

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**ECUADOR**

**SOCIAL ENTREPRENEURSHIP PROGRAM**

**EXECUTIVE SUMMARY**

**ECOLOGICAL FARMING, MARKETING, AND PARTNERSHIPS  
AMONG WOMEN IN RURAL AREAS**

**(EC-S1006)**

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## I. BASIC INFORMATION

### A. Borrower and executing agency for the technical-cooperation component

En las Huellas del Banco Grameen [“In the Footsteps of Grameen Bank”] foundation

### B. Amount and source

	IDB US\$	Local US\$	Total US\$
Reimbursable financing:	75,000	75,000	150,000
Technical-cooperation funds:	<u>125,000</u>	<u>25,000</u>	<u>150,000</u>
Total:	200,000	100,000	300,000

Source: Net income of the Fund for Special Operations (FSO)

### C. Terms and conditions

Loan execution period:	36 months
Loan disbursement period:	42 months
Amortization period:	8 years
Grace period:	36 months for principal
Interest rate:	5% fixed
Currency:	United States dollars

The grace period will apply to amortization of the principal, but not to interest. The loan will be denominated in United States dollars and repaid in the same currency, or its equivalent in other currencies.

### D. Statement of no objection

- 1.1 The Government of the Republic of Ecuador has indicated that projects with characteristics similar to those of the Social Entrepreneurship Program (SEP) that are channeled through private institutions are not required to request the no objection of the government in advance, but should be reported to it once approved.

### E. Problem to be addressed

- 1.2 **Women campesino microentrepreneurs in southern Ecuador.** The province of Loja, in southern Ecuador along the border with Peru, has a population of 405,000 inhabitants, of whom 55% are estimated to be rural, poor, and dependent upon the peasant economy. According to official figures, 42% live in extreme poverty. With urban and rural underemployment rates of 33% and 47%, respectively, Loja is one of the Ecuadorian provinces that generates the least employment. Over 10% of the population has emigrated in the last 10 years.
- 1.3 According to the 2001 National Population and Housing Census conducted by the National Statistics and Census Institute (INEC), there are some 20,000 rural women microentrepreneurs in Loja. Based on the 2004 Agricultural Production Survey, in turn, it is estimated that 18,700 small farms in the region are run by women. This suggests that a large number of rural women microentrepreneurs make their living from agricultural activities, often in combination with other activities.

- 1.4 **Experience of poor women in Loja with ecological farming.** In 2001 and 2002, 50 women borrowers of En las Huellas del Banco Grameen (Grameen Loja), a local microlender, received advisory assistance on ecological techniques for producing fruits, vegetables, and small livestock through an agreement between Grameen Loja and the foundation Fundatierra. That assistance taught the women about: (i) techniques for the sustainable use of water, including planning crops based on its seasonal availability; (ii) how to prepare organic fertilizers; (iii) using natural pest control techniques; and (iv) sustainable diversification of production in integrated gardens, where some plants provide nutrients and shade to others, and animals are increasingly fed on what is produced (reducing expenditure on commercial grains). The experience had a lasting impact. Five years later, most of the women continue to use agroecological technologies and principles on their less-than-1/4-hectare gardens, and are disseminating them in their communities. Approximately 20 have begun marketing partnership activities. The women who participated cite the following benefits: (i) using ecological techniques and applying these principles to other areas of agricultural production secures and increases their income, because it is easier to find a buyer for their products and because every day something is produced that can be sold, which raises the overall profitability of the family garden; (ii) their small gardens become more sustainable in the long term, since the soil does not become depleted or contaminated with chemical fertilizers that limit the life of the land; (iii) the health of the beneficiaries and their families improves, since they are not exposed to harmful pesticides and chemical fertilizers; and (iv) the overall productivity of the small farms increases as a result of incorporating—at no additional cost—a mix of traditional knowledge and simple quality control and tending techniques.
- 1.5 **Potential of ecological farming for financial diversification and sustainability.** Agroecological techniques used on the small farms of the Grameen Loja members who received training provide diverse sources of supplemental income. Small investments and an increase in labor (e.g. to produce organic fertilizer) yield the following increases: (i) approximately US\$60 per month from sales of a wide variety of fruits and vegetables grown on a small scale; (ii) an average of about US\$40 per month from sales of chickens or pigs, partially fattened with home-grown vegetables that cannot be sold; and (iii) between US\$10 and US\$30 from other products sold each day, such as medicinal and aromatic plants, eggs, cheeses, etc. This diversification of income sources has a high impact on monthly income, but requires investments in working capital. Ecological farming is valued by buyers, mainly intermediaries and merchants from the city of Loja, who prefer to sell the ecological products of the Grameen Loja members because end customers like the flavor and the assurance that the foods are healthful and grown without chemical fertilizers or other harmful products. International organic certification is not used locally, since the cost could not be absorbed by the sales prices expected by local customers preferring ecological products.
- 1.6 **Local diversified marketing of ecological products through partnerships** widens the narrow margins available to the Grameen Loja women on sales of their goods to Loja merchants. Some women individually strive to improve presentation and use basic information labels for the products they sell at the open-air markets of

