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**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523**

JAMAICA

PROJECT PAPER

**MICROENTERPRISE DEVELOPMENT PROJECT
AMENDMENT NUMBER 1**

AID/LAC/P-845

PROJECT NUMBER: 532-0156

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number 01	DOCUMENT CODE 3
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2. COUNTRY/ENTITY USAID/Jamaica	3. PROJECT NUMBER 532-0156
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4. BUREAU/OFFICE Latin American and the Caribbean	5. PROJECT TITLE (maximum 40 characters) Microenterprise Development
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 30 97	7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4) A. Initial FY 90 B. Quarter 4 C. Final FY 97
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY 90			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	520	-	520	1,553	3,447	5,000
(Grant)				(1,553)	(3,447)	(5,000)
(Loan)	-	-	-	-	-	-
Other U.S.						
1.						
2.						
Host Country	-	100	100	-	4,150	4,150
Other Donor(s)	-	-	-	-	-	-
TOTALS	520	100	620	1,553	7,597	9,150

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DAF	5,000	3,000		2,000				5,000	
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 110 740	11. SECONDARY PURPOSE CODE 683
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)			
A. Code	BL	PART	
B. Amount			

13. PROJECT PURPOSE (maximum 480 characters)

To accelerate the Development of microenterprise into more productive, sustainable successes which employ more workers.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 06 95 03 97	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of _____ page PP Amendment)

This amendment increases the LOP authorized amount by US\$3.0 million for a new total of US\$5.0 million. This increase in funds supports a continuing credit support program; development of credit institutions; non-credit assistance for microenterprise associations; policy/research studies; and associated project management audits and monitoring/evaluation. Contracts Officer & USAID Controller has reviewed and concurs with the methods of implementation, financing, and procurement included herein.

17. APPROVED BY	Signature: <i>[Signature]</i> Title: Acting Mission Director	Date Signed: MM DD YY 08 24 97	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
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**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, DC 20523**

Jamaica

Project Paper Supplement

Microenterprise Development Project

August 1993

Project Number: 532-0156

b₁

Microenterprise Development Project Paper Supplement August 1993

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GLOSSARY

APPLE	Anti-Poverty Lending Matching Fund
ASSIST	Agency for the Selection and Support of Individuals Starting Trade
CAST	College of Arts Science & Technology
CIDA	Canadian International Development Agency
COK	City of Kingston Credit Union
COPE	Credit Organization for Pre-Microenterprises
DR	Dominican Republic
EDT	Enterprise Development Trust
EEC	European Economic Community
EOPS	End of Project Status
GEMINI	Growth and Equity Through Microenterprise Investment & Institutions
GOJ	Government of Jamaica
GON	Government of the Netherlands
GTZ	German Technical Assistance Agency
IDB	Inter-American Development Bank
KRC	Kingston Restoration Company
LAC	Bureau for Latin America and the Caribbean
MCA	Minimalist Credit Approach
MDP	Microenterprise Development Project
MEDA	Mennonite Economic Development Agency
MIDA	Micro Investment Development Agency
MSU	Michigan State University
NDF/J	National Development Foundation of Jamaica
NGO	Non-Governmental Organization
OI	Opportunity International
OPE	Office of Private Enterprise
OPM	Office of the Prime Minister
PM	Project Manager
PMU	Project Management Unit
PRE	Private Enterprise Bureau
SME	Small and Micro Enterprises
STATIN	Statistical Institute of Jamaica
TDB	Trafalgar Development Bank
THA	Trevor Hamilton and Associates
USAID	U.S Agency for International Development
UWI	University of the West Indies
WID	Women in Development

AUTHORIZATION AMENDMENT
Number 1

Country: Jamaica
Project Title: Microenterprise Development
Project Number: 532-0156

Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, the Microenterprise Development Project for Jamaica was authorized on August 24, 1990. That authorization is hereby amended by adding an additional \$3,000,000 in funding, for a total of \$5,000,000 and by extending the Project Activity Completion Date to September 30, 1997.

The authorization cited above remains in force except as hereby amended.

Signature: *Robert S. Queener*
Robert S. Queener
Mission Director
USAID/Jamaica
Date: 8/24/93

clearance:	OPE: J Owens <u><i>[Signature]</i></u>	DATE: <u>8/17/93</u>
	OPE: MKaiser <u><i>[Signature]</i></u>	DATE: <u>8/17/93</u>
	OPE: WCraddock <u><i>[Signature]</i></u>	DATE: <u>8/17/93</u>
	OEHR: JWood <u><i>MCF for JW</i></u>	DATE: <u>8/20/93</u>
	OPPD: JTennant <u><i>[Signature]</i></u>	DATE: <u>8/16/93</u>
	RLA: EDragon <u><i>[Signature]</i></u>	DATE: <u>8/18/93</u>
	CONT: SHunter <u><i>[Signature]</i></u>	DATE: <u>8/23</u>
	DDIR: MZak <u><i>[Signature]</i></u>	DATE: <u>8/23/93</u>

drft: OPPD: KDahlgren; 8/16/93 *[Signature]*

I. SUMMARY AND RECOMMENDATIONS

A. Summary

This project amendment represents a continuation and consolidation of activities authorized by the original August 1990 Project Paper. The latter provided a) financial assistance to two Jamaican microenterprise credit NGOs, b) technical assistance to the microenterprise financial sector, c) U.S. participation in a multi-donor program of sector surveys and studies, and d) funding for project oversight including management, evaluation and audit. The foregoing activities have recently undergone an external evaluation which strongly recommended their continuation while proposing modifications to increase project effectiveness and sustainability.

The project continues to have high priority for Jamaica given persistent high unemployment rates (16% in 1992), and the high proportion (25%) of Jamaican households living under the poverty line, and the emphasis placed on the sector by the Government of Jamaica (GOJ). Lack of credit access, however, has been identified as a troublesome constraint to the sector's vitality and expansion.

The MDP was therefore designed to address Jamaica's problems of unemployment and poverty with special attention to be given to their incidence among women. The project's goal is to increase employment opportunities for the entrepreneurial poor in Jamaica, thereby increasing their income and quality of life. Its purpose is to accelerate the development of microenterprises into more productive, sustainable businesses.

The Project Supplement will build on the components contained in the original project, adding one additional component concerned with poverty alleviation.

Project implementation arrangements used successfully to date will be followed under the Supplement. Implementation responsibility will be focussed on the Project Manager (PM) and a Program Assistant who will monitor/coordinate all project activities, liaise with the GOJ and other donors, and provide regular reports to USAID. Financial support to credit agencies, and their relationship to USAID will, as in the past, be governed by cooperative agreements. A new element of such support will be a US\$400,000 add-on for anti-poverty lending financed by the PRE Bureau through the APPLE project and which will be matched by USAID. USAID will continue to participate in the multi-donor program of studies and surveys to the extent needed to complete the work and to support its evolution into GOJ policy actions. The project will continue to finance evaluation, audit and monitoring functions.

AID's contribution will be an additional US\$3.0 million. In addition, other participants of the project, including credit agencies, local financial institutions and other donors, will contribute approximately US\$2.6 million.

B. Recommendations

The Project Committee believes that the extension and additional funding of the project as described in this Supplement will make a significant contribution to the development of Jamaica by expanding microenterprise lending, strengthening the microenterprise sector and addressing sectoral policy issues. The Committee recommends that the Microenterprise Development Project Supplement be authorized with life-of-project AID funding of an additional \$3,000,000 and an anticipated project assistance completion date of September 30, 1997.

II. PROJECT BACKGROUND AND RATIONALE

A. Project Background

1. The Microenterprise Sector

"Microenterprise" refers to enterprises in the informal economy that are (a) usually operated by their owners, (b) usually unregistered and unlicensed, (c) have less than ten employees and (d) have no ties to the formal financial system. During the 1980s and up until the current period (1993) there has been a steady growth in the microenterprise sector in Jamaica. It continues to play a vital and growing part of the economy. It is the major source of employment for the unskilled and disadvantaged, estimated at 33% of the urban labor force and contributing as much as 25% of GDP. It is labor intensive in nature and the average number of workers per micro firm is growing (from 2.0 to 3.7 between the late 1970s and 1989). Job creation costs are low. Between 1990 and 1991 self-employed and independent occupation groups grew from 339,000 to 346,000. Some of this growth is attributable to employment shrinkage in the economy's formal sector due to structural adjustment measures which has resulted in a spillover of persons into the informal sector in order to earn a living.

There are numerous external and internal constraints to microenterprise growth and vitality in Jamaica. Internal constraints include lack of training and insufficient skills. External constraints include capital and credit problems, high cost of inputs, difficulty of obtaining raw materials, complex business registration and taxation requirements, inflation, space and locational problems, family responsibilities, and insufficient demand. All of these problems limit the ability of micro-business owners to sustain or expand operations.

Micro-business success has been especially constrained by the macroeconomic environment. Inflationary pressures affected the financial markets with, among other things, upward pressure on interest rates. Additionally, subsidies and other preferential treatment for larger businesses skewed the market at the expense of small businesses. Businesses concurrently battled the high price of raw materials due to high import duties for parts, changes in the exchange rate and high inflation.

Over the past two years, however, the GOJ's macro-policies have changed substantially. Reform has contributed to a reduction in inflation from over 100% to under 20%. The common external tariff structure has come down, reducing import duties. Prices, interest rates and foreign exchange have been decontrolled; price stability has improved; and there has been a declining rate of change in the consumer price index over the last 12 months. Effective economic management and price and exchange rate stability show a great deal of promise for a healthy business environment, growing micro-businesses and increased and strengthened employment.

Even as the financial market improves, however, microbusiness credit needs are not being met by the commercial banking sector. USAID's support of quasi-formal credit institutions through equity capital provision and technical assistance assure that this "credit gap" will begin to be filled while the credit institutions themselves become, at the same time, self-sufficient.

There is ample evidence that lack of reliable access to credit in Jamaica constrains the growth of the microenterprise sector in terms of size, number of people employed and average profitability of enterprises. The sector's demand for credit is difficult to measure and varies by subsector (i.e. services do not have a problem accessing credit whereas garments do), but surveys indicate that credit is a primary problem cited by business owners and that demand for credit, even at market interest rates, is high. Existing credit programs that include microentrepreneurs report strong demand for their services, and they expect continued demand; especially when people come to trust financial institutions and learn, through obtaining credit, how borrowing works and how beneficial it can be to their business.

The Government of Jamaica has recognized and accorded importance to the small and microenterprise sector by incorporating it in its overall policy objectives. This is evident from the Government's Five Year Development Plan 1990-1995 which states:

Our culture and history reveal that the deepest urge of the average Jamaican is to own a means to a livelihood and a home. Our strategy of development must therefore be to broaden the base of ownership and to facilitate entrepreneurship. The Government's role is to create the conditions for the people of Jamaica to achieve; to make available resources, training and guidance to aspiring business persons or groups of young people; to provide help in the search of markets.

In keeping with this commitment to the microenterprise sector, the GOJ has provided support at both the micro and macro level. In 1990 USAID's MDP joined with the GOJ to provide direct support to institutions that supply credit and training to the microenterprise sector. This project also worked closely with the GOJ/GON Microenterprise Project which was implemented primarily by the Office of the Prime Minister. The Government also developed a wholesale facility in 1991 - the Micro Investment Development Agency (MIDA) - to provide resources to credit institutions servicing the sector. In 1993, this intermediary

financial institution issued a government-backed J\$100 million bond. Resources from this bond issue are now being lent to institutions supplying credit to owners of small businesses and microenterprises and as well as small farmers.

