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EXPANSION OF VILLAGE HEALTH BANK SERVICES FOR WOMEN

(TC/SP-0007012)

LOAN PROPOSAL AND TECHNICAL COOPERATION

This document was prepared by the project team consisting of: Catalina Rizo (SDS/MIC), Project Team Leader; Fermín Vivanco (SDS/MIC); Leyda Fajardo (LEG/OPR); José de la Torre (LEG/OPR); and Edgar Carvajal (COF/CEC).

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EXECUTIVE SUMMARY

Requester: Fundación Espoir

Amount and source:	IDB (US\$)	Local (US\$)	Total (US\$)
Financing:	300,000	150,000	450,000
Technical cooperation:	<u>100,000</u>	<u>10,000</u>	<u>110,000</u>
Total:	400,000	160,000	560,000

The source of the funds is the net income of the Fund for Special Operations (FSO) in foreign exchange.

Financial terms and conditions:

Amortization period:	10 years
Grace period:	5 years
Interest rate:	3%

The grace period will apply only to amortization of capital, not interest.

Terms:

Execution period:	36 months
Disbursement period:	42 months

Problem to be resolved: The poor in the provinces of Guayas, Los Ríos, El Oro, and Manabí are very unlikely to get jobs in the formal sector and are forced to generate income through microenterprise activities to support their families. These microentrepreneurs do not have access to conventional sources of credit, particularly in remote areas outside large urban centers. Women, who are in charge of a majority of the smallest microenterprises, are the most affected by the lack of access to credit.

In addition, the population in these provinces presents high morbidity and maternal and infant mortality rates and has little access to health-care centers. The diseases that most affect these inhabitants of Ecuador, such as diarrhea, dengue, and malaria, can be prevented through information and education.

The Village Health Banks (VHBs) represent an innovative program that integrates health education with income generation to improve the

quality of life of impoverished women and their families on a sustainable basis. The VHBs are groups of 20 to 30 women who receive group loans at market interest rates from Fundación Espoir. This loan is then divided among the members into smaller loans for investments in their microenterprises and are repaid internally. During meetings of the VHBs held every two weeks, health education is provided in order to improve the health conditions of the members of the banks and their families.

Objectives: The project's general objective is to improve the quality of life of families in the provinces of Guayas, Los Ríos, El Oro, and Manabí by expanding and consolidating the Village Health Banks program.

The specific objectives are to: (i) to provide access to credit to a larger number of women entrepreneurs to meet their working capital needs; (ii) reduce the morbidity and mortality rates of program beneficiaries; and (iii) support the institutional strengthening of Fundación Espoir to enable it to develop its capacity to manage credit services on a sustainable basis and the preventive health education program.

Description: Project funding will cover a financing component and a technical-cooperation component.

1. Financing component (Bank: US\$300,000; local contribution: US\$150,000)

Resources from the financing component will be used to expand Fundación Espoir's loan fund, thereby making it possible to: (i) enlarge the areas of influence of Fundación Espoir by setting up 60 new VHBs (approximately 1,800 new clients) in the provinces of Guayas and Los Ríos and opening a new operations office in the canton of Milagro to service them; (ii) raise the number of women entrepreneurs who have access to credit services in the provinces of El Oro and Manabí by setting up 40 new VHBs (approximately 1,200 new clients); and (iii) consolidate the loans of 6,600 existing clients by gradually increasing the average balances from US\$83 to US\$136. In all, the resources will be used to grant over 12,000 loans to women microentrepreneurs over the three years of project execution.

2. Technical-cooperation component (Bank: US\$100,000; local contribution: US\$10,000)

The purpose of this component is twofold:

- a. **Institutional strengthening (Bank: US\$60,000).** Under this subcomponent, the following activities will be financed: (i) the preparation of a business plan to underpin the sustainability of Fundación Espoir for the next five years, and including the

strategy for mobilizing additional resources to fund the loan portfolio; (ii) analysis of options for lowering the foundation's administrative and operating costs, including an analysis of the feasibility of seeking a strategic partnership with savings and loan cooperatives; (iii) specialized training in microfinance for Fundación Espoir's staff; and (iv) two evaluations (interim and final) and external audits.

- b. **Preventive health communication program (Bank: US\$40,000; local contribution: US\$10,000).** Under this subcomponent, a strategic program for preventive health communication will be developed to strengthen Fundación Espoir's work in the health sector. The following activities will be carried out under this program: (i) analysis to determine the main health problems to be resolved, the characteristics of the members of the VHBs, and the existing education methodology; (ii) design of strategies and materials to help Fundación Espoir strengthen its preventive health education program; (iii) preparation of appropriate preventive health materials for the women who are members of the VHBs; and (iv) training for Fundación Espoir's credit outreach workers and health coordinators and for the VHB health officers in the use of the materials, so that they can in turn train the members of the VHBs.

