

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

SOCIAL ENTREPRENEURSHIP PROGRAM

EXECUTIVE SUMMARY

**FINANCIAL, TECHNICAL AND HEALTH SERVICES FOR
WOMEN ENTREPRENEURS IN RURAL COMMUNITIES**

(EC-S1007)

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I. BASIC PROJECT INFORMATION

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

Borrower: Cooperativa de Ahorro y Crédito Mujeres Unidas Ltda. (CACMU)

Executing agency for the technical-cooperation component: Fundación Cooperación y Acción Comunitaria (FCAC)

B. Amount and source of financing

	IDB US\$	Local US\$	Total US\$
Reimbursable loan:	300,000	150,000	450,000
Technical cooperation:	<u>200,000</u>	<u>90,000</u>	<u>290,000</u>
Total:	500,000	240,000	740,000

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

C. Terms and conditions

Execution period:	36 months
Disbursement period:	42 months
Amortization period:	12 years
Grace period:	42 months for the principal
Interest rate:	2% fixed
Currency:	U.S. dollars

The grace period will apply solely to the amortization of principal, not interest. The loan will be denominated and repaid in United States dollars, or the equivalent in another FSO currency in the event that Ecuador changes its currency during repayment of the loan.

D. Statement of no objection

- 1.1 The Government of Ecuador stated its no objection to Bank financing of the project in a letter dated 19 July 2006.

E. Problem to be addressed

- 1.2 **Rural women microentrepreneurs of northern Ecuador.** According to the 2004 National Survey of Microenterprises in Ecuador conducted by the Superintendency of Banks and Insurance Companies (SBS), there are an estimated 6,729 microenterprises in the province of Carchi and 21,864 in Imbabura. This makes for a total of **28,593 nonfarm microenterprises** in the two provinces, where more than 52% of the population lives in rural areas. The 2001 National Population and Housing Census by the National Statistics and Census Institute (INEC) also included farm microenterprises, and determined that the two provinces have some **70,000 microenterprises**, of which around **27,300 are operated by rural women**. Further, according to the findings of INEC's 2004 Agricultural Production Survey,

- an estimated **21,200 small farms in Carchi and Imbabura are run by women** (see Market Analysis in the project technical files). These data suggest that more than three quarters of the rural women microentrepreneurs in the two provinces, the combined population of which is almost half a million, make their living primarily through agricultural activities.
- 1.3 The poverty rate is higher than 80% in the rural cantons of these two provinces. According to the estimates of Cooperativa de Ahorro y Crédito Mujeres Unidas (CACMU), which operates in the area, 60% of women are self-employed, mainly in agricultural, handicraft, and informal business activities. Their incomes range from US\$50 to US\$280 per month, with the average being US\$180. This is insufficient to purchase a basic food basket, which costs more than US\$445 a month.
 - 1.4 **Demand for rural investments.** According to the rural women of La Carolina, Angochagua, Ilumán, Lita, La Esperanza, González Suárez, Espejo, and Bolívar in the provinces of Carchi and Imbabura, where CACMU operates, there are very few opportunities for formal off-farm employment. To raise their incomes, then, they say they need to expand their production-oriented activities. For example, a family's income can increase by 40% to 50% in a few years with a US\$600 loan to replace their native cow, which produces 5 to 8 liters of milk per day, with an improved or dairy cow that produces 20 to 25 liters per day.
 - 1.5 Based on CACMU's lending experience with around 500 women, investment demand in those cantons can be summarized as follows: (i) 7% of the women request **loans to expand or diversify crops** (tubers, fruits, grains, and vegetables); an average investment of US\$876 is needed to cover the cost of seed, fertilizer, packing, compost, and extra working capital for plots averaging one hectare in size; (ii) 57% request **loans for livestock activities** (chickens, range hens, guinea pigs, rabbits, pigs, sheep, and beef and dairy cattle), which would be used to buy animals, feed and medicine, build sheds and equipment, improve pastures, etc.; this requires an average investment of US\$1,479; (iii) 24% request **loans for bakeries and service activities** such as restaurants, transportation, and especially apparel making in the southern cantons of the province; these activities require an average investment of US\$1,950 for machinery, working capital, equipment, fuel, energy, and a variety of inputs; (iv) 1% request financing for **community-based tourism activities**, which would include lodging, working capital, food, cleaning supplies, energy, water, and various inputs; on average, these investments run about US\$3,500; (v) 1% request **financing for agroindustrial activities** such as the production of cheese, yogurt, fruit pulp and marmalades, food processing, and other activities. This requires an average US\$3,100 investment for machinery, working capital, primary foodstuffs, fuel, and packaging; (vi) 6% request **commercial loans** to improve facilities, purchase equipment, and for working capital; in this category the average investment is US\$1,465; and (vii) 4% request **loans for cottage industry**, which require investments averaging US\$1,200 for machinery, working capital, and outfitting workshops and points of sale.