2. Microenterprise lending in Jamaica

The microenterprise lending subsector in Jamaica consists of about 20 institutions, some NGOs, some parastatal and some credit unions. Rates of approval were slow and transaction costs relatively high. These practices are beginning to change. Some programs investigate the credit needs of smaller, poorer micro firms - retailers, vendors, service providers, mini-manufacturers and processors.

The need to expand credit to microenterprises using more flexible lending methodologies has been demonstrated in a number of studies. Currently, only 9% of all firms have been able to access credit from existing institutions while about 40% of firms surveyed state access to credit as one of their biggest problems.¹ This amounts to more than 35,000 micro and small businesses annually. The demand therefore is much higher than all current institutions have been able to address. A recent study on credit needs of micro and small enterprises in Jamaica stated that it would require J\$2.2 billion to finance the annual replacement and growth estimates of the sector.² With 40% of all firms stating credit as a primary problem, the actual demand of credit is approximately J\$900 million annually, or about US\$34 million. Assuming that all institutions are able to reinvest their portfolios on an annual basis and that all proposed donor programs are able to disburse all funds, the unmet demand would still be approximately US\$8.4 million. (See Figure 1).

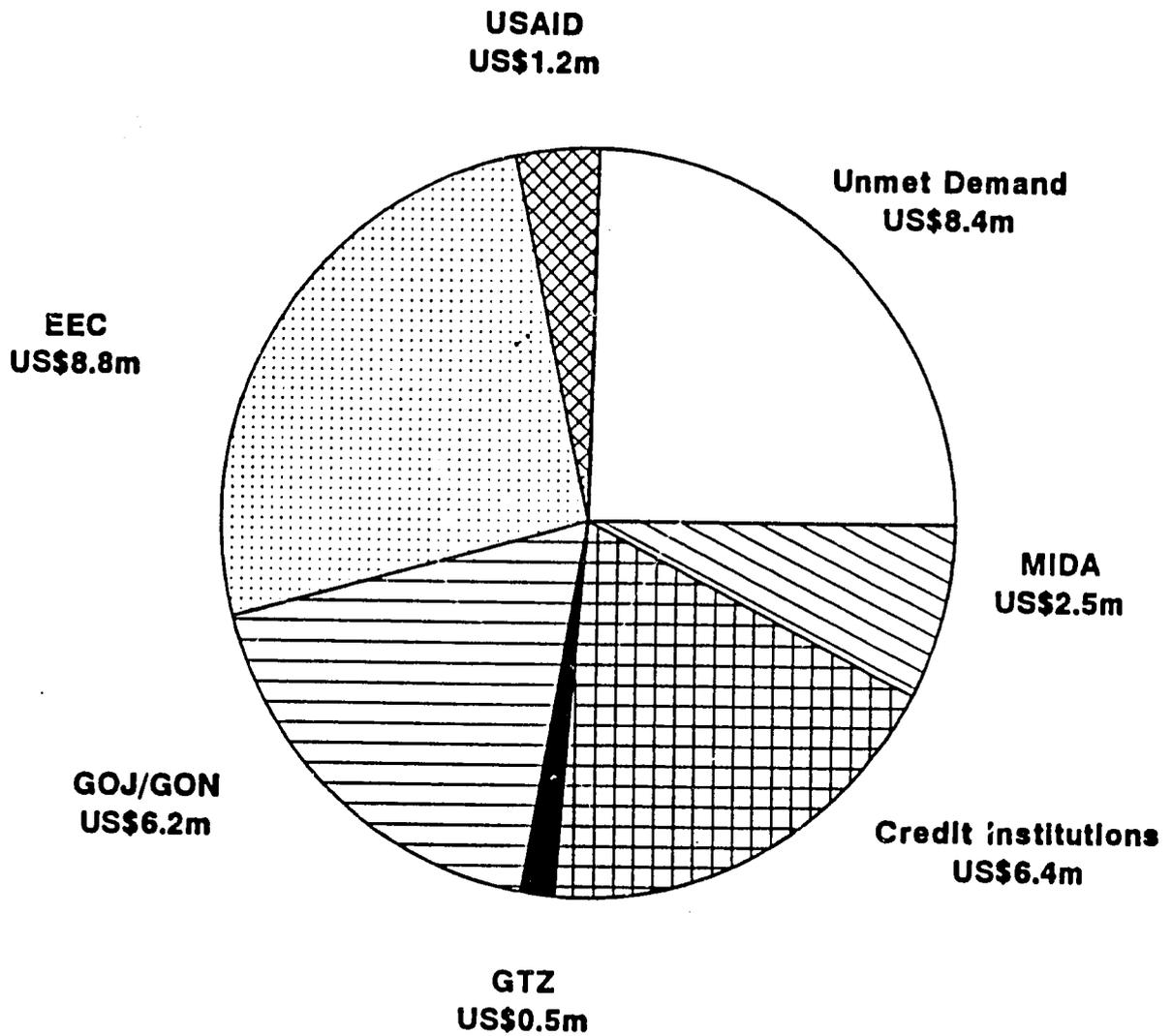
Traditional collateral based lending methodologies have limited the number of firms able to access credit. Several institutions are now experimenting with new attitudes and procedures. Minimalist techniques feature simplified applications, offer short term incremental borrowing, emphasize borrower character and extend lending incentives (rather than lengthy credit analyses and collateral requirements) and rapid processing and disbursement. The minimalist approach aims at high unit rates of lending and low transaction costs. The minimalist approach has been used with some success through MDP's support to EDT and ASSIST. It has attracted attention and interest among the other micro enterprise lending agencies as well as among their donor and GOJ supporters and has opened many minds to the possibility of financially self-sustaining institutions that have a beneficial social impact.

Despite the MDP's accomplishments, AID's credit experiment is incomplete in

¹ "Out of the Shadows. The Institutional Framework and Small Scale Manufacturing Enterprises in Jamaica". (Paper prepared for ILO/OECD). Patricia Anderson. University of the West Indies. October 1992.

² "Credit needs of Micro and Small Enterprises in Jamaica". Ton de Wilde. May 1993.

Annual Credit Demand & Supply Micro and Small Enterprises



NOTE: The total annual demand is estimated at US\$34 million

Figure 1

Jamaica. The time needed to foster changes in lending attitudes and techniques -- as much a cultural issue as a financial one -- was greatly underestimated in the MDP Project Paper. The same applies to the Project Paper's targets for loan output, portfolio size, cost recovery and the financial sustainability of the lending institutions. Nevertheless, as indicated in the evaluation, MDP has established a track record of experience, knowledge and accomplishment which strongly suggest that the project is on the right track and that its goals are feasible.

In its report, the evaluation team concluded: "The evaluation shows that the direction in which the project concept and its implementation is headed is appropriate and encouraging. There are important differences in the accomplishment of cooperating agencies but the overall direction is correct."

3. MDP Progress to Date

The activities and progress of MDP were well described and assessed in the recent evaluation. They are summarized below:

a. Credit

Over 80% of project funding to date (US\$1.6 million) has been devoted to enlarging the capital resources of EDT and ASSIST to enable them to expand their on-lending programs and to leverage additional funding from other sources. EDT's on-lending made possible by MDP has been underway for two years and by ASSIST for less than a year. They have focussed on the lower end of the microenterprise continuum - poorer, smaller businesses - and have featured small loans (mostly averaging US\$800 - 1,000), short maturity (1-2 years) at market rates of interest (APRs of 37-51%). Lending has been for near-term working capital and fixed asset requirements. During 1989, EDT and ASSIST covered only 44% and 6% respectively of all operational costs. However, during 1992 with increases in their loan portfolio, EDT and ASSIST increased their self sufficiency by covering 66% and 37% respectively of their operational costs. Over a thousand loans have been made (as of the May evaluation) of which over half went to women entrepreneurs. Most of EDT's lending was directed to inner Kingston borrowers but nearly two-thirds of ASSIST's went outside the city. A crude estimate as to jobs created or sustained by the program is 2,000, or about two employees per loan. AID funding enabled EDT and ASSIST to leverage more than US\$500,000 (equivalent) in additional funding. (See Annex I Comparative Analysis of Implementing Institutions).

b. Technical Assistance

It was expected that much of the technical services to EDT and ASSIST would be furnished by their NGO sponsors in North America, Opportunities International

(OI) a U.S. NGO and the Mennonite Economic Development Associates of Canada (MEDA) in the case of EDT. MEDA did in fact provide three consultancies but the evaluation team could not identify what help, if any, had been furnished by OI. In any case, the team concluded that neither agency's assistance adequately met the guidance and technical needs of their Jamaican agencies during start up. USAID provided technical help through buy-ins to the GEMINI project and directly through the MDP Project Manager. Of particular value was a USAID/GOJ/GON-organized study/observation visit by key microenterprise lending executives to learn about microenterprise lending concepts and experiences in the Dominican Republic. Training in the areas of credit, collateral appraisal, business planning, however, are urgently needed in all programs in order to better expand services to the sector.

c. Research

In February 1992 at the request of the GOJ, USAID joined with the Netherlands, and the United Nations Fund for Women, in signing a Memorandum of Understanding with the Office of the Prime Minister in order to conduct surveys and studies to provide better information on the characteristics of the microenterprise sector. Talent to conduct the work was furnished by the Statistical Institute of Jamaica (STATIN) and the University of the West Indies (UWI) and assistance has been provided by Michigan State University (MSU) and the Institute for Social and Economic Research (ISER). Most of the surveys and studies (see evaluation report for details) are completed or nearing completion and were the subject of a conference in Jamaica in June 1993. They are providing knowledge and insights of the sector which the GOJ and donors can draw upon for policy or regulatory changes and which the credit agencies themselves can use for enhanced market coverage.

B. The Rationale for a Project Supplement

1. The GEMINI Evaluation and Project Issues

An evaluation of MDP was performed in May-June 1993 through a Mission buy-in to the centrally managed GEMINI Project. The evaluation team noted the positive results that the project had generally achieved, examined the performance and prospects of EDT, ASSIST and the research program and raised a number of questions that needed to be addressed. Indeed, a major purpose of the evaluation was to identify project issues and options for addressing them in the event the project was to be extended with additional funding.

a. Sustainability

A project purpose set forth in the Project Paper was to increase the self-sustaining capacity of Jamaican microenterprise assistance agencies and, as an "achievement" to that end, establish one sustainable microenterprise credit program and establish or strengthen

three more programs.

Sustainability was a major topic of the evaluation. The team noted that both EDT and ASSIST had been materially improved through participation in MDP. Today, agencies have begun to realize the importance and role that interest rates have on programs. During the initial phase of the MDP, training in and understanding of interest rate issues helped both programs to raise interest rates to more effective levels that would move these programs toward sustainability. However, the team also found that the Project Paper's goals had been unrealistically ambitious, especially over a two year time horizon. Similar efforts usually require 4-5 years.

Given the progress achieved, the evaluation recommended that the project be extended by a further three years with additional funding so that ASSIST would have the time and resources to reach sustainability by expanding its lending, increasing portfolio income and reducing transaction costs (and that a reconstituted EDT or another lending agency be considered for similar support under the project extension). The evaluation recommended specific actions to be taken and criteria to be followed by MDP during the proposed extension.

b. Technical Assistance

The evaluation team concluded that the future success and viability of MDP depended on building the capacity and financial competence of local credit institutions through training and technical assistance. The NGO credit agencies, while highly motivated and knowledgeable about the needs of the urban poor, lack, for the most part, sufficient understanding and experience in microenterprise lending practices. Among these are reducing transaction procedures, minimizing traditional requirements (including collateral) and substituting quick, knowledgeable business appraisals, utilizing the incentive of repeat lending of small, short-term, incremental loans and achieving high unit turnover while spreading costs over a higher volume of mostly profitable investments.

