiency, we are using some "performance indicators" as detailed below:

(a) self-sufficiency, as the percentage of expenses covered by income, indicating how income revenues are covering expenses, including the cost of capital;

(b) income as a percentage of outstanding portfolio demonstrates the recovery rate;

(c) expenses as a percentage of outstanding portfolio demonstrates the institutions' control of expenses;

(d) the amount of expense per loan describes the program's general loan processing efficiency; and

(e) the amount of expense <u>per dollar loaned</u> describes the loan delivery efficiency, particularly crucial in a microenterprise credit program dealing in small loans.

Proforma Profit & Loss Statements:

In projecting the financial performance of a model program over four years, it was necessary to construct Proforma Financial Statements to outline the income and expense variables that are a function of the program's design. Profit and Loss Statements are included for the years 1991-1994. They are linked to the credit model. Their factors are as follows:

Income:(a) Interest Income is realized on loans repaid, Commission includes all charges levied at the time of loan disbursement, and Other Income reflects interest generated by cash on hand; these income amounts change as the relevant variables are adjusted in the Loan Disbursement & Collection Schedule;

Expenses: (b) the first expense is for Management, and assumes that each branch has a Manager plus two lesser administrative employees, with Sav-la-Mar beginning operation a year later than the others in 1992;

(c) Credit Operations refers to the Consultants or Credit Officers who will interview clients, make loans, visit with clients and make collections;

(d) Overhead is assumed to cover such items as office rental and materials, utilities, transportation and employee benefits;

(e) The Cost of Capital refers to the interest that the IFI pays for its capital inflows (in this case US$1,250,000 borrowed at 18%);

(f) Bad debt is the amount of overdue portfolio that is written off annually for accounting purposes.

Disbursement & Collection Schedule:

At the heart of the credit model lies the Disbursement and Collection Schedule. It attempts to "pattern" the program's development. As credit consultants become familiar with the credit system, their productivity increases, more loans are made. For modeling purposes, the first two years are seen as building years, and a standard four-month loan term is assumed for all loans. The next two years add a tier of sophistication to the model in that repeat loans are made for six months, while new loans continue with four-month terms. All new loans are assumed to be at US$200 throughout the program's four years. Repeat loans are assumed to be at US$300 during the first two years, escalating to US$500 during the subsequent two years.

The disbursement rate for new loans directly affects the rate of portfolio growth, since repeat loans are obviously a function of previous new loans. The Loan Disbursement and Collection Schedule tracks cash inflows and outflows, ensuring that sufficient funds are available to meet credit demands. The numbers of loans made annually increases throughout the program's four years. In a similar trend, the average loan size also continues to increase annually, reflecting larger repeat loans and an increasing percentage of repeat loans.

Sensitivity Analysis:

Sensitivity analysis was performed on interest rate, cost of capital and loan size in order to evaluate the sensitivity of the model to changes in the variables. Table 20 includes hardcopy printouts of the following sensitivity analyses:

> The interest rate that the financial intermediary charges the microenterprise is decreased by 5% and by 10%. Each 5% decrease in interest rate lowers the self-sufficiency quotient by 4% (ie. from 100% to 96% and to 92%). This is not surprising, given the primary importance of interest rates to the institutions income (In Yr4, interest income represents over 75% of total income).
>
> The cost of capital (COC) that the financial intermediary pays for its loan capital is increased by 5% and by 10%. Each 5% increase in the cost of capital lowers the self-sufficiency quotient by 2% (ie. from 100% to 98% and 96%). This moderate drop reflects the fact that COC is a relatively smaller portion of expenses (In Yr4, only 42%) than interest income is of total income.
>
> A worst-case scenario includes the interest rate charged as decreased by 10% and the cost of capital increased by 10%. The combined effect on self-sufficiency is to drop it to 89%.
>
> Increasing the loan size by 25% means that first time loans increase from $200 to $250 and repeat loans increase from $300 to $375 in years 1 & 2, and from $500 to $625 in years 3 & 4. The effect of increasing the loan size 25% is to decrease the number of loans disbursed over the project's four years, from 11,188 to only 8,953. This represents a decrease in loans disbursed of 20%!

In sum, changes in what the financial intermediary charges for its loans, ie. interest rate, commission or fee, directly affect the bottom line of financial performance. Changes in the cost of capital have a similar, though less drastic, effect on the institutions profit and loss line.

Loan size changes do not affect self-sufficiency to any great degree, in fact not at all in the model whereas in an actual setting we would expect some savings to be realized. But a change in the loan size shows, as expected, a rather dramatic influence on the number of program beneficiaries. Increasing the loan size assumptions by 25% reduces the number of loans disbursed by 20% from 11,188 to 8,953! This is not surprising when we consider that the model assumes a fixed capital source of $1,250,000. Making larger loans then <u>means</u> making fewer loans.

<u>Financial Performance Measures for Credit Subprograms</u>:

To more easily evaluate the rate of success of the project's credit subprogram(s), the following standard measures are offered:

Self-sufficiency: As explained in the Credit Model, this ratio of income to expenses acts as a general indicator of a program's ability to cover its recurrent operational expenses; an organization which shows a trend toward 100% is going in the right direction;

Client/Consultant ratio: This ratio indicates the effective coverage of the program's credit agents, often an indication of how effectively the program is applying the minimalist credit approach; with solidarity groups providing a group guarantee, for example, the consultant is able to spend less time following up on individual clients; they can then handle 200 active accounts;

Expense/Loan: This measures the amount of expense that a program entails in order to make a loan; it is a function of both the overhead of the program <u>and</u> the number of loans made; the range of US$100-$150 is acceptable; as of this design, MEDA, ASSIST and COPE are all within this range, while NDFJ is higher ($384), and KCCU is lower ($47);

Expense/Dollar Loaned: This is another indicator of a program's loan processing efficiency; a minimalist credit program balances the expense of making small loans, with low overhead operations; the Microenterprise Stocktaking Report (1989) cites an average of US$0.46 expense per dollar loaned in minimalist credit programs.

Technical Assistance and Training

Assistance to Credit Institutions:

The project assumes that there is demand and desire on the part of a small group of intermediary institutions to adopt a version of the "minimalist" approach as a condition for capitalization assistance. While the conditions will be laid out clearly in the negotiations between the PAO, intermediary, and USAID, there is a need for a significant amount of technical assistance, training, possibly commodities, and monitoring from the PAO to the intermediary. The composition and quantity of assistance will vary with the needs of the organization.

The most important tools (in addition to loan funds) in the PMU repository include the following:

- Basic "minimalist" training package including forms, basic systems, procedures, and programming planning. The GEMINI project is in the process of developing such a basic training package that will consist of all of the above aspects of program planning and implementation. The package will be tailored to the requirements of each intermediary and the conditions negotiated between USAID, the PAO and the intermediary i.e. 70% of new credit funds disbursed from secondary towns; credit funds financed through borrowing; self-sufficiency within a 3-4 year period; computerized portfolio management; computerized accounting; professional management. The training would be organized around staff and management level workshops.

- assistance with setting-up and operating MIS systems for portfolio tracking using computerized portfolio management and accounting system, either through programming or adapting existing packages. The basic principles of such systems are well known and would be included as part of the basic minimalist package. PAO staff and local consultants could implement theses systems.

- regular (monitoring) and on-call troubleshooting advisory services both from the PAO and through consultations by phone/letter/fax with an on-going programs elsewhere.

- tailored institution strategy and development assistance on demand particularly for those larger organizations integrating the minimalist approach within a larger set of institutional mandates.

- study tours to successful minimalist credit programs in the region. This might consist of several levels of interaction including: visit by executive director and one to two staff members of implementing organization to two minimalist credit programs, one with a strong solidarity group component (possibly ADEMI in the Dominican Republic and PROSEM/GENESIS in Guatemala); visits by four staff persons yearly to other credit programs (visits should be timed to coincide with specific needs -- for example, before opening a branch office, a manager should be familiar with different expansion methodologies that have been tried in different countries); and, visits to implementing organization, twice yearly, by upper-level managers of other minimalist credit programs, also programmed to meet specific needs of MIS as it expands.

- staff subsidies - a successful approach of a number of programs is central subsidization of staff salaries during the start-up of new activities or new branches. The Grameen Bank, for example, centrally pays the first year of each new branch worker's salary as a "training" subsidy. Different organizations will have different needs here, but this is an option which is inexpensive and may prove helpful in the negotiation process.

- commodities including motorcycles, computers, software, and fax equipment for the specific needs of intermediaries.

A moderate package for a single intermediary might look as follows:

- Basic "minimalist" training package: (assuming development elsewhere) 1 person-month (.5 from PMU, .5 from outside/resident advisor);

- MIS: (development 2 person-months local, 1 person-month outside) implementation 2 PM local;

- monitoring and troubleshooting advisory services: 1 PM PAO, 1 PM resident advisor

- tailored institution strategy and development assistance: 1 PM local, 1 PM outside

- study tours: 1 PM/year PAO, 1 PM/year target organizations;

- plus staff subsidies and commodities.

For Policy Information & Project Monitoring:

1. Sector-wide survey data

   a. Limited-frame Census -
   b. Evolutionary Survey -
   c. Monitoring Sample -

2. Subsector Studies - .75 pm per study plus coordination;

3. Regulatory Assessments - 2 PM (1 outside, 1 PMU)

Monitoring:

1. Project-level Monitoring - external (2 PM midterm, 2PM final)
2. Program Assistance Assessment - 2 pm/year
3. Program-level Monitoring - 1 pm/year

Using the Information:

The Project Assistance Organization must plan and organize workshops, and publish and distribute relevant publications. This requires the capacity to subcontract for local costs and to procure external technical assistance. It could be run through GEMINI and UWI.

PAO Staffing and Operations:

An important design decision is the extent to which the PAO is staffed to deliver the required technical expertise and training. It is unlikely that the kind of hands-on minimalist expertise that would be required for effective training and trouble-shooting advisory services exists in Jamaica. Nonetheless, it is necessary and desirable to develop as much capacity as quickly as possible in country. Therefore it is proposed that the PAO be staffed by a senior Jamaican assisted by an expatriate practitioner on a long-term basis for 12 months.

The PAO would draw heavily on the materials being developed by the GEMINI project for the minimalist training package. Most of the MIS can be locally procured and the PAO advisor should have some capability in this area. The institutional development assistance can be met by a combination of outside and local expertise.

Besides normal office equipment, the equipment that would be needed is one personal computers, software packages and other computer support equipment, a fax machine, a project vehicle, office space. All of these items are easily available in Jamaica.

Implementation Plan

The project will have three distinct phases. Phase one, a start-up phase, will last approximately 6 to 9 months, and focus on selecting and training the organization(s) that will implement the credit component. Phase two includes the beginning of the Monitoring and Evaluation Component and the Program for Microenterprise Growth Component, as well as the bulk of the implementation of the credit component. The last 12 months of the project, phase III, consists of continued implementation and considerable effort to use innovative mechanisms to access financing for the expansion of the portfolio of the implementing organization(s).

Phase I:

Selection by USAID of method to procure technical assistance services to manage project.

Bid or direct procurement of TA services (HB13 grant or private sector contract) of project advisor organization (PAO).

PAO arrival in-country and work plan developed.

Preliminary PAO Work Plan

Investigation: During the first six weeks, the PAO will meet with potential implementing organizations as well as representatives of the private sector (commercial banks, business leaders, development banks, etc.) to identify the most appropriate mechanism through which to develop the project. Given the Jamaican experience with "partners", and the emphasis in this program on financial self-sufficiency, serious consideration will be given to finding an organization willing to work with some type of "solidarity group" methodology. Efforts will be made to tailor a mechanism that most closely meets AID's objectives of credit to the target population, financial self-sufficiency, and eventual dependence on funds from commercial markets for portfolio growth.

Proposal Development: During months 2-4, the PAO will work with a selected group of interested and capable institution(s) to develop an implementation plan including: training and TA needs of the implementing institution, credit disbursement schedule (both to the implementing organization and to the final borrowers), financial projections for four years, and an implementation budget. This proposal will be negotiated with AID and approved by AID. Depending upon the level of interest generated in the investigation period, several possible implementing organizations may prepare proposals based on guidelines defined by the PAO and AID. However, because of the limited funding committed to the project, and the goal of financial self-sufficiency for the implementing organization, no more than two institutions well be selected for initial project implementation. Ideally, institution(s) will be existing formal or informal financial institution(s).

Training: Months 2-6 will be a period of intensive training and technical assistance to the implementing institution, depending on that organization's needs. For example, if the selected organization is institutionally strong, but not familiar with self-sufficient lending methodologies to reach the microenterprise sector (such as NDFJ or KCCU), the focus would be on understanding minimalist methodology and developing an appropriate credit mechanism for the project. Training trips to other credit programs would play an important role, as would workshops for the staff of the implementing organization. If the organization is strong on the methodological side, but administratively weak and with limited experience (such as COPE), the focus would be on developing middle management for expansion, using local resources to develop and implement an adequate computerized information system, etc. The PAO would coordinate the training activities.

Computerized information and impact monitoring systems will be established within the implementing organization. See "Monitoring and Evaluation" (below).

<u>Phase II</u>:

By months 6-8, the implementing organization will be making loans to microentrepreneurs.

PAO provides on-going technical assistance and training to implementing organization. An on-going relationship with an existing minimalist credit program elsewhere would also be very helpful -- staff from the other program could come to Jamaica to "trouble shoot", Jamaican staff could receive training there, and on-going communication could be maintained by phone/fax/mail.

By month 10, PAO will begin to spend more time on the other two project components, the "Program for Microenterprise Growth" (PROMEG) and the "Monitoring and Evaluation Component".

PAO will identify research institution and develop guidelines to up-date 1980 study of microenterprises. Baseline study on microenterprises in Jamaica, with a focus on areas to be reached by the project, will begin by the end of year one.

Several possible interventions for the "Program for Microenterprise Growth" will be identified by the end of Year 1.

PAO will coordinate disbursements and activities for these two components, as well as the ongoing credit component.

During Year 2, the update baseline study will be completed.

During Years 2 and 3, several highly targeted, low-cost technical assistance interventions will take place as part of the "PROMEG".

PAO will be responsible for monitoring all project activities and reporting to AID.

Phase III:

During months 36-48, PAO concentrates on the institutionalization of the credit scheme and the development of financial mechanisms that provide the implementing organization, and other interested financial intermediaries, with access to borrowed funds for portfolio expansion. This phase may involve the formation of a financial intermediary organization, supported by fees of membership organizations, that accesses funds that are then loaned to implementing organizations.

Several additional highly targeted, low-cost technical assistance interventions will take place to complete the PROMEG component.

Up-date of baseline study, with a focus on the project's targeted areas, will be carried out to measure the impact of the project.

Final evaluation of project takes place.

Policy Information, Research and Project Monitoring Component

The Project Management Unit (PMU) will be charged with the responsibility of generating and applying (or coordinating same) information of direct value to the microenterprise sector, implementing organizations, policy makers, donors, project management, and USAID.

Survey Data and Information:

The 1979/80 sample survey of small and microenterprises carried out by the University of West Indies and Michigan State University provides a rare baseline for generating a wealth of valuable information on the role, potential, and needs of microenterprises in Jamaica. Using a modified sample frame and a recently refined resurvey methodology the project will carry-out three types of follow-up work.

- Sector-wide census/survey data. The original Phase I of the UWI/MSU was a street-by-street enumeration of all enterprises in selected locations. The proposed follow-on would repeat the UWI/MSU Phase I survey, undertaking a complete count of micro and small enterprises in a sample of previously enumerated locations. The primary goal of this work is to determine how the number and structure of these enterprises has changed over the past decade. The key decisions to be made are the proportion of the original areas need to be covered in order to obtain a reliable sample and the extent of new types of information that may be introduced into the survey instrument.

- Phase II. Four types of more extensive information will be collected from a sample of the enumerated firms. While the precise content of these instruments will be determined in the survey planning process, there are several general areas of significance that ought to be central concerns.

    a. Constraints Analysis with special attention paid to the nature of capital constraints, credit needs, capacity utilization, interest rate sensitivity, and perceived training and technical assistance needs.

    b. Growth and Dynamics Analysis done by returning to firms in the original sample asking a brief (2 page) questionnaire exploring their evolution over the past ten years, asking about assistance received and problems encountered. This would be supplemented by investigations to try to locate individuals involved as managers or entrepreneurs in firms which have since gone out of business, to determine the circumstances of their disappearance. Among the questions to be examined would be: What has been the time pattern of growth among individual enterprises over the intervening ten years? What types of enterprises have been most successful? What problems did firms face at different stages in their development? How did they overcome these problems? For those that have succeeded, how important has been different types of assistance they have received? What can be learned about the "disappearances" of firms in the original survey but no longer in operation? How many could be considered as "graduation", as failure or simply as change? What has been the time pattern of these changes?

c. Monitoring Sample, For a sample of firms it is necessary to collect performance data to serve as a baseline for planned interventions. This sample would be followed over the lifetime of the project on an annual basis. These might involve some of the older sample, but would also include new firms being assisted by project intermediaries. The monitoring should include some assisted and non-assisted firms.