Loja.<sup>1</sup> Likewise, 22 women members from 3 Grameen Loja solidarity groups partner to coordinate transportation and set up a group stand at the open-air markets in Loja and other municipios, where their products have been well received. Demand exceeds supply where they sell their products, however, so they need a larger quantity of goods to sell, and need to ensure consistent product quality. Accordingly, these women propose to: (i) create a business partnership to offer larger quantities and better quality products, with a local diversified sales strategy that avoids intermediaries, and with professional management enabling them to enter these markets legally; and (ii) develop a strategy to promote their products that is adapted to local uses and prices, and will include a “local green seal.”<sup>2</sup>

- 1.7 **Drawbacks of ecological farming that affect marketing.** There are limitations in the production process that prevent a joint marketing strategy from being developed, in particular: (i) output is abundant during the rainy season (January to June), but there is too little rain during the rest of the year; even though production is small-scale, the women, having no irrigation infrastructure, are fined for using water for domestic use; (ii) the home-made organic fertilizers are insufficient to ecologically increase garden production, while the purchase and transportation of organic fertilizers from other regions raises costs to prohibitive levels; (iii) the limited access to financing for cyclical investments in agricultural inputs that affects conventional farming also affects ecological production; and (iv) lack of production planning and seasonal production make it difficult to meet the demands of more stable buyers with greater purchasing power. For example, a local supermarket that was approached by the group of 22 women ordered a supply of organic vegetables. Filling the order, however, would mean guaranteeing production volumes and establishing stricter post-harvest, packaging, presentation, and quality control standards, all of which would require the producers—currently organized based on friendship and trust—to form a business partnership, formalize production and management commitments to meet customer demands, and access technical support services. These problems could be solved with training and specialized technical assistance, which is not available to the women recipients of microcredits from Grameen Loja.
- 1.8 **Demand for financing.** Rural women from the cantons of Loja, Catamayo, and Macará in Loja province, where Grameen Loja operates, have indicated that opportunities for formal employment off their farms are very limited. Consequently, they are seeking to expand their productive activities to boost their incomes, which, before their investments, amount to approximately US\$160. For example, with a US\$300 credit from Grameen Loja for the purchase of pigs, household income could increase by an average of 20% to 40% over several months. A basic demand analysis conducted<sup>3</sup> in the areas where Grameen Loja

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<sup>1</sup> Women with Grameen loans cannot sell individually at the regular markets, where they must have a registered stand and pay fees in order to sell their goods, but they are allowed at open-air markets.

<sup>2</sup> These local green seals are for informational and marketing purposes only. They do not certify the products as organic, but they do provide a reliable way to indicate whether products in local markets are ecological.