- 1.6 **Investments create paying ability.** The project technical files show how the investments described in paragraph 1.4 generate a range of increases in family revenues that enable the borrowers to repay their loans within 12 to 60 months, depending on the activity. It also indicates the markets in which the women microentrepreneurs offer their products and services. In 16 of the 20 activities, the monthly payment on a subloan to finance the average investment at 12% would be less than 30% of the investment's monthly profit. In the other four cases it would be less than 39%. This demonstrates that the loans for these investments are viable for rural women microentrepreneurs, which is consistent with CACMU's experience: more than 98% of its loans for these types of investments have been repaid without incident.
- 1.7 **Availability of credit for rural investments.** In addition to CACMU, the Santa Anita and Codesarrollo cooperatives and Financiera Finca operate in Carchi and Imbabura provinces. Santa Anita, however, has coverage only in the canton of Cotacachi, while Codesarrollo is not represented in most of the towns where CACMU is active. Financiera Finca lends to commercial microenterprises in predominantly periurban areas on inflexible terms. Other microfinance institutions including the Banco Solidario or Credifé / Banco Pichincha focus on short-term microcredits for business enterprises in periurban areas, and so are not available to finance the aforementioned investments in rural areas. According to the cited SBS survey, 70% of microenterprises in the two provinces wish to borrow and would have the means to do so. Nonetheless, according to a survey by the PROLOCAL project of the Government of Ecuador to reduce poverty and promote local rural development, 30% of urban microentrepreneurs in the two provinces have access to financing, while only 16% of rural ones do. One fourth of these loans are not institutional.
- 1.8 **Availability of savings services.** In addition to loans, rural women microentrepreneurs in the two provinces need access to savings services, which are not available in rural cantons. It is impractical for them to travel to banks in urban areas because the cost of travel may exceed the amount they have to save. This situation has so far gone unaddressed because it is not profitable for CACMU or other credit unions targeting the rural population to open permanent branches in small rural communities. Thus, it is necessary to develop mobile rural financial services.
- 1.9 **The needs of the solidarity savings banks (cajas solidarias).** Because of the limited financial services in rural areas, CACMU was created in 2001 with the support of Fundación Cooperación y Acción Comunitaria (FCAC) to offer specialized financial services to rural women, and to bring a number of solidarity

savings banks under a single financial umbrella.¹ These organizations, which receive active community support, have enabled CACMU to become highly efficient because they reduce the number of people who need to be paid to perform administrative functions. At the same time, community peer pressure and transparent management encourages good credit performance. The collective and community traditions of a number of indigenous groups also make these services more effective. The 11 solidarity savings banks that operate under CACMU have between 15 and 30 women members each, for a total of 610. Most (490) belong to five consolidated savings banks. The savings banks are largely made up of poor Afro-Ecuadorian, indigenous, and mestiza women who need to upgrade their business skills and adopt regulations and systems, especially for the financial management of their funds and the emergency loans they make.