Adoption of such practices would dramatically increase the "absorptive capacity" of the lending agencies to process applicants, utilize outside capital, deliver financing to an expanding clientele, and cover an increasing proportion of their costs.

Technical assistance to credit agencies will include a technical expert to provide monitoring, guidance and advisory services to agencies; specialized short term services in accounting, finance, computerization and monitoring; training of loan officers in minimalist, micro-lending attitudes and techniques for screening applicants; the introduction (or improvement) of computerized management and financial information systems; and strengthening the project's reporting systems on topics related to project impact including data on applicants' assets, sales, production and employment.

On the non-credit side, the amended project proposes TA studies and activities aimed at facilitating microenterprise development and reducing the impediments to establishment,

formalization and growth. At the macro level, and coordinated with other donor efforts, studies will be carried out on sectoral training and technology needs, opportunities for streamlining business and tax registration and payments, and important research efforts examining changes in productivity, employment and sales. At the local level, targeted interventions supporting vendors and craft producers are planned.

c. Gender Issues

The Microenterprise Development Project is gender sensitive by design. The sex of loan recipients and loan officers are recorded and barriers which have limited female access to credit are addressed. Gender disaggregated lending data gathered by EDT and ASSIST enabled the evaluation team to measure the extent of participation by businesswomen.

Females comprised over 50% of the loans made and received approximately 30% of the total value of loans. Women are more likely to have smaller businesses than men which contributes to the discrepancy in loan value. Women account for approximately half of the microenterprise sector, but are heavily concentrated in one-person operations and in vending and higgling where they comprise 80% of the sector. Because vendors and the smallest of microenterprises are the most difficult to reach and the most reluctant to approach credit institutions, the \$300 APPLE loan component of the microenterprise development project combined with the increased training and ability of loan officers to make small, quick loans with few requirements should enable institutions to reach even more women, especially low-income women.

AID-supported credit agencies have taken steps to make lending more accessible to women and poorer clients by easing collateral requirements and permitting borrowers to designate loan guarantors from within their families. ASSIST and EDT have also found that female loan officers relate to and assist female applicants better than male loan officers in Jamaica. Establishing a correlation between the number of female loan officers and number of women who receive loans is difficult, collateral requirements and the size of loans available play a larger part in credit accessibility for women. It is worth noting, however, that at EDT where the majority of loan officers are female, over 60% of their loans go to women, while at ASSIST where only two out of eight loan officers are female, 42% of the loans went to women.

Microentrepreneurs face constraints to growth other than credit, such as the problem of labor market segregation and the need for training and information. The evaluation team said that more should be done in these areas to make the project gender sensitive. Women-owned businesses are less likely to expand and are concentrated mainly in "women's work" sectors such as garments, vending, and crafts which, overall, are not as lucrative as male-dominated sectors such as manufacturing. Access to training and organized information networks may begin to address these problems.

USAID will address the evaluation team's concerns through a study on training and will continue to provide gender disaggregated data on credit recipients and on the sector as a

whole through quarterly and annual surveys.

d. Research and Studies

The project extension will provide an opportunity for USAID to study the findings and recommendations of the surveys and studies financed to date by the group of donors mentioned earlier. Funding is being included in the MDP extension to finance follow-on investigations or analyses, subject to consultations with the other parties to the February 1992 Memorandum of Understanding. Policy and regulatory issues identified as a result of the research program will be considered for discussion with the other donors and the GOJ in the context of USAID's policy dialogue agenda.

In order to assess the impact of credit on firm performance, data on several key measures will need to be collected from the loan portfolios of both ASSIST and EDT. These measures will be directly comparable to output from STATIN's Quarterly Panel Survey which will serve as the control group. The most promising measures for comparison include production and/or sales. The data required to generate these measures at ASSIST and EDT require minimal additional effort by existing field officers - an existing data form will be utilized on a regular basis. The data will be entered at EDT and ASSIST.

e. Management

The evaluation team recommended that the Project Manager and staff concentrate on "management, advisory and guidance" functions rather than either (a) carrying out technical assistance and training activities or (b) becoming too involved in operational details of the project. These issues will be addressed in "Project Implementation," Section V, below.

2. Conformity with AID Policy and Mission Strategy.

MDP continues to serve major aims of AID policy and Mission strategy. Specifically, it furthers the objectives of AID Policy Determination No. 17 of October 1988, "Microenterprise Development Program Guidance," the August 1988 Financial Markets Development Policy Paper as well as the earlier Private Enterprise Development Policy Paper (March 1985). Similarly, it adheres to Women in Development considerations as noted in Section 1 (c) above.

In addition, the project ranks high in USAID/Jamaica's policy framework and is in furtherance of the employment aspect of USAID's first Strategic Objective: increased foreign exchange earnings and employment. As the August 1990 Project Paper pointed out, the project directly supports Mission strategy in terms of "employment creation and broadened access to business opportunities," particularly efforts to extend them to the poor in Jamaica.

3. Other Donors

USAID's relationship with other donors is complementary. Donor representatives meet from time to time on an informal basis as circumstances warrant, usually on a one-to-one basis, to discuss developments and plans, share information and coordinate operations. This has been facilitated by the fact that USAID's MDP is targeted at the lower and more rudimentary end of the SME sector while other donors include larger, more well-to-do SMEs. International donors involved in Jamaica are the European Economic Community (EEC), the Government of the Netherlands (GON), Canada (CIDA), Germany (GTZ), and the Inter-American Development Bank (IDB).

USAID's MDP efforts complement those of the GOJ and international donors. The GON, GOJ and the private sector fund intermediary financial institutions which in turn offer wholesale credit to retail lenders. The credit unions and the NDF service larger microenterprises. The GOJ and the private sector support the credit unions while GTZ and CIDA support the NDF. Serving smaller microenterprises are USAID, CIDA and the GOJ. The GOJ supported retailer Self-Start Fund, provides resources to both micro and small businesses. CIDA supports COPE which only lends to the poor of inner Kingston and will be phasing out direct financial support by 1994. USAID's niche, therefore, is supporting EDT and ASSIST retailers which are in the process of adopting a minimalist approach to credit provision and which serve smaller microenterprises. USAID may expand its operations to help COPE when CIDA phases out their microenterprise operations in 1994. For a fuller picture of donor activity in the sector, both in credit and noncredit activities, refer to donor tables.

Presently USAID, GOJ/GON microenterprise project, and the GOJ's Micro Investment Development Agency (MIDA) are the main players in the sector as a whole. The EEC has a proposed project to provide borrowed funds and technical support to small business lending institutions. IDB is interested in the microenterprise sector through the Multilateral Investment Fund. The IDB effort is presently in its initial planning stage.

Coordination is also facilitated by USAID's practice of providing funding to lending agencies in order to capitalize their loan portfolio. By providing equity capital to retailers, they are able to leverage funds from the wholesalers (TDB and MIDA). Providing equity capital enables retailers to lend to more people and establishes healthy financial links between wholesalers and retailers.

Additionally, the MDP has worked closely with the GOJ, the donor community and financial institutions. AID-sponsored training such as the SEEP Workshop on "Sustainable Microenterprise Lending Practices", tours to ADEMI and other successful microenterprise institutions in the Dominican Republic, extensive research through the GEMINI studies and evaluations, and support for an international conference on microenterprises has contributed to the policies of the GOJ and financial institutions. USAID, in conjunction with other donors and the GOJ, has also contributed to the study of microenterprise development worldwide by examining the impact, successes and failures of Jamaican lending institutions.

In sum, USAID has established a niche in Jamaica by serving the credit sector in three ways. First, by facilitating retailers' ability to meet capital requirements; second, by strengthening the institutional capacity of retailers which service poorer and smaller microenterprises; and third by facilitating policy through research and analysis. USAID will continue to collaborate and work with other donors, the GOJ and credit institutions. Where practical, formal arrangements (such as the current Memorandum of Understanding signed with the GOJ, GON and UNIFEM) will be made with other donors and the GOJ.

TABLE 1

**Microenterprise Development Project
Donor Activity in Non-Agricultural Credit Provision**

	Credit amounts are approximate and based on exchange rate in FY/92 of US\$1=J\$23	Institutional Support: Technical Assistance, training, monitoring	Target Group	Policy/Research
CIDA through NDF/J and COPE	FY92/93: US\$.48 J\$34.4 m over 1988-1993	FY92/93 US\$.76 m J\$52.7 m over 1988-1993	Borrowers of NDF/F under the micro credit window max loan US\$4,500, small business US\$6,500	
EEC through GOJ, delivery of credit through wholesaler	Pending: US\$3 m planned in 1993/94	US\$.44 m for monitoring and TA US\$.9 m over two years	Micro and Small enterprises with fixed assets of less than US\$1,000	
GOJ	FY92/93: Through MIDA US\$1.27 m Through NDB US\$.2m Through SSF US\$.46m Total: US\$1.93 m		MIDA and NDB wholesale money to retailers; collectively, retailers loan money to the entire spectrum of microentrepreneurs; SSF retails funds to the sector	
GTZ through NDF/J	FY92/93: US\$.1m For years 1992-96: US\$.45 m to increase income generating capacity of NDF	FY92/93: US\$.14 For years 1992-96: US\$.56m in technical assistance for NDF/J		8 expert months to the study of savings operations and linkage to loans and appropriate technology for NDF/J

	Credit amounts are approximate and based on exchange rate in FY/92 of US\$1=J\$23	Institutional Support: Technical Assistance, training, monitoring	Target Group	Policy/Research
IDB US\$1.5 billion MIF for the LAC region	Will provide funds to broaden financial services available to smaller enterprises			Technical Assistance Facility will include grants for country diagnoses to identify constraints, advisory services for legislation and regulatory reform.
USAID	FY92-93: US\$.38 m	FY92/93: US\$.07 m	Microenterprises in manufacture, services, commerce, agri-business employing 5 or less.	In conjunction with GO!/GON, quarterly and annual panel surveys. US\$82,454

TABLE 2

**Microenterprise Development Project
Donor Activity in Non-Credit Assistance**

	Skills training	Technology/ Marketing	Regulation/Trade Barriers	Policy/Research	Savings mobilization	Raw Materials/ Prices
CIDA						
GOJ	US\$.26 m through a number of ministries and organizations					
GOJ/GON	Training in business counseling in conjunction with College of Arts Science and Technology (CAST) Entrepreneurial Extension Centre	Studies which identify technologies for microbusiness commercial use	Supported paper delivered at macropolicy conference	Supported macropolicy conference		Supported paper delivered at macropolicy conference
GTZ					Eight expert months to study savings capacity.	
EEC implemented by GOJ				Improve the macro policy environment		Provide management support to address the problem of availability of raw materials

	Skills training	Technology/ Marketing	Regulation/Trade Barriers	Policy/Research	Savings mobilization	Raw Materials/ Prices
IDB	Human Resource Facility will provide grant assistance in the areas of restructuring work forces, vocational education and management training.					
USAID	Future study on training will be conducted.				Future study to examine capacity of credit institutions to take on savings and the regulatory environment, supported macropolicy conference	

III. PROJECT DESCRIPTION

The first two years of MDP were a pilot effort where the minimalist lending approach was tried with poorer microenterprises in urban and rural Jamaica. Two private Jamaican microlending agencies were introduced to the project's lending approach and monitored to determine whether they could become effective and sustainable vehicles for delivering credit and advice to poor borrowers (while efficiently managing their own portfolios). In addition, MDP has permitted USAID to join with the GOJ and other donors in launching a program of surveys and studies to improve knowledge of the dynamics of the microenterprise sector.