<sup>3</sup> The credit applications of 29 women were analyzed.

operates (see technical file) identified the following needs: (i) 75% of women apply for agricultural loans, most of them for chickens, red jungle fowl, guinea pigs, pigs, and sheep, with needed investments to pay for animals, feed, health care, etc. averaging US\$300; and others for tubers, fruits, and grains, with an average investment of US\$160 to finance the purchase of seeds, fertilizer, and other inputs; (ii) 18% need financing for service activities, such as stores, coffee shops, beauty salons, etc., which necessitate investments in working capital, facilities, and various inputs, for an average investment of US\$150; (iv) 7% need financing for the preparation and sale of foodstuffs, such as jams, and to sell in open-air markets, with investments in working capital averaging US\$160.

- 1.9 **Repayment capacity resulting from investments.** The technical file includes an estimate of income generated by the investments made by Grameen Loja members. Based on nearly 30 randomly selected cases, it shows how the investments mentioned in the preceding paragraph generate various increases in household income and enable the borrowers to repay the loan within Grameen Loja's terms, which range from three months to one year. As the aforementioned appendix shows, after the loans are made, incomes are sufficient to comfortably make the loan payments, and monthly incomes are still increased after the debt is paid.
- 1.10 **Limited supply of credit for poor rural women.** Also present in Loja, in addition to Grameen Loja, is the Foundation for International Community Assistance (FINCA), which finances commercial microenterprises primarily in periurban areas, without flexible terms, with average loan amounts five times higher than the average Grameen Loja loan. In rural areas, FINCA provides credits in amounts that often far exceed the repayment capacity of the women customers, which carries the risk of overborrowing. Other entities, such as the Julián Lorente and COMEGO cooperatives, concentrate on medium-term microcredits for commercial activities in urban areas. Accordingly, they are not available to finance the investments described above in rural areas for women who, before the credit, earn less than US\$160. The average loan amount from these lenders is also several times greater than the average Grameen Loja loan. The technical file presents the products offered.
- 1.11 **Effective demand for rural credit for investments by women microentrepreneurs.** A survey by the Superintendency of Banks and Insurance of Ecuador indicates that microenterprises in the province of Loja have both a desire and the capacity to borrow. Only 11% of rural women from Loja, however, have access to financing. Consequently, it is believed that of the estimated 18,700 women running small farms, 89% do not have access to financing for small agricultural investments. Those 17,400 rural women microentrepreneurs make up the effective demand for the above investments and are Grameen Loja's target market. The technical file provides a detailed breakdown of this estimate. Less than 5% of Grameen Loja's customers have had access to financing from other lending institutions.

- 1.12 **Grameen Loja.** Applying the methodology developed by Grameen<sup>4</sup> Bank of Bangladesh, Grameen Loja finances solidarity groups made up of an average of five women (members), who meet weekly and jointly and severally guarantee their credits. The groups receive services through centers formed by up to eight groups. The members elect center directors and group coordinators, who are responsible for collecting and recording payments. At the center meetings, payment discipline is reinforced, new loans are approved, and community issues are addressed under the supervision of a Grameen Loja credit advisor. Credits start at US\$80 and range up to a maximum of US\$500. The technical file contains Grameen Loja's credit regulations and credit agreements with its members.
- 1.13 **Selection of Grameen Loja as the executing agency.** The Bank has selected Grameen Loja as the borrower because it: (i) finances investments in productive activities that enable poor rural women to significantly enhance their income, (ii) operates with an arrears rate of less than 1%, which is better than the financial system average; (iii) is operationally and financially sustainable, with an annual cost per active loan of less than US\$20, one of the lowest costs in the region, which enables it to lend to very low-income microentrepreneurs; these low operating costs are achieved through the high productivity of its loan officers, a lending methodology that allows administrative processes to be delegated to the centers, where there is strong peer monitoring, and the commitment of its management team; and (iv) fosters greater democratization of credit and savings in remote communities, using the Grameen methodology, of which there are still very few examples in Latin America.
- 1.14 The Bank has also selected Grameen Loja to implement the technical-cooperation component because it has already successfully trained its customers in the sustainable use of water, preparation of organic fertilizers, use of natural pest control techniques, and the sustainable diversification of production in integrated gardens, and has obtained good results in the past, capturing the best practices drawn from the agreement with Fundatierra.
- 1.15 **Beneficiaries.** The direct beneficiaries of the credits over the three years of the project will be approximately 3,000 indigenous and mestizo women from among the poorest urban and rural parishes in the country, such as Sucre, Sagrario, San Sebastián, and El Valle in the canton of Loja; San José and El Tambo in the canton of Catamayo; and Macará, La Victoria, and Lalama in the canton of Macará. It is estimated that 75% of the demand for onlending will come from women involved in agricultural activities, and 25% from women involved in retail, garment making, restaurants, and other services. The incomes of the women microentrepreneurs will increase substantially as a result of the investments, which will enable them to improve their socioeconomic status—and, through ecological farming, their health—in the long term.