- 1.10 **Effective rural credit demand for investments by women microentrepreneurs.** Of the 27,300 rural women microentrepreneurs in Carchi and Imbabura, an estimated 78% (about 21,310) live below the poverty line. Of the estimated 84% of poor women microentrepreneurs without access to financing (about 17,901), 70% (about 12,531) would seek financing for investments such as those described above. These 12,531 rural women microentrepreneurs constitute the effective demand for these investments and CACMU's target market.
- 1.11 **Demand for technical assistance and business development.** CACMU's 1,440 members include group and individual enterprises that have unmet needs for technical assistance. For example, five lodging and tourism group enterprises involving some 50 women market and arrange their services in a very rudimentary and individual manner. International tourists, however, look for coordinated circuits at least one week long that will allow them to stay with different cultural groups (Afro-Ecuadorian, indigenous, small farmers) in a single visit. In response, the women microentrepreneurs have started a group enterprise, ECOSTUR, to offer an integrated, interethnic circuit. Now, they need a Web-based international marketing strategy and professional management of the circuit. Likewise, 11 group enterprises involving some 60 women who produce and market meat products have begun to organize around a group enterprise named ECANOR. Now, they need a

¹ The solidarity savings banks methodology was introduced in Ecuador by the Ecuadorian Populorum Progressio Fund (the beneficiary of a small project in 1980). It was disseminated in the late 1990s by the now defunct Ministry of Social Welfare project PRODEPINE, which promoted development among the indigenous and Afro-Ecuadorian populations. The project set up self-help groups that received small amounts of seed funding and training, and acted as autonomous solidarity savings banks to take in savings and independently loan money in poor indigenous communities. Although the program did not follow up on the groups, some continued to operate independently or linked to a credit union (COAC), as is case of two of CACMU's eleven solidarity savings banks. These banks prepare their sometimes rudimentary financial statements and lend their surpluses to community women for consumer or emergency loans. It is important to note that CACMU's resources are not loaned to the solidarity savings banks, but through them to women microentrepreneurs (individual loans with a joint and several guarantee). The solidarity savings banks provide as a structure that lowers administrative costs, improves customer selection, and exerts community peer pressure.

- differentiated market strategy and health records for direct sales (currently they sell through middlemen). Similarly, women microentrepreneurs need technical assistance to help them improve yields, prevent animal and plant diseases, market, and adopt sustainable farming and processing practices that meet the plant health requirements of buyers and authorities.
- 1.12 **Demand for health services.** Women and children in the poor rural cantons of Carchi and Imbabura have no access to preventive health services, basic health clinics, or emergency care, nor do they have access to transportation to emergency medical centers. This makes health services and medication both extremely expensive and inaccessible. Preventive health is relegated to secondary importance, and emergency health care is unsatisfactory. Consequently, the incidence of childhood illnesses such as acute diarrheal diseases, parasites, acute respiratory infections, and malnutrition is high in rural communities. These illnesses could be prevented, and basic treatment made available, if the communities had clinics for basic and preventive health care. But these are operated by public and private providers that do not serve rural areas. These providers could reach rural communities if there was a system in place that combines prepayment with partial subsidy of incremental costs, through specific care agreements. Potential health care providers that may be willing to enter into such agreements to provide services in rural communities include, in the private sector, the Red Cross of Imbabura (through mobile units) and Fundación Santo Domingo in Ibarra. Potential public-sector institutions include San Vicente Paúl Hospital, the Provincial Health Department, the health centers and subcenters, and the Municipal Welfare Agency.
- 1.13 In order to address the problems described above, the project proposes the following:
- 1.14 ***Lending program for production-oriented investments.*** CACMU offers individual credits with joint and several guarantees through the solidarity savings banks, and loans to group enterprises. But the savings it has taken in are insufficient to serve the growing demand for credit from rural women in the communities it serves. With a loan portfolio of US\$545,000 (December 2005) and past due accounts (over 30 days) representing less than 1.5% of the portfolio, it can only provide individual loans to around 500 women out of a total of 1,440 members.
- 1.15 ***Technical assistance and training.*** As the technical arm of CACMU, Fundación Cooperación y Acción Comunitaria (FCAC) offers technical assistance and training in different aspects of microenterprise management, sometimes in partnership with other local or international institutions. This has helped grassroots organizations become sustainable, led to the creation of group enterprises, and had an impact in local communities through the introduction of business and technical skills that have improved the profitability of traditional subsistence farming activities, apparel making, and the informal commerce that shapes local economies.
- 1.16 ***Basic and preventive health care.*** FCAC could offer low-cost health insurance under several different plans, to provide at least 1,000 women with access to basic