It is the evaluation team's and USAID's belief, based on an assessment of this experience, that the results have been sufficiently positive and encouraging to warrant continuing and expanding the project. The experience of ASSIST in particular shows that a Jamaican NGO can make an increasing volume of loans to an expanding clientele of needy entrepreneurs, at market rates, with an excellent prospect of becoming self sustaining within the next three to four years (see Section VII C, Economic and Financial Analysis Summary). The experience with EDT shows that lapses in management and staffing can have a severe negative short term impact on the financial health of a microlending organization. Therefore the proposed project extension would give EDT an opportunity to put its house in order and apply for further assistance. But USAID will also request comparable applications from other microenterprise credit agencies, along with that of EDT, and select at least one of these to join ASSIST in addressing the credit and counseling needs of Jamaican microbusinesses.

The extension will also provide an opportunity to follow up on the studies and surveys that are now being completed, examine their implications and see what additional work is needed. It will permit USAID, in consultation with the donors, to identify any legal, regulatory or institutional measures that would benefit the microenterprise sector and its credit agencies and to engage in dialogue with the GOJ as to their adoption.

To summarize, the Project Goal and Project Purpose of the project in the Supplement are basically the same as those in the Project Paper. Conditions signifying attainments of the purpose (EOPS), project components, outputs and inputs have been modified to reflect experience and knowledge gained since the original design.

Project Impact

Under the extension, greater emphasis will be placed on tracking the pattern and distribution of lending among borrowers and measuring the results. In addition statistics by age and gender will be collected on:

- * employment

- * asset base
- * firm level production/sales.

The data will reveal the characteristics of borrowers. Borrowers who return for additional loans will be tracked over time. By monitoring these variables over time, changes in economic well-being, output and employment will be followed and the people-level impact of lending will be assessed. To this end, the project will finance a locally recruited data specialist (statistician/survey enumerator) to review current data requirements of the credit agencies and identify where improvements can be made without overburdening the system. Once the changes have been installed, his/her job will be to monitor data output and prepare summary reports. The person's services might be needed for an initial six months after which he/she would periodically check the system. This person will be financed under the Monitoring/Evaluation component. (Component VII).

Project Goal

The goal of the project is to increase employment opportunities for the poor in Jamaica, thereby increasing their income and quality of life.

Project Purpose and Expected Achievements

The purpose of the project is to accelerate the development of microenterprises into more productive, sustainable businesses which employ more workers. The project will reach the target population and contribute to achievement of the purpose by:

- increasing the capacity of Jamaican microenterprise assistance agencies to provide microenterprise credit on a self-sustaining basis;
- testing methods of delivering sustainable legal, marketing, management and other kinds of technical assistance to microenterprise lending agencies and microenterprises;
- establishing an updated baseline of information on the microenterprise sector and microenterprise lending and a methodology to track trends;
- compiling an agenda of microenterprise policy issues and recommendations for legal, regulatory or policy changes, as appropriate;
- testing the feasibility and results of "mini-micro" lending (i.e. loans in the US\$200-300 range) as a tool for poverty alleviation.

The existence of the following conditions will signal full attainment of Project Purpose (EOPS):

1. Two sustainable microenterprise credit programs are expanded employing cost efficient lending methods and non-grant funds to finance the majority of their loan portfolio. They will make over 2,000 loans annually, charge market rates of interest and cover their operational and financial costs.
2. Up to three additional microenterprise credit programs are strengthened through training programs, have active Boards of Directors, capable staffs and are well on their way to financial viability.
3. The microenterprise lending institutions noted above will raise additional equity capital from their own or donor sources and finance a growing proportion of their lending from wholesale lending institutions and the commercial financial sector.
4. Expanded information and monitoring systems will show gender-disaggregated project impact including value of applicants' assets, jobs created or strengthened, and increases in production and assets.
5. Policy, regulatory or legal improvements identified in the research program will be discussed with relevant donor and GOJ authorities and appropriate action taken.
6. A microenterprise sector data base will be established and maintained through arrangements with the GOJ or non-governmental statistical agencies.

Project Components and Outputs

Project activity is broken down into the following components:

- establishment and strengthening of sustainable credit programs;
- anti-poverty lending
- non-credit assistance to micro-enterprises;
- continued support and development of information and monitoring systems for policy reforms, project monitoring and evaluations;
- costs of project management;
- costs of evaluation and audit

The components of the project largely remain the same except for a new emphasis placed on anti-poverty lending. Details of components are described below.

Component I: Credit Component

The amendment will build on the initial project's objective by continuing to develop the necessary knowledge base and consensus among practitioners and policy makers in the business and NGO communities, GOJ and elsewhere about sustainable lending strategies. It will foster demand for sustainable lending programs and catalyze independent efforts to develop the means to finance them by strengthening the group of well-informed policy makers and practitioners; assisting them to develop their ongoing plans for sound credit programs; and identifying sources of financing and assisting them to implement the plans.

The project will complement the efforts of the GOJ and other donors who are currently working in and planning to initiate activities in this sector.

Subcomponent A: Sustainable Lending Programs (US\$ 597,000)

Funds will be made available to capitalize loan portfolios and assist with leveraging additional resources from wholesale institutions such as MIDA and TDB. USAID's approach of assisting agencies to grow by capitalizing loan portfolios and requiring leveraging will assist agencies to grow at a faster rate. Under the minimalist credit approach, entry level loans of US\$300 or less would be secured from the APPLE component (Component II) and other loans would be funded from Subcomponent A. Project credit funds will be properly used to leverage matching funds for on-lending purposes at a rate of 2 to 1. Borrowed funds are presently available from both MIDA and TDB as well as resources from commercial banks (such as arrangements presently ongoing between ASSIST and NCB). In addition, the Mission has worked closely with the IDB in the recent development of the MIF project. The Mission will continue to emphasize a close working relationship with the IDB, GOJ, GON, EEC and other donor efforts in the microenterprise sector. Where possible, formal arrangements will be made with other donors through memoranda of understanding.

Subcomponent B: Program Support (US\$419,000)

The amended project will continue to work with various finance institutions to expand their knowledge and sustainable microenterprise credit programs. The successful trip to the Dominican Republic to visit sustainable microenterprise lending programs will be built upon. Linkages are to be developed between ADEMI in the Dominican Republic and ASSIST. Key staff will spend approximately 2-3 weeks observing and studying ADEMI'S methodology. With input from the various institutions, other donors and the GOJ, a provisional workplan will be put together to continue to study various microenterprise financing strategies.

Planned study tours to the Dominican Republic are to be arranged with ADEMI and will include visits to other successful microenterprise credit institutions. Three trips

will be arranged with ADEMI to train credit managers and field operations managers from three programs over a period of 10-14 days training alongside ADEMI's staff both at the head office and in branch offices. Managers will therefore be able to have an in-depth understanding of ADEMI's minimalist credit methodologies and efficient field operations. The Director and a board member from the same three institutions will also visit ADEMI for a period of 4 days to expand their understanding of the credit methodologies.

One other study tour is to be planned in collaboration with the GOJ/GON Microenterprise Project and will most likely be to Bolivia, Kenya or Indonesia where successful microenterprise institutions have been able to mobilize savings.

Grant funds will continue to be used to strengthen managerial and institutional capacity of microenterprise institutions to implement sustainable lending programs. During the evaluation it was determined that AID and implementing organizations were overly optimistic in their break-even targets. Five years rather than two is considered to be a more realistic target. Therefore operational program grants provided on a declining basis will be made available to implementing institutions. Quantifiable targets in terms of the number of loans disbursed, level of recoveries, overall portfolio quality, cost effectiveness, and self sufficiency will be required in order to monitor a steady progression towards financial sustainability.

This Subcomponent also includes financing for training of small and microenterprise lending institution staff in areas of minimalist lending strategies, support for appropriate management information systems, business planning, credit analysis, and computer skills; and funds for computers and software for improved financial management.. This training will be coordinated with efforts financed by the GOJ/GON project as well as any training to take place under the EEC and IDB projects. All lending institutions that currently finance or are planning to finance microenterprises will be eligible to attend training sessions. The training agenda will be further defined and a schedule determined by the technical expert in conjunction with lending agencies through the Association of Development Finance Institutions (DEFINA).

Subcomponent C: Technical Assistance (\$586,000)

This subcomponent will continue to assist organizations to develop business plans. Eligible institutions will be non-profit organizations, banks, or other financial institutions. Determination to grant this level of assistance will depend upon the following criteria: (See section V A-1, Technical Assistance for more detailed description of activities.

- Institutional capability and commitment to expand and achieve self-sufficiency;
- degree of co-financing of operational and/or financing costs;
- cost effectiveness of the proposed program.

Technical assistance will be provided to help institutions to grow and fully utilize resources that are made available from the GOJ and other donors as well as encouraging the use of financing from private sources such as savings mobilization. Technical support will be coordinated with other donors and the GOJ.

Approximately 15 months of overseas long term technical assistance and 11 months of short term technical support will be provided for and 19.5 months of local short term support for the development and monitoring of accounting and management information systems.

Component II: Anti-Poverty Lending (\$600,000)

A new element in the PP Supplement will be the inclusion of US\$400,000 from the PRE Bureau's Anti-Poverty Lending Matching Fund (APPLE) which will be matched by US\$600,000 in USAID funds. The PRE funds are sourced from a Congressional earmark and must be used for loans of US\$300 or less. By agreement with PRE/SMIE, USAID/Jamaica is matching on a dollar-for-dollar basis the PRE funds for a range of anti-poverty loan support activities including credit. USAID will monitor expenditures to ensure compliance with these requirements.

APPLE loans will play a significant role in MDP's new emphasis on minimalistic lending. The idea is to encourage lending institutions to provide credit to microenterprises in stages starting out with small working capital loans and expanding to larger loans as the microenterprise develops a credit history with the institution.

Past experience of both EDT and ASSIST has demonstrated that many enterprises have working capital needs of under J\$8,000 (US\$340). Both agencies have given loans for working capital and fixed assets to firms that kept no records and had never borrowed money. Generally, credit analysis done by the loan officers was optimistic. Loan amounts were too large and the repayment period too long resulting in large arrears. In order to minimize this problem, the evaluation report recommended reducing the initial loan size and length of the loan to allow the borrower to develop a track record and reduce potential losses for the agency providing the credit.

While people of any class or gender will have access to APPLE loans, they will be especially appropriate for women and poorer microentrepreneurs because these groups traditionally do not have collateral, a credit history or access to banks. Traders, who are primarily women and poor, will be better able to access this type of credit since their financing needs are primarily geared toward short-term working capital loans. They will be introduced to credit through an initial small loan. If they pay back the small loan they will be able to incrementally graduate into larger loans. ASSIST will be the first MDF-financed agency to offer APPLE loans.

Component III: Non-Credit Assistance (US\$98,000)

Consistent with the overall purpose of the project to accelerate the development of microenterprises, the objective of this component is to establish a matching grant fund to provide technical or other kinds of assistance to organizations providing non-credit assistance to microenterprises. This fund will co-finance efforts of Jamaican organizations to provide legal, marketing, technology, management, production or other kinds of assistance to microenterprises that will result in broad-based growth for a large number of firms. Proposals from any sector where microenterprises operate will be considered, however special efforts will be made to develop sub-programs where USAID has a continuing interest such as tourism, agri-business or export manufacturing, or where interventions will leverage growth for a particularly large number of firms. Proposals will be evaluated on the following bases:

- Does the activity improve the productivity, stability, profitability or other growth prospects of microenterprises?
- Does it help develop or establish a market-based solution capable of being eventually financed by user-fees, or not involving long-lasting recurrent expenses?
- Does it require the beneficiaries to undertake a financial or other risk to be successful?

Funds will support self-help efforts by covering a maximum of 75% of the cost of pilot activities. Wherever possible efforts will be made to match grant finances on a one-to-one basis. Eligible organizations include for-profit and not-for-profit, government and non-government organizations, and may also include those organizations managing credit activities.