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<sup>4</sup> For Professor Yunus (<http://www.grameen-info.org/bank/WhatisMicrocredit.htm>), the term “Grameen,” which means village or community, refers to a type of credit, just as “consumer” refers to another type. The term “Grameen” is associated with numerous organizations around the world and is not used exclusively by any of them.

## II. THE PROJECT

### A. Objectives

- 2.1 The goal of the project is to improve the income and health of women microentrepreneurs and their families in southern Ecuador. The purpose of the project is to facilitate access to financial services for 3,000 women and technical assistance in ecological farming and marketing partnerships for 225 women microentrepreneurs in rural Loja.

### B. Description

- 2.2 The project has two components, which will be implemented by Grameen Loja: (i) US\$150,000 in reimbursable financing, and (ii) US\$150,000 in nonreimbursable technical-cooperation funds.
- 2.3 **The reimbursable-financing component** (IDB: US\$75,000, local counterpart US\$75,000) will be used to finance a credit program under which credits for the productive activities of women microentrepreneurs in agriculture, crafts, retail, and services are granted and administered through grassroots organizations and solidarity groups using the Grameen methodology.<sup>5</sup> Specifically, it will finance equipment, seeds, animals, agricultural inputs, facilities, and other productive assets for 3,000 women microentrepreneurs from rural Loja, pursuant to the Credit Regulations (see technical file). More than 90% of the financing beneficiaries will be women. The credits will be jointly and severally guaranteed but granted individually based on the needs and economic capacity of each borrower. The credit application will be analyzed and approved by the organization to which the women belong (the center), while the financial and technical economic analysis will be performed by Grameen Loja based on the project of each woman microentrepreneur. Individual credits will average approximately US\$108 by year three of the project. Grameen Loja will supplement the reimbursable-financing component with more than US\$75,000 in additional resources. The loan will be granted in United States dollars, as the Grameen Loja portfolio is denominated in that currency, the official currency of Ecuador.
- 2.4 **The technical-cooperation component** (IDB: US\$125,000, local counterpart US\$25,000) will be used for: (i) the institutional strengthening of Grameen Loja, introducing a strategic growth plan, employee training, and hardware and software upgrades; (ii) technical assistance for microentrepreneurial ecological production, farm visits, farm design, and water reclamation; (iii) training and technical assistance in joint marketing, encouraging the formation and strengthening of a partnership of agroecological producers through training in packaging, post-harvest,

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<sup>5</sup> This methodology begins with the formation of solidarity groups comprised of five acquainted, yet unrelated, people living in the same community, in which joint and several guarantees are granted and mutual support is provided. Up to eight solidarity groups of four to five women make up a center, for a total of 30 to 40 members. Those members elect directors (of the centers) and coordinators (of the groups), who are responsible for conducting financial business on a weekly basis. At the center meetings, payment discipline is practiced, new credits are approved, and personal or community issues are addressed, under the guidance of a Grameen Loja credit advisor. Credits start at US\$80, increasing to a maximum of US\$500.

and management tools; and support for the partnership's operation by establishing weekly open-air markets for the sale of ecological farm products; and (iv) monitoring, evaluations, and audits. Training and technical assistance in agroecology, irrigation, marketing, and administration will be provided by specialists hired by Grameen Loja according to the Bank's procedures. The Plan of Operations in the technical file describes the activities that will be financed.

