

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ARGENTINA

SOCIAL ENTREPRENEURSHIP PROGRAM

EXECUTIVE SUMMARY

**SUPPORT FOR ESTABLISHMENT OF PRO MUJER IN THE
PROVINCES OF SALTA AND JUJUY**

(AR-S1003)

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I. BASIC PROJECT INFORMATION

A. Executing agency

1.1 Pro Mujer Argentina Foundation.

B. Amount and source of financing

	IDB US\$	Local US\$	Total US\$
Reimbursable financing:	500,000	500,000	1,000,000
Nonreimbursable technical cooperation	<u>250,000</u>	<u>35,000</u>	<u>285,000</u>
funding:	750,000	535,000	1,285,000

Total:

Source: Don L. Sturzo Trust Fund for Microenterprise Development

C. Terms and conditions

	Technical cooperation	Reimbursable financing	
Execution period:	36	36	months
Disbursement period:	42	42	months
Repayment period:		15	years
Grace period (for principal):		5	years
Interest rate:		12.8%	six-month adjustable
Currency:		Argentine pesos	

The grace period will apply to the repayment of principal only, not to interest. The loan will be denominated and repaid in local currency. The interest rate will be 1% plus a maintenance of value premium based on the consumer price fluctuation forecast for the following twelve months, which appears regularly in the Relevamiento de Expectativas de Mercado [Forecast of Market Expectations] (REM) of the Central Bank of the Argentine Republic (BCRA) at <http://www.bcra.gov.ar>. In the most recent REM official press release (April 2006), that index was 11.8% for the period from April 2006 to April 2007.

D. Statement of no objection

1.2 The Government of Argentina issued a statement of no objection to Bank financing of the project in official letter 433 of 8 May 2006.

E. Problem to be addressed

1.3 **Poor women entrepreneurs of Salta and Jujuy.** According to official data, nearly 70% of the inhabitants of the provinces of Salta (population 1,070,000) and Jujuy (population 611,000) in northwestern Argentina live below the poverty line.

Monthly income per poor household (4.4 people) works out to US\$137 per month. One-fourth of households in the two provinces make less than US\$80 a month. Income-generating activities of poor women are similar to those of women with a similar profile in Bolivia, which borders both provinces. According to estimates by Pro Mujer Argentina (PMA), 160,000¹ women in Salta and Jujuy have the same profile as applicants for microloans from village banks² in similar settings in Bolivia.

- 1.4 **Microenterprise activities to overcome poverty.** An estimated 60% of women living below the poverty line in Salta and Jujuy have no stable job or work experience that would allow them to get one, 30% depend on microenterprise activities such as small grocery shops, informal small businesses and participation in weekly local market days, earning net incomes of US\$50 to US\$150 per month. Nearly a third plan to start a microenterprise. Women already engaged in microenterprise activities, as well as those wishing to start, face difficulties due to their vulnerability and financial barriers as described below.
- 1.5 *Limited access to credit.* In Salta and Jujuy, access to microloans to finance poor women's businesses is virtually impossible. Based on a survey of some 150 women in Salta, PMA estimates that the vast majority the 160,000 women having the same profile as applicants for microloans from village banks do not have access to credit. The two programs that operate in the area are the World Bank Foundation for Women in Córdoba with 550 customers, and Fomicro, a program of the Small and Medium-sized Enterprise Department and Banco Nación, which makes loans over US\$1,000 to teams of at least two people with an entrepreneurial venture. Neither of these two options uses the village banking system. Rural women's limited access to microlending is not limited to Salta and Jujuy, but reflects the very small number of sustainable microfinance institutions of sufficient size in Argentina. Limited access to credit has an impact on the working capital of women microentrepreneurs: 20% of the women surveyed said that they would invest in their businesses if they had access to credit.
- 1.6 *Need to support microenterprise startup, development, and management.* The poor women of Salta and Jujuy face a series of obstacles to developing their businesses and increasing their income. Most have no savings, or save only the minimum needed to keep the business running, but do not invest. This makes it difficult for the women-owned microenterprises to grow, and capital is siphoned off when unforeseen family expenses arise. In addition, the vast majority lack the know-how, and need training in key areas of business management, profitability and marketing,

¹ Based on a 2004 market study by Pro Mujer Bolivia.