**Environmental
and social
review:**

The Committee on Environment and Social Impact reviewed the operation at its 8 September 2000 meeting and recommended that occupational health and safety be covered in the training on new environmental technologies planned for the microentrepreneurs. This recommendation has been taken into account in this document and annexes.

Beneficiaries:

The Village Health Banks target low-income women microentrepreneurs in primarily rural or semi-urban areas in the provinces of Guayas, Los Ríos, El Oro, and Manabí, who do not have access to conventional sources of credit. The VHB project will provide credit and preventive health education to over 12,000 women.

Risks:

The greatest risk involves Fundación Espoir not being able to diversify the sources of financing to expand the portfolio. This risk is offset with the support that Fundación Espoir will receive to prepare a strategy to diversify its sources of financing. In addition, in order to motivate Fundación Espoir to obtain new resources, disbursements from the Bank's credit component will be made *pari passu* with the local contribution.

Another risk that might affect success in achieving the project's objectives is that the women microentrepreneurs might not assimilate

the lessons from the preventive health program or apply them to their daily lives. To offset this risk, the health education program will be analyzed and appropriate materials will be designed for low-income women microentrepreneurs.

Lastly, there is also a risk that the country's economic recession and the financial system crisis might worsen, which would result in the impoverishment and deterioration of the country's microenterprises and credit and savings contraction, thereby affecting the development of small financial institutions like Fundación Espoir. This risk is mitigated through the control and oversight mechanisms that the foundation uses in the management of its portfolio and which has allowed it to maintain a rate of arrears over 30 days of less than 2%.

**The Bank's
country
strategy:**

This project is in line with the priorities set forth in the Bank's strategy to combat poverty in Ecuador, since it is consistent with the objectives of permanent poverty alleviation and rural microenterprise development. The strategy emphasizes programs targeted on particular groups such as children, the informal sector, campesinos, low-income women, indigenous groups, and people of African descent.

**Special
contractual
conditions:**

Prior to the first disbursement of the resources under the credit component, Fundación Espoir will be required to present the following, to the Bank's satisfaction:

- a. Copy of the signed agreement establishing a timetable for the asset transfer between Hope International and Fundación Espoir.
- b. Revised credit regulations in which the interest rate, technical assistance fee, and interest on arrears have been amended. This amendment should take current Ecuadorian laws into account. The credit regulations should also set out the minimum requirements for eligibility of the beneficiaries.
- c. A business plan that underpins Fundación Espoir's sustainability for the next five years and that includes the strategy for mobilizing funds from other sources of financing. The following areas will be reviewed and defined in the business plan: (i) strategic vision; (ii) performance indicators; (iii) target clientele and initial compilation of socioeconomic data on the project's target group in order to be able to evaluate the project's impact after implementation; (vi) identification of the conditions and limits on income from grants in order to ensure that they do not exceed Fundación Espoir's capacity to manage them efficiently; and (v) the detailed training program for Fundación Espoir's staff.

After meeting the general conditions precedent, an advance of funds of up to US\$10,000 from the technical-cooperation resources will be authorized for the hiring of two consultants. The first will support Fundación Espoir's development of a business plan; the second will perform an analysis of options for lowering administrative costs.

Prior to disbursement of the technical-cooperation resources for training in microfinance, Fundación Espoir must present the following to the Bank's satisfaction: (i) the business plan detailing the training program; (ii) a short list of institutions in which the director and credit coordinators of Fundación Espoir could participate in internships; and (iii) the terms of reference for the advisors who will provide microfinance training for all Fundación Espoir staff.

Prior to disbursement of the technical-cooperation resources for the health communication program, Fundación Espoir will present, to the Bank's satisfaction, the terms of reference for the consulting firm that will help the foundation develop the program.

**Reports and
evaluations:**

During project execution and within 30 days of the end of the fiscal year, Fundación Espoir will submit annual reports to the Bank that contain an analysis of fulfillment of the performance indicators and of the progress achieved in carrying out the business plan, including: (i) consolidated financial statements; and (ii) an update of the business plan and performance indicators for the following 12 months.

In order to support the strengthening of Fundación Espoir and correct any deficiency that might emerge during project execution, an expert in microfinance will conduct an interim evaluation. The latter will be carried out once 30% of the resources of the credit component have been disbursed.

Once all the resources of the credit component have been committed, in order to assess the impact of the VHB program on the members, the Bank will use resources from the technical-cooperation component to perform a final evaluation of the project that will include: (i) a summary of the accomplishments compared with the project's original objectives; and (ii) an assessment of the changes in the socioeconomic data on the project's target group.

**Exceptions to
Bank policy:**

None