Illustrative examples of possible activities are described below.

Craft Producers

Presently, a feasibility study is being conducted in Westmoreland to investigate working with over 100 (mostly female) craft producers who are exploring joint marketing and production of products for local and overseas markets. This project would build on the experience gained from the Craft Arcade Project which benefitted from USAID financing.

Privately Run Markets for Vendors

There are two market projects which are currently being financed under EDIP's Tourism Action Plan (TAP) Project. These markets are to be privately run and managed by both the Chamber of Commerce and vendors. In order for these markets to become fully self financing, technical assistance in planning, legal, and management

expertise will be required. Technical assistance could be provided to these markets (as well as other markets which may be privatized in the future). Short-term technical assistance from lawyers and market management experts could help these markets grow to become fully self sufficient.

Vendors Associations

There are two Jamaican vendor associations which reach over 15,000 vendors. Both organizations wish to improve and expand the services provided. During the initial project phase, these organizations were contacted and a Peace Corps volunteer was placed in the Jamaica Higglers and Vendor Association. However, due to increased violence in downtown Kingston, the Peace Corps volunteer was relocated. Discussions have been held with both the International Executive Service Corps (IESC) and JAMPRO to coordinate technical assistance to the organization. Vending organization members, the overwhelming majority of whom are women with families, would be well served by improved market linkages and better information.

Services both associations have or wish to establish include:

- Legal advice, counseling and representation;
- Savings programs and informal or formal life and medical insurance benefits;
- Information, documentation, advice on how to reduce transaction costs of obtaining financial services from banks;
- Packaging, production, legal and marketing services for member wishing to export;
- Lobbying with government and non-government organizations.

Component IV: Policy/Information/Research (US\$150,000)

Funding allocated to this component will finance follow-up work (including seminars and workshops) on the studies already financed, analyses of the results of the statistical surveys, additional studies or surveys as recommended and legal or other preparatory work needed to put study recommendations into actionable form, such as official statutes, regulations or policy decisions.

Studies in two areas are either currently underway or will be underway by the end of 1993:

- 1) Quarterly panel surveys which track microenterprises who receive credit assistance over time (see pg 17-18, Project Impact) as well as a parallel survey of microenterprises that are not receiving credit assistance will continue to be collected. Supporting the quarterly surveys is a yearly study which analyzes the microenterprise sector as a whole and examines changes in productivity,

employment and sales. The quarterly and annual studies are jointly supported by the GOJ, the GON and USAID.

- 2) Savings are an important component of self-sufficient and viable credit institutions. In addition to the study tours described above, a study will be conducted by USAID in conjunction with the GOJ and the GON to determine the regulatory process and the feasibility of creating savings and loan institutions. Based on the findings, USAID will determine whether and how to provide assistance to help institutions develop a savings capacity.

Component V: Project Implementation and Reporting (US\$275,000)

US\$275,000 will be used to maintain a Personal Services Contractor (PSC) and support staff for the life of the project.

Component VI: Audits (US\$80,000)

This will be allotted for annual audits of all credit institutions receiving USAID support.

Component VII: Monitoring/Evaluations (US\$80,000)

Funding in this category includes the cost of two planned evaluations and monitoring activities, including the monitoring specialist described on pg. 18.

Component VIII: Contingency/Inflation (US\$15,000)

This component includes funds for contingency and inflation.

IV. COST ESTIMATES AND FINANCIAL PLAN

The amendment to the project agreement will provide US\$1.2 million for on-lending by credit institutions of which US\$597,000 will be allocated for regular microenterprise lending and US\$600,000 in APPLE funding for anti-poverty credit (US\$300 loans) for first-time borrowers. Complementing the capital transfers will be US\$586,000 for technical assistance and US\$419,000 for training, operational grants and commodities to strengthen credit agencies. Technical assistance and training will be procured through competitively tendered contracts, one local and one off-shore. Commodities will largely consist of computer hardware and software and office equipment.

Assistance to microenterprises themselves will amount to US\$98,000 and will be used to stimulate and match proposals initiated by enterprises (or groups of enterprises) to improve their productivity, competitive position or access to markets or raw materials. US\$150,000 will be allocated to the support of additional research, studies or the production of action documents based on the studies, such as legislation, regulations or policy papers. The estimated cost of the PMU for three years will amount to US\$275,000, and US\$275,000 is budgeted for audits, monitoring, evaluations, inflation and contingency.

In addition to the resources provided by AID, the equivalent of US\$2.6 million will be provided by other sources. During the initial stages of project implementation, the extended project credit resources as well as policy, information and research resources will be augmented by the Government of Jamaica, other donors and the private sector. AID credit resources will be used to leverage borrowed funds and other sources of capital by a 2 to 1 ratio. Microenterprises will contribute about 10 percent of the total in the form of savings and equity participation. It is expected that the AID resources provided for policy, information and research will also be matched by US\$250,000 in counterpart funding from both the GOJ and other donors.

BUDGET TABLES FOR MICROENTERPRISE DEVELOPMENT PROJECT

TABLE 3

SUMMARY COST ESTIMATE (US\$000)

ACTIVITY	FX	AID		GOJ/ DONORS	TOTAL	
		LC			AID	GOJ/ DONORS
I Credit Program Development						
a) Credit			1829	3000	1829	3000
b) OPG/Commodity/ Training	239		450		689	
c) Technical Assistance	430		156		586	
II Anti-Poverty Lending Credit			600	600	600	600
III Non-credit Assistance			101		101	
IV Policy/Info/Monitoring/ Research	289		46	550	335	550
V Project Implementation	400		100		500	
VI Audits			100		100	
VII Evaluations	130				130	
VIII Contingency/Inflation	65		65		130	
TOTAL	1553		3447	4150	5000	4150

	Technical Asst.	Credit	OPG/Comm/ Training	Audi/ Eval.	Conting/ Infla.	Total
I. Credit Program Development	586	597	419			1602
II. Anti-Poverty Lending		600				600
III. Non-credit Assistance	48		50			98
IV. Policy/Info/Monitoring/ Research	150					150
V. Project Implementation	275					275
VI. Audits				80		80
VII. Monitoring/Evaluations				80		80
VIII. Contingency/Inflation					115	115
TOTAL	1059	1197	469	160	115	3000

TABLE 6

METHODS OF IMPLEMENTATION & FINANCE

Element	Method of Implementation	Method of Financing	Approx. Amount
1 Technical Assistance			
Long term TA	IQC/Direct Contract	Direct Payment	210
Short term TA	IQC/Direct Contract	Direct Payment	220
Local	IQC/Direct Contract	Direct Payment	156
2 Commodities	AID Direct Contract	Direct Payment	50
3 Training	IQC/Direct Contract	Direct Payment or TFLC	145
4 Program Support	OPG or Cooperative Agreement	Periodic Advance/Direct Payment	224
5 Credit	Grants	Periodic Advance	1197
6 Non-Credit			
Local TA	AID Direct Contract	Direct Payment	48
Grants	Grants	Periodic Advance	50
7 Project Implementation	IQC/Direct Contract	Direct Payment	275
8 Audits/Evaluation	IQC/Direct Contract	Direct Payment	160
9 Policy/Information/Research	IQC/Direct Contract	Direct Payment	150
10 Contingency			115
TOTAL			3000

NOTE:

Element 1, "Technical Assistance", will be financed either through a buy-in or an existing IQC for both long and short term TA. Local TA may be done through a local contract or as part of the same buy-in or IQC overseas. Element 3, "Training", will also be done under the same buy-in or IQC as Element 1. Elements 4 and 5 will be under existing Cooperative Agreements with one additional Cooperative Agreement with a new implementing agency. Element 6 will be sub-grants under one large grant. Element 9 will be a continuation of existing contracts and agreements.

Course fee	\$300
Insurance	\$50
Overhead	\$182
Total	\$2,500

Estimated 3 study tours of 2 persons (Manager & Board Chairman of 3 agencies)

Bolivia/Kenya/Indonesia

Estimated 10 days

Travel	\$2,500
Per diem (165/day)	\$1,650
Translator/Local transport	\$1,000
Insurance	\$50
Overhead	\$200
Total	\$5,400

Estimated 6 persons (Director & Technical Planner of 3 agencies)

Illustrative Local Training Program

Estimated \$250 per person for 1 week course

Local Courses	Year 2	Year 3	Year 4
Computer Skills (5p x \$250/pp)	10 courses (\$12,500)	2 courses (\$2,500)	
Business skills (25p x \$250/pp)	2 courses (\$12,500)	2 courses (\$12,500)	2 courses (\$12,500)
Minimalist Credit Practices (25p x \$250/pp)	2 courses (\$12,500)	2 courses (\$12,500)	
Credit Analysis (25p x \$250/pp)		2 courses (\$12,500)	2 courses (\$12,500)

Branch Management (10p x \$250/pp)	1 course (\$2,500)	1 course (\$2,500)	
Business Planning (6p x \$250/pp)	1 course (\$1,500)	1 course (\$1,500)	
Development of Management Information Systems (6p x \$250)	1 course (\$1,500)		
Strategic Planning (5p x \$250/pp)		3 courses (\$3,750)	3 courses (\$3,750)
Board Development (10p x \$250/pp)		3 courses (\$7,500)	3 courses (\$7,500)
Totals	<u>\$41,500</u>	<u>\$56,750</u>	<u>\$36,250</u>

Policy/Information/Research

Local surveys	3 x \$10,000	= \$30,000
Local TA	5 months x \$2,000	= \$10,000
Short term overseas	5 months x \$20,000	= \$100,000
Local Conferences/ Seminars	2 x \$5,000	= \$10,000

V. PROJECT IMPLEMENTATION

With some modifications to reflect the Project Supplement's additional emphasis on technical assistance and training, the basic implementation arrangements which were effective over the early years of the project will be continued during the period of the Supplement.

A. Project Administration and Management

Implementation of the project will be monitored and managed by the Project Manager (PM), and assisted by a Program Assistant, both of whom serve under personal services contracts with USAID. The PM reports to USAID's Office of Private Enterprise and effects liaison as necessary with the Office of Program and Project Development, the Office of the Controller, the Legal Advisor and the Executive Office and its Contracting Unit. Conversely, the PM is also the project's principal point of contact in dealings with the GOJ, other donors, potential sources of technical assistance and the project's clientele of microenterprise organizations, lending agencies, business groups, etc. He serves as the vehicle for communicating USAID views to these entities and reports to USAID on project progress or problems. He is also responsible for producing, or causing to be produced, the project's documentation requirements. The PM is responsible for tracking project progress against planned accomplishments, as described on pg. 38 of the Project Paper (including the annual review), and reporting periodically to OPE.

1. Technical Assistance

The Project Supplement will involve greater emphasis, as recommended by the evaluation team, on a more intensive and broader ranging technical assistance effort. Its focus will be to upgrade the capacity and productivity of the microenterprise lending sector with priority to the organizations receiving MDP financing.

The Supplement will include the following modalities of technical assistance:

a. Technical Expert

A mid-level person with strong banking experience, knowledgeable about minimalist lending practices and familiar with techniques for addressing the credit needs of the poor will be retained by USAID for a period of one year. His/her mandate will be to provide continuing assistance to upgrade and increase the efficiency of the microenterprise lending sector as a whole giving special attention to ASSIST and other organizations, if any, that receive MDP financing. As the evaluation report noted, the expert should not operate under the jurisdiction of any of the lending agencies or have any professional ties that might affect his technical objectivity.

b. Short Term Services

The project will also make available local, regional or international experts for short periods to provide advice on specialized problems or needs of lending organizations or to present talks to groups of lending officials (board of directors, managers, controllers, loan officers, data processors, etc.). Installation and operation of MIS systems would be another task.