- and preventive health care services. This would help bring down the incidence of disease in children and women, increase immunization coverage, and reduce other health problems that affect rural communities. This low-cost insurance could be supplemented with the work of health outreach workers and two ambulances belonging to the FCAC (which would need to be properly equipped). In addition, the communities themselves have knowledge of natural and alternative preventive and basic medical care that could be disseminated inexpensively among rural women for dealing with common diseases, parasites, nutrition, maternal care, and first aid.
- 1.17 **Selection of CACMU as borrower.** The Bank selected CACMU because: (i) it finances investments in production-oriented activities that significantly increase the revenues of rural women microentrepreneurs; (ii) its past due accounts represent less than 1.5% of its portfolio, which is better than the average for the supervised system and for all cooperatives in the northern part of the country; (iii) it is operationally self-sustaining and efficient, with portfolio operating expenses under 12% (one of the lowest in the region for microlending); (iv) it has sufficient administrative, financial, and human resource capacity to manage the proposed project, and its staff have received training in mobile rural microfinance methodologies for community service; and (v) it fosters a greater democratization of lending and savings in isolated communities.
 - 1.18 **Selection of FCAC as executing agency for the technical-cooperation component.** FCAC formally founded CACMU as a credit union of solidarity savings banks. Together, FCAC and CACMU are a model for the joint but differentiated delivery of services: CACMU specializes in financial services, and FCAC in nonfinancial services. Under this project, the separate management of the two components will facilitate a transparent allocation of resources. Moreover, FCAC has demonstrated that it is capable of undertaking the proposed activities because of actions it implemented in the past for the Inter-American Foundation (IAF), the Ministry for Implementation of the Public Law 480 Food Aid Program of the United States Embassy, and Germany's Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GTZ). Although FCAC and CACMU partner and complement each other's activities, there is no legal relationship between them. Rather, a specific agreement is signed for each project they implement together.
 - 1.19 **Beneficiaries.** The direct beneficiaries of the project during its three year implementation period are around 1,130 indigenous, mestiza, and Afro-Ecuadorian women living in the 200 poorest rural parishes of the country, including Ilumán, Lita, La Carolina, Angochagua, La Esperanza, Piartal, and Fernández Salvado. Of this group, 28% have completed secondary education, and 60% primary education. The demand for subloans is expected to come primarily from women engaged in livestock activities (57%), which are suited to the climatic conditions of the provinces (Imbabura province has one of the highest milk yields in the country); agriculture (7%); apparel making, restaurants, and other services (24%); and commerce (6%). Supporting documentation for the initial applications shows that

the applicants' average monthly income is around US\$180 before investing in production-oriented activities such as those financed by CACMU. Once the investments are made, the incomes of the women microentrepreneurs will rise substantially, improving their socioeconomic conditions.

II. THE PROJECT

A. Objectives

- 2.1 The project seeks to improve the socioeconomic conditions of poor women entrepreneurs and their families in northern Ecuador. Its purpose is to make efficient, sustainable financial, technical, and health services more accessible to some 1,130 women microentrepreneurs in northern Ecuador.