**C. Sustainability and findings of the financial analysis**

- 2.5 The technical file contains the financial statements for 2004-2006 and projections for 2007-2009. At the end of 2006, Grameen Loja had assets valued at US\$140,990, with US\$129,666 (92%) in its loan portfolio. Liabilities amounted to US\$46,477 (33% of assets), and equity amounted to US\$94,513 (67% of assets).
- 2.6 **Sustainability.** In addition to Bank support, current sources of funding will continue over the course of the project: (i) Grameen Loja's equity and operating profits; and (ii) lines of credit from the Esquel Foundation (Codemi Program), Oikocredit, Corporación Financiera Nacional, and others. With respect to sustainability, Grameen Loja has been covering its operating and financial expenses with its operating income—without relying on grants and without incurring losses—since 2003. In the last four years, operating expenses have fluctuated between 12% and 30% of the portfolio, which is low compared to benchmark microlenders in the region with similar average loan amounts. It is also worth noting that operating expenses have risen from 2004 to 2006 as a result of adding complementary services asked for by the women members: agroecological techniques, dentistry, preventive and basic healthcare, and training in managing their businesses.
- 2.7 **Financial projections.** Grameen Loja projects that its loan portfolio will grow from US\$129,666 at the end of 2006 to approximately US\$323,000 by the end of 2009. While significant, this increase is feasible due to the demand for credit it is experiencing and to its operational efficiency. This growth will require Grameen Loja to maintain its current financing sources—which is realistic given its good track record with those sources—in addition to the proposed project, and solvency ratios will be above 25%. Over the three years of the project, earnings are expected to range from US\$9,000 to US\$10,000, and financial sustainability is projected to exceed 99%. Grameen Loja will also maintain a cost per active loan of less than US\$20, and solid coverage of its debt with the Bank.

**D. Credit risk for the Bank**

- 2.8 The project presents a low credit risk for the Bank due to two factors. First, Grameen Loja has exhibited good payment performance with its lenders, who are capable of, and interested in, increasing financing to Grameen Loja to enable it to attain the proposed growth.
- 2.9 Second, the women members have also demonstrated good payment performance, with an arrears rate of less than 1%. This latter factor is reinforced by several tools used by Grameen Loja: (a) a shared liability agreement that guarantees the loan (see technical file); and (b) peer pressure from the centers (formed by six to eight



solidarity groups of five women each) in the event of delinquency by one member. If one woman misses a payment, all the members affiliated with that center (between 30 and 40 women) hold that individual accountable. If payment is not possible, the solidarity group—or, if necessary, the center—organizes to help the member in default.

## **E. Expected outcomes and benefits**

- 2.10 **Expected outcomes for beneficiaries.** The following outcomes are expected at the end of year three of the project: (i) some 3,000 women, approximately 1,280 of them new borrowers, will be receiving financing for their microenterprises; (ii) of those women, beneficiaries with more than two years in the project will have experienced a 20% annual increase in their net household income compared to a control group; (iii) approximately 1,110 women beneficiaries will have stopped using pesticides associated with environmental degradation and health problems; (iv) 225 women will have increased their income as a result of ecological farming and/or marketing partnerships; (v) 150 women members of the producers/vendors association will be using management tools such as their own accounting and quality control systems; and (vi) approximately 110 rural neighborhoods will have access to Grameen Loja centers offering credit and technical support services.
- 2.11 **Expected outcomes for Grameen Loja.** This project will strengthen a small foundation that has the potential for sustainable growth and to finance the needs for working capital and fixed assets and the development of business linkages among women entrepreneurs in rural southern Ecuador. By the end of year three, the project will have: (i) financed part of the growth of Grameen Loja, enabling it to attain a portfolio of US\$320,000; (ii) put an information system in place that allows monthly balances to be closed out within eight days of each month-end, in addition to efficient information systems to better serve the project's beneficiary population; and (iii) achieved 20% operating efficiency.<sup>6</sup>