Procurement of the technical expert and short term specialists will be performed by a firm under contract to USAID. In that way, the mechanics of searching, recruiting, hiring and supporting long and short term technicians can be delegated and not fall upon the PM. The contracting firm should be one with good access to financial specialists with considerable area (Caribbean/Central America) experience. The contract should be competed to help keep down costs and broaden the quest for talent.

c. Training

Training of lending agency personnel, especially loan officers, will be a key activity to boost the productivity of ASSIST and other lending agencies. Such training could best be conducted in-country, using instructors that are both street-wise and have experience with micro lending techniques. The technical expert can probably conduct some of the training. Training will be managed by a local firm selected competitively receiving direct support from the technical expert.

Workshops and study tours which proved to be such an effective training technique during the initial years of the project will be continued during the Supplement. They will include observation visits to study microenterprise lending activities in comparable countries and seminars at which experts can speak and lead discussions on technical topics.

2. Program Support

Cooperative agreements have been shown to be an appropriate and flexible mechanism for providing operating and credit funds to EDT and ASSIST and for assuring substantial involvement by USAID. Such agreements will continue to serve those functions during the project extension.

3. Surveys and Studies

Mechanisms developed to support the current surveys being performed by STATIN and the UWI/MSU studies will be continued, as appropriate, during the period of the Supplement. With respect to the preparation of additional studies, policy analyses or policy action documents, OPE will determine whether such outputs can best be performed through the technical assistance contractor or

through procurement actions initiated by the PM.

4 Commodities

All procurement of computers and software will be done locally using off the shelf items wherever possible. Cooperative agreement agencies are expected to procure their commodities unless it is advantageous for AID to do so directly. With regard to the PMU, AID is expected to procure all commodities. Procurement activities will be initiated in FY 1994.

B. Key Implementation Events by Date

<u>EVENT</u>	<u>Date</u>
Authorization of PP Supplement	8/93
Sign ProAg Amendment	8/93
Request proposals for cooperative agreements with lending agencies	9/93
Review results of June Workshop with GOJ and other donors and identify research/policy dialogue priorities	8/93
Prepare semi-annual project report	10/93
Issue RFPs for technical assistance and training contracts	10/93
Initiate follow on studies/policy dialogue actions resulting from review of June Work-shop recommendations	10/93
Award/amend cooperative agreements (ASSIST and one other)	10/93
Award additional cooperative agreement with another implementing agency	To be Scheduled
Award contracts for technical assistance and training	12/93
Select Technical Expert	12/93

Technical Expert installed and begins work	1/94
Conduct first loan officers training workshop	1/94
Semi-annual project implementation report	4/94
Second loan officers training workshop	4/94
Conduct workshop/study tour for microenterprise credit executives	5/94
Second series of follow on studies/policy dialogue actions	To be Scheduled
Semi-annual project implementation report	9/94
Additional loan officer and technical study tours/workshops	To be Scheduled
Additional follow on studies/policy dialogue actions	To be Scheduled
Semi annual project implementation reports	As Scheduled
Project evaluations	6/95 & 9/97

C. Gray Amendment Provisions

Project experience since authorization has not revealed any qualified Gray Amendment firms (as was the case during project design). Hence no set asides are planned.

D. Environmental Determination

The Project Paper Supplement will finance a continuation of the activities described in the Project Paper. Since there will be no change in the environmental consequences of the project, the earlier Negative Determination continues to be valid.

VI. MONITORING/EVALUATIONS, AUDITS, CONTINGENCY/INFLATION (US\$275,000)

Evaluations, audits and monitoring will continue to serve as integral aspects of the

project. Their usage will be continued and even strengthened during the extension of the project.

A. Monitoring

Monitoring MDP will be a major task of the Project Manager and the Program Assistant who will be better able to perform that function once the project's technical assistance responsibilities are assigned to contractors. A monitoring specialist, as described on pg. 18 will also be recruited. Major monitoring tasks will be the following:

1. **Project Impact:** lending data (disaggregated by gender) will be collected and reported quarterly by MDP-financed micro credit agencies including number of loans disbursed, distribution of borrowers by age and location, changes in asset value of borrowers, changes in borrowers' production figures, jobs generated or secured;
2. **Institutional development, credit agencies:** loan output by unit and by value; revenues as a percentage of costs, portfolio yield and changes in maturity; loan officer productivity; changes in staffing and organization; arrearages; nature and distribution of non-AID funds leveraged; findings of audit reports and corrective actions taken. These will be monitored by the lending institutions and reported to PMU.
3. **Review of the results of the surveys and studies program** including important findings and recommendations, policy initiatives identified and additional research needed. The PM will also share this information with other donors.
4. **The PM will consult with the technical assistance firm personnel for suggestions on monitoring tasks and techniques.** Monitoring will be accomplished by the provision of periodic reports to the PM by the lending institutions, contract advisers, research personnel and the training contractor. The PM will modify, as needed, report formats to meet monitoring needs. Monitoring will also be accomplished through regular visits by the PM and Program Assistant to lending agencies, technical advisers, project workshops and visits to microentrepreneurs. The PM will furnish USAID with regular reports on the project and special reports as needed.
5. **APPLE:** All anti-poverty loans (those under US\$300) will be reported separately to USAID on a quarterly basis by the lending institutions. This information will be used to verify compliance with Congressional earmarks and matching funds agreement as described under Component II.

B. Evaluations

The value of the evaluation function was demonstrated by the recent one conducted by the GEMINI project. The next evaluation will take place in June 1995. By that time it will be possible to assess the project's experience during the extension and to make appropriate management and/or funding adjustments.

Particular attention will be paid during the next evaluation to project impact considerations including participation by women, employment generation and effects on applicants' production and assets. Another area of emphasis will be the financial and management performance of the project's credit agencies including their progress toward financial viability, internal financial management and accountability procedures, loan arrearages, leveraging of outside funds, volume of lending and management of costs. A third major topic will be the results of the program of surveys and studies including new insights gained and their application in terms of policy proposals or initiatives. A fourth item will concern the work and activities of other donors and how they relate to the results of MDP. A fifth item will assess the effectiveness of technical assistance including the work of the Technical Expert, short term specialists and the training contractor and increases in productivity attributable to technical assistance. If possible, the next evaluation will be conducted by AID personnel including representatives of CDIE, the LAC Private Enterprise office or PRE Bureau, the Controller's Office and USAID.

C. Audits

\$80,000 has been included in the Project Supplement Budget to cover the cost of the audit requirements of the MDP project.

In addition, funding will be included in the cooperative agreements with the lending agencies financed by the project to cover the costs of "Recipient Contracted" audits i.e. audit requirements introduced by AID in 1991 in which foreign recipients of AID funding (over \$25,000) are required to contract for audit services from auditing firms qualified by AID. EDT has already been audited under this program and is in the process of correcting some accounting deficiencies that were identified. An audit of ASSIST is currently in progress. Audits will be continued with future MDP grantees during the period of the Supplement.

VII. SUMMARIES OF ANALYSES

A. Technical Analysis Summary

The technical feasibility of MDP is far more favorable today than at the time the project was designed and authorized. USAID's decision to work with existing

microenterprise credit agencies and to introduce the project as part of a long term learning process rather than set up a ready made, stand-alone credit program proved to be correct. Two such agencies, EDT and ASSIST, have accepted project financing, have expanded their lending programs and are beginning to introduce non-traditional lending procedures. A third, smaller, agency (COPE) is practicing these procedures on its own (and benefitting from MDP technical assistance). Thus the technical validity of minimalist lending is no longer an unknown quantity in Jamaica. It is beginning to be applied, with encouraging results.

These changes are creating a more hospitable lending environment in Jamaica which, in turn, is encouraging further change. The "traditionalist" lending attitudes noted in the Project Paper have not disappeared but they are moderating and a growing circle of lenders is beginning to listen and observe. MDP, in close collaboration with the GOJ and GON projects, has been an initiator and a beneficiary of this process.

Technical feasibility is also strengthened by evidence of the success of the minimalist approach used for microenterprise lending in other countries. Indonesia, Bangladesh, the Dominican Republic, Bolivia and Kenya are cases in point. Another positive factor is the growing interest of the donors in supporting minimalist credit schemes as a means of reaching the urban poor.

B. Administrative Analysis Summary

The Administrative Analysis of the August 1990 Project Paper focussed on the suitability and feasibility of using Jamaican intermediate credit institutions as vehicles for providing micro credit to Jamaican microenterprises. The fact that the project designers had doubts on that point is illustrated by the fact that they first posed, and then dismissed, the idea of USAID itself establishing a credit-making agency for microenterprises.

That decision had a ripple effect. Thanks in part to the activities of MDP's grantees, EDT and ASSIST, the Jamaican microenterprise lending situation has moved in a favorable direction. Its evolving status is well expressed in the first three conclusions of the recent GEMINI evaluation:

1. The microenterprise credit sector in Jamaica is evolving from a traditional subsidized credit approach to one that is increasingly market oriented and demand driven. It provides an increasingly favorable environment for projects like the MDP.
2. MDP has provided a "demonstration effect" to Jamaica that, if properly designed and implemented, the minimalist approach to microenterprise works, that it can serve poor and needy borrowers by drastically reducing the time and cost of transaction procedures without seriously sacrificing loan quality.

- 3 While the MDP has focussed on EDT and ASSIST, other Jamaican credit agencies have and will continue to benefit from the project's technical assistance and training activities.

The current status, configuration and financial record of five leading Jamaican lending institutions was reviewed by the Evaluation Team and the results are displayed in Annex II. Of interest is that the team rated three of the five as "very strong" in the category "commitment to microenterprise lending". The conclusion one reaches is that given further capital and technical assistance, and assuming no major macro disturbances, the prospects for MDP appear to be good as are those for microenterprise lending as a whole.

The demand for credit remains very high. As institutions continue to grow and expand their operations they will be able to handle ever increasing numbers of loans. Conservative projections for ASSIST demonstrate their capacity to absorb funds and increase the number of loans issued on an annual basis. Total number of loans issued per officer should increase on an annual basis until officers are able to issue 255 loans per year in 1996. (ASSIST projects that loan officers should be able to handle 25 loans per month or 300 loans per year). The projections are based on a gradual increase in capacity every year with comparable increases in self-sufficiency.

TABLE 7 PROJECTIONS FOR ASSIST

	1992	1993	1994	1995	1996
# OF LOANS/ OFFICERS					
Loans under \$300	45	360	1000	1500	2000
Loans over \$300	302	600	1680	2520	3360
Total Disbursed	347	960	2680	4020	5360
Loan Officers	9	14	21	21	21
Loans/Officer	43	69	128	191	255
PORTFOLIO					
Loans under \$300	9434	90000	250000	375000	500000
Loans over \$300	337983	600000	1680000	2520000	3360000
Total Loans	347417	690000	1930000	2895000	3860000

# OF LOANS/ OFFICER	1992	1993	1994	1995	1996
SELF-SUFFICIENCY					
Income/Expenses	37.4%	56.7%	58.9%	88.4%	118.0%
Expenses/\$ lent	0.465	0.4	0.34	0.23	0.17

Note: All figures are quoted in US\$

Similar projections will be expected from other institutions that might participate in the project. It is expected that one other institution will receive credit and limited operational support based on the same model and that three additional institutions will receive training and technical support to improve their lending strategies and self-sufficiency.

EDT or another institution will need to submit business plans that show:

- * Commitment to minimalist lending strategies.
- * Institutional capacity and commitment to expand and achieve self-sufficiency.
- * Cost sharing and a commitment to use grant funds to leverage additional resources.