B. Description

- 2.2 The project has two components: (i) a reimbursable financing component in the amount of US\$450,000, to be executed by Cooperativa de Ahorro y Crédito Mujeres Unidas Ltda. (CACMU); and (ii) a nonreimbursable technical-cooperation component in the amount of US\$290,000, to be executed by Fundación Cooperación y Acción Comunitaria (FCAC). The Bank will sign an agreement with each of the executing agencies. In addition, FCAC and CACMU will sign an agreement establishing the rights, obligations, and remedies of each agency in connection with project execution.
- 2.3 The **reimbursable financing component** (IDB: US\$300,000; Local US\$150,000), to be executed by CACMU, will be used to finance its loan program for production-oriented activities of women microentrepreneurs engaged in agriculture, cottage industry, commerce, and services. The loans will be made and administered through grassroots organizations, solidarity groups, and solidarity savings banks.² Specifically, this component will finance inventories, equipment, seed, animals, agricultural inputs, fixed assets, and other production factors for 1,130 rural women microentrepreneurs in Carchi and Imbabura, under the Credit Regulations included in the project technical files. More than 90% of the loan beneficiaries will be women. The loans will carry joint and several guarantees, but be channeled individually in accordance with the needs and financial capacity of each member. Credit applications will be reviewed and approved by each member's organization, while the financial, economic and technical analysis of each microentrepreneur's project will be performed by the cooperative. Individual loans will average around US\$1,400. CACMU will supplement the reimbursable financing with US\$150,000 in member resources (see financial projections in the project technical files). The loan will be made in U.S. dollars because it is the currency in which the CACMU portfolio is denominated, it is the official currency of Ecuador, and it is the currency of Ecuador's international financing at present.

² See the Credit Regulations in the project technical files.

- 2.4 The **technical-cooperation component** (IDB US\$200,000; Local US\$90,000), to be executed by FCAC, will be used to: (i) upgrade the microfinance information system and develop a mobile financial service system³ for rural members, to include savings and loan facilities and other activities to strengthen CACMU; (ii) training and technical assistance to strengthen solidarity savings bank capacity in the areas of accounting, computer systems, and operational management; (iii) group training and technical assistance for microenterprises and organizations of women microentrepreneurs engaged in the meat sector, ethnotourism, and other widespread agricultural activities of the area; (iv) establishment and monitoring of a prepayment system for medical care and health training for some 1,000 women in rural areas, to cover preventive and basic general medical care, and maternal and child care; and (v) evaluations, audits, and monitoring.

C. Sustainability and results of the financial analysis

- 2.5 The project technical files contain financial statements for 2004 and 2005, the estimated financial statements for 2006, and projections.
- 2.6 **Financial projections: project financial baseline.** CACMU is expected to have assets of US\$648,000 by end-2006, with 88% (US\$572,000) in the loan portfolio. Liabilities will total US\$321,000 (50% of assets), with the remaining 50% of total assets in equity. CACMU's current main sources of funding are member savings and fixed-term deposits, a loan from Red Financiera Rural (with Social Entrepreneurship Program resources) for the meat plant, FINANCOOP, and the Corporación Financiera Nacional Trust Fund (CFN). CACMU's equity is expected to reach some US\$326,000, or 50% of its assets.
- 2.7 **Financial projections.** CACMU's projections for the next three years are for equity growth through capital increases, mainly from member contributions and retained earnings. CACMU expects its loan portfolio to grow from US\$572,000 at end-2006 to approximately US\$1,014,000 by end-2009, which represents average annual growth of 59%. This is feasible for CACMU since its work through the women's organizations achieves efficiencies and scales for disbursements, payroll, and collections. During the same period, the cooperative's assets will grow from US\$648,000 to US\$1.2 million. On the liabilities side of the balance sheet, this projected growth will require CACMU to maintain its current sources of financing, in addition to the proposed IDB loan, and increase its equity in order to maintain its current low leverage ratio. This will be aided by the fact that, the CACMU's board approved a 1% credit fee in May 2006 to create a nondistributable reserve fund. At the end of the project's three years, CACMU's net earnings after taxes are expected to be around US\$38,600. In 2006 and 2007, net earnings after taxes are expected to be approximately US\$6,000 and US\$18,600, respectively.