² Village banks are organizations with 20 to 30 members, generally women microentrepreneurs, who meet regularly to receive loans secured by joint and several guarantees, as well as other savings services and training from a microfinance institution, which delegates management of some of these services to the village bank.

- in order to grow their businesses sustainably over time. Of the 150 women surveyed by PMA in Salta, 90% said they would need training in these areas to develop their businesses.
- 1.7 *Need for basic and preventive healthcare services.* Unfamiliarity with the processes involved in obtaining public healthcare services and ignorance of preventive care keep the poor women of Salta and Jujuy from using basic and preventive healthcare services. Furthermore, the time required to use healthcare services, due to the long distances to many clinics and the wait to receive care, makes it difficult for women to run ongoing businesses, especially women with children. Given this situation, which makes poor women more vulnerable, Pro Mujer International (PMI), a non-government organization (NGO) based in the United States, found that taking basic and preventive healthcare services to the village bank meetingplaces is an effective way to provide basic and preventive healthcare services to a large number of women, with short wait times and at low cost.
- 1.8 **The solution: A new village banking institution in Salta and Jujuy.** Studies by PMI show that women who join the Pro Mujer village banking programs increase their income in the first two years of participation in the program and are more likely to access healthcare services for themselves and their children, compared to other women with a similar personal profile who are not Pro Mujer customers. In addition, the customers use their loans to accumulate savings and improve their small business. As they learn to better manage their resources, they become more independent, gain greater respect from their spouses and children, and become less subject to violence and abuse. In order to duplicate in Salta and Jujuy the successes achieved in such countries as Bolivia and Peru with socioeconomic similarities, and address the problem outlined above, PMI requested the Bank's support to set up PMA in Salta and Jujuy in November 2004. After a year of market studies, focus groups and contacts with authorities and local providers of healthcare and training for microenterprises, and after several months of promotion, PMA was incorporated in Salta in December 2005. As of 31 March 2006, 1,681 women had already joined Pro Mujer's village banks with a loan portfolio of US\$106,000 and some US\$25,750 in savings.
- 1.9 PMA estimates that in three years it will offer its savings and loan services to 11,000 women, of whom (i) at least 30% will use basic and preventive healthcare services in dentistry, pediatrics, gynecology and nursing services; (PMA has entered into an agreement with a specialized nursing company that will set up basic and preventive healthcare clinics in its offices; the first clinic is set to open in March 2006); and (ii) at least 60% will receive microenterprise and human development training, for which PMA will enter into agreements with NGOs specializing in courses on domestic violence, reproductive health and vocational training in pastry shop, bakery and deli operation, weaving, ice cream making, beauty salon operation, dressmaking, and cosmetics.

- 1.10 **Selection of PMA to execute the proposed solution.** PMA was selected to execute the proposed project for the following reasons: (i) for its initial effort, it has selected the provinces of Salta and Jujuy, which have one of the highest levels of poverty in the country and a target population with a profile similar to those in Bolivia and Peru where the Pro Mujer programs have been successful; (ii) a concentration of women microentrepreneurs allows lending needs to be met efficiently using village banking methods; (iii) it brings to bear on the project the experience of PMI partners in adapting savings and loan services, business training, and preventive healthcare to the local context in Bolivia (14 years), Nicaragua (10 years), Peru (5 years), and México (3 years), making more than 190 million dollars in small loans between US\$50 and US\$1,000 to low-income women over the last six years, building a loan portfolio of US\$15 million and 130,000 active loans; (iv) it has put together a board of directors with strong local roots (see the project technical files); (v) it has secured additional resources for project startup, so that it can confidently handle the proposed expansion of its customer base; and (vi) it partners with a network that has a proven ability to achieve operating and financial sustainability by serving the poorest customers.
- 1.11 **Technical cooperation requirements.** PMA is a new institution in a country with little experience of microfinance. This gives rise to a number of technical support needs to execute the proposed solution: (i) the need to adapt the selected lending methods (village banking) and human development methods (basic and preventive healthcare and technical training in business development) to the specific needs of women in Salta and Jujuy; (ii) the scarcity of local people trained in village banking and other microfinance areas; and (iii) the need to develop administrative, management, and information systems specific to a new microfinance institution.
- 1.12 **Project strategy.** The project strategy is to support an entity with the potential to ease the difficulties faced by low-income women in the provinces of Salta and Jujuy in securing credit and human development services that meet their needs, and do so on a massive scale. Specifically, the project seeks to: (i) provide the resources necessary to expand the loan portfolio through a reimbursable financing component; and (ii) help PMA build the institutional capacity to efficiently and sustainably deliver financial and human development services to a segment as yet unserved by Argentina's financial system, through a technical cooperation component (consulting, training, and procurement of systems).
- 1.13 **Beneficiaries:** The direct beneficiaries of this project are approximately 11,000 low-income women microentrepreneurs in the provinces of Salta and Jujuy, and their families. Most of these women and their families live in poverty, unable to meet their basic food and nonfood needs. By joining the PMA village banks, the beneficiaries will be able to accumulate savings and improve their small businesses, and, as they learn to better manage their resources, they will become more independent, gain greater respect from their spouses and children, and be less subject to violence and abuse. Market survey findings and initial outcomes indicate