EDT has experienced staff and management difficulties recently, and continued involvement with this organization would require certain conditions such as:

- 1 The overall quality of higher and middle management must be improved. A strong Financial Manager and a strong Administrative Operations Manager must be brought on staff.
- 2 Clear strategic plans to develop the institution with measurable targets must be set.
- 3 Loan delivery mechanisms need to be improved with computerization required of the loan portfolio and accounting system.
- 4 Recent problems involving the loan approval and disbursement process will need to be reviewed and the system revised and approved by an outside

auditing firm.

C. Economic and Financial Analysis Summary

Credit institutions were shown to be a good investment for USAID in the economic and financial analysis of the project in June of 1990. Although the microenterprise project does not strictly lend itself to scientific internal rate of return (IRR) calculations because essentially it is a "financial intermediation project", the economic and financial analysis performed in the MDP PP calculated a financial IRR of 73.63% and an economic IRR of 162.93%. These high rates reflect the cumulative effect of high sales generated per dollar of credit and the high velocity of debt. The nature and modus operandi of microenterprises in Jamaica have not changed significantly since these calculations were made, and the climate for small business has improved recently, therefore, we assume these figures to be still applicable and the continued assistance proposed for microenterprise credit to be still viable.

The minimalist credit approach (MCA) referred to in the original PP is only starting to be implemented in Jamaica. As it takes root and is applied on a broader basis by more microenterprise credit institutions, this methodology of initially providing small, unsecured, short term loans to new micro entrepreneurs will benefit both institutions and recipients alike. The MCA will enable the credit institutions to expand their client base substantially with only a marginal increase in default liability due to the small size and incremental nature of the loan program. The micro-entrepreneurs benefit not only by the more immediate access to credit and consequent quicker turnaround of assets but also from the program's intrinsic requirement of building a credit history by paying off initial small loans before qualifying for larger and longer term credit.

D. Social Soundness Analysis Summary

The project design is based on a recognized need for credit by microentrepreneurs. The project builds on existing nonformal credit institutions. Commitment to the 'minimalist', transitional methodology of credit delivery will enable ASSIST and other implementing institutions to diversify their loan portfolio, reach more clients, while at the same time reduce risk.

At the level of the individual and his/her household's well-being, benefits such as increased income, material well-being, status, influence and self confidence are anticipated. By adopting the minimalist credit approach, credit will be more accessible to poorer clients. Methods of determining *who* the loans are reaching and *how* the loans are impacting them are currently being investigated. A data base which will contain records on the financial state of the implementing organization as well as a rough profile of loan recipients (gender, age, asset base) is currently being explored at ASSIST. Recording asset base will give an idea of the poverty level of borrowers. The asset level

of borrowers who return for more loans will be tracked and inferences about the impact of the loan on their economic well-being will be drawn.

The direct beneficiaries of this project will be existing microbusiness operators who are clients of the implementing institutions. This will primarily include microentrepreneurs in manufacturing, services and trading. Predominately, business owners will be located in cities and rural small towns; it is surmised, however, that some people who live in rural areas conduct business in rural small towns. Clients are male and female and are likely to be mature and already in a viable business venture. Younger clients will benefit somewhat from employment opportunities.

It is important to point out that creating employment and supporting small women-owned businesses have different, but equally beneficial effects on the community. Supporting larger microbusinesses will create *employment*. Supporting smaller businesses (which are disproportionately women-owned businesses) will create fuller employment and contribute to *healthier families*. Lucrative women-owned ventures have multiplier effects in the household and the community since women are more likely than men to spend their extra income locally, and on the health and education of their children.

Unclear is why female businesses are smaller than male's. Women's double day - working in their business and raising a family - curtails their ability to run a larger business and is partly why women run smaller ventures. Another factor is occupational segregation. Women do not tend to start manufacturing businesses which often require a larger operation than women's traditional ventures such as trading vegetables. Encouraging and training women to enter higher paying, nontraditional ventures should be investigated. Giving women loans for 'women's work' and men loans for 'men's work' may serve to further institutionalize segregation and inequity in wages and opportunity. Since 42% of Jamaican households are headed by women, women's wages greatly impact the well-being of the family and the community.

While loans should remain universally available to anyone who cannot qualify for traditional bank credit, the minimalist credit approach will ensure more women and the poor are reached. Loan officers' ability to do so, especially in violent areas of Kingston and harder to reach areas of the country, will depend on the availability of resources and adequate training. Individual participation in this project is dependent on the nature of the credit product that is offered, the image of the organization and the strategy of communication/marketing employed.

GENERAL INFORMATION	EDT		ASSIST	
	Dec 1989	Dec 1992	Dec 1989	Dec 1992
Geographic focus	KGN	KGN/St Thomas	KGN	Islandwide
Services provided	CR/TR/CO	CR/TR/CO/SA	CR/TR/CO	CR/TR/CO/SA
Average loan size preceding 12 months	\$450	\$790	\$2,000	\$1,000
No of loans disbursed preceding 12 months	275	317	75	347
Active portfolio	\$110,875	\$252,174	\$127,560	\$391,304
INSTITUTIONAL COMMITMENT/ SELF SUFFICIENCY				
Operating income/expenses preceding 12 months	44%	65.7%	6%	37.4%
Cost of lending J\$	0.31	0.325	0.40	0.465
Effective interest rate	18%	50.6%	18%	43.9%

CODE:

CR = CREDIT

TR = TRAINING

CO = COUNSELLING & TECHNICAL ASSISTANCE

SA = SAVINGS

COMPARATIVE SCHEDULE OF INSTITUTIONS REVIEWED

	EDT	ASSIST	COPE	CoK CU	NDF/J
Started Operations	1987	1985	1989	1967	1981
Type of Institution	NGO	NGO	NGO	CREDIT UNION	NGO
Date of Information	MARCH 93	MARCH 93	DEC 92	DEC 92	DEC 92
Primary International Affiliation	MEDA	OPPORT. INTNL	CANSAVE	WOCCU	NONE
Total Assets -Millions J\$	J\$9.1	J\$19.3	J\$6.3	J\$157	J\$107.5
Total Portfolio Millions J\$	J\$5.8	J\$12.1	J\$1.2	J\$107	J\$84.6
Total Net Worth Millions J\$	J\$6.9	J\$13.6	J\$6.3	J\$131.8	J\$61.3
APR	50.6%	43.9%	50.5%	21.8% to 33.0%	29.1%
Return on Portfolio	21.57%	19.94%	42.4%	12.1%	20.9%
Full Cost Pressure on Portfolio	60.4%	46.8%	137.4%	16.8%	19.2%
Cost of Lending J\$1	0.325	0.465	0.602	0.19	0.225
Average Loan	J\$20,385	J\$22,450	J\$6,000	NA	J\$70,023
Maximum Loan Size	J\$80,000	J\$250,000	J\$30,000	J\$15,000	J\$ 1 Million
Average Loan Life Months	15	15	7	36	48
Number of current credit clients	457	558	700	14,500	2,100
Number of Loans granted last 12 months	197	522	366	NA	600
Amounts disbursed last 12 months	J\$4.7 Million	J\$9.2 Million	J\$2.2 Million	J\$82.1 Million	J\$42.02 Million
Number of Employees	13	35	8	70	86
Number of branches or units	2	10	1	1	6
% of loans to women last 12 months	68%	47%	72%	35%	40%
Arrears less than 30 days as % of Total Portfolio	NA	2.9% April 93	7.0% March 93	NA	1.2% Apr.93
Arrears more than 30 days as % of Total Portfolio	NA	22.2% April 93	26.7% March 93	NA	10.5% Apr 93

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COMPARATIVE SCHEDULE OF INSTITUTIONS REVIEWED

	EDT	ASSIST	COPE	CoK CU	NDF/J
Clarity and effectiveness of Mission and Purpose	Medium	Very Strong	Strong	Very Strong	Strong
Commitment to Microenterprise Lending	Very Strong	Very Strong	Very Strong	Weak	Medium
Leadership & Vision	Weak	Very Strong	Medium	Strong	Strong
Strategic Planning	Medium	Strong	Weak	Strong	Strong
Organizational Structure	Weak	Strong	Weak	Very Strong	Very Strong
Quality of Management	Weak	Strong	Medium	Strong	Strong
Quality of Staff	Weak	Medium	Weak	Strong	Strong
Credit Methodology	Medium	Medium	Medium	Strong	Strong
Aggressive Marketing	No	Medium	No	Yes	Yes
Strength of Corporate Culture	Weak	Strong	Medium	Very Strong	Very Strong
Accounting knowhow & skills	Medium	Medium	Medium	Very Strong	Very Strong
Financial Management	Weak	Medium	Medium	Strong	Strong
Management Information System	Weak	Medium	Medium	Very Strong	Strong

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CREDIT ORGANIZATION FOR PRE-MICRO ENTERPRISES

The Credit Organization for Pre-Micro Enterprises Ltd. (COPE) was established and funded by the Canadian Save the Children (CANSAVE) in 1989 in order to support the poorest levels of the population, making small loans available to vendors and other pre-micro entrepreneurs in the areas of Hannah Town, Kingston, Majestic Gardens and the markets of downtown Kingston.

COPE is governed by a Board of Director that includes local bankers, and currently has an Executive Director, an Accountant, a Cashier, 2 Field Officers, a Field Supervisor, a loan clerk, and an office assistant.

COPE Limited has been chartered under the Companies Act but does not enjoy non-profit status although it has applied for such. The CANSAVE/COPE Project serves then as a related institution where all funds from CIDA are booked as income and transferred to COPE as a receivable. Operational funds are also transferred in order to cover expenses.

COPE is the poverty alleviating lending activity with about 85% of its portfolio going to street vendors and 15% to manufacturing. Under the Pre-Micro lending window, loans range from J\$2,000 to J\$20,000, while in the micro business loan window they may go up to J\$50,000. Since April of 1993, the interest rate is 2% a month flat on the initial balance and 3% up front commission for an effective rate of 50.3% on an average 7 month loan. About 72% of COPE's loans go to women. Loan applications are really directed interviews with prospective borrowers who receive a three hour training session before receiving the loan. Since its inception and up to March of 1993, COPE has granted 2,457 loans to 1,209 clients. Their active portfolio as of March 1993 includes 683 loans with a balance of J\$1.2 million. Officers are granting about 14 new loans a months, or seven per officer per month.

As of the end of March 1993 COPE had total arrears of J\$415 thousand, representing 33.7% of the outstanding portfolio of J\$1.23 million at the same date. In the past, they have written off about J\$106 thousand. Their current loan loss reserve stands at J\$132 thousand.

Information is basically computerized, and their MIS system is adequate for the size of the operation, although processing is not being done in-house.

COPE has enough resources to lend with a Cash and investment position of J\$8.3 million as of March 1993. It is the delivery mechanism that is holding back growth since COPE has not been able to put the loans on the street due to a lack of additional lending officers to market and service the clientele and the difficulties encountered in lending to the communities they serve. Management has indicated that in order to grow they must expand

their operation beyond the Kingston area and are planning to open an office in St. Elizabeth in the near future.

COPE is a small organization, with the advantages and fragility of small size. They are charging positive interest rates and seem committed to their activity. Although they do not require at this point any financial assistance for the loan fund, they would benefit from technical assistance to review the current strategy and aid them in planning the future without giving up their target population.

NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA

The National Development Foundation of Jamaica is a private, non-profit organization registered in 1981 under the companies Act. Its purpose is to develop and strengthen the economic base of small businesses by providing credit and technical assistance to micro and small businesses.

Over the years NDFJ has been funded by many institutions, such as the Pan American Development Foundation, USAID, the Canadian International Development Agency, the German Agency for Technical Cooperation, International Development Bank, International Fund for Agricultural Development, National Development Bank and Jamaican Agricultural Development Foundation.