The survey work will require 3 teams of five enumerators (4-6 weeks) and three supervisors (5 to 7 weeks each). In addition, there will be a senior survey director (3 months part time) and an assistant director (three months part time on this part of the work) as well as some (three months) external technical assistance. We expect a two week period of instrument development and testing followed by one week of training and then 4 to six weeks in the field depending on the level of coverage. Detailed growth and dynamics work would require an additional 1.5 months for each of the supervisors. A detailed work plan can be developed. The cost for this work will on approximately US$80,000-$100,000.

<u>Subsector Studies:</u>

It is now considered essential to complement survey work with in-depth, industry-specific subsector studies. The subsector approach emphasizes that the forces which influence the competitive position of different groups of firms within single industries or subsectors may hold as many clues for effective program design and implementation as do cross-section studies of particular groups of firms across a broad range of industries.

The subsector approach places considerable weight on the interaction -- both competitive and complementary -- of firms in different size groupings and of those involved in manufacturing, commerce and service. Subsector analysis focuses on the vertical production and marketing structures for a single product or group of related products. Researchers examine alternative channels that link suppliers, producers, and marketers, often contrasting large-scale and vertically integrated producers with small enterprises. The relative efficiency, competitive status and growth potential of the various channels are compared, and bottlenecks identified.

A basic problem in assisting micro and small enterprises is the diversity among them, which makes it difficult to identify and fill their needs. The subsector approach organizes examination of businesses into coherent, structured groupings. Many of the businesses in a grouping will be similar, and will have common problems because they are part of the same system. Often, the problems relate to input supply, production techniques, and market access, areas traditional microenterprise projects do not readily touch. Because subsector analysis focuses on problem identification it is quite relevant for policy and for project design and implementation. However, few small enterprise assistance institutions are equipped for subsector-specific interventions. They do not think along subsectoral lines, and are not adept at providing the kinds of assistance subsector analysis frequently identifies as needed.

It is recommend that the proposed project undertake studies of five subsectors. Each study will require approximately three weeks in the field and a week or two of write-up. It is strongly recommended that there be expatriate involvement in these studies, at least for a portion of the time. The cost of five studies and synthesis is about 4 pm external, 5 pm local - $75,000.

Policy and Regulatory Environment Assessments:

A major role of the PMU will be to serve as an information clearinghouse on the regulatory environment as it affects microenterprise development. A number of USAID projects working with this sector have ultimately proven their value in the role they play as a conduit of reliable, hands-on information for policy makers. The initial regulatory assessment could be done by a team of three - one expat, two locals for a month - $30,000.

Project Monitoring:

- Project-level Monitoring -- standard project monitoring provisions will be included in the project. USAID Kingston will commission a project level evaluation at the mid-point of the project and at the end of the project.

- Program-level Monitoring -- a key element of the "minimalist" package is the tracking of progress of assisted firms. The PMU will advise participating implementing organization on how best to track the progress of assisted enterprises.

- Program Assistance Assessment -- while the project design is based on the importance of financial inputs, implementing organizations need to regularly track the impact of their particular inputs on client firms. Ordinarily it is not economical or feasible for a single implementing organization to do more than track the progress of assisted firms. (The project will assist institutions to undertake sound monitoring.) The PMU, however, is uniquely positioned to assume responsibility for more careful tracking of the impact of the project-supplied inputs to beneficiary firms and compare this to the progress of unassisted firms.

Using the Information:

The PMU would be responsible for developing linkages to feed the information to the appropriate bodies. One approach that has proven helpful is the use of focus-group meetings/workshops. A regular series of workshops will be held with representatives of interested groups including policy makers, implementing organizations, microentrepreneurs, donors, etc. Some will be subsector-specific, some will focus on particular types of regulatory problems/issues; some will review key policy or data-specific studies and reports.

Institutional Arrangements

While capacity to implement the information component should be an important criteria for selection of the implementing organization, it is recommended that the surveys be carried out and data analyzed under the supervision of the PMU at the University of the West Indies, under the supervision of the original researchers from MSU through the PRE Bureau's centrally-funded GEMINI Project.

Work would be planned in conjunction with both the Statistical Institute and the Planning Institute of Jamaica. The university would be able to carry out the surveys and analyze the data more expeditiously than would the Statistical Institute, and would be able to draw on the talent of the best Jamaican economists. However, close involvement of these two key government entities is essential to ensure that the studies will be of greatest use to government policy making. Yacob Fisseha, who played a major role in the earlier survey, is available and interested in taking the lead in this work from GEMINI's side. It is also likely that the GEMINI project could bear a portion of the costs of carrying out this component of the project.

ADMINISTRATIVE ANALYSIS

Organizations Analyzed:

The following organizations were considered as possible intermediary financial institutions for this project:

The National Development Foundation of Jamaica (NDF)

Mini Enterprise Services (MES)

Credit Organization for Pre-micro Enterprises (COPE)

Agency for the Selection and Support of Individuals Starting Trade (ASSIST)

City of Kingston Cooperative Credit Union (KCCU)

Given the project emphasis of supporting microentrepreneurs outside of Kingston, an attempt was made to locate organizations providing credit outside of Kingston, but none were discovered.[1] Therefore, all of the organizations have their headquarters in Kingston, although some provide services outside of Kingston. In addition to the organizations included in this analysis, it appears that there may be some extremely small credit programs, perhaps with less than 30 active clients, being operated out of church and other community organizations. These organizations are not included in this analysis.

Criteria for Analysis of Possible IFIs:

The purpose of the project, as established in the project identification document, is to accelerate the development of microenterprises into more productive, dynamic businesses. In part, this is to be achieved by increasing the capacity of Jamaican organizations to provide microenterprise credit on a largely self-sustaining basis. Consequently, the criteria used to analyze the organizations is their ability to increase their level of operation

---

[1] There are credit unions operating outside of Kingston that provide financial services to microentrepreneurs. The COKCU is studied here as a possible implementing organization, and the organizational analysis examines the possibility of including other credit unions in a microenterprise credit program.

and self-sufficiency[2] while reaching the targeted population of microentrepreneurs with credit services appropriate to their needs. Assessing their capability must consider their technical capability and their willingness to adapt the goals and methodologies of the proposed project. The following criteria were developed to measure and compare the strengths and weaknesses of the potential IFIs.

Criteria	**Indicators**
1) Institutional capability to expand and achieve self-sufficiency.	-legal and financial status of organization; -management systems of the organization; - information systems both for the portfolio and the organization's accounting/finance; -level of technical ability within the organization and the bard; -credit methodology being used and its compatibility with expansion and self-sufficiency; -quality of the loan portfolio.
2) Achievements of the institution.	-number of loans disbursed or microentrepreneurs assisted; -size of portfolio; -geographic coverage. (no comparable impact data is available)

[2] In this document, self-sufficiency refers to the organization covering 100% of the actual operating costs (including financial costs of capital where applicable) with income (interest and commissions) from those activities. It does not include maintaining the value of the portfolio against the effects of inflation nor maintaining a US$ value of the portfolio.

3) Institutional commitment to growth and expansion.	-trend towards growth in portfolio and number of loans; -written plans/projections for expansion or plans as communicated by executive director, board members.
4) Institutional commitment to achieve self-sufficiency.	- current level of self-sufficiency and trend towards self-sufficiency; -current measure of cost-effectiveness; -interest rate being charged to borrowers; -written plans or projections to move the program towards self-sufficiency; -conversations with executive director or board members indicating the goal for self-sufficiency.
5) Compatibility of the institution's methodology and objectives, besides expansion and self-sufficiency, with the methodology and objectives of this program.	-socio-economic level and other characteristics (rural vs. urban, activity, male vs. female, etc.) of the target population; -credit methodology; -interest of the institution in project and flexibility to accommodate project, as perceived through meetings with director, board, etc.

The organizations were not divided into primary and secondary organizations for this analysis. That division will depend on the priority given to the different project objectives, as discussed in the introduction to this section, and discussions/negotiations to be carried out between the PMU and the potential intermediary financial institutions.

Table 16 at the back of this report is titled <u>The Comparative Analysis of Potential Intermediate Financial Institutions</u>. It shows an examination of each institution with regard to the above criteria. For each qualitative criteria, the institutions have been categorized as strong, medium, or weak. The quantitative criteria are presented in their numeric form.

Based on these criteria, four of the five existing organizations appear as feasible IFIs for the proposed project, with only ASSIST appearing inappropriate for the program. However, none of the organizations, as is, is fully compatible with the proposed project. The following section discusses each organization in detail and discusses the feasibility of each organization becoming an IFI.

Analysis of Organizations:[3]

Mini Enterprise Services (MES)

Background and Capabilities

MES began in 1987 as a project of the Mennonite Economic Development Associates of Canada (MEDA), an international Christian organization. MEDA has a representative in Kingston who initiated the program and has been managing it.

Over 85% of the loans disbursed by MES are for the expansion of existing enterprises, as opposed to start-ups. Funded activities include trade (38%), tailoring (18%), food preparation (17%), and services/other (15%). Generally, the entire loan process, from an initial interview in the MES office to loan disbursement, takes a little over a month. Loan size has increased from an average of $2485[4] in 1988/89 to $3400 in the first months of 1990. Loan terms range from 4 to 24 months and average 9 months.

The legal status and management of MES are in transition. A Jamaican executive director has been hired and will begin in July, 1990. MES has been operating with a board of advisers of prominent Jamaicans. MEDA is in the process of legalizing MES as a Jamaican organization and turning over the program to the Jamaican board, which will become the board of directors. The MEDA representative will stay on one more year as an adviser to the program.

MES is dependent on MEDA for funds for the loan portfolio and operational subsidies. MEDA is committed to covering these costs through November, 1990, but there appear to be no funds committed after that date. MES, in its second year of operation, was able to cover 44% of its operating costs with income from its portfolio. However, substantial MEDA assistance (management by the MEDA representative, accounting, budgeting, portfolio management) was provided without any cost to MES.

---

[3] This section draws heavily on the recent report to IDB, "A Review of Small and Microenterprises in Jamaica: Prospects for Assisting Them" (April 1990). The author of this section also conducted the institutional analysis for the IDB report.

[4] All figures in the institutional analysis are in Jamaican dollars unless otherwise indicated. In December 1989, the date of most of the values in the text, the exchange rate was J$7 = US$ 1. At the time of this study (May, 1990) the rate was J$7.34 = US$ 1.

The management systems within the program are relatively weak. While some of the portfolio information is entered into a lotus program, accurate reports on the status of the portfolio that are useful for management purposes do not appear to be produced regularly. The reports that are produced are in a format that does not permit a determination of the actual percentage of the portfolio in arrears nor any in depth analysis of the arrears situation. The program's arrears appear to be quite high and there seems to be no aggressive, clearly defined strategy to combat it. The arrears situation is having a considerable impact on the program's income and, consequently, the level of self-sufficiency. There is no one in the program with an in-depth understanding of credit or finance.

The accounting for MES is managed by MEDA and included with MEDA's other programs in Jamaica. Reports are sent to MEDA in Canada and account for the funds spent on the activities in Jamaica.

The staff of MES is very committed. Most are currently studying for their high school degrees. The levels of formal education and experience are low given their responsibilities as managers of loan portfolios. The new executive director has extensive experience in community development in Jamaica and participated in the design of the COPE program for the Canadian International Development Agency. Her full time presence at MES (the MEDA representative has a separate office and only spends a percentage of his time at MES) and management of the program should improve the internal management and information systems considerably.

Institutional Vision:

As MES achieves its independence from MEDA, it hopes to enter into a period of rapid expansion. The MEDA representative feels that the first years of operation have served as a learning experience that can now be capitalized upon to benefit much larger numbers of people. He sees the organization poised on the threshold of independence and growth, and this view seems to be supported by the board of advisers. Ideally, they would like to up-grade the management and information systems within Kingston and expand within Kingston, before moving to secondary cities.

In addition, there is a strong institutional commitment to reaching a level where the costs of operating the credit program are covered by interest and commission income from the portfolio. While they are strongly committed to the idea of self-sufficiency, they are just as strongly committed to providing the credit service to microentrepreneurs at the least possible cost, and consider that the current commercial interest rates in Jamaica are too expensive for microentrepreneurs.

MES and the Proposed Project:

MES is extremely interested in the proposed project, as they have no assured funding as of the end of 1990. However, they feel incapable of providing credit to microentrepreneurs if their capital carries a cost in any way approaching that of commercial interest rates. They see a clear trade-off between paying for the loan fund and achieving self-sufficiency; paying even a very subsidized rate for the loan fund would postpone their self-sufficiency, which is already projected as four years away with a large donation of capital for portfolio expansion.

MES is not considering, at this point, raising their interest rates in order to improve their self-sufficiency. Nor are they looking for a different credit methodology that might decrease their costs and encourage better on-time repayments, also contributing to higher self-sufficiency, while reaching the same target group.

In sum, MES shares most of the objectives of the proposed project. It is committed to serving the same microenterprise sector, expanding, and achieving self-sufficiency. However, at this point, MES is not considering paying for its loan fund, operating with a minimalist credit methodology, or focusing its efforts outside of Kingston. Furthermore, their institutional capability is relatively weak and they have an arrears problem in the portfolio. With training and technical assistance to up-grade their capabilities, they could improve the program's efficiency and financial situation.

City of Kingston Cooperative Credit Union (KCCU)

Background and Capability:

The KCCU is a member organization of the Jamaican Credit Union League. Over 85 credit unions throughout Jamaica belong to the League which provides them with policy guidelines, services, and investment possibilities. Specific policies and investment decisions are made at the local level.

The KCCU has a current membership of about 50,000 and was established in 1967 as a consumer-oriented organization. Services offered to members have continually expanded to include: consumer loans, insured savings, direct deposits, retirement schemes, lines of credit, high-yield special deposits, financial counselling, housing loans, and others. Members tend to join the credit union for access to inexpensive credit; by law, credit unions cannot charge over 12% interest on loans to members.

Historically, loans to members have been for emergencies or consumer needs, rather than for business development. Of the 16,000 loans disbursed by KCCU in 1988, only 1259 (8%) were for "Business Investment/Expenditure" or "Tools/Machinery-

Purchase/Repairs", categories that seem likely to have been used for business development. While few loans appear to be dedicated to small enterprise development, these same loans account for 48% of the amount disbursed in 1988 ($9.5 million of $30 million disbursed). The average size of these loans was $7,586 compared to an average loan size of $1,386 for the remaining disbursements.

The remaining loans were for payment of bills, debts, personal and household needs, medical and funeral expenses, and others. While most loans are for consumer purposes, it is quite likely that a significant percentage of these are going to microentrepreneurs. Of the 50,000 members of KCCU, about 20,000 are self-employed. In many cases, consumer loans may be enabling microentrepreneurs to cover personal or family needs through credit instead of through withdrawals of capital from their enterprises.

The quality of the KCCU loan portfolio has improved over the past three years (from arrears of 45% to 30%) but is still problematic. However, the credit union has savings on deposit that cover significant portions of the amounts in arrears. While 30% of the loan portfolio was in arrears in 1988, savings deposited by those same borrowers covered 62% of that amount, meaning that only 12% of the portfolio was at risk.

The KCCU is a professionally managed institution with a staff of 70 permanent employees and a low level of turnover. There is an efficient, computerized information system for the loan portfolio that serves accounting functions as well. In addition, KCCU manages the portfolios of 7 other credit unions and hopes to expand this service as a potential source of income for the institution.

KCCU appears to be on sound financial footing. Except for a USAID housing loan of $4.8 million, the $40 million portfolio is financed by members' savings and deposits. The institution receives no grants or subsidies. Share capital accounts for 88% of total capital, and current liabilities (including members' deposits) are 53% of current assets. The USAID loan is only 9% of total assets.

KCCU has been relatively effective in diversifying its activities in order to maintain an operating surplus. In 1986 a "project financing" window was opened to support activities in agriculture/agro-industry, manufacturing, trade and services. In 1989, KCCU began a leasing scheme to help small businesses purchase capital investments. These windows carry effective rates between 18% and 23%, through commissions and charges that get around the 12% law. KCCU is operating with a cumulative surplus, and contributed to that surplus in 1987, although they did not quite break even in 1988.

Institutional Vision:

KCCU is known as one of the most innovative and aggressive credit unions in Jamaica. They are interested in financial mechanisms that provide useful services to their members. They feel a commitment to promoting development, yet recognize their role as a financial institution that must protect its assets, which belong to the members. They are also always looking for ways to expand their membership, as member shares form the bulk of their capital (members' deposits equal only 17% of the credit union's capital). They see growth and expansion as necessary for the survival of the credit union.

KCCU and the Proposed Project:

KCCU recognizes that they have not fully incorporated the microenterprise sector into their membership. Their membership might be classified as lower middle class and little has been done to promote membership from lower classes; the microenterprise sector is a relatively untapped market for the credit union.

On the other hand, microenterprise credit funds could expose the institution to liabilities that it would later be unable to repay. There are many examples of credit union movements around the world that enjoyed successful operations and growth for many years until they allowed themselves to become distributors of foreign funds. One of the principal strengths of credit union movements is that their owners and their clientele are one and the same. When liabilities for external funds are assumed, this link is weakened. Repayment of funds that belong to fellow members seems, in many instances, easier than repayment of funds that come from some unknown, distant party. The KCCU must assess these risks and determine whether or not the proposed project puts its members at risk or serves them better. At this point, they seem confident that the proposed program could strengthen the credit union.