that the nearly 11,000 beneficiaries will be women with the following profile: (i) some 60% to 80% would join a village bank in order to start a new business or give business continuity to sporadic income-generating activities; and (ii) at least 20% will already own a going business. Of the beneficiaries with businesses: (a) at least 80% will have operated their business for more than one year; (b) 25% will be merchants, 45% will work in service industries related to food, sewing and dressmaking, and beauty salons; and (c) 16% will earn less than US\$40; and 84% will earn less than US\$150 when they join the project. In its reports, PMA will focus on those women microentrepreneurs with greater productivity and/or growth potential, who can contribute to economic development and create jobs. An estimated 15% of the members should be able to create jobs or experience over 40% annual growth in sales or profits in the first three years.

- 1.14 **PMA in the setting of Argentine microfinance and the PES.** Unlike other countries of the region, not enough sustainable microfinance institutions of sufficient size have been emerged in Argentina due to: (i) an adverse regulatory environment, the reform of which has not been a priority in the absence of a microfinance industry; (ii) delayed access to local and international financing; (iii) a smattering of small, weak lenders; and (iv) limited local experience with microlending technologies. At the same time, the requirements of international lenders have become more stringent, inasmuch as they are based on the characteristics of mature microfinance institutions (MFIs) in other countries, and no financing is available for new entities without Bank support. The PES may fill this role by supporting an entity such as PMA that may grow large enough in three years to be a pillar of the local microfinance industry. In the 1980s and early 1990s, the Bank made possible many of the institutions that are now the largest MFIs in the region, through loans and technical cooperation resources under the Small Projects Program, predecessor of the Social Entrepreneurship Program (SEP).

II. THE PROJECT

A. Objectives

- 2.1 The project seeks to improve the socioeconomic conditions of low-income women and their families in the provinces of Salta and Jujuy. Its specific objective is to efficiently and sustainably improve low-income women's access to savings and loan financial services in order to develop their businesses.
- 2.2 These objectives will be achieved through: (i) reimbursable financing to fund the microenterprise lending portfolio; (ii) consulting engagements to adapt the PMI's methods to local socioeconomic conditions; (iii) training for PMA human resources; (iv) consulting services to improve financial management and information systems; (v) legal advisory services; and (vi) purchase of a systems license and software customization to suit the PMA context and methods.