## **F. Bank strategy**

- 2.12 The project activities are consistent with the priorities of the Bank's new strategy with Ecuador of 10 November 2004 (document GN-2338-2), because they focus on one of the Bank's two priority areas in the country: promoting social development and the protection of the most vulnerable groups (social dimension). In line with that document, the project will also strengthen a sustainable organization focused on financing the business ventures of poor rural women.

## **G. Coordination with other international cooperation agencies**

- 2.13 In 2002, Grameen Loja received assistance from the Inter-American Foundation in the form of a US\$90,000 seed fund for microcredits and housing plus basic equipment; from the German Agency for Technical Cooperation (2003-2004) in the form of a US\$30,000 seed fund for microcredits to war refugees; and from the United States Agency for International Development (2001-2005) in the form of US\$140,000 in PL-480 funds for an agricultural microcredit fund. This project does

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<sup>6</sup> Operating costs/average loan portfolio; see projections in the technical file.

not currently receive support from other international cooperation agencies. The project will be presented for information to the informal committee of microfinance donors in Ecuador in which the Bank participates.

## **H. Environmental and social review**

- 2.14 At its meeting of 15 September 2006, the Committee on Environment and Social Impact (CESI) reviewed this operation and made the recommendations laid out in the technical files. In response to those recommendations: (i) the plan of operations for the technical-cooperation component and the appendices thereto present a detailed account of the resources allocated to training and technical assistance in ecological farming; (ii) the project will hold a closing workshop, to which other local organizations will be invited, to disseminate outcomes locally (see Plan of Operations); (iii) increases in income are among the logical framework indicators to be measured during project implementation; (iv) using technical-cooperation resources, the project beneficiaries will be given guidance on how to regularize their land tenure (see Plan of Operations); and (v) the project will be community-service oriented, and its beneficiaries will include rural Kichwa-Saraguro women, who in some centers represent over 50% of the credit recipients.

## **I. Special conditions**

- 2.15 As a condition precedent to the first disbursement of the *reimbursable financing*, Grameen Loja will submit the project's definitive credit regulations to the Bank's satisfaction. As an additional condition for each disbursement above US\$25,000, Grameen Loja will submit evidence of maintaining its solvency ratio (net worth/assets) above 20.8%, and its financial sustainability above 80%.
- 2.16 As a condition precedent to the disbursement the *technical-cooperation* resources, Grameen Loja will select a project coordinator and will present, to the Bank's satisfaction, an implementation plan for the first 12 months of the project, with targets for achieving project objectives and outcomes. During the project, Grameen Loja may not disburse more than 40% of the technical-cooperation funds until at least one third of the reimbursable-financing resources have been disbursed.
- 2.17 **Procurement.** Grameen Loja will procure goods and consulting services in accordance with the Bank's procurement policies and procedures and the procurement plan found in the technical file.
- 2.18 **Revolving fund.** The revolving fund will amount to 20% of the reimbursable financing and technical-cooperation resources. That percentage is justified by the small amount of financing and the existence of additional mechanisms that tie disbursements to project performance (see paragraphs 2.15 and 2.16).