The credit union status of KCCU offers both advantages and disadvantages for the proposed project. The KCCU is one member of a wider movement and some of its policies are constrained by that movement. For example, they cannot operate outside of the Kingston metropolitan area. They also must abide by laws, like the 12% maximum interest on consumer loans, and look for ways to sidestep out-dated laws while operating within the philosophical parameters of the credit union movement.

In addition, KCCU has no real experience making productive loans to microentrepreneurs. Their usual small loans are well-secured by savings and other assets. The large project finance loans have extensive guarantee requirements that put them out of the reach of low-income microentrepreneurs. Current credit processes and requirements, such as a 6 month membership period before loan disbursal, are not appropriate for the quick disbursal needed for a minimalist credit program.

On the other hand, there are several advantages to implementing the project through a credit union. Microentrepreneurs would not only gain access to credit, but to a whole variety of financial services, including savings, advice, insurance schemes, consumer loans, and others. They would become members of a comprehensive financial institution. In addition, even though KCCU could not operate outside of Kingston, capable credit unions in secondary cities could be identified and brought into the project. KCCU could help select and train other interested credit unions once they have gained some experience with minimalist credit to microentrepreneurs. Indeed, a successful minimalist microenterprise credit program in a credit union movement would have implications that reach far beyond Jamaica.

As the microenterprise credit program would require a methodology quite distinct from the current KCCU credit methodology, a separate department with its own specialized staff would need to be developed. They could be housed in the KCCU offices and receive considerable support (accounting, information management, cashier, overhead) as one program within KCCU. KCCU would need considerable inducements to commit themselves to try a minimalist credit program that would mean new credit and membership policies for microentrepreneurs. Significant training and technical assistance would also be required.

Credit Organization for Pre-microenterprises (COPE)

COPE was established by Canadian Save the Children (CANSAVE) and began making loans in Kingston in August of 1989. The program is funded by the Canadian International Development Agency (CIDA) through CANSAVE for its first three years of operation, after which it is supposed to be 75% self-sufficient and have funding lined up to cover it until it reaches 100% self-sufficiency.

COPE works in the poorest neighborhoods of Kingston, such as Hannah Town, Majestic Gardens and the Kingston and St. Andrew Markets. It makes very small loans, 70-80% of which go to vendors. The credit is incremental, with loans beginning at J$500 for three months and increasing based on good payback. Loans are generally disbursed within one week of the potential borrower's initial visit to the COPE office. There are solidarity group loans as well, although the majority of the loans are disbursed to individuals. The COPE director visited an ACCION-affiliated minimalist credit program in Costa Rica twice before beginning project implementation.

COPE is a Jamaican organization with an active board of directors made up of prominent Jamaicans, many of whom are from the formal banking sector. The Chairperson is a director of the National Commercial Bank.

The staff consists of the director, 4 promoters, an accountant and a secretary/receptionist. The promoters are school-leavers from the communities in which COPE is working and were selected from a group of 10 after an intensive training program. There appears to be no one on the staff with substantial credit or finance experience.

The program has one computer, but has not yet computerized either the portfolio or the accounting system. However, CANSAVE has sent portfolio and accounting packages which should be installed shortly. It appears that outside help will be required to install the system and get it running.

Initial indications are that COPE has devised an efficient method to disburse and collect loans at the poorest levels of the microenterprise sector. Its extremely small portfolio produced income that covered only 3% of the operational costs for the first five months; interest earned from project funds on deposit covered another 41% of the operating costs. Because the program has had only 5 months (August to December, 1989) to build its portfolio and client base, its costs per beneficiary and per dollar in the portfolio appear quite high. COPE's effective interest rate, the highest of all of the programs examined, operating budget, and projections are convincing evidence of its commitment to achieve self-sufficiency in the short term.

Institutional Vision:

Unlike the other NGOs studied, COPE was founded with the idea of achieving self-sufficiency within the short term and its commitment to that goal has not waned. COPE is aggressively pursuing its three-year goals and is cautious about altering them in any way. They don't seem to be eager to expand faster than the rate planned for in their budget. While they have some needs that are not being met by the budget, such as a project vehicle, they appear hesitant to take on a larger project than they already have.

COPE and the Proposed Project:

COPE's methodology is by far the closest to the methodology proposed for the new project. They are reaching the smallest microenterprise sector with a minimalist credit program and are committed to self-sufficiency. Unfortunately, however, the timing is not ideal. COPE is very new, has had very little time to learn on the job, and is quite weak institutionally. Wisely, they have set a reasonable pace of growth for their first three years. By August, 1992, COPE might be an ideal candidate for the proposed project.

National Development Foundation of Jamaica

Background and Capability:

The National Development Foundation of Jamaica was established in 1981 to strengthen the economic base of small businesses through providing credit to persons operating or initiating small businesses and microenterprises. NDF's services include loan packaging and monitoring, credit, and technical service and training which includes project development assistance, a 6-hour business management course, and business counselling services.

In addition to a required training course for clients, NDF organizes training seminars and workshops. These activities are open to the entire small business community and, actually, only a small percentage of the participants are NDF clients. Fees are also charged for these activities.

NDF is a private, non-profit organization, registered under the Companies Act of Jamaica. It is managed by a board of directors composed of 17 Jamaicans prominent in business, finance, and the private sector. The board sets the interest rate, which cannot exceed the current lending rate of the commercial banks. The headquarters are in Kingston, and there are three branch offices and one sub-branch office. The director of NDF, Dr. Blossom Nelson, is a very dynamic person and quite well-known and respected in Jamaica.

The organization is professionally managed and has capable staff. The loan officers are generally university graduates or graduates of CAST. Their annual salaries range from $50,000 to $60,000, making them the highest paid of any of the organizations working with small enterprise credit in Jamaica. While these salaries attract qualified staff, some of them move on to the for-profit sector quickly, resulting in a bit of staff turnover.

In 1987, NDF received a grant from USAID to contract Price Waterhouse and Co. to conduct an operational review of the entire foundation. The review helped establish a strategic development plan to achieve self-sufficiency and resulted in the implementation of several positive steps in 1988/89:

- A head office was established, with the Kingston branch office operating as a separate entity out of the same location.

- Profit-cost centers for the entire foundation were identified and efficiency targets set for each area of operations.

- Banking operations were separated from the Technical Services and Training (TST) Division in order to facilitate a streamlined banking program which could cover its costs with banking income (interest and commissions). A plan was established for the TST division to cover its costs through fees for services and interest from an endowment fund which is being built up through donations.

The short-term financial situation of NDF is quite solid. NDF has been very successful in accessing a considerable amount of grants, as well as long-term loans at favorable interest rates, that have enabled them to nearly double their active portfolio from 1988 to 1989. Interestingly, the number of loans disbursed only increased by 21%. In that same period, NDF's long-term liabilities increased by over 100%, but grants increased by over 500% and total assets went up by 135%. Operating expenses actually decreased, showing an improvement in efficiency.

NDF's level of self-sufficiency is impressive. In 1989, banking operations were approximately 133% self-sufficient (unaudited financial statements), and TST operations 28% self-sufficient, for a total foundation self-sufficiency of 92%, up from 76% in 1988. Banking operations are actually subsidizing TST operations. However, some costs contributed to TST might be considered as necessary for the banking operations; 60% of the salaries of the project development officers and 60% of those of the loan recovery officers are attributed to TST. Even so, NDF's level of banking self-sufficiency, and self-sufficiency in general, are excellent when compared to the other NGOs operating in Jamaica.

NDF has developed five-year projections to see what they would need to do to meet 50% of their current demand (they presently meet a much smaller percentage). The projections (1990-1995) show a 190% increase in the active portfolio. Most of that increase would be financed through borrowing at concessional interest rates, including J$ 66 million from the National Development Bank at 7-8% interest. However, the five year projections indicate a serious cash flow problem beginning in 1992 as principal repayments for current and future loans come on line. How that cash flow problem could be covered has not been determined.

As of December, 1989, 10% of the NDF loan portfolio was in arrears. Comparisons of arrears figures between 1988 and 1989 indicate a slightly positive trend, with total arrears decreasing from 11.3% to 10.4%. However, from December 1988 to December 1989 the active loan portfolio increased by 80% while the total amount in arrears increased by 63%. The decrease in the percentage of the portfolio in arrears was due, in large part, to the tremendous growth in the portfolio during 1989. In addition, the slow turnover of the portfolio, because of the average payback period of 4 years, means that only a small percentage of the active portfolio falls due each month. Consequently, while the percentage in arrears may decrease slightly during periods of high disbursements, there may still be a latent loan recovery problem.

Institutional Vision:

NDF's priority, at this point in time, is to reach financial self-sufficiency and assure that the organization is financially solid. Through the Price Waterhouse review and the steps taken to implement the recommendations, they have moved very close to this goal. They will soon be covering all of their banking costs with interest and commission received from the portfolio. TST costs will be covered by course fees and interest from the endowment fund. Program growth and expansion will be financed by grants and subsidized long-term loans. Definition of these goals has actually determined target loan sizes and loan terms for NDF. In turn, this determination has positioned NDF as an organization working more with the small business, or upper end of the microenterprise sector, than the microenterprise sector targeted by this program. In turn, their credit methodology consists of relatively large, long-term loans rather than a minimalist methodology.

NDF is committed to self-sufficiency and institutionalization as its first priorities. An expanding portfolio, as a way to achieve self-sufficiency, has been an important factor in the rapidly increasing portfolio. NDF is also committed to becoming a nation-wide program that has a large impact on the small and microenterprise sectors of Jamaica.

NDF and the Proposed Project:

Of all of the organizations examined, NDF is the most institutionally capable of implementing the proposed project. However, several discrepancies between NDF's operations and the proposed project make implementation by NDF more complex than it might seem. Institutionally, NDF is not enthusiastic about working with the microenterprise sector, as opposed to the sector in which they are currently working. They feel that implementing a minimalist microenterprise credit program would not cover its own costs and would therefore decrease their level of self-sufficiency and have a negative impact on their institutionalization process.

As a matter of fact, the management staff interviewed are not convinced that a program can be structured such that poor microentrepreneurs will pay loans back at an acceptable rate. Nor are they convinced that the minimalist credit methodology provides a needed service to the microenterprise sector; they believe that the microenterprises might grow a little bit and become a little more stable, but that they are dependent on credit from the program to maintain that stability, and therefore the program is not serving a developmental purpose.

If NDF overcame these issues and decided to implement the project, they might have a marketing problem. NDF has established a strong reputation as an organization serving the small business sector. A considerable marketing campaign would have to take place to convince microentrepreneurs that NDF is willing to work with them. While this may sound simple, the current image of NDF might place a serious constraint on initial demand from the microenterprise sector.

Agency fc the Selection and Support of Individuals Starting Trade (ASSIST)

Background and Capability:

ASSIST is a non-denominational Christian development agency, initiated in 1987, dedicated to helping the poor through the development of entrepreneurial activity. It grew out of a concern of Christian businessmen who were supported by Opportunity International (a US organization of Christian businessmen previously known as the Institute for International Development Incorporation). All of ASSIST's funding comes from Opportunity International, although ASSIST is an independent Jamaican organization with a Jamaican board of directors.

Most of ASSIST's 75 clients are in Kingston, although the program is trying to incorporate entrepreneurs from other regions of the island with the support of the board of directors. Approximately 70% of ASSIST's clients are expanding existing enterprises, while 30% are starting new enterprises. About half of the clients are women, and funded activities include: manufacturing (36%), trading (40%), services (15%), agriculture (5%), and food processing (4%).

Approximately 50% of applicants are referred to ASSIST by churches. All applicants must be recommended by the leadership of their local church or community organization. Interested applicants meet with an ASSIST credit officer and fill out a series of project appraisal and application forms. These forms are seen as an educational tool that helps potential clients understand their businesses and their proposed projects. The lending process takes about a month. After loan approval, the client receives follow-up visits and one-on-one counselling from the credit officer.

ASSIST is an extremely small organization with a Jamaican staff consisting of a director, 2 part-time credit officers, an evaluation officer and support staff. The board is very active and the members outside of Kingston are forming local sub-boards, of which the member is the chairman. These sub-boards, with support from the head office, are responsible for ASSIST's activities outside of Kingston.

ASSIST, as yet, does not seem to have a computerized information system. There do not appear to be regular reports that show the status of the active portfolio. The director did not provide any statistics showing the status of the portfolio and the percentage in arrears.

ASSIST's projections for 1990 show them making 7 to 10 loans a month, although they are functioning at a rate above these projections. The projections also show them covering 20% of their operating costs with income from the portfolio, with the shortfall being covered by fundraising.

Institutional Vision:

ASSIST has two years of assured funding from Opportunity International, after which it is supposed to be able to cover its operating costs with income from the portfolio. However, the director does not see this as an appropriate goal for the institution. He wants to raise a J$ 3.5 million endowment fund that could cover the bulk of the training and operating costs, instead of trying to cover them with interest and commissions from the portfolio.

ASSIST does not see itself as a financial institution, but as a "developer of people". They are actually moving away from the microenterprise sector, planning to move 40 - 50% of their portfolio into agriculture and rural development projects.

ASSIST and the Proposed Project:

ASSIST's orientation and increasing focus towards agriculture and rural development is not compatible with the microenterprise target group, minimalist credit model, rapid expansion, and financial self-sufficiency aspects of the proposed project. For these reasons, it appears quite unlikely that ASSIST would participate in the proposed project.

Other Institutional Options:

One institution that presents an interesting option for the proposed project, but which was not analyzed, is the National Advisory Council on Small Business. The Council was formed less than six months ago and is intended to serve as an umbrella and coordinating institution of all of the organizations involved in small and microenterprise activities in Jamaica. Although a list of members was not attained, the chairman stated that all of the organizations active in microenterprise credit, both public and private, were represented on the Council. The Council has not yet been formalized and has no paid staff. However, it does appear to have government support. In addition, the chairman suggested that the Council might be the perfect home for a pilot minimalist credit model in Jamaica, as well as an umbrella for the policy and research activities proposed in this project. It would be premature to recommend either the participation, or non-participation, of the Council in the proposed project. However, it is an option that should be further investigated.

Discussions were also held with several people active in the formal financial sector of Jamaica, most of them board members of the NGOs analyzed above. All of them were extremely skeptical about the possibility of running a credit program for microentrepreneurs through a commercial bank. Indeed, most were extremely skeptical about the possibility of running a commercially viable credit program for microentrepreneurs at all. The following reasons were frequently mentioned:

- Commercial banks are currently operating very profitably, with large margins. They have absolutely no incentive to involve themselves with a market that would operate with a small margin, only producing a profit at high volume, and that would require huge administrative and operational changes.

- While commercial banks do not loan to small borrowers, they have captured the savings of small savers throughout the country. Unlike most other developing countries, small savers in Jamaica deposit their funds in commercial banks and feel very secure about having their funds there. Where commercial microenterprise programs have operated (Indonesia), the capital of small savers has played a very large role. In Jamaica, it would be difficult to capture this market from the commercial banking sector in the immediate future.

It is interesting to note that the commercial banking sector is very well represented on the boards of the NGOs, and that these linkages could very well facilitate access to capital at subsidized rates for the NGOs. For example, NDF has accessed loans from the National Development Bank at concessionary rates, and appears likely to access even larger funds in the near future. The Chairperson of COPE, a director of National Commercial Bank, foresees NCB making some type of financial arrangements with COPE to capitalize its loan fund after the initial three years of funding runs out. As yet, there is no plan as to how this might work. These relationships indicate that if the NGOs were closer to commercial viability, and could pay even 10 - 20% for their capital, there might be capital available to them through innovative financial mechanisms.

Another area worth investigating is the merchant banking sector. Merchant banks generally focus on venture capital type transactions. They look for market niches not being fully attended by the commercial banks. One of these niches might be the microenterprise sector. The merchant banks have had some success at redirecting savings away from the commercial banks by offering higher interest. Generally, the merchant banks work with a much smaller margin than the commercial banks, are more aggressive, and are far more interested in seeking out new markets and financial innovations than the commercial banks. Although only one merchant banker was interviewed, he expressed interest in learning about an effective methodology for loaning to the microenterprise sector, and recognized the large, untapped market that the microenterprise sector represents for financial institutions. However, any involvement with the microenterprise sector would be an extremely atypical activity for a merchant bank.

ECONOMIC AND FINANCIAL ANALYSIS

The Macro-Economic Setting

With a per capita income of about US$1,050 Jamaica ranks among the middle group of developing countries. In the period from 1973 to 1979, Jamaica's real GDP declined by a total of 13.6% and the external debt rose nearly 150%. This performance was a combination of external factors: the oil shock and the fall in the international prices of bauxite and alumina[1] and internal factors viz. expansionary policies adopted by the government in 1972. As the growth process continued to weaken, the new government (in 1980) undertook many bold policy initiatives.