³ A mobile financial system consists of easily transported equipment that contains the member information database. It can generate receipts for funds paid in to the institution (savings deposits, loan payments, etc.), and vouchers for payments out (loans made, etc.) so that members do not have to travel to the institution's main office. (See the CACMU cooperative's work plan in technical Annex 5.)

Table 1. Contractual indicators					
Financial projections (US\$)	Dec. 05	Dec. 06	Year 1	Year 2	Year 3
Loan portfolio \geq	544,859	572,663	666,000	821,000	1,014,000
Number of borrowers	447	557	634	855	1,131
Net earnings \geq	2,390	5,644	6,000	18,600	38,600
Efficiency (operating cost / average portfolio) \leq	12.12%	11.99%	10.5%	10%	8%
Leverage ratio (total liabilities to equity) \leq	0.84	0.98	1.5	1.7	2
Financial sustainability: revenues/ (total expenditures + adjustments for subsidies and inflation) \geq	103.79%	108.42%	109%	110%	110%
IDB debt coverage (net earnings before IDB payment / IDB debt service) \geq	N/A	N/A	4.00	4.00	4.00

- 2.8 The project technical files includes indicator that show the historical and projected performance of CACMU. They show that: (i) CACMU's portfolio will grow to over US\$1 million in 2009; (ii) CACMU will maintain a leverage ratio (debt-to-equity) of less than 1 and solid coverage of the debt owed to the Bank during execution; and (iii) CACMU will be operationally and financially sustainable during the operation.

D. Credit risk for the Bank

- 2.9 The project is of low risk to the Bank because each individual loan operation will be backed by: (i) a bill of exchange drawn by each borrower and signed by a guarantor; (ii) an individual promissory note with the joint and several signatures of the administrator, president, and secretary of the solidarity savings bank; (iii) a framework agreement between the solidarity savings bank and CACMU that stipulates that when an individual loan is past due and neither the borrower nor the guarantor pay, the solidarity savings bank will be responsible for repayment; and (iv) a loan contract signed by the borrower, administrator, president, and secretary, specifying the terms and costs of each loan, and their acceptance by the borrower and the officers of the solidarity savings bank. A credit contract, bill of exchange, and individual promissory note will be signed for each loan. The framework agreement between the solidarity savings bank and CACMU will be in force prior to each operation; this is a requisite for each participating solidarity savings bank to receive CACMU services. For each case, a notarial document must confirm that the framework agreement is in force and applicable. Furthermore, CACMU's past due accounts amount to less than 1.5% of its portfolio, which is lower than the average for the supervised credit union system. Its debt-to-equity ratio is less than 1, and its equity is US\$314,100 (December 2005), which is more than the Bank loan. Lastly, CACMU and FCAC have a strong record with the German and U.S. cooperation agencies and with their customer base.