## **J. Reports, evaluations, and audits**

- 2.19 **Reports.** During project implementation, Grameen Loja will submit semiannual progress reports to the Bank's Country Office within 60 days of the end of each six-month period. Those reports will include: (i) a description of progress made on the project implementation plan and the corresponding indicators, as well as an account of the main achievements and difficulties encountered during the project and the actions to overcome them; (ii) an updated project implementation plan for the

following 12 months, including measures to overcome the obstacles identified; (iii) a summary of the consulting work and of the technical assistance and training provided; (iv) Grameen Loja's financial statements, including a report on the portfolio financed under the project; (v) an account of environmental and social measures taken to comply with the recommendations referred to in paragraph 2.13 of this document; (vi) a comparison of lending and borrowing rates for the project and rates offered by competitors, as well as an explanation of any significant differences; and (vii) evidence that Grameen Loja's portfolio has grown by more than the amount of the Bank's contribution to the financing disbursed to date. The first progress report will contain verification of the initial values of the project's impact indicators (project baseline). The final progress report will be issued at the end of the project and will contain a summary of achievements as compared to the original objectives and indicators.

- 2.20 **Indicators.** The indicators that will be used for the reports, Bank evaluations, and to measure project progress in general are presented in the technical file. Table I below presents the contractual indicators. In the event of negative deviations of more than 20% from any of the targets during the project, the Bank may suspend commitments until Grameen Loja has taken measures, to the Bank's satisfaction, to put management of the project on the right track.

**Table I – Contractual Indicators**

		DEC. 2005	DEC. 2006	YEAR 1	YEAR 2	YEAR 3
Credit portfolio	> or =	US\$106,157	US\$129,666	US\$185,000	US\$245,000	US\$323,000
Number of borrowers	> or =	1,396	1,710	2,100	2,500	3,000
Net income	> or =	US\$1,043	US\$7,873	US\$9,000	US\$9,400	US\$10,000
Cost per active loan	< or =	US\$17	US\$21	US\$20	US\$20	US\$20
Solvency (net worth/outstanding loan portfolio)	< or =	49.45%	41.84%	34%	30%	26%
Financial sustainability: Income/(total expenses + adjustments)	> or =	93.58%	110.30%	100%	100%	100%
IDB debt coverage: Earnings before IDB payment / IDB debt	> or =			8	3	3
Women who increase income through production and joint marketing of agroecological products	> or =		25	90	155	225

- 2.21 **Evaluations.** The project provides for two evaluations conducted by individual consultants selected and hired by the Bank's Country Office in Ecuador. A midterm and a final evaluation will be completed 18 months and 36 months after the first disbursement, respectively. The first evaluation will measure: (i) progress in improving the impact indicators in a representative sample of women microentrepreneur borrowers; (ii) the efficiency, effectiveness, and additionality of the project; (iii) independent verification of compliance with CESI's recommendations; and (iv) lessons learned and recommendations for improving the project in its second phase. In addition to the items mentioned for the first evaluation, the final evaluation will measure and document the following: (i) to what extent project objectives were met; (ii) to what extent the proposed impact

indicators were achieved; and (iii) the project's financial and operational sustainability.

- 2.22 **Audits.** During the project, Grameen Loja will submit its audited financial statements within 120 days of the end of its fiscal year. Those audits will be commissioned and paid for by the executing agency. Grameen Loja will use resources from the Bank's contribution to commission a final audit of both components, once the implementation period has ended.

**K. Project risks and mitigating factors**

- 2.23 One risk is the isolation and vulnerability of the Grameen Loja women, which make it difficult to expand their agricultural businesses. To mitigate this risk, the project will promote marketing partnership strategies that enable the women beneficiaries to join working networks and reduce their isolation and vulnerability. Also, Grameen Loja will continue offering complementary services at the centers, which will also encourage cooperation among peers.
- 2.24 A second risk is that Grameen Loja employees will be lured away by microlenders that grant larger loans and pay higher salaries than Grameen Loja can offer. To mitigate this risk, the project will support the institutional strengthening of Grameen Loja with resources from the technical-cooperation component. That support will make Grameen Loja's planned growth feasible, and will improve the professional prospects for its employees.

**L. Exceptions to Bank policy**

- 2.25 None.