Accordingly, two parallel strategy orientations were launched: the first initiated the short term stabilization process, and the second targeted, and partly achieved long term structural adjustments. Taken together, these initiatives did make production and exports more responsive to market forces. Savings started moving up and allocative efficiency also improved, according to many analysts. These intertwined changes, generically called the structural adjustments program, will continue into the nineties, and except for some transitional shocks, are expected to carry the Jamaican economy onto a self-sustaining growth path[2].

One major inadequacy of the structural adjustments based policy changes, however, is its treatment of employment. High unemployment is not new to Jamaica, but what is bewildering is the nature of the new policy regime that by-passes the need for creation of productive and low cost jobs.

Excess demand for importables and therefore for foreign exchange, coupled with the need for domestic credit to finance governmental operations, have sent interest rates skyrocketing. High interest rates generate two main results: first, the credit-starved microenterprises are further constrained from borrowing (even if they wish to) and second, there are reduced incentives for the formal institutions to foray into the microenterprise sector. This severely constrains the capacity of the microenterprises sector that is the grass root sector to foster entrepreneurial initiative and create new jobs, generating both equity and growth. The microenterprise sector has the in-built capacity to attack

---

[1] which accounts for nearly 80 percent of Jamaica's foreign exchange earnings.

[2] Manley suggests that despite the consensus concerning the broad objectives of the new strategy, there are divergent opinions between the government and the IMF staff as to the details and pace with which specific reforms should be implemented.

poverty and unemployment, but it requires a facilitating environment.

Further Inflation has a tendency to be inequitable in its impact. Given the prospect of further higher prices for basic foods, as a consequence of reduced subsidies, there is an urgent need in Jamaica to check prices particularly for the basic needs of poor. Microenterprise-led interventions can deliver goods and services to the poor and provide the much-needed relief from the so-called transitional havoc that can be let be loose by the on-going adjustment programs. It will certainly diminish the impact of inflation on the poor.

Microenterprises: A route to promoting equity in Jamaica:

Often said to be the legacy of colonialism, Jamaican wealth is distributed in a skewed way, though the extent of inequity has happily been declining. For example in 1960, the top 20% of the society received 61 % of the national income compared to 49% in 1988. The Gini coefficient, which measures the degree of concentration of income, has improved. There is evidence to prove that this remarkable achievement of the economy was largely due to the growth of the micro- and small enterprise sector. The economy could go back to those skewed levels if high interest led inflation continues to persist in the economy and if there is no worthwhile intervention to support the growth needs of the micros. After all, as recently as 1961, a year before independence, ten percent of the population owned 64% of the country's land and less than 1% of the farms covered 43% of the land in 1978. It is more or less a question of choice between the inequitous high inflation regime and microenterprise-led growth.

We see microenterprises playing a critical role in the Jamaican economy well into the 1990s - if not as the engine of growth, certainly as an engine of equity.

The Dynamic and Growing Microenterprises:

That microenterprises in Jamaica are dynamic and growing is proven in many ways. According to Fisseha and Davis (1979), small enterprises (employing 25 or fewer) employed an average of only two workers. In the early 80s, microenterprises employed an average of 2.55 persons while the THA survey concluded in Oct. 1989 brings out that the average size currently is 3.71.[3] Witter and Kirton, have concluded that the informal sector has been growing faster than the

[3] Fisseha and Davies quote the Department of Statistics showing that the number of people employed in small scale manufacturing in the 70s went up while for large manufacturing it went down. And they add that "there is reason to believe that this trend has continued."

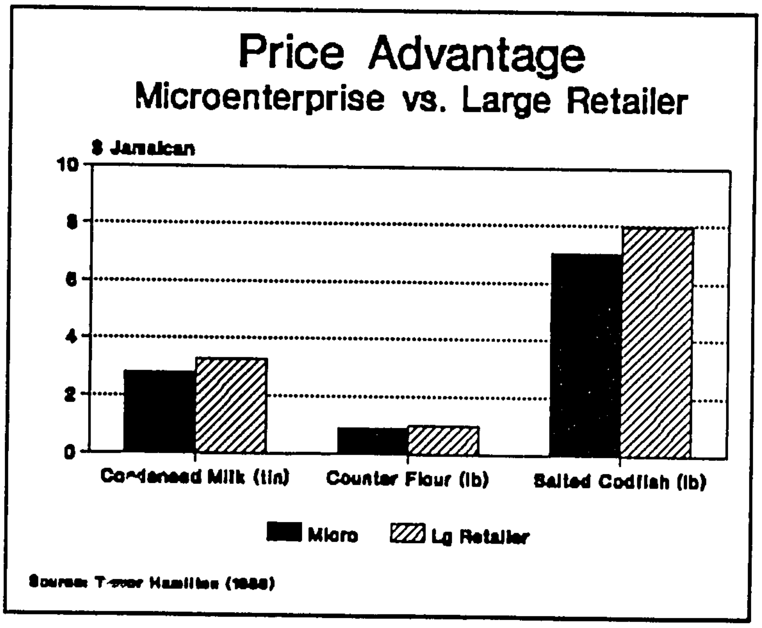
formal one.[4] The middle classes in Jamaica have not done well - sometimes workers in this category have been forced out of their formal sector jobs; because of the government's austerity programs, the microenterprise sector has absorbed the fallout from the structural adjustments.

Further demonstrating the internal strength of the micro-enterprises sector, the Oct. 1989 survey reveals that more than 90% of the respondents plan to expand. In terms of investment size, more than 60% have plans to invest more than $10,000 each in the next two years in Kingston. Likewise in rural Jamaica, about 1/3 of the surveyed respondents plan to expand by investing $10,000 or more in the next two years. In terms of employment, 76% of the Kingston-based microenterprises wish to double their employment in the next two years. The declared intentions of rural microenter-prises are similar. They are planning to expand too.

Microenterprises: They deliver the goods efficiently:

Microenterprises are more efficient in many ways than the formal sector. Trevor Hamilton and Associates reveals that final prices to con-sumers of deliveries undertaken by micro enter-prises are less costly.

Anderson shows that share of food expenditure was higher among the lowest quintile in both rural and urban areas. This would seem to suggest that a program to streng-then the micros in Jamaica would benefit the poor in meeting their food needs.



Contextual Issues for Microenterprise Credit in Jamaica:

Fisseha and Davies (1979) revealed that 80% of the small entrepreneurs did not apply for a loan for various reasons. The main reasons for not applying was "never bothered" or "never seriously thought of." A substantial number of entrepreneurs did not feel that they needed credit. The situation has seemingly changed since then. Among those who saw the need for credit, but

---

[4] Michael and David Kirton have used three methods to estimate the size of informal sectors including participation rates in the labor market.

did not apply, the major deterring factor was collateral requirements. And of those who did apply for loans, 40% reported problems in the process because of collateral. There is no empirical evidence on the issue of a more recent nature, but it would be safe to conclude that collateral still remains a problem in accessing funds from the formal financial sector.

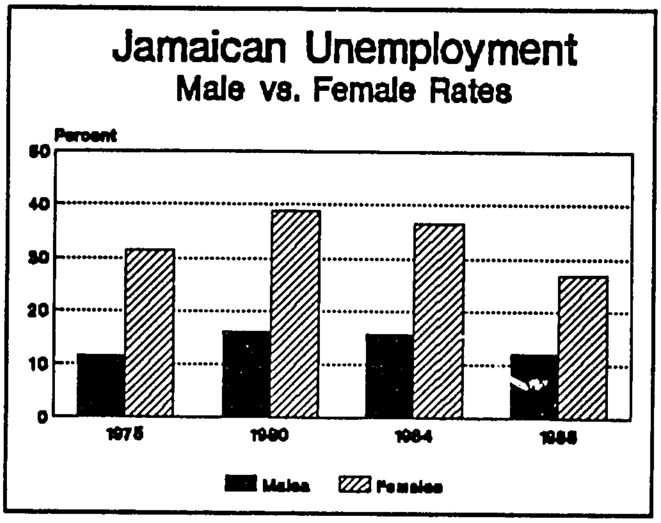
Another interesting feature that emerges from Fisseha Davies study is that interest rates, like in other countries, did not seem to bother most small entrepreneurs. Access was the real issue.

In another quick survey, it was observed that microenterprises tend to be credit shy, ie. they have psychological, cultural or attitudinal constraints. This observation suggests the critical role that macropolicy related research, technical assistance and extension would play in the successful completion of this project.

Microenterprises: An instrument promoting women in development:

Gender inequalities in Jamaica is another aspect of the macro-economic scene that strengthens the case for a microenterprise intervention program. Women presently account for 46% of the labor force and, by 1988 the number of households headed by females had increased to forty percent. Female-headed households are more in need, because there are more dependents per working adult. Women earn an average of 25% less than men; their unemployment rate is two and a half times higher than it is for males, even though women are better educated on an average.

This figure illustrates the need for an intervention that is women-directed, and as has been brought out by the Trevor Hamilton survey and others, microenterprises are the most common route available to impact a large majority of women in Jamaica.



In the project design presented below, special consideration has been given to the gender issue. It is for Jamaica's specific Gender needs that the project targets femaleled microenterprises.

Microenterprises in the context of USAID Assistance to Jamaica:

The principal objectives of AID's assistance to Jamaica are to assist the Government of Jamaica (1) to stabilize the Jamaican economy while minimizing the contraction in domestic production and employment; (2) to support structural reforms necessary for broad-based economic growth; and (3) to ease the burden of adjustment for the most vulnerable segments of the population. By cushioning the impact of the adjustments and by broadening the Jamaican economic base, this project would directly contribute to the achievements of objectives (2) and (3).

Other Country Comparisons:

The minimalist credit approach (MCA) is varyingly embodied in three well-known practices: the Grameen Bank in Bangladesh, BKK in Indonesia, and ACCION International in Latin America.

ACCION, a U.S.-based private voluntary organization (PVO), provides technical assistance to microenterprise organizations through out the Americas. About 40,000 business enterprises participate in 35 ACCION-affiliated programs in 13 Latin American countries and the U. S.[5]

In Peru, ACCION Comunitaria del Peru (ACP), an ACCION affiliate, is fully self-sufficient and currently reaches 11,000 micro businesses in Lima, Peru after six years of operation. Programs located in major cities in Colombia reach an estimated 7,000 microentrepreneurs. Several of the Colombian programs cover their credit-portfolio costs. The Association for the development of Microenterprises (ADEMI), in the Dominican Republic, has financed over 6,000 participants, operates on a national level, and covers operating expenses with interest income. The Foundation for the promotion and development of microenterprises (PRODEM) in Bolivia, works with about 5,000 small businesses, covers its costs of operations and is currently embarked on a national level. Programs in Paraguay, Costa Rica, Guatemala and other countries demonstrate similar results (Christen).

A common element in the ACCION programs is the formation of Solidarity groups. Most ACCION-affiliated solidarity programs, points out Christen, maintain delinquency of less than 10%. Most of the programs are either self-sufficient or well on their way. For programs which have reached their maturity, the unit cost per dollar loaned is between $0.02 and $0.04.

Stocktaking Context:

USAID has the distinction of being a global leader among donors in bringing the microenterprise sector to the top of the policy agenda in a number of third world countries. Starting with PISCES in the early 1970s, ARIES and GEMINI in the 1980s, USAID's learning on the dynamics of the sector is richest among all the donors. To document the learning from various experiments, AID commissioned stocktaking reviews, and to derive common elements

---

[5] For more on ACCION programs, refer to ACCION literature, viz. (1) Olivers, (2) Otero, (3) Stearns and (4) Christen.

from these reviews, a synthesis report was prepared by Boomgard in December 1989. The synthesis report incorporates the experience of 32 microenterprise development projects and programs in various countries sponsored by AID.

Financial Intermediaries in Jamaica:

Jamaica has a well-developed financial sector including a central Bank, a National Development Bank, Agriculture Development Bank, Commercial banks, Peoples Cooperative Banks, Savings and Credit Unions and an emerging network of informal sector traditional and non-traditional institutions.

Theoretically microenterprises can approach both formal or informal financial intermediaries (IFIs), but in practice they bank (if at all) with the informal financial intermediaries (IFIs). What appears missing is a value adding financial intermediation system in Jamaica which facilitates capital formation in the microenterprise sector. The off-credit facilities like insurance, guarantees, discounting of bills, factoring, risk finance and incubation for new businesses seem either missing or marginal in their outreach to microenterprises.

There are two types of IFIs; the newly set up microenterprise-specific, government or donor-led institutions (like the NDF-J) and the traditional IFIs like the Partners program (IADB Report).

The traditional IFIs include: rotating savings and credit schemes, locally called partners, moneylenders, supplier credit, and pawn shops.

The micros-specific intermediaries are: the Self Start Fund (SSF), Solidarity, the City of Kingston Credit Union (COKKU), the National Development Foundation of Jamaica (NDFJ), the Mennonite Economic Development Associates of Canada (MEDA), the Agency for the Selection and Support of Individuals Starting Trade (ASSIST) and the Credit Organization for Pre-micro Enterprises (COPE). All these institutions are new and in the process of setting up their procedures and lending methodologies. They have yet not reached a size, either as a group or individually, where they could be on their own. Though by most accounts they have done well, they still need continued donor funds. There are two issues that have not yet appeared on the operational agenda of these institutions savings mobilization and working with the minimalist credit approach. The objective of this project is to build the institutional capacity of the existing institutions to lend on the principles of the minimalist credit approach (MCA).

The Microenterprise Environment:

The boundaries between pre-entrepreneurial, micro- and small enterprises, are generally overlapping. Many researchers have attempted to estimate the size of the sector. The Statistical

Institute of Jamaica estimated the size at 36,800 in 1983, and Trevor Hamilton at 39,000 in 1989, of which 7,000 are treated as belonging to the "small" enterprise sector as opposed to the "micro". A USAID internal paper estimated the number at 200,000 including pre-entrepreneurial groups. In the proposed project, we have generally based our analysis on the THA findings and the mission's own perceptions, but the project benefits would be available to both pre- and microentrepreneurs. The indirect benefits would reach much higher sections of the Jamaican society.

Constraints to Microenterprise Development in Jamaica:

In any developing country there are constraints on the economic agents. Some that critically limit options for Jamaican microenterprises are: the absence of trade credit from suppliers particularly from the large sector, and the practice of requiring microenterprises to sell to large enterprises and governmental organizations without cash payments. Delays in collections are often costly.

The working capital of microenterprises is thus often locked up either in their inventories of raw material inputs or in receivables. This severely constrains their capacity to grow.

The minimalist credit approach (MCA), by strengthening their working capital base, seeks to help relieve microenterprises of their worries on account of locked up capital.[6]

"Access to credit" and "transactions cost in accessing formal credit" are the other serious constraints that MCA, as a concept, addresses itself to. Accordingly, it would seem optimal to pilot test the introduction of MCA in Jamaica.

Social Cost-Benefit Analysis:

Methodology:

There are frequent distortions in either the input or output markets that render investment analysis based on market prices incomplete, particularly for the purposes of public investments. There are two standard methodologies of social cost-benefit analysis (SCBA) that seek to derive prices that are distortion-free and can be used to determine socially efficient allocation of resources. Both of these methodologies use shadow (accounting or

---

[6] These are inefficiencies of the large sector transmitted through input/output linkages to the microenterprise sector. Two possible solutions are: discounting facilities for input purchases (or introducing a Bill Market Scheme through the commercial banking sector but targeted exclusively for the microenterprises) and a factoring organization to manage clients' receivables for micro-enterprises.

efficiency) prices. The two methodologies are popularly known as OECD or UNIDO methodologies; both use socially profitable investment logic instead of the private profitability logic.

The OECD methodology, developed by Little and Mirrlees (L-M), disaggregates a project into two components, traded and non-traded. It uses border prices for the traded components while for the non-traded ones it uses conversion factors. The non-traded component is further split into two; unskilled labor and those components that are not actually traded but are potentially tradeable. For tradeables, a conversion factor is derived that is essentially a ratio of domestic-to-world prices for that particular commodity. For unskilled labor, a shadow wage rate is derived which seeks to measure the true scarcity of labor in any economy. Accordingly, in the OECD methodology, an investment is viewed in a global trade perspective[7].

In the UNIDO methodology, emphasis is on national rather than global aspects; it seeks to optimize the welfare of nationals without giving too much emphasis to international trade-based welfare considerations. The investment criteria used by the UNIDO methodology is the willingness of consumers (measured through consumer surplus) to pay for a particular product.

The OECD methodology was selected by the World Bank group and modified to include aspects that relate to distribution of project benefits. Lyn Squire and Van der Tak of the Bank worked on the modifications and hence the new methodology is sometimes described as the Little, Mirrlees, Squire & Tak (LMST) methodology. USAID prescribes the LM framework for its investment analysis and consequently our analysis is confined to the spirit of the LM technique to evaluate the proposed microenterprise project, though equity aspects are introduced into the project analysis.

Opportunity Cost: the concept

Opportunity costs are benefits forgone; the opportunity cost of employing a worker is the net output that the worker would have produced in a different job. But in Jamaica, continued high unemployment suggests "zero to marginal" opportunity cost for labor. To take another example, there being a persistent shortage of Foreign Exchange (FE), the official rate of US$1.00 = J$7.00 does not represent the true scarcity value of FE. A rate, say, of J$10.00 represents a high opportunity cost of FE while J$8.50 represents a value higher than the present official exchange but lower than J$10.00.