B. Description

- 2.3 The project will have a US\$1 million reimbursable financing component (IDB: US\$500,000; local: US\$500,000) and a US\$285,000 nonreimbursable technical cooperation component (IDB: US\$250,000; local: US\$35,000), both to be executed by PMA.
- 2.4 The **reimbursable financing component** (IDB: US\$500,000; local US\$500,000) will fund a lending program for women microentrepreneurs (84% below the poverty line) in the provinces of Salta and Jujuy. Eligible for the program would be women with difficulty getting a job in the formal sector who have started or plan to start a new business that requires resources. The loan amounts would be in the range of US\$150 to US\$1,500 with terms of 12 to 28 weeks for business working or investment capital. Based on the first loans made by PMA, the investments of women microentrepreneurs financed with resources under this component are expected to focus on investments in the diversification of production-related activities, working capital, and business and equipment improvements. The technical files contain PMA's Credit Regulations.
- 2.5 The **technical cooperation component** (IDB: US\$250,000; local US\$35,000) will develop and strengthen the operating and institutional capacity of PMA, so that it can establish itself as an efficient and sustainable lender to low-income women. Specifically, activities involving technical assistance and the procurement of equipment and systems are intended to: (i) adapt the loan products and human development, as well as other operating processes, to suit the specific conditions of low-income women in the project target areas; (ii) train the human resources hired by PMA in all areas of the organization; (iii) develop administrative policies and procedures; and (iv) ramp up the entity's equipment and systems to handle the anticipated volume of operations. The technical files contain the plan of operations for the technical cooperation component.

C. Sustainability and results of the financial analysis

- 2.6 Project sustainability was assessed on the following factors: (i) PMA's financial projections; (ii) organizational and professional resources; and (iii) the results achieves in the first few months of operation.
- 2.7 **Financial viability and financial projections.** This project would support the establishment of a new financial institution. According to financial projections, it will achieve financial sustainability in the second half of the third year of operations. Until then, it will have maintained operational sustainability, covering all of its expenses with income. During the execution period, PMA will progressively improve its operational efficiency, maintain its financial standing within internationally recommended parameters, and turn a profit in each fiscal year. In its fourth year, PMA will operate without grants and achieve profitability similar to that of other members of its international network, with the experience of

other PMI affiliates backing these projections. The project technical files contain detailed projections.

Projections and contractual performance indicators	Project			Trend Data	
	Year 1	Year 2	Year 3	Year 4	Year 5
Number of customers \geq	2,200	6,500	10,900	13,600	15,200
Net loan portfolio (US\$) \geq	278,000	1.05 million	2.6 million	3.9 million	4.9 million
Operating efficiency (total operating cost/average portfolio) \geq	198%	91%	46%	27%	22%
Leverage ratio (debt to total equity) \geq	1.1	2.2	5.2	4.8	2.9
Operational sustainability: (total income/total expenses) \geq	105%	105%	105%	121%	140%
Financial sustainability: Income/(total expenses + adjustments for subsidies and inflation) \geq	70%	75%	88%	117%	138%
Debt coverage (net income before finance costs/debt service) \geq	200%	200%	144%	195%	283%

- 2.8 **Institutional viability.** PMA possesses the organizational and professional resources to support the institutional viability of the operation. It has assembled a board of directors composed of widely respected people who will provide support and strategic judgment, and local professionals have been hired who meet the required profile for the entity's management, operational, and administrative functions. While PMA is new and its human resources lack specific experience in village bank microfinance, it will receive technical support from Pro Mujer Bolivia and PMI, both of which have a strong track record with the Bank on similar projects. These entities will ensure the institutional viability of PMA.

D. Credit risk for the Bank

- 2.9 It should be noted in regard to credit risk that, although PMA is a new entity and Argentina is a different market than those served by PMI affiliates in other countries, PMA has found higher than expected demand and managed to grow and effectively manage its loan portfolio in its first four months of operations (see paragraph 1.8). It is also worth noting that PMI has already had experience and positive results in setting up village bank microlending operations in Bolivia, Nicaragua, Mexico, and Peru, and achieved default rates of less than 1% in all cases. For all these reasons, the project's financial projections should be considered feasible (see paragraph 2.7), and PMA can therefore be expected to meet its financial obligations to the Bank.