Since its beginning and up until December of 1992, NDF has granted well over 5,250 loans (682 in 1992) for an aggregate amount of J\$195.1 million, (J\$52.2 million in 1992). Loans are disbursed and services provided through its branch offices in Mandeville Montego Bay, Ocho Rios and Kingston. NDF has three windows for their lending activity. Under the microbusiness program loans are granted up to J\$150 thousand and comprise about 50% of their portfolio in terms of units. The Small business window has two tranches, the first one going up to J\$299 thousand, and the higher one up to J\$1 million. It was reported that their current average cost of funds is about 10% with the marginal cost standing at between 19% and 24% depending on the source. NDF keeps and adjusts a Loan Loss Reserve of 5% of its outstanding loan portfolio. Terms vary up to 10 years but the average life of a loan was reported at 3.5 years.

NDF's interest rate policy varies according to the type of activity being funded. Currently, agricultural loans are set at between 28% and 35% nominal, while manufacturing loans are booked between 29% and 36%, and service oriented loans at between 30% and 39%. Loans are granted on an installment basis with a charge of between 55-60% up front to cover expenses. Due to the average life of the loans this charge does not significantly change the nominal interest rate, which is charged on the declining balance.

Loans are approved according to increasing levels of authority. The Branch manager will be able to approve (starting June 1993) up to J\$50 thousand through their sole signature. A Branch Credit Committee has authority up to J\$200 thousand. The Management Review Committee at the Head Office approves loans up to J\$500 thousand and anything over that amount and up to J\$1 million goes to the Credit Review Committee. Arrears are declared to be 4.6% although we were not able to analyze an aging of receivable.

Besides their "Banking Services" activities, NDFJ operates an intensive training and technical assistance program totally funded by an Endowment Fund of J\$22.8 million,

booked as a different company. A Technical Services Coordinator at every branch is in charge of the 6 hour pre-loan training. He also develops the Focus Groups composed of clients with similar businesses, and the Business Counseling Program specially designed for businesses undergoing difficulties. For this last service they charge J\$350 per hour.

The audited unqualified statement for the fiscal year ending December 1991 shows that NDF has total assets of J\$78.1 million, with a portfolio of J\$66.6 million and net worth of J\$45.6 million. Average yield on the portfolio was 26.9% and self sufficiency stood at 110%. The management statement for fiscal year ending december 1992 shows total assets of J\$107.6 million, with a portfolio of J\$84.6 million and J\$10.9 million in short term liabilities and J\$30.9 million in long term liabilities. Net Results for the year were registered at J\$8.6 million.

NDFJ has in the past shown substantial interest in microenterprises, and in 1992 had a study done by their research unit on their microenterprise lending experience, forming a nucleus of data and developing a profile of the typical microentrepreneur they were serving.

Although it cannot be said that as a whole NDF is a microbusiness lender, but rather caters to upper micro, small and medium size businesses, recently they have expressed their interest in expanding the microbusiness sector, and have declared their intention to participate in credit programs for the sector. NDF has expressed their willingness to place a microbusiness officer at every branch in order to develop a micro business portfolio. Nevertheless, NDF has also expressed that this "cost center" would have to cover its own costs once start up costs have been paid.

Given the coverage and reach of NDFJ, conversations would be recommended to continue between USAID and the institution in order to format joint programs in favor of the microbusiness sector.

CITY OF KINGSTON CREDIT UNION

City of Kingston Credit Union (CoK) was established in 1967 and is a member of the Jamaica Cooperative Credit Union League. It was established to provide services to members for provident and productive purposes. CoK provides a wide array of services such as savings, credit, credit card, discount card, and others.

CoK has its main office in Kingston, serving only the city area. It currently has about 70 employees, including a staff of 5 travelling lending officers, but excluding 286 liaison volunteer officers provided by companies whose employees are served by CoK. Membership is a requirement to access loans and CoK now has approximately 60,000 members with capital shares amounting to J\$128 million as of December of 1992. These shares are paid dividends depending on the yearly performance of the union, and they constitute the cheapest source of funds for the organization. CoK lost J\$515 thousand in 1990 and J\$414 thousand in 1991, but reversed the trend by making a profit of J\$3.5 million in fiscal 1992.

Total portfolio as of December 1992 was at J\$106.9m comprised of approximately 14,000 loans. According to management, approximately 50% is for "developmental" purposes and 40% for consumer lending, in line with one of the traditional purposes of credit unions. Total savings and deposits stood at J\$11.2 million at year end 1992. Interest of 12% is paid on passbook savings, while CD's receive a negotiable rate that has been as high as 21%.

Two basic credit windows are available at CoK. Over the counter loans refer to those collateralized by savings at a loan to savings ratio of 3:1. These loans are now being granted at an effective rate of 21%. "Special" loans, mostly for working capital purposes of business members, are granted at effective rates of up to 33%. Although no numbers were provided on arrears, they are quoted as "minimal" in the business lending portfolio. Audited 1991 FYE statements were qualified on the grounds that CoK had not written off bad debt over the year. This qualification has been removed for 1992 due to write-offs amounting to J\$1.7 million, mostly taken against reserves. During 1992, CoK disbursed loans to members amounting to J\$82.1 million.

Credit approvals are made according to approval levels with 18 persons authorized to lend on their sole signature up to J\$100 thousand. Over that amount and up to J\$150 thousand there is an in-house credit committee where about 5 loans a week are approved.

Lending officers have a target of 10 new loans per week, and loans take between 5 and 15 days to process. We were informed that the average loan size is J\$50 to J\$80 thousand, while the average savings size is J\$22.6 thousand. The average loan life has been

quoted at about 3 years and rates are not adjustable over the life of loans. They do not encourage "small" loans due to transaction costs, although there is no set "floor" on loan amounts.

CoK has received borrowed funds from both MIDA and Trafalgar Development Bank. MIDA funded loans average J\$50 thousand with a ceiling of J\$200 thousand. These funds for which CoK pay 19% are loaned at 30%. When pricing these funds, CoK calculates their operating cost at 8% which includes both normal operating cost (6%) and loan loss reserve of 2%.

CoK seems to have excellent management information systems through which they can readily track costs and performance.

More detailed conversations between USAID and CoK are encouraged as a possible vehicle in delivering credit to small businesses. The Jamaica Cooperative Credit Union League Ltd. has reported that during 1992 their 85 members, of which CoK is the largest, granted 5,827 "business loans" for a total amount of J\$57.5 million and an average of J\$9,860 per loan. "Business loans" granted by all the credit unions represented about 12.67% of all loans granted by the member unions in 1992.

MICROENTERPRISE DEVELOPMENT PROJECT

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>GOAL</p> <p>To increase employment opportunities for lower income groups thereby increasing income and quality of life</p>	<ul style="list-style-type: none"> -Increased employment in the microenterprise sector -Increased income of participants 	<ul style="list-style-type: none"> -Bank of Jamaica reports -Project survey reports -Planning Institute of Jamaica/Statistical Institute 	<ul style="list-style-type: none"> -Profitable opportunities exist for microenterprise investments
<p>PURPOSE</p> <p>Expand development of microenterprises into more productive and sustainable businesses</p>	<ul style="list-style-type: none"> -Sales, production, employment levels in assisted micro-enterprises increases more rapidly than non-assisted firms 	<ul style="list-style-type: none"> -Statistics maintained on sales, production and employment by participating organizations compared to STATIN statistics on non-assisted firms 	<ul style="list-style-type: none"> -GOJ continues supportive focus on small, medium and micro-enterprises -Increased income spent on business improvements or family welfare

<p>OUTPUTS</p> <p>1. Two sustainable credit organizations expanded</p> <p>2. Credit disbursed to microenterprises by assisted programs increases by 300%</p> <p>3. 6000 micro-enterprises started and/or expanded (50% going to women-run businesses)</p> <p>4. 12000 loans disbursed in assisted programs (50% going to women-run businesses)</p> <p>5. 8000 micro-enterprises receive short-term training from credit institutions</p>	<p>-Income from operations is greater than operational costs</p> <p>-Cost per dollar loaned decreases</p> <p>-Loan arrears reduced</p> <p>-\$2.6 million in non-grant capital mobilized</p>	<p>-Reports from participating organizations</p> <p>-Monitoring reports</p>	<p>-Organizations share sustainability objectives</p> <p>-Enterprises willing to borrow</p> <p>-Economy is stable and growing</p> <p>-Resources continue to be made available for on-lending to the sector from private, government, donor sources</p>
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<p>6. Baseline data on microenterprise operations improved</p> <p>7. Fifty lending officers trained in microenterprise lending practices</p> <p>8. Twelve senior staff and board members trained overseas in minimalist lending strategies</p>	<p>-STATIN survey conducted on a quarterly basis</p> <p>-7 workshops/seminars held</p> <p>-At least 2 overseas study tours conducted</p>	<p>-STATIN reports</p> <p>-Monitoring reports</p> <p>-Project reports</p> <p>-Contractor reports</p> <p>-Trip reports</p> <p>-Program audits</p>	<p>-GOJ continues supportive focus on micro and small enterprises</p>
<p>INPUTS</p> <p>-Credit</p> <p>-Technical Assistance</p> <p>-Mon-Credit</p> <p>-Policy/Information/Monitoring/Research</p> <p>-Project Implementation</p> <p>-Audits/Evaluations</p> <p>-Contingency/Inflation</p>	<p>BUDGET (US\$000)</p> <p>1616</p> <p>586</p> <p>98</p> <p>150</p> <p>275</p> <p>160</p> <p>115</p> <hr/> <p>3000</p>	<p>-Project reports</p> <p>-USAID Controller reports</p>	<p>Inputs available on timely basis</p>

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THE PLANNING INSTITUTE OF JAMAICA

ANNEX VII

ANY REPLY OR SUBSEQUENT REFERENCE TO THIS COMMUNICATION SHOULD BE ADDRESSED TO THE DIRECTOR GENERAL P.O. BOX 634, KINGSTON



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Telephone: 926-1480-8
Telex: 3529 PLAN JAM JA
Facsimile: (809) 926-4670

39-43 Barbados Avenue
Kingston 5 Jamaica

Ref. No.

August 11, 1993

DATE RECEIVED: 8/12	INFO TO: DIR ✓ ARDO OHNP OHR JPPD OPE RMDO R.F.	DUE BY: 8/23
ACTION OFFICE: OPS	D/DIR' RLA ECON EXO CONT ✓	ACTION:

Mr. Robert Queener
Director
United States Agency for International Development
6B Oxford Road
Kingston 5

Dear Mr. Queener:

Amendment to Micro-enterprise Development Project

The Government of Jamaica would like to make a request of the United States Agency for International Development for a grant of three million United States dollars (US\$3,000,000) to provide additional support activities under the Micro-enterprise Development Project.

We understand that the amended project will continue to improve the capacity of Jamaican non-governmental credit institutions to provide loans to micro-entrepreneurs. Under this assistance, USAID will support organizations such as ASSIST by providing equity capital, technical assistance, and research.

The Government of Jamaica shares USAID's belief that a strong small business and micro-enterprise sector is a significant source of employment and contributes to the well-being of the nation's economy and peoples.

We look forward to your positive response and working with you to implement this important activity.

Yours sincerely,

Marjorie Henriques
Acting Director General



DIRECTORS: Dr. Omar Davies - Director General/Chairman, Prof. Edwin Jones, Mr. Derick Lottibeaudiere, Mr. Vernon James, Prof. Gordon Shirley, Mr. Tony Hylton, Mr. George Briggs, Mrs. Beverly Lopez, Mrs. Barbara Gunter

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