[7] Schumacher's "Small is beautiful" philosophy, however, questions the wisdom of the OECD methodology.

The Micro Enterprise Project in the LM mould:

In the LM methodology, there are three significant factors that are critical to decision making:

-Shadow price of foreign exchange,
-Shadow price of capital, and
-Shadow price of labor.

Shadow Price of Foreign Exchange:

In the microenterprise project of USAID, the FE component is extremely limited. Since the import content of microenterprise is small, any shadow pricing of FE would, it is assumed, get neutralized by the small amounts of exports generated by the microenterprise sector. So relative (shadow) price constancy is our assumption. The tables 1 to 14 on SCBA are therefore silent on shadow pricing of FE.

The shadow pricing of FE, though, indirectly has a critical influence in the design of even a microenterprise project. FE in Jamaica, because of an overwhelmingly large trade (including tourism) component in it's GDP, affects micros through its impact on interest rates and inflation, a phenomena examined in the next paragraph.

The Shadow Price Of Capital:

There are various approaches to calculate the shadow price of capital. The prevailing interest rate on domestic, or international capital markets is sometimes used as the basis for determining the discount rate. Based on his perception of the Jamaican economy's international credit rating, Weiss (1984) had calculated a rate of 10% as an appropriate shadow discount rate (2.5% above the LIBOR rate).

In a national accounting framework, the shadow price of capital is also calculated as a return on national capital stock. This is calculated by netting out wages and depreciation from national income and by dividing the estimated gross value of national capital stock. The IDB adopted this approach in a study for Jamaica and the shadow price of national capital as 22%.

However, the domestic capital market rate can, as it often does in Jamaica, be distorted because of the administered interest policy or credit rationing or the government's own needs for market borrowings. In Jamaica, all three factors operate thus rendering market rates as unusable except as a starting point.

Then there is the additional factor that is special to Jamaica, namely the close linkage between the FE price and the interest rates. Excessive demand for FE tends to increase the domestic interest rates. Businesses prefer to hold FE and finance such holdings by borrowing J$s in the domestic market. This sends interest rates skyrocketing and, in turn, produces inflation. We, in our calculus of investment planning tended to take an average interest rate of 16% to 20% (18%). This is a bit lower than the IADB rate, but far higher than the ODA rate. That the rate is lower than the current market rate, (or even the USAID auction rate) is partly because of our own eagerness to keep it at anti-inflationary levels, and partly because we believe that given a further depreciation of J$, interest rates would tend downwards.

Review of Existing Literature on Jamaica's SCBA:

There have been two serious attempts made to calculate shadow prices in Jamaica, one by the IDB in 1977, another by the ODA in 1984. A third has been a study by a student in 1988 but relating to a tourism project in Ocho-Rios. The main conversion factors generated by the three studies are presented in the table below:

Table: Efficiency Factors For Jamaica

Inputs/outputs	1977(*)	1984(**)	1988(***)
Unskilled Labor	0.53	0.55	0.52
Skilled Labor	0.72	0.80	0.82
Investment Expenditure	0.89	0.75	n.a
Manufacturing	0.70 to 0.82	0.75	n.a
Distribution	0.70	0.65	n.a
Road Transport	0.73	0.75	n.a
Services	0.50	n.a.	n.a
Average(national)	0.72	0.80	0.82

Quoted by Cowell L Lyn (1988).
Only select factors are listed.

*1977 IDB study.
**1984 ODA study
**Lyn, Cowell L

Shadow Wage Rate (SWR):

If there is a large surplus of unskilled labor, as usually exists in developing economies, then in terms of opportunity cost, the price for any newly called out labor may not be as high as the prevailing market price. Furthermore, the prevailing wage rate may itself be high because of either minimum wage legislation or trade union powers or both. In Jamaica, the vast numbers of unemployed men and women suggest that the real wage rate would be much lower than the market wage rate.

We have in Tables 1 to 14, applied the SWR at a disaggregated level; 0.54 for male workers, and to reflect the male-female comparative disadvantage (and proportion of unemployment) at 0.50 for females.

<u>The Cost Benefit streams: Notes on Tables;</u>

Table 1 illustrates two design variables; the flow of USAID funds i.e. its schedule and its allocation among various locations. Regarding the schedule, the emphasis has been on quickly building up a self-sufficiency level. This funding pattern, combined with repeat loan patterns, achieves self-sufficiency in Year 4. Regarding location allocations, Kingston gets one third while the other secondary towns are allocated two thirds. The guiding principles have been the spatial imbalances, the growth potential and the absorption capacity of the regions that each of the selected secondary town would serve. Depending on how the project develops during implementation, and the interests of intermediary institutions, more locations could be added with the injection of donor funds.

Table 2 incorporates another design element; only one third of the credit component is targeted at male-led enterprises, the balance of two-thirds is allocated to female-led enterprises. This represents the design mission's perception of the need to direct microenterprise assistance in Jamaica especially to women entrepreneurs.

Table 3 states the number of borrowers at each location, essentially derived from tables 1 and 2, and the Microenterprise Credit Model.

Table 4 states the number of employees who would benefit from this project. We may, however, add that under the minimalist credit approach, generally no <u>new</u> (direct) employment is created in the first and sometimes even in the repeat loans. The employment gains usually are in terms of fuller employment vis-a-vis the current under employment. However, in the medium term new employment is created and simultaneously occupational mobility does take place. It is noted that female-led enterprises would employ both males and females, and the reverse also holds true.

Table 5 states the source of employment. An interesting feature of the Jamaican microenterprises is that of the 4.01 employees, e.g. in Kingston, 2.33 are not hired, they are from among the family members. This brings out the character of the project that it would be "nurturing entrepreneurship", a much needed aspect of economic development. It is quite likely that of the 2.33 family members, some will spin-off as independent enterprises. It is unfortunate that we are not able to capture this vital aspect of the project in the SCBA calculations.

Table 6 states credit allocations by year and location. This credit figure includes the new and repeat loans (i.e. includes money created by the financial intermediary) as against the figure in Table 1 which included injections from AID alone.

Table 7 calculates sales generated by credit injections and Table 8 states the incremental profits. In both these tables, cost to sales and sales to profit ratios are taken from THA Survey (Oct 89). We have applied these ratios which are critical to the IRR calculus.

Table 9 includes factorial payments that are necessary to calculate EIRR. In table 9 we have disaggregated operating costs (no long term assets can be purchased because credit under MCA is always short term), in two; two thirds to labor and the balance to other inputs. (This is a common sense assumption, can be varied if there is any evidence to the contrary.) Based on this assumption, we have shadow priced other inputs at their market value (i.e. Conversion factor assumed 1.00).

Table 10 distributes factorial payments by gender, the ratios for Kingston and secondary towns originating from THA Oct 1989 Survey. Table 11 shadow prices the wage component, ODA providing the SWR for males and our modification of that for females to indicate the W-I-D aspect of the project.

Internal Rate of Returns:

Internal Rate of Return (IRR) is the rate at which cash inflows (revenue i.e. sales proceeds) and cash outflows (cost i.e. investments) are equal. If IRR so arrived at is more than a hurdle rate, then the investment is recommended.

The Financial Internal Rate of Return (FIRR):

The microenterprise project does not strictly lend itself to scientific IRR calculations because essentially it is a "financial intermediation project". Its benefits would continue to accrue even beyond the 4th year, when AID injected funds might stop. Our calculations are for four years. In a way this is a pessimistic set of calculations, which, if it returns an IRR that is more than the hurdle rate could be sufficient for a " GO or NO-GO" choice. In this case IRR being over 73%, is sufficient and would meet any hurdle rate for a program in Jamaica. Hence our recommendation to go ahead with the project.

In the cash outflows, we have included AID injected funds of US $1.25 m and another US$150,000 as technical assistance for microenterprises. There might be questions on the other component of TA which is directed to the creation of institutional capabilities. Such TA should be evaluated in terms of cost effectiveness criteria rather than IRR criteria.

The Economic Internal Rate of Return (EIRR):

Table 14 shadow prices the labor component at rates suggested in earlier tables, and the EIRR, accordingly works out at over 162%. In table 15, we have included technical assistance

(US$150,000) and this gives an EIRR of 140%. For all shadow prices of capital below these rates, it would seem that the project is worth recommending.

Future Implications of FIRR and EIRR:

Strictly in terms of the two IRRs, it would seem that microenterprise programs are viable and suitable candidates for enhanced levels of funding. It would be our first recommendation that AID goes ahead with the project. It would be further advisable that USAID/Jamaica enlarge the funds for the project. In fact, there are locations other than proposed that would seriously compete with the chosen ones. AID would be better off expanding the funding base of the project.

Beyond the LM mould: the Poverty aspect

Poverty is a condition that incorporates many dimensions-material, social and spiritual (Anderson). Measured using the nutritional adequacy criteria (Caloric indicator), and the minimum nutrition requirements developed by the Caribbean Food and Nutrition Institute and the low cost menu developed by the Department of Nutrition, Min. of health, in June 1989, the cost of the basket stood at $165.89 for the week. Based on the newly instituted series of Surveys of Living Conditions undertaken by the Planning Institute of Jamaica (PIOJ) and the Statistical Institute of Jamaica (STATIN), Anderson concludes:

-The Survey of Living Conditions data reveal that persons in the poorest quintile were more likely to live in rural areas, to be engaged as small farmers or wage workers in agriculture, to have low education, or to live in female headed households, and

-there are 770,500 Jamaicans living below the poverty line i.e. 32.7% of the national population. The regional distribution of population below the poverty line is: 10% for Kingston, 36.1% for other towns and 40.0% for the rural areas.

How Poor are the Poor?

On the issue how poor are poor, the table below brings out the real magnitudes:

Table: Household Food Expenditure as percentage of RDA, and Percentage Food Gap Among Population Deciles of the Poor.

Decile	Food Exp as a % of RDA	Food Gap%
1	32.7	(67.3)
2	43.9	(56.1)
3	51.7	(48.3)
4	59.9	(40.1)
5	67.2	(32.8)
6	73.6	(26.4)
7	81.7	(18.3)
8	89.3	(10.7)
9	101.2	1.2

Source: Anderson. (RDA: Recommended dietary allowances)

For the poverty population as a whole, food satisfaction has been estimated at 66.9%. Based on the urban rural differentials, it has been estimated that for Kingston the food gap is 21.7% and for the other towns and rural areas it was 31.8% and 34.6% respectively. This gives a multiple of 1.47. Converted into money equivalents, this multiple is reduced to 1.34 ($47/$35; average annual food deficit in Kingston being $35 and in other towns being $47).

Value of Dispersed Incomes:

Among the many ways to deal with the problem of food deficit, one is to provide food subsidies. But in Jamaica, because of the adjustments policy, food subsidies are likely to decrease, and besides, such subsidies cannot be sustained in the long term. Accordingly a policy of increasing incomes in the rural and secondary towns will have to become a priority. The Jamaica Microenterprise Development project, therefore, accords a priority to income generation in the secondary towns by attaching an extra weight of 1.25 times to male incomes and 1.33 to female incomes vis-a-vis the incomes generated in Kingston (Table 11).

Externalities: The Institution-Building Aspect

There are other benefits that are difficult to quantify but would certainly accrue to the Jamaican economy as a result of this project. These benefits include: new techniques of lending, the creation of a pool of barefoot bankers through training, diversification of financial institutions in Jamaica, and the prospect of leveraging the model of "credit for microenterprises".

Table 1: USAID Project Funds Disbursement Schedule (US$).

	1991	1992	1993	1994	Total:
Kingston	$112,000	$93,333	$137,931	$84,848	$428,113
Spanish Town	$32,000	$53,333	$103,448	$84,848	$273,630
Ocho Rios	$16,000	$53,333	$120,690	$84,848	$274,871
Sav-la-Mar		$40,000	$137,931	$95,455	$273,386
Total:	$160,000	$240,000	$500,000	$350,000	$1,250,000

Table 2: Credit Amounts Targeted by Gender (US$).

	1991	1992	1993	1994	Total:
Kingston:					
Male-led:	$37,333	$31,111	$45,977	$28,283	$142,704
Female-led:	$74,667	$62,222	$91,954	$56,566	$285,409
Total:	$112,000	$93,333	$137,931	$84,848	$428,113
Spanish Town					
Male-led:	$10,667	$17,778	$34,483	$28,283	$91,210
Female-led:	$21,333	$35,556	$68,966	$56,566	$182,420
Total:	$32,000	$53,333	$103,448	$84,848	$273,630
Ocho Rios					
Male-led:	$5,333	$17,778	$40,230	$28,283	$91,624
Female-led:	$10,667	$35,556	$80,460	$56,566	$183,248
Total:	$16,000	$53,333	$120,690	$84,848	$274,871
Sav-la-Mar					
Male-led:		$13,333	$45,977	$31,818	$91,129
Female-led:		$26,667	$91,954	$63,636	$182,257
Total:	$0	$40,000	$137,931	$95,455	$273,386
Total:	$160,000	$240,000	$500,000	$350,000	$1,250,000

Table 3: Number of Loans by Gender:

	1991	1992	1993	1994	Totals:
Kingston					
Male-led	255	355	313	321	1244
Fem.-led	510	710	626	642	2488
Total:	765	1065	939	963	3732
Spanish Town					
Male-led	73	200	235	321	829
Fem.-led	146	400	469	642	1657
Total:	219	601	704	963	2486
Ocho Rios					
Male-led	36	200	268	321	826
Fem.-led	73	400	536	642	1652
Total:	109	601	805	963	2478
Sav-la-Mar					
Male-led		155	313	361	829
Fem.-led		309	626	722	1657
Total:	0	464	939	1083	2486
Totals:					
Male-led	364	910	1118	1337	3729
Fem.-led	729	1820	2235	2675	7459
Total:	1093	2730	3353	4012	11188

Table 4: Employees Benefited.

	Empl/Ente	1991	1992	1993	1994	Totals:
Kingston:						
Male Empl	2.37	1095	860	747	725	3426
Fem. Empl	1.64	758	595	517	502	2371
Total:		1853	1454	1263	1227	5797
Spanish Town						
Male Empl	2.39	315	489	565	731	2100
Fem. Empl	0.88	116	180	208	269	773
Total:		432	669	773	1001	2874
Ocho Rios						
Male Empl	2.39	158	489	645	731	2023
Fem. Empl	0.88	58	180	238	269	745
Total:		216	669	883	1001	2768
Sav-la-Mar						
Male Empl	2.39	0	378	753	823	1953
Fem. Empl	0.88	0	139	277	303	719
Total:		0	517	1030	1126	2673
Total New Loans:		660	930	1125	1275	3990
Total Employees:		2500	3309	3949	4354	14112

Table 5: Source of Employment.

Labor source data for microenterprises: T.H.A.

	Empl/Ent.	1991	1992	1993	1994	Totals:
Kingston:						
Self Empl	2.33	1076	845	734	713	3368
Wage Empl	1.68	776	609	529	514	2429
Total:		1853	1454	1263	1227	5797
Spanish Town						
Self Empl	1.90	251	389	449	581	1670
Wage Empl	1.37	181	280	324	419	1204
Total:		432	669	773	1001	2874
Ocho Rios						
Self Empl	1.90	125	389	513	581	1609
Wage Empl	1.37	90	280	370	419	1160
Total:		216	669	883	1001	2768
Sav-la-Mar						
Self Empl	1.90	0	300	599	654	1553
Wage Empl	1.37	0	217	432	472	1120
Total:		0	517	1030	1126	2673
Total:		2500	3309	3949	4354	14112

Summary of Tables 3, 4 & 5:

Number of Loans Funded.

Male-led:	3729
Female-led:	7459
Total:	11188

Employees Benefited.

Male:	9504
Female:	4609
Total:	14112

Employment Sources.

Self:	8200
Wage:	5912
Total:	14112

Table 6: Credit by Location (J$).

	1991	1992	1993	1994	Total:
Kingston	$1,246,348	$1,924,978	$2,548,951	$2,649,846	$8,370,122
Spanish Town	$356,099	$1,085,885	$1,911,713	$2,649,846	$6,003,543
Ocho Rios	$178,050	$1,085,885	$2,184,815	$2,649,846	$6,098,595
Sav-la-Mar		$839,093	$2,548,951	$2,981,076	$6,369,120
Total:	$1,780,497	$4,935,840	$9,194,429	$10,930,614	$26,841,380

Table 7: Sales Generated by Credit Injections (J$)

Cost to Sales Ratios (Source: T.H.A.)
Kingston = 1.69
Sec. Towns 1.95

	1991	1992	1993	1994	Total:
Kingston	$2,106,328	$3,253,212	$4,307,727	$4,478,239	$14,145,506
Spanish Town	$694,394	$2,117,475	$3,727,840	$5,167,199	$11,706,909
Ocho Rios	$347,197	$2,117,475	$4,260,389	$5,167,199	$11,892,260
Sav-la-Mar		$1,636,231	$4,970,454	$5,813,099	$12,419,784
Total:	$3,147,919	$9,124,394	$17,266,409	$20,625,737	$50,164,459

Table 8: Incremental Profit.