E. Expected outcomes and benefits

- 2.10 The project beneficiaries will be some 11,000 low-income women microentrepreneurs in the provinces of Salta and Jujuy. Providing loans of

US\$150 to US\$1,500 will enable beneficiary microenterprises to strengthen their activities and increase sales, earnings, and family income, thereby raising the socioeconomic level of low-income families in the region. The wide range in the amounts of the loans made by PMA will ensure that the resources reach social strata with a high incidence of poverty, while at the same time serving a percentage of dynamic women microentrepreneurs with greater potential for sales and job growth. Accordingly, based on the experience of Pro Mujer in Bolivia³ and elsewhere and the findings of locally conducted surveys, joining a village bank would enable approximately 11,000 women in Salta and Jujuy to: (i) join a social support network; (ii) grow their existing businesses, (iii) start new businesses to diversify their sources of income; (iv) learn how and start to save; (v) raise their self-esteem; and (vi) work in a manner less dependent upon their spouses. In addition, the human development services offered in parallel with the loan will help the women and their families to improve their socioeconomic level through better use of health, education and training services. Indicators in the technical file show how the beneficiaries are expected to capture the benefits of the project. By the end of the three-year project, the following outcomes are expected: (i) at least 50% increase in the income of customers from their businesses; (ii) at least 10% increase in the use of available health services; (iii) at least 50% of the members diversify or expand their businesses; (iv) at least 10% of the members use voluntary saving services; and (v) 50% of the women receive institutional credit for the first time. The project Logical Framework (technical file) shows the indicators for the project's expected outcomes.

F. The Bank's strategy

- 2.11 The project is compatible with the Bank's current 2004-2008 country strategy with Argentina under the third area of strategic focus (poverty reduction, rebuilding the human resource base, and promotion of sustainable and inclusive social development). It is also compatible with the second area of strategic focus, which specifically mentions "reform of the financial structure of credit and nonfinancial services to microenterprise and small businesses" as part of the strategy.

G. Cooperation with other multilateral agencies

- 2.12 Other than the Bank, there are no official bilateral or multilateral donors supporting first-tier MFIs in Argentina at this time.

H. Summary of environmental and social review

- 2.13 The Committee on Environment and Social Impact (CESI) determined at its 3 June 2005 meeting that the project did not require an environmental review. In order to ensure that the operation will have no adverse environmental impact, PMA

³ See Glenn D. Westley, *A Tale of Four Village Banking Programs*, Best Practices series, SDS/MSM, IDB 2004.

will establish a policy to incorporate environmental protection and occupational health criteria into its operations under the “Guidelines for the Environmental and Social Impact Assessment of IDB Microenterprise Operations” (SDS/MSM, 2003). Pro Mujer uses the following parameters to measure the social impact of its programs: number of customers receiving health services for themselves and their children, increase in income and savings, increase in decision-making capacity and leadership within the family and the community. Monitoring these indicators will make it possible to track the social impact of the proposed activities.

I. Special conditions

- 2.14 As a condition precedent to the first disbursement of the reimbursable financing component, PMA will submit the following, to the Bank’s satisfaction: (i) letters of commitment for contributions to the project totaling at least US\$500,000 from Banco Hipotecario de Argentina, J.P. Morgan Chase, and others; (ii) the final project Credit Regulations; and (iii) the selected project coordinator. In addition, and as a condition precedent to further disbursements, PMA must demonstrate that it has financed its loan portfolio with funding from other lenders in an amount at least equal to the balance of the loan with the Bank. As a condition precedent to disbursement of the technical cooperation resources, PMA will submit the following, to the Bank’s satisfaction: (i) a work execution plan for the first 12 months of the project with annual goals for achieving the project objectives and outcomes; (ii) a list of Italian consulting firms and consultants specializing in microfinance, who will be invited to submit individual or corporate proposals to provide support services funded by the technical cooperation component. For disbursements in excess of 25% of the technical cooperation resources, at least 50% of the resources of the financing component must have been disbursed. In accordance with the provisions of the Italian Trust Fund for Microenterprise Development, the executing agency will ensure that at least 70% of the technical cooperation resources for consulting engagements is allocated to Italian consultants or consulting firms.
- 2.15 **Procurement.** PMA will procure goods and services in accordance with the procedures established in the “Policies for the procurement of works and goods financed by the IDB” (document GN-2349-4) and “Policies for the selection and contracting of consultants financed by the IDB” (document GN-2350-4), which will be reflected in the agreement between the Bank and PMA. The quality- and cost-based selection procedure will be used in contracting consultants. PMA may procure technical services on an individual or corporate basis from other PMI partners, who will compete on the same terms as other providers. Activities will be scheduled based on the Procurement Plan in the project technical files.