E. Expected outcomes and capture of benefits

- 2.10 **Expected outcomes for the beneficiaries.** At the end of the three-year project term, the following outcomes are expected for 1,130 women: (i) beneficiaries involved in the project for more than 2 years will see a 10% annual increase in net household income as compared to a control group; (ii) some 1,000 women will benefit from basic medical care and training in health, general preventive and basic medical care, and maternal and child health care under a prepaid system. This will contribute to reducing the incidence of childhood illnesses (acute diarrheal diseases, parasites, acute respiratory infections, malnutrition), increasing immunization coverage, and diminishing other health problems that affect rural communities (the specific indicators for this area will be set during the project's first six months of project execution, when the health insurance plan is designed); (iii) 60 women from 11 meat-producer organizations will become suppliers for ECANOR, which will be profitable and have at least 25 stable clients; (iv) 40 women will operate services under ECASTUR (community living arrangements, various tourist services, handicrafts, recreation, restaurants, tourist attractions); ECASTUR's intercultural tourism and community living circuit will be internationally coordinated and marketed; and (v) some 600 families will gain access to mobile savings services.
- 2.11 **Expected outcomes for CACMU.** This project will strengthen a credit union that has the potential of financing the needs of rural women microentrepreneurs in northern Ecuador for working capital, fixed assets, and the development of group enterprise chains. By project end: (i) part of CACMU's growth will have been financed, enabling it to expand its portfolio to US\$1,014,000; (ii) a computer system will have been set up to provide mobile financial services, technical and health services, and information systems to better serve the project's beneficiary population; and (iii) at least five solidarity savings banks will have received assistance enabling them to administer financial services (through improvements in their information systems, regulations, and microlending technology). The indicators of the expected project outcomes are set out in the Logical Framework.

F. The Bank's country strategy

- 2.12 Project activities are consistent with the priorities of the Bank's new country strategy with Ecuador (document GN-2338-2 of 10 November 2004), in that it focuses on one of the Bank's two priority areas in the country: promoting social development and protection of the most vulnerable groups (social dimension). In addition, and also in line with the country strategy, the project strengthens a sustainable organization that finances the entrepreneurial activities of poor rural women.

G. Cooperation with other international cooperation agencies

- 2.13 In the past, CACMU received US\$90,000 in seed funding for microlending, housing, and basic equipment from Fundación para la Innovación Agraria (FIA) of Chile (2002-2005); US\$30,000 in seed funding for microlending to refugees from GTZ (2003-2004), and US\$140,000 for an agricultural microcredits fund from the

United States Public Law 480 Food Aid Program (2001-2005). This project is not receiving support from international donors at this time. The project will be presented to the microfinance donor coordination forum in Ecuador, which includes international cooperation agencies.

H. Summary of the environmental and social review

- 2.14 The Committee on Environment and Social Impact (CESI) reviewed this operation at its meeting on 21 April 2006; its recommendations are detailed in the project technical files. In response, CACMU has already conducted an environmental analysis of the activities of its agricultural loan portfolio and classified them by level of environmental impact; it has also identified possible mitigation measures. Using the findings of this analysis, for each individual loan, the credit officers will identify the environmental impact of the activities to be financed, and determine the corresponding mitigation measures. The aforementioned environmental analysis matrix will be used for this purpose. Subloan contracts will include a commitment by the subborrowers to implement the measures stemming from the environmental analysis. In addition, CACMU's Credit Regulations include a list of activities that will not be approved for financing, given their likelihood to produce a highly adverse environmental or social impact.

I. Special conditions

- 2.15 As a condition precedent to the first disbursement of *reimbursable financing*, CACMU will produce the following, to the Bank's satisfaction: (i) the project's definitive Credit Regulations; and (ii) the agreement signed by CACMU and FCAC to coordinate project implementation as described in paragraph 2.2; this agreement will be also be a condition precedent to the first disbursement of the technical-cooperation resources. As an additional condition precedent to the disbursement of the *technical-cooperation resources*, FCAC will select a project coordinator and will provide, to the Bank's satisfaction, a work plan for the first 12 months of the project with targets for project objectives and outcomes. As a special condition for commitments related to the health program under the technical-cooperation component, FCAC must present evidence that the health indicators proposed in the logical framework have been met by the date of execution. In addition, renewal of the health coordinator's annual contract will depend on FCAC presenting to the Bank's satisfaction a work report demonstrating the outcomes and progress of the health program. During execution, CACMU may not disburse more than 40% of the technical-cooperation resources until at least 50% of the reimbursable financing has been disbursed.
- 2.16 **Procurements.** Goods and services will be procured in accordance with the provisions of Appendix 4 ("Policies for procurement in loans to the private sector") of document GN-2349-6 ("Policies for the procurement of works and goods financed by the IDB"), which will be reflected in the agreements between the Bank and CACMU, and between the Bank and FCAC. Consulting services will be contracted using the quality- and cost-based selection procedure. In accordance

with these documents, FCAC has presented, to the Bank's satisfaction, the project procurement plan, based on the detailed project budget. Activities will be programmed in accordance with the procurement plan, which can be found in the project technical files.