Profit Percentage of Sales Ratios (Source: T.H.A.)
Kingston = 0.41
Sec. Towns 0.49

	1991	1992	1993	1994	
Kingston	$863,594	$1,333,817	$1,766,168	$1,836,078	$5,799,657
Spanish Town	$340,253	$1,037,563	$1,826,642	$2,531,928	$5,736,385
Ocho Rios	$170,126	$1,037,563	$2,087,591	$2,531,928	$5,827,208
Sav-la-Mar	$0	$801,753	$2,435,522	$2,848,419	$6,085,694
Total:	$1,373,974	$4,210,696	$8,115,922	$9,748,352	$23,448,944

Summary of Tables 7 & 8: Benefit Summary for Microenterprises (J$):

Sales/Dollar Loaned: $1.87

Profit/Dollar Loaned: $0.87

Credit Leveraged/
Dollar USAID Funds: $3.16

Table 9: Factorial Payments (J$):

Factor Payment Ratio
Labor= 0.67
Other Inp 0.33

	1991	1992	1993	1994	Total:
Kingston					
Labor:	$830,899	$1,283,318	$1,699,300	$1,766,564	$5,580,081
Other:	$415,449	$641,659	$849,650	$883,282	$2,790,041
Spanish Town					
Labor:	$237,400	$723,923	$1,274,475	$1,766,564	$4,002,362
Other:	$118,700	$361,962	$637,238	$883,282	$2,001,181
Ocho Rios					
Labor:	$118,700	$723,923	$1,456,543	$1,766,564	$4,065,730
Other:	$59,350	$361,962	$728,272	$883,282	$2,032,865
Sav-la-Mar					
Labor:	$0	$559,395	$1,699,300	$1,987,384	$4,246,080
Other:	$0	$279,698	$849,650	$993,692	$2,123,040
Total Labor:	$1,186,998	$3,290,560	$6,129,619	$7,287,076	$17,894,253
Total Other:	$593,499	$1,645,280	$3,064,810	$3,643,538	$8,947,127

Table 10: Distribution of Factorial Payments by Gender.

Kingston Ratio		Other Ratio	
Male:	0.59	Male:	0.73
Female:	0.41	Female:	0.27

	1991	1992	1993	1994	Total:
Kingston					
Male:	$491,080	$758,470	$1,004,325	$1,044,079	$3,297,953
Female:	$339,819	$524,848	$694,976	$722,485	$2,282,128
Spanish Town					
Male:	$173,512	$529,106	$931,497	$1,291,158	$2,925,274
Female:	$63,887	$194,817	$342,978	$475,406	$1,077,088
Ocho Rios					
Male:	$86,756	$529,106	$1,064,568	$1,291,158	$2,971,589
Female:	$31,944	$194,817	$391,975	$475,406	$1,094,141
Sav-la-Mar					
Male:	$0	$408,855	$1,241,996	$1,452,553	$3,103,404
Female:	$0	$150,541	$457,304	$534,831	$1,142,676
Total:	$1,186,998	$3,290,560	$6,129,619	$7,287,076	$17,894,253

Table 11: Distribution of Factorial Payments, Wages Shadow-Priced.

Shadow Wage Rate (Male Source: ODA, 1984):

Male:	0.54
Female:	0.50

	1991	1992	1993	1994	Total:
Kingston					
Male:	$265,183	$409,574	$542,335	$563,803	$1,780,895
Female:	$169,909	$262,424	$347,488	$361,242	$1,141,064
Spanish Town					
Male:	$93,697	$285,717	$503,009	$697,225	$1,579,648
Female:	$31,944	$97,409	$171,489	$237,703	$538,544
Ocho Rios					
Male:	$46,848	$285,717	$574,867	$697,225	$1,604,658
Female:	$15,972	$97,409	$195,987	$237,703	$547,071
Sav-la-Mar					
Male:	$0	$220,781	$670,678	$784,379	$1,675,838
Female:	$0	$75,270	$228,652	$267,416	$571,338
Total:	$623,553	$1,734,301	$3,234,505	$3,846,696	$9,439,055

Table 12: Social Valuation of Location.

Kingston Ratio		**Other Ratio**	
Male:	1.00	Male:	1.25
Female:	1.00	Female:	1.33

	1991	1992	1993	1994	Total:
Kingston					
Male:	$491,080	$758,470	$1,004,325	$1,044,079	$3,297,953
Female:	$339,819	$524,848	$694,976	$722,485	$2,282,128
Spanish Town					
Male:	$216,890	$661,382	$1,164,372	$1,613,948	$3,656,592
Female:	$84,970	$259,107	$456,161	$632,289	$1,432,527
Ocho Rios					
Male:	$108,445	$661,382	$1,330,710	$1,613,948	$3,714,486
Female:	$42,485	$259,107	$521,327	$632,289	$1,455,208
Sav-la-Mar					
Male:	$0	$511,068	$1,552,495	$1,815,691	$3,879,255
Female:	$0	$200,219	$608,214	$711,326	$1,519,759

Table 13: Financial Internal Rate of Return (FIRR)
including US$150,000 T.A. for Microenterprises
(Yr1: $25K; Yr2: $25K; Yr3: $50K; Yr4: $50K)

Years:	Guess:	Cash Outflows:	Cash Inflows:
1991	70.00%	-1943945	3147919
1992		-5083698	9124394
1993		-9490487	17266409
1994		-11217385	20625737
			73.63%

Table 14: Economic Internal Rate of Return (EIRR) #1.
(for Assisted Microenterprises):

Years:	Guess:	Cash Outflows:	Cash Inflows:
1991	150.00%	-1217052	3147919
1992		-3379581	9124394
1993		-6299315	17266409
1994		-7490234	20625737
			162.93%

Table 15: Economic Internal Rate of Return (EIRR) #2.
including US$150,000 T.A. for Microenterprises
(Yr1: $25K; Yr2: $25K; Yr3: $50K; Yr4: $50K)

Years:	Guess:	Cash Outflows:	Cash Inflows:
1991	130.00%	-1387052	3147919
1992		-3549581	9124394
1993		-6639315	17266409
1994		-7830234	20625737
			138.93%

Table 16.
COMPARATIVE ANALYSIS OF POTENTIAL IMPLEMENTING ORGANIZATIONS
(All figures are in J$ and as of December 31, 1989 unless otherwise indicated)

INSTITUTION:	NDF/J	MES (d)	KCCU (h)	ASSIST	COPE(o)
General Information					
Date Initiated	7/1981	7/1987	7/1967	7/1987	8/1989
Geographic Focus	Kgn/Mobay/Mand/Ocho	Kgn	Kgn	Island-wide	Kgn
Services Provided(a)	Cr/Tr/Co; N&E	Cr/Tr/Co; E	Cr/Sa; N&E (i)	Cr/Tr/Co; N&E	Cr/Co; E
Avg. Loan Size(1989)	$34,252	$2,462	$7,585 (j)	$10,940	$646
Avg. Loan Term(1989 in months)	48	9	NA	24	4
A. Institutional Capability					
Legal Status	Strong	Medium	Medium	Strong	Strong
Financial Status	Strong	Weak	Strong	Medium	Medium
Info. System	Strong	Weak	Strong	Weak	Weak
Tech Ability	Strong	Weak	Strong	Med-Weak	Weak
Credit Methodology	Strong	Medium	Medium	Weak	Medium
Portfolio Quality	Medium	Weak	Medium		
% portf. in arrears	10%	NA (e)	30%(k)	NA	5%
% loans in arrears	41%	NA	NA	NA	NA
B. Institutional Commitment/Expansion					
Portfolio Increase 1988-89	80%		120%(j)		Not app.
Increase # Loans Disbursed 1988-89	1%		16%(j)		Not app.
Commitment as Communicated	Strong	Strong	Med-Strong	Medium	Medium
C. Institutional Commitment/SS					
Op Inc/Expenses	107% (b)	44% (f)	96%(m)	6%	44%
Cost per $ in Portfolio	$0.15	$0.31	$0.14 (m)	$0.40	$1.63
Cost per Loan Disbursed	$7,146	$640	$321 (m)	$697	$930
Effective Int. Rate		33% (g)	20%(n)		40%(p)
Commitment as Communicated	Strong	Strong	Strong	Weak	Strong
D. Achievements of Institution					
# Loans Disbursed (1989)	537	275	1257 (j)	75	365
Active Portfolio	$33,992,287	$609,812	$40,319,839 (m)	$701,580	$209,700
E. Compatibility					
Target Population	Weak	Strong	Medium	Weak	Strong
Credit Methodology	Weak	Medium	Medium	Weak	Strong
Flexibility/Interest	Med-Weak	Med-Strong	Strong	Weak	Medium

NA = Not Available
Not App = Not Applicable

(a) Cr=Credit, Tr=Training, Co=Counselling & Technical Assistance, Sa=Savings, N=New or Start-up Enterprises, and E=Existing Enterprises.
(b) Calculations include costs & income that NDF attributes to the credit component, not those for training/counselling.
(c) No reference.
(d) Figures are for the 1988/1989 Fiscal Year.
(e) Actual arrears figures not available; the program is now collecting approximately 70% of amount due each month.
(f) Does not include costs of MEDA central office support to MES.
(g) MES charges 12% flat interest plus 7% commission & fees, which is approx. an annual rate of 33% on a declining balance.
(h) Figures are for 1988; comparative figures compare 1987 to 1988.
(i) KCCU offers a variety of financial services & educational activites to members, some of whom are microentrepreneurs.
(j) These figures refer to loans made for "Business Investment/Expenditure" or "Tools/Machinery-Purchase, Repairs"; the average size of total loans disbursed in 1988 was $1,873.
(k) This is the arrears figure for the entire portfolio; savings deposits, however, cover 68% of the amount in arrears, meaning that only 12% of the portfolio is at risk.
(m) Refers to the entire portfolio of KCCU.
(n) Interest rates on all loans are fixed by law at 12%. However, these loans carry a monitoring fee of 4% flat and an application fee of 1%; on a declining balance that works out to 21%. and the rate for project financing is 7%.
(o) All figures for COPE are for the 5 month period from August through December 1989.
(p) The interest rate is 2% flat per month, which is an annual rate of 40% on a declining balance. However, it should be remembered that the average loan period is only 4 months.

Table 17
MICROENTERPRISE CREDIT MODEL

I. Credit Program Variables:

	1991:	1992:	1993:	1994:
Portfolio:	$1,077,290	$2,673,080	$6,054,605	$8,504,882
Interest Rate:	32%	32%	32%	32%
Commissions:	7%	7%	8%	8%
Cost of Capital:	18%	18%	18%	18%
Average Term (Mos.):	4	4	6	6
On-time Recovery:	85%	85%	85%	85%
First Loan Size (US$):	$200	$200	$200	$200
First Loan Size (J$):	$1,360	$1,360	$1,360	$1,360
Ave. Loan Size (US$):	$240	$266	$399	$405
Ave. Loan Size (J$):	$1,629	$1,808	$2,715	$2,752

II. Program Performance Indicators:

	1991:	1992:	1993:	1994:
Self-Sufficiency:	42%	79%	90%	100%
Income/Portfolio:	32%	53%	42%	43%
Expenses/Portfolio:	77%	67%	47%	43%
Exp. (US$)/Loan:	$111.34	$96.29	$124.15	$133.43
Exp. (J$)/Loan:	$757.09	$654.75	$844.25	$907.35
Exp. (US$)/US$ Loan:	$0.07	$0.05	$0.05	$0.05
Exp. (J$)/J$ Loan:	$0.46	$0.36	$0.31	$0.33

III. Credit Program Modeling (All J$ unless indicated):

	1991:	1992:	1993:	1994:
PORTFOLIO				
Starting Portfolio:	$0	$1,077,290	$2,673,080	$6,054,605
New Funds (US$):	$160,000	$240,000	$500,000	$350,000
Cap. Loans Cum (US$):	$160,000	$400,000	$900,000	$1,250,000
New Funds (J$):	$1,088,000	$1,632,000	$3,400,000	$2,380,000
Cap. Loans Cum (J$):	$1,088,000	$2,720,000	$6,120,000	$8,500,000
New Loans Out:	$897,600	$1,264,800	$1,530,000	$1,734,000
Repeat Loans Out:	$882,683	$3,672,394	$7,574,058	$9,306,699
New Loans Paid:	$445,060	$1,023,060	$1,208,020	$1,416,100
Repeat Loans Paid:	$257,933	$2,318,344	$4,514,513	$7,174,322
Principal Recovered:	$702,993	$3,341,404	$5,722,533	$8,590,422
Ending Portfolio:	$1,077,290	$2,673,080	$6,054,605	$8,504,882
LOANS				
Start # Active Loans	0	639	1,481	2,363
# Loans Disbursed	1,093	2,730	3,353	4,012
Loans Finished	454	1,889	2,470	3,151
Fin. # Active Loans	639	1,481	2,363	3,224
Ave. Bal. Act. Loan	$1,686	$1,806	$2,562	$2,638
Consultants:	5	8	11	13
Act. clients/cons.	128	185	215	248

Table 18
CREDIT MODEL
PROFORMA PROFIT & LOSS STATEMENTS
(1991-1994)

	1991	1992	1993	1994
INCOME:				
Est. i Income:	$224,958	$1,069,249	$1,831,211	$2,748,935
Commission:	$124,620	$345,604	$728,325	$883,256
Other Income:	$31,334	$47,002	$97,920	$68,544
Total Income:	$349,577	$1,414,853	$2,559,535	$3,632,191
EXPENSES:				
Management:				
Kingston:	$144,009	$165,610	$190,452	$219,020
Spanish Town:	$91,507	$165,610	$190,452	$219,020
Ocho Rios:	$91,507	$165,610	$190,452	$219,020
Sav-La-Mar:		$124,208	$190,452	$219,020
Credit Op:				
Kingston:	$50,000	$57,500	$99,188	$152,088
Spanish Town:	$50,000	$57,500	$99,188	$114,066
Ocho Rios:	$25,000	$57,500	$99,188	$114,066
Sav-La-Mar:		$57,500	$66,125	$114,066
Overhead:				
Kingston:	$95,000	$109,250	$125,637	$144,483
Spanish Town:	$75,000	$86,250	$99,188	$114,066
Ocho Rios:	$75,000	$86,250	$99,188	$114,066
Sav-La-Mar:		$85,000	$97,750	$112,412
Cost of Capital:	$97,920	$489,600	$1,101,600	$1,530,000
Bad Debt (3%):	$32,319	$80,192	$181,638	$255,146
Total Expenses:	$827,261	$1,787,581	$2,830,496	$3,640,536
NET PROFIT (LOSS):	($477,684)	($372,728)	($270,961)	($8,346)
ACCUMULATED LOSS:		($850,412)	($1,121,373)	($1,129,719)

Table 19
CREDIT MODEL
LOAN DISBURSEMENT AND COLLECTION SCHEDULE

YEAR 1

****
Assumptions:

All loans are 4-month term.

85% of loans are paid on time.

75% of previous trimester's
New Loans (NLs) roll over & become
Repeat Loans (RLs).

85% of previous RLs continue as such.

New Loan: $1,360
Repeat: $2,040

****

	Tri-1	Tri-2	Tri-3
New Loans:	175	210	275
Amount	$238,000	$285,600	$374,000
Repeaters:	0	149	284
Amount	$0	$303,450	$579,233
Prev Bal:	$0	$850,000	$463,250
NL Payback	$0	$202,300	$242,760
RL Payback		$0	$257,933
Loans Closed:		149	305
Cash In	$1,088,000	$0	$0
NL Out:	$238,000	$285,600	$374,000
RL Out:		$303,450	$579,233
Balance:	$850,000	$463,250	$10,710

****

Loans Made In Year:	
New Loans:	660
Repeat Loans:	433
Total:	1093
Loans Closed:	454
Avg. Loan Size Made:	$1,629

CREDIT MODEL
LOAN DISBURSEMENT AND COLLECTION SCHEDULE

YEAR 2

****

Assumptions:

All loans are 4-month term.

85% of loans are paid on time.

75% of previous trimester's
New Loans (NLs) roll over & become
Repeat Loans (RLs).

85% of previous RLs continue as such.

New Loan: $1,360
Repeat: $2,040

****

	Tri-1	Tri-2	Tri-3
New Loans:	300	310	320
Amount	$408,000	$421,600	$435,200
Repeaters:	448	605	747
Amount	$913,098	$1,235,133	$1,524,163
Prev Bal:	$10,710	$1,131,860	$598,060
NL Payback	$317,900	$346,800	$358,360
RL Payback	$492,348	$776,133	$1,049,863
Loans Closed:	475	635	778
Cash In	$1,632,000	$0	$0
NL Out:	$408,000	$421,600	$435,200
RL Out:	$913,098	$1,235,133	$1,524,163
Balance:	$1,131,860	$598,060	$46,920

****

Loans Made In Year:	
New Loans:	930
Repeat Loans:	1800
Total:	2730
Loans Closed:	1889
Cumulative Loans Made:	3823
Avg. Loan Size Made in Year 2:	$1,808

CREDIT MODEL
LOAN DISBURSEMENT AND COLLECTION SCHEDULE

YEAR 3

****

Assumptions:

New Loan:	$1,360	New Loan Term:	4 Months.
Ave Repeat:	$3,400	Repeat Loan Term:	6 Months.