J. Reports, evaluations and audits

- 2.16 **Reports.** PMA will deliver semiannual progress reports to the Bank’s Country Office within 60 days after the end of each six-month period during the life of the

- project. Such reports will include: (i) a description of progress made in the execution of the project, including an update of the contractual indicators (see paragraph 2.7) and those appearing in the logical framework and table of indicators, (ii) a discussion of the main accomplishments in meeting the project goals and objectives; (iii) an analysis of difficulties encountered in project execution and action taken to resolve them; (iv) an updated project execution plan for the next 12 months, including measures to overcome obstacles identified; (v) a summary of work by consultants and technical assistance provided; (vi) PMA's updated financial statements; and (vii) environmental and social measures taken to comply with paragraph 2.13. The first progress report will present the findings of the baseline study, including the start values determined for the project's impact indicators. The last progress report will be the final report and contain a summary of achievements vis-à-vis the original objectives and indicators. In the event that a report shows an unfavorable deviation of more than 20% from the indicators in the table in paragraph 2.7, the Country Office may suspend disbursements until the issues preventing attainment of the indicators have been identified, and measures taken to resolve them to the Bank's satisfaction.
- 2.17 **Indicators.** The indicators to be used for the Bank's evaluations and to measure the project's overall progress are presented in the technical file. They may be modified by agreement between the Bank and the executing institution. The growth of PMA's portfolio during the project execution period will be greater than or equal to the amount of the Bank's contribution to the reimbursable financing component.
- 2.18 **Evaluations.** The project includes two evaluations by individual consultants selected and contracted by the Bank. A midterm evaluation will be done 18 months after the project's first disbursement, and the second evaluation 36 months after the first disbursement. The first evaluation will verify the outcomes reported in the semiannual reports and measure at least: (i) progress in improving impact indicators in a representative sample of women receiving PMA loans; (ii) the level of efficiency, effectiveness, and additionality of the project; and (iii) lessons learned and recommendations for project improvements in the second phase. In addition to the items mentioned for the first evaluation, the final evaluation will measure and document: (i) the extent to which the project's objectives have been met; (ii) lessons learned; and (iii) the project's financial and operational sustainability. In line with the priorities of the Italian Fund, both evaluations will examine achievements in financing dynamic microenterprises.
- 2.19 **Audits.** During project execution, PMA will deliver its audited annual financial statements within 120 days after the close of its fiscal year. The Bank will accept as valid the audit reports issued by an independent public accountant registered with and accepted by the Bank. The annual audits will be paid for and delivered to the Bank by the executing agency. In addition, Bank resources will be used to fund a final audit of the technical cooperation and reimbursable financing components, once the execution period has ended.

- 2.20 **Revolving Fund.** The maximum amount for disbursements will be 10% for both reimbursable financing and technical cooperation resources.

K. Project risks and mitigating factors

- 2.21 **Outside financing risk.** The primary risk of the project is that PMA, as a new MFI, will not obtain sufficient outside funding to meet its growth targets. This risk is mitigated by the commitments PMA has obtained as of May 2006 from the Banco Hipotecario de Argentina, and by the additional resources provided for project execution (see paragraph 2.14 with the special conditions on the reimbursable financing component). In view of this and the experience of other MFIs affiliated with PMI that have managed to finance the growth of their lending programs with various outside sources of financing, PMA is expected to have access to sufficient outside financing resources to meet its growth targets.
- 2.22 **Sustainability risk.** Given the limited experience with microfinance in Argentina, there is an additional risk that a new microlender will not be operationally and financially sustainable in the long term. As one mitigating factor, it should be noted that PMA will use lending methodologies that have worked in Bolivia, Peru, Nicaragua, and Mexico and enabled other PMI partners to achieve operational and financial sustainability. In addition, using technical cooperation resources, the project will receive support from consultants specializing in village bank lending methodologies. This will help PMA to achieve and maintain sustainability in the management of its lending program by instituting best international practices in microfinance.

L. Exceptions to Bank policies

- 2.23 None.