- 2.17 **Revolving fund.** Twenty percent (20%) for the reimbursable financing; 10% for the technical-cooperation resources.

J. Reports, evaluations, and audits

- 2.18 **Reports.** During the execution period, CACMU will deliver semiannual progress reports to the Bank's Country Office in Ecuador within 60 days after the end of each six-month period. These reports will include: (i) a description of progress in terms of the project execution plan and project indicators, a description of the major achievements and difficulties encountered, and actions taken to address them; (ii) an updated project execution plan for the next 12 months, including measures to overcome obstacles identified; (iii) a summary of the consultant work and technical assistance and training provided; (iv) CACMU's financial statements, including a report on the project-financed portfolio; (v) a description of the environmental and social measures taken to comply with the recommendations of paragraph 2.14 above; (vi) a comparison between the project's lending and borrowing rates with those of the competition, with an explanation of any significant differences; and (vii) evidence that CACMU's portfolio has grown more than the amount of the Bank's contribution under the loan component so far disbursed. The first progress report should confirm the initial values of the project's impact indicators. The last progress report will be the final report, and should contain a summary of project achievements as against the original objectives and indicators.
- 2.19 **Indicators.** The indicators to be used for the Bank's evaluations and to measure the project's overall progress are set out in the Logical Framework.
- 2.20 **Evaluations.** The project will have two evaluations by individual consultants selected and contracted by the Bank's Country Office in Ecuador. A midterm evaluation will be done 18 months after the first project disbursement, and the final evaluation 36 months after the first disbursement. The first evaluation will measure: (i) progress on bettering the impact indicators in a representative sample of women microentrepreneur customers; (ii) the degree of project efficiency, effectiveness, and additionality; (iii) independent verification of compliance with CESI recommendations; and (iv) lessons learned and recommendations for improving the project in phase two. In addition to the foregoing, the final evaluation will measure and document: (i) achievement of the project objectives; (ii) achievement of the proposed impact indicators; and (iii) the project's financial and operational sustainability.
- 2.21 **Audits.** During the project execution period, CACMU will deliver its audited financial statements within 120 days after the end of its financial year. The audits will be commissioned by the executing agency with its own resources. Also, once the execution period has concluded, FCAC will commission, with Bank resources,

a final audit of the technical-cooperation and reimbursable financing components. The Bank will review the findings and recommendations of the progress reports, evaluations, and audits. In the event that the Bank encounters negative discrepancies greater than 20% in any of the indicators of Table 1, it may suspend disbursements until the executing agency has taken measures, to the Bank's satisfaction, to remedy project management.

K. Project risks and mitigants

- 2.22 There is a risk that CACMU's assets may exceed US\$1 million earlier than planned (within 3 years), in which case it will have to make unplanned expenditures during the project period to comply with the regulations of the Superintendency of Banks and Insurance Companies (SBS). To mitigate this risk, CACMU is implementing a plan to bring its operations into line with banking regulations and supervision requirements, which includes: (i) introducing the SBS chart of accounts; (ii) complying with all mandates issued by the SBS for supervised credit unions; and (iii) updating its information system to include all the regulations and updates required by the SBS. A second risk is that Ecuador may adopt a currency other than the United States dollar. To mitigate this risk, the subloan contracts between CACMU and the beneficiaries will stipulate that CACMU is authorized to immediately change the terms of the subloans. This provision has been included in the project Credit Regulations (see the project technical files).

L. Exceptions to Bank policies

- 2.23 None.