85% of loans payback on time.

75% of previous year's NLs, and 85% of previous year's RLs become this year's Repeat Loans.

****

NEW LOANS:

	Tri-1	Tri-2	Tri-3
New Loans:	350	375	400
Amount	$476,000	$510,000	$544,000
Prev Bal:	$46,920	$280,840	$175,440
NL Payback	$369,920	$404,600	$433,500
Cash In	$3,400,000	$0	$0
NL Out:	$476,000	$510,000	$544,000
Cash to RLs	$3,060,000		
NL Cash Bal	$280,840	$175,440	$64,940

****

REPEAT LOANS:

	Semester 1	Semester 2
Repeaters:	1114	1114
Amount	$3,787,029	$3,787,029
Cash Bal	$0	$568,510
Cash from NL	$3,060,000	
RL Payback	$1,295,539	$3,218,975
RL Out:	$3,787,029	$3,787,029
RL Cash Bal	$568,510	$455

****

Program Year 3 Ending Balance: $65,395

New Loans:	1125
Repeat Loans:	2228
Total:	3353
Loans Closed:	2470
Cumulative Loans Made:	7176
Avg. Loan Size in Year 3:	$2,715

CREDIT MODEL
LOAN DISBURSEMENT AND COLLECTION SCHEDULE

YEAR 4

****
Assumptions:

New Loan:	$1,360	New Loan Term:	4 Months.
Ave Repeat:	$3,400	Repeat Loan Term:	6 Months.

85% of loans payback on time.

75% of previous year's NLs, and 85% of previous year's RLs become this year's Repeat Loans.

****

NEW LOANS:

	Tri-1	Tri-2	Tri-3
New Loans:	400	425	450
Amount	$544,000	$578,000	$612,000
Prev Bal:	$65,395	$383,795	$268,195
NL Payback	$462,400	$462,400	$491,300
Cash In	$2,380,000	$0	$0
NL Out:	$544,000	$578,000	$612,000
Cash to RLs	$1,980,000		
Cash Bal	$383,795	$268,195	$147,495

****

REPEAT LOANS:

	Semester 1	Semester 2
Repeaters:	1369	1369
Amount	$4,653,350	$4,653,350
Cash Bal	$0	$545,625
Cash from NL	$1,980,000	
RL Payback	$3,218,975	$3,955,347
RL Out:	$4,653,350	$4,653,350
Cash Bal	$545,625	($152,377)

****

Program Year 4 Ending Balance: ($4,882)

New Loans:	1275
Repeat Loans:	2737
Total:	4012
Loans Closed:	3151
Cumulative Loans Made:	11188
Avg. Loan Size in Year 4:	$2,752

Table 20
MICROENTERPRISE CREDIT MODEL
SENSITIVITY: Interest Rate Charge Decreased 10%

I. Credit Program Variables:

	1991:	1992:	1993:	1994:
Portfolio:	$1,077,290	$2,673,080	$6,054,605	$8,504,882
Interest Rate:	28.80%	28.80%	28.80%	28.80%
Commissions:	7%	7%	8%	8%
Cost of Capital:	18%	18%	18%	18%
Average Term (Mos.):	4	4	6	6
On-time Recovery:	85%	85%	85%	85%
First Loan Size (US$):	$200	$200	$200	$200
First Loan Size (J$):	$1,360	$1,360	$1,360	$1,360
Ave. Loan Size (US$):	$240	$266	$399	$405
Ave. Loan Size (J$):	$1,629	$1,808	$2,715	$2,752

II. Program Performance Indicators:

Self-Sufficiency:	40%	73%	84%	92%
Income/Portfolio:	30%	49%	39%	39%
Expenses/Portfolio:	77%	67%	47%	43%
Exp. (US$)/Loan:	$111.34	$96.29	$124.15	$133.43
Exp. (J$)/Loan:	$757.09	$654.75	$844.25	$907.35
Exp. (US$)/US$ Loan:	$0.07	$0.05	$0.05	$0.05
Exp. (J$)/J$ Loan:	$0.46	$0.36	$0.31	$0.33

LOANS				
Start # Active Loans	0	639	1,481	2,363
# Loans Disbursed	1,093	2,730	3,353	4,012
Loans Finished	454	1,889	2,470	3,151
Fin. # Active Loans	639	1,481	2,363	3,224
Ave. Bal. Act. Loan	$1,686	$1,806	$2,562	$2,638
Consultants:	5	8	11	13
Act. clients/cons.	128	185	215	248

MICROENTERPRISE CREDIT MODEL
SENSITIVITY: Interest Rate Charge Decreased 5%

I. Credit Program Variables:

	1991:	1992:	1993:	1994:
Portfolio:	$1,077,290	$2,673,080	$6,054,605	$8,504,882
Interest Rate:	30.40%	30.40%	30.40%	30.40%
Commissions:	7%	7%	8%	8%
Cost of Capital:	18%	18%	18%	18%
Average Term (Mos.):	4	4	6	6
On-time Recovery:	85%	85%	85%	85%
First Loan Size (US$):	$200	$200	$200	$200
First Loan Size (J$):	$1,360	$1,360	$1,360	$1,360
Ave. Loan Size (US$):	$240	$266	$399	$405
Ave. Loan Size (J$):	$1,629	$1,808	$2,715	$2,752

II. Program Performance Indicators:

Self-Sufficiency:	41%	76%	87%	96%
Income/Portfolio:	31%	51%	41%	41%
Expenses/Portfolio:	77%	67%	47%	43%
Exp. (US$)/Loan:	$111.34	$96.29	$124.15	$133.43
Exp. (J$)/Loan:	$757.09	$654.75	$844.25	$907.35
Exp. (US$)/US$ Loan:	$0.07	$0.05	$0.05	$0.05
Exp. (J$)/J$ Loan:	$0.46	$0.36	$0.31	$0.33

LOANS				
Start # Active Loans	0	639	1,481	2,363
# Loans Disbursed	1,093	2,730	3,353	4,012
Loans Finished	454	1,889	2,470	3,151
Fin. # Active Loans	639	1,481	2,363	3,224
Ave. Bal. Act. Loan	$1,686	$1,806	$2,562	$2,638
Consultants:	5	8	11	13
Act. clients/cons.	128	185	215	248

MICROENTERPRISE CREDIT MODEL
SENSITIVITY: Cost of Capital Increased 5%

I. Credit Program Variables:

	1991:	1992:	1993:	1994:
Portfolio:	$1,077,290	$2,673,080	$6,054,605	$8,504,882
Interest Rate:	32.00%	32.00%	32.00%	32.00%
Commissions:	7%	7%	8%	8%
Cost of Capital:	18.90%	18.90%	18.90%	18.90%
Average Term (Mos.):	4	4	6	6
On-time Recovery:	85%	85%	85%	85%
First Loan Size (US$):	$200	$200	$200	$200
First Loan Size (J$):	$1,360	$1,360	$1,360	$1,360
Ave. Loan Size (US$):	$240	$266	$399	$405
Ave. Loan Size (J$):	$1,629	$1,808	$2,715	$2,752

II. Program Performance Indicators:

Self-Sufficiency:	42%	78%	89%	98%
Income/Portfolio:	32%	53%	42%	43%
Expenses/Portfolio:	77%	68%	48%	44%
Exp. (US$)/Loan:	$112.00	$97.60	$126.57	$136.24
Exp. (J$)/Loan:	$761.57	$663.71	$860.68	$926.42
Exp. (US$)/US$ Loan:	$0.07	$0.05	$0.05	$0.05
Exp. (J$)/J$ Loan:	$0.47	$0.37	$0.32	$0.34

LOANS				
Start # Active Loans	0	639	1,481	2,363
# Loans Disbursed	1,093	2,730	3,353	4,012
Loans Finished	454	1,889	2,470	3,151
Fin. # Active Loans	639	1,481	2,363	3,224
Ave. Bal. Act. Loan	$1,686	$1,806	$2,562	$2,638
Consultants:	5	8	11	13
Act. clients/cons.	128	185	215	248

MICROENTERPRISE CREDIT MODEL
SENSITIVITY: Cost of Capital Increased 10%

I. Credit Program Variables:

	1991:	1992:	1993:	1994:
Portfolio:	$1,077,290	$2,673,080	$6,054,605	$8,504,882
Interest Rate:	32.00%	32.00%	32.00%	32.00%
Commissions:	7%	7%	8%	8%
Cost of Capital:	19.80%	19.80%	19.80%	19.80%
Average Term (Mos.):	4	4	6	6
On-time Recovery:	85%	85%	85%	85%
First Loan Size (US$):	$200	$200	$200	$200
First Loan Size (J$):	$1,360	$1,360	$1,360	$1,360
Ave. Loan Size (US$):	$240	$266	$399	$405
Ave. Loan Size (J$):	$1,629	$1,808	$2,715	$2,752

II. Program Performance Indicators:

Self-Sufficiency:	42%	77%	87%	96%
Income/Portfolio:	32%	53%	42%	43%
Expenses/Portfolio:	78%	69%	49%	45%
Exp. (US$)/Loan:	$112.65	$98.92	$128.99	$139.04
Exp. (J$)/Loan:	$766.05	$672.68	$877.11	$945.49
Exp. (US$)/US$ Loan:	$0.07	$0.05	$0.05	$0.05
Exp. (J$)/J$ Loan:	$0.47	$0.37	$0.32	$0.34

LOANS				
Start # Active Loans	0	639	1,481	2,363
# Loans Disbursed	1,093	2,730	3,353	4,012
Loans Finished	454	1,889	2,470	3,151
Fin. # Active Loans	639	1,481	2,363	3,224
Ave. Bal. Act. Loan	$1,686	$1,806	$2,562	$2,638
Consultants:	5	8	11	13
Act. clients/cons.	128	185	215	248

MICROENTERPRISE CREDIT MODEL
SENSITIVITY: Interest Rate Charged Decreased 10%
& Cost of Capital Increased 10%

I. Credit Program Variables:

	1991:	1992:	1993:	1994:
Portfolio:	$1,077,290	$2,673,080	$6,054,605	$8,504,382
Interest Rate:	28.80%	28.80%	28.80%	28.80%
Commissions:	7%	7%	8%	8%
Cost of Capital:	19.80%	19.80%	19.80%	19.80%
Average Term (Mos.):	4	4	6	6
On-time Recovery:	85%	85%	85%	85%
First Loan Size (US$):	$200	$200	$200	$200
First Loan Size (J$):	$1,360	$1,360	$1,360	$1,360
Ave. Loan Size (US$):	$240	$266	$399	$405
Ave. Loan Size (J$):	$1,629	$1,808	$2,715	$2,752

II. Program Performance Indicators:

Self-Sufficiency:	39%	71%	81%	89%
Income/Portfolio:	30%	49%	39%	39%
Expenses/Portfolio:	78%	69%	49%	45%
Exp. (US$)/Loan:	$112.65	$98.92	$128.99	$139.04
Exp. (J$)/Loan:	$766.05	$672.68	$877.11	$945.49
Exp. (US$)/US$ Loan:	$0.07	$0.05	$0.05	$0.05
Exp. (J$)/J$ Loan:	$0.47	$0.37	$0.32	$0.34

LOANS				
Start # Active Loans	0	639	1,481	2,363
# Loans Disbursed	1,093	2,730	3,353	4,012
Loans Finished	454	1,889	2,470	3,151
Fin. # Active Loans	639	1,481	2,363	3,224
Ave. Bal. Act. Loan	$1,686	$1,806	$2,562	$2,638
Consultants:	5	8	11	13
Act. clients/cons.	128	185	215	248

MICROENTERPRISE CREDIT MODEL
SENSITIVITY: Loan Sizes Increased 25%

I. Credit Program Variables:

	1991:	1992:	1993:	1994:
Portfolio:	$1,088,850	$2,709,588	$6,056,665	$8,486,657
Interest Rate:	32.00%	32.00%	32.00%	32.00%
Commissions:	7%	7%	8%	8%
Cost of Capital:	18.00%	18.00%	18.00%	18.00%
Average Term (Mos.):	4	4	6	6
On-time Recovery:	85%	85%	85%	85%
First Loan Size (US$):	$250	$250	$250	$250
First Loan Size (J$):	$1,700	$1,700	$1,700	$1,700
Ave. Loan Size (US$):	$301	$331	$497	$511
Ave. Loan Size (J$):	$2,046	$2,252	$3,378	$3,477

II. Program Performance Indicators:

Self-Sufficiency:	44%	78%	91%	100%
Income/Portfolio:	33%	52%	43%	43%
Expenses/Portfolio:	76%	66%	47%	43%
Exp. (US$)/Loan:	$136.23	$120.35	$153.81	$168.98
Exp. (J$)/Loan:	$926.38	$818.38	$1,045.92	$1,149.04
Exp. (US$)/US$ Loan:	$0.07	$0.05	$0.05	$0.05
Exp. (J$)/J$ Loan:	$0.45	$0.36	$0.31	$0.33

LOANS

Start # Active Loans	0	513	1,210	1,893
# Loans Disbursed	893	2,186	2,706	3,168
Loans Finished	380	1,489	2,023	2,507
Fin. # Active Loans	513	1,210	1,893	2,553
Ave. Bal. Act. Loan	$2,123	$2,240	$3,200	$3,324
Consultants:	5	8	11	13
Act. clients/cons.	103	151	172	196

Table 21

Draft Logical Framework Matrix

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Assumptions
GOAL To increase economic production of lower income groups.	-Increased employment in the microenterprise sector -Increased income of participants	-Bank of Jamaica reports -Project reports, PIOJ & Statistical Institute reports	-Profitable opportunities exist for microenterprise investments
PURPOSE To increase the capacity of informal financial institutions (IFIs) to provide microenterprise credit on a largely self-sustaining basis.	-# of enterprises started and/or expanded -# of loans made and recovered by IFIs. -Information inproved for policy reform	-Project reports -Surveys -Cooperating organizations' records -Site visits	-GOJ continues supportive focus on small medium and microenterprise

To accelerate development of microenterprises into more productive and dynamic businesses.

-Volume of microenterprise credit increases
-Microenterprise sector trends change
-5 major subsector constraints resolved

-Program audits
-Bank reports
-Baseline study

-Outflow of fin resources to informal sector exceeds inflow to formal sector.
-Organizations share objective of sustainability.
-Enterprises willing to borrow.
-Economy is stable and growing.
-Structural adj. program doesn't hurt micros.

<u>OUTPUTS</u>

Credit services are more widely available.
Credit organizations are strengthened.
Microenterprises are capable of higher rate of growth.

-More staff trained in credit management.
-Cost per dollar loaned decreases.
-Credit management capacity increased.
-IFIs show higher rate of income/expenses.

-Monitoring reports and reports of cooperating institutions.
-Project evaluations and surveys, site visits.

Assessments completed and new interventions developed.
-Microenterprises report TA is useful, effective.
-Micro profitability and stability increase.

Lead firm relationships established.
-$ value of sales to lead firms increased.
-Economic stability continues.
-Increased income spent on business improvements or family welfare.

INPUTS

Credit/Credit Guarantees
Technical assistance
Training
Fund for growth
Commodities
Monitoring and evaluation
-See Budget.
-Project reports
-USAID Controller reports
-Inputs available on timely basis.

BIBLIOGRAPHY

Christen Robert Peck, What Microenterprise Credit Programs Can Learn From The Moneylenders, ACCION International, Cambridge, MA. Oct. 1989.

Davies Omar: The Impact of recession and adjustment policies on poor urban women in Jamaica, Oct.1986.

Olivares Mirtha, ACCION International/AITEC: A Methodology For Working With The Informal Sector. Cambridge,MA.

Fisseha Yacob and Davies Omar; The Small Scale Manufacturing in Jamaica: Socioeconomic Characteristics And Constraints. MSU, East Lansing, Michigan 48824.

Inter -American Development Bank; A Review of small and micro Enterprises in Jamaica: Prospects For Assisting them. (mimeo) by Robert Wieland, Kathy Stearns, and Antonio Salas, April 1990.

Otero Maria, Microenterprise Assistance Programs: Their Benefits, Costs and Sustainability. ACCION International, Cambridge, MA.

Manley Michael, Wall Street Journal, New York. May 3, 1990.

Doeringer Peter B., Market Structure, Jobs, And Productivity: Observations From Jamaica. Development Research Department, World Bank.

Stearns Katherine, Microenterprise Development Programs: Is client Graduation a myth? ACCION International.

Trevor Hamilton and Associates Survey, Oct 1989. USAID/Jamaica.

USAID/Jamaica; Cash Transfer Evaluation, Jan.1988 (Mimeo)

Witter Michael and Claremont Kirton; The Informal Economy in Jamaica- Some Empirical Exercises. University of West Indies, Mona, Kingston, 1990.

The Statistical Institute Of Jamaica: National Income and Product,1989.

Rhyne Elisabeth. 1987 "The Small Enterprise Approaches to Employment Projects: How a decade of AID Effort contributed to the State of knowledge of Small Enterprise Assistance". USAID.

Anderson Patrica, Levels of Poverty and Household Food Consumption in Jamaica in 1989. Institute of Social and Economic Research, University of the West Indies.

Lyn Cowell L., A Cost Benefit Analysis of a public sector Tourism Project in a developing country: The ocho Rios Cruiseship Terminal, Jamaica. thesis(mimeo) submitted to the University of Stirling, Dec. 1988.

Little, I M D and Mirrlees J A, Manual for Industrial Project Analysis in Developing Countries, OECD, Paris,1968.

Weiss John, National Economic Parameters for Jamaica, University of Bradford, 1984.

LIST OF CONTACTS

Larry Reed, Mark King. Opportunity International. Telephone Interview 9 May 1990.

Omar Davies, Director Planning Institute of Jamaica.

Paul Miller, Director of ASSIST

Rose Campbell, Director of COPE

Richard Newfield, Director MEDA

Angela Stuttz-Crawlle, Director of Training, MES

Anthony Williams, President of MES Board, Director of Trafalgar Development Bank

Blossom Nelson, Director of NDFJ

Trevor Blake, Director of Finance and Treasurer, KCCU

Frank Whylie, Director of Operations, and Billy Heaven, Diorector of Finance, NDFJ

Augusta Payne, President of COPE Board, Director of National Commercial Bank, retired Deputy Managing Director of NCB

Philmore Ogle, Partner Touche, Ross, Ogle and Co.

Gladstone Lewars, Associate, Touche, Ross, Ogle and Co. and Director KCCU.

Danny Williams, President of NDFJ Board, Life of Jamaica

Andrew Cocking, Assistant Vice President, Manufacturers Merchant Bank, Ltd.

Lester Kirkaldy, Chairman, National Council on Small Business

JAMAICA MICROENTERPRISE DEVELOPMENT PROJECT

A DRAFT PROJECT ABSTRACT

Project Description:

The goal of the Jamaica Microenterprise Development Project is to stimulate the economic production of the entrepreneurial poor, thereby increasing their income levels and sustainable job opportunities. The project will reach the target population:

-by increasing the capacity of Jamaican microenterprise assistance agencies to provide microenterprise credit on a self-sustaining basis;

-by identifying and carrying-out a limited number of experimental direct interventions designed to remove subsector-specific constraints for microenterprise development; and

-by establishing an updated baseline of microenterprise information, and supporting policy-making through analysis and dialogue.

The Jamaican intermediate financial institutions (IFIs) will be selected in the first phase of the project. They will negotiate with the project management team a "package," which offers education and training for institutional managers, visits from representatives of successful international credit programs to hold workshops, ongoing contacts with successful microenterprise credit programs in the region, and a computerized loan monitoring system. The deal will also include access to loan funds at a negotiated rate, for onlending to microenterprises according to the minimalist methodology described below.

Technical assistance in the project includes: (a) the international project management assistance to coordinate and direct the project's activities; (b) institution-building help provided for the IFIs as a part of the original credit "package" discussed above, and (c) technical assistance given to groups of microenterprises to overcome specific sectoral constraints.

The monitoring and evaluation component handles both policy information flows and program monitoring activities. The policy information flow includes: a baseline survey of microenterprises, subsector studies to identify opportunities and constraints facing microenterprises and regulatory assessments. The program monitoring activity includes standard mid-point and end of project evaluations, regular assessments of institutional development and program-level monitoring which charts the performance of assisted firms.

The Minimalist Credit Approach:

The project is following ACCION's "minimalist approach" to delivering credit to microenterprises. The minimalist approach features: (a) simplified application procedures, (b) rapid delivery of funds, (c) limited unconventional "guarantees" by groups of borrowers, (d) limited training, after the loan, (e) very small initial loans (US$200) for working capital, followed by increasingly larger loans, and (f) market interest rates.

The Target Beneficiaries of the Project:

The target beneficiaries of the project, are the poorest portion of the active economy. Microenterprises are selected because of (a) their efficiency, ie. their labor-intensive nature and ability to create new jobs with very little investment, and (b) their largely unmet demand for credit. The P.I.D. defines a microenterprise as employing up to ten persons. Since we are targeting virtually any non-illegal activity which will allow an individual to survive, there is no minimum.

The project consciously targets Jamaican women. Promotional efforts should depict women, advertising should be directed at typically female activities, and printed brochures should be distributed to women's groups. While not turning away males from the program, the project targets two-thirds of its program to females in an effort to address previously documented male-female inequities in Jamaica.

While acknowledging that the majority of IFIs are headquartered in Kingston, the project must not limit its scope to the Kingston metropolitan area. The project targets three of Jamaica's secondary towns (Spanish Town, Ocho Rios and Sav-la-Mar) for the remaining two-thirds of the credit fund. Capital productivity is higher outside of Kingston as shown by sales/profit ratios in the Trevor Hamilton survey. Also, the number of people below the poverty line is higher outside Kingston, ie. there is a higher need for development assistance. Nonetheless, minimalist credit programs require some population densities for efficient loan administration, hence our target of secondary towns. Two of the secondary towns, Ocho Rios and Sav-la-Mar are particularly well-connected to growing tourist areas.

Management:

Project management will be by an American or international project advisor organization (PAO), working under the supervision of USAID's Project Officer and part-time Foreign Service National (FSN). This level of management resource is required because of the high levels of negotiation with, and education of, the IFIs involved. The long-term success of the project depends on the achievements of the PAO during the early phase of the project. The PAO will continue with the project into full implementation, coordinating a significant amount of technical assistance, training and monitoring to the intermediate financial institutions. In addition, the PAO will assist in subsector interventions as well as coordinate the project's policy and monitoring activities.

The organizations examined as possible implementing organizations for the informal financial sector development component of this project are five non-governmental organizations currently providing financial services to the microenterprise sector. They include:

- the National Development Foundation of Jamaica (NDFJ),
- the MEDA-supported Mini Enterprise Services (MES),
- the Agency for the Selection and Support of Individuals Starting Trade (ASSIST),
- the City of Kingston Cooperative Credit Union (KCCU), and
- Credit Organization for Pre-Microenterprises (COPE).

The list includes those organizations, currently providing financial services to the microenterprise sector, which were examined during this design mission. It is not intended to be an all-inclusive list; the prospect remains open for other institutions, be they a commercial bank or private credit body, to demonstrate a willingness and capacity to manage the credit component of the project.

Indeed, limiting possible implementing organizations to those analyzed here would probably compromise other project objectives which might be of more importance. Each organization analyzed has at least one major discrepancy with the objectives of the project. For example, to date, no organization appears willing to charge the final borrower an interest rate higher than the commercial rate. The credit model indicates that, in order for self-sufficiency to be reached in a program paying 18% for its funds, the interest charged to the borrower must be higher than most commercial rates. AID must decide which is more important, self-sufficiency with a cost of capital approaching commercial rates, or guiding current microenterprise credit programs through a process that will help them cover their operating costs while accessing only free or extremely subsidized funds for their portfolios.

One alternative to sacrificing the commercial viability objective is to look outside of the NGO/credit union community for implementing organizations. Possible implementing organizations include commercial banks, a large private business that has strong linkages to the microenterprise sector, a new non-profit or even profit-making organization to be created. This option, in the short-run, would not have the same direct impact on the NGOs currently offering credit. On the other hand, it might be a more direct route to the final goal of establishing a self-sufficient, microenterprise lending program, capable of accessing commercial funds to expand its portfolio. These possibilities could not be thoroughly investigated, however, in the short time frame available for the institutional analysis.

Given the project objectives, five groups of criteria were defined to assess the capability of the institutions to carry out the proposed project. These criteria are:

- Institutional capability (financial status, technical ability, information systems, etc.);
- Achievements of the institutions;
- Institutional commitment to expansion;
- Institutional commitment to self-sufficiency; and
- Compatibility of the institution's operations with the objectives and methodology of the proposed project.

Four of the five institutions appear as possible implementing organizations, though as mentioned above, none of them is ideal or appears immediately capable of fully meeting project objectives. To carry out even a compromised version of the project, extensive technical assistance would be required.

Implementation:

The project will have three distinct phases. Phase one, a start-up phase, will last approximately 6 to 9 months, and focus on selecting and training the organization(s) that will implement the credit component. Phase two includes the beginning of the Monitoring and Evaluation Component and the Program for Microenterprise Growth Component, as well as the bulk of the implementation of the credit component. The last 12 months of the project, phase III, consists of continued implementation and considerable effort to use innovative mechanisms to access financing for the expansion of the portfolio of the implementing organizations.

Implementation Phase I

Selection by USAID of method to procure technical assistance services to manage project.

Bid or direct procurement of TA services (HB13 grant or private sector contract) of project advisor organization (PAO).

PAO arrival in-country and work plan developed.

Preliminary PAO Work Plan

Investigation: During the first six weeks, the PAO will meet with potential implementing organizations as well as representatives of the private sector (commercial banks, business leaders, development banks, etc.) to identify the most appropriate mechanism through which to develop the project. Given the Jamaican experience with "partners", and the emphasis in this program on financial self-sufficiency, serious consideration will be given to finding an organization willing to work with some type of "solidarity group" methodology. Efforts will be made to tailor a mechanism that most closely meets AID's objectives of credit to the target population, financial self-sufficiency, and eventual dependence on funds from commercial markets for portfolio growth.

Proposal Development: During months 2-4, the PAO will work with a selected group of interested and capable institution(s) to develop an implementation plan including: training and TA needs of the implementing institution, credit disbursement schedule (both to the implementing organization and to the final borrowers), financial projections for four years, and an implementation budget. This proposal will be negotiated with AID and approved by AID. Depending upon the level of interest generated in the investigation period, several possible implementing organizations may prepare proposals based on guidelines defined by the PAO and AID. However, because of the limited funding committed to the project, and the goal of financial self-sufficiency for the implementing organization, no more than two institutions well be selected for initial project implementation. Ideally, institution(s) will be existing formal or informal financial institution(s).

Training: Months 2-6 will be a period of intensive training and technical assistance to the implementing institution, depending on that organization's needs. For example, if the selected organization is institutionally strong, but not familiar with self-sufficient lending methodologies to reach the microenterprise sector (such as NDF or KCCU), the focus will be on understanding minimalist methodology and developing an appropriate credit mechanism for the project. Training trips to other credit programs would play an important role, as would workshops for the staff of the implementing organization. If the organization is strong on the methodological side, but administratively weak and with limited experience (such as COPE), the focus will be on developing middle management for expansion, using local resources to develop and implement an adequate computerized information system, etc. The PAO would coordinate the training activities.

Computerized information and impact monitoring systems will be established within the implementing organization. See "Monitoring and Evaluation" (below).

<u>Implementation Phase II</u>

By months 6-8, the implementing organization will be making loans to microentrepreneurs.

The PAO provides on-going technical assistance and training to implementing organizations. An on-going relationship with an existing minimalist credit program elsewhere will be very helpful - staff from the other program can come to Jamaica to "trouble shoot", Jamaican staff can receive training there, and on-going communication can be maintained by phone/fax/mail.

By month 10, the PAO will begin to spend more time on the other two project components, the "Program for Microenterprise Growth" (PROMEG) and the "Monitoring and Evaluation Component".

The PAO will work with the research institution and develop guidelines to up-date the 1979-80 study of microenterprises. The baseline study on microenterprises in Jamaica, with a focus on areas to be reached by the project, will begin by the end of the project's first year.

Several possible interventions for the "Program for Microenterprise Growth" will be identified by the end of year one.

The PAO will coordinate disbursements and activities for these two components, as well as the ongoing credit component.

During year 2, the update baseline study will be completed.

During years 2 and 3, several highly targeted, low-cost technical assistance interventions will take place as part of the "PROMEG".

The PAO will be responsible for monitoring all project activities and reporting to AID.

Implementation Phase III

During months 36-48, the PAO concentrates on the institutionalization of the credit scheme and the development of financial mechanisms that provide the implementing organization, and other interested financial intermediaries, with access to borrowed funds for portfolio expansion. This phase may involve the formation of a financial intermediary organization, supported by fees of membership organizations, that accesses funds that are then loaned to implementing organizations.

Several additional highly targeted, low-cost technical assistance interventions will take place to complete the PROMEG component.

An up-date of the baseline study is carried out, with a focus on the project's targeted areas, to measure the impact of the project.

Final evaluation of project takes place.

The Microenterprise Credit Model (MCM):

A spreadsheet model was developed to examine the financial viability of the project's credit program, varying such factors as the cost of capital, lending rates, loan sizes and terms, breakeven portfolio size, and bad debt estimates. The goal was to describe a course toward self-sufficiency, wherein an organization could borrow its capital and on-lend to microenterprises, covering its operating costs.

Model Findings and Observations:

In developing the credit model, we learned that a credit program of a certain volume was required to reach self-sufficiency within four years. We assumed that a start-up operation would be able to extend around 1,000 small loans in its first year, accelerating as its personnel became more familiar with minimalist credit methodology to a loan disbursement rate of 4,000 in its fourth year of operation. We designed a budget based largely on the MEDA-supported MES program, a low overhead operation staffed by competent but not highly qualified, costly personnel.

According to this model: In order for the program to achieve self-sufficiency, an inflow of US$1,250,000 of borrowed capital was required during its first four years; since the expense budget is very lean, this amount should be seen as the minimum required to achieve self-sufficiency.

At the end of Year 4, with self-sufficiency achieved, the model credit organization has not yet paid any principal on its outstanding loans; it also is facing Year 5 in need of new source of funding.

Macro-economic Setting:

Ranking among the middle group of developing countries, Jamaica's external per capita borrowings is one of the highest. The economy has been stagnating at best and, at worst, declining. The structural adjustment policy regime (SAPR) has been in place for some time and has started yielding positive gains.

Unfortunately, on September 12, 1988 Hurricane Gilbert undid what the SAPR had begun. The economy is recovering relatively quickly, however, from the aftermath of the Hurricane.

A positive trend in the performance of the Jamaican economy has been a trend towards declining inequity. Our explanation for this trend is the presence of a growing small- and microenterprise sector. The 1980s saw a clear expansion of the microenterprises in Jamaica, with the number of employees per enterprise increasing nearly one and a half times by the end of the decade. The workers rendered surplus by the large enterprises found employment, sometimes self employment, in the microenterprise sector. The future is viewed optimistically by most microenterprises; they have plans for expanding their investments and employees.

Microenterprises are also a check on the high inflationary pressures that are an integral part of the Jamaican economy today. Microenterprises generally deliver basic goods to consumers at prices lower than formal sector prices. The comparative cost saved in purchasing food and low-cost shelter items from the informal sector is extremely important to the poor consumer.

Microenterprises offer one solution to the emerging gender imbalances prevailing in Jamaica. The spread of education among women in Jamaica, and the lack of continued employment for women, is beginning to appear as a serious social problem. Gender issues are difficult to handle in the large manufacturing sector. Agriculture has it's own limitations. Microenterprises offer a nurturing environment for female entrepreneurs and employees.

The microenterprise project meets the test of financial soundness, producing substantial financial (FIRR) and the economic (EIRR) internal rates of return.

Monitoring and Evaluation:

This component of the project handles both policy information flows and program monitoring activities. The policy information activity includes: follow up work to update the 1979/80 baseline survey of small and microenterprises (UWI & MSU); Subsector studies to identify opportunities and constraints facing microenterprises; and Regulatory Assessments documenting the microenterprise regulatory environment.

The Program Monitoring activity is comprised of three types of activity: standard USAID monitoring with mid-point and end of project evaluations; regular assessments of institutional development progress and the program assistance being delivered to microenterprises; and program-level monitoring which charts the performance of assisted firms.

The PAO will be responsible for developing linkages to channel the information to the appropriate bodies through a series of workshops with representatives of interested groups including policy makers, implementing organizations, microentrepreneurs, donors, etc.

While capacity to implement the information component should be an important criteria for selection of the PAO, it is recommended that the surveys be carried out and data analyzed under the supervision of the PAO at the University of the West Indies, in coordination with the original researchers from MSU through the PRE Bureau's centrally-funded GEMINI Project. Work will be planned in conjunction with both the Statistical Institute and the Planning Institute of Jamaica.

GEMINI PUBLICATION SERIES

GEMINI Working Papers:

"Growth and Equity through Microenterprise Investments and Institutions Project (GEMINI): Overview of the Project and Implementation Plan, October 1, 1989-September 30, 1990." GEMINI Working Paper No. 1. December 1989.

"The Dynamics of Small-Scale Industry in Africa and the Role of Policy." Carl Liedholm. GEMINI Working Paper No. 2. January 1990.

"Prospects for Enhancing the Performance of Micro- and Small-Scale Nonfarm Enterprises in Niger." Donald C. Mead, Thomas Dichter, Yacob Fisseha, and Steven Haggblade. GEMINI Working Paper No. 3. February 1990.

GEMINI Technical Reports:

"Jamaica Microenterprise Development Project: Technical, Administrative, Economic, and Financial Analyses." Paul Guenette, Surendra K. Gupta, Katherine Stearns, and James Boomgard. GEMINI Technical Report No. 1. June 1990. [Not for Circulation]