

ADDENDUM

TO THE EXECUTIVE SUMMARY

PERU

EXPANSION OF MICROCREDIT AND SAVINGS FOR WOMEN IN SOUTHERN PERU

(SP/TC-02-01-09-2-PE)

APPROVED BY THE BOARD ON 19 DECEMBER 2002

I. GENERAL OVERVIEW

- 1.1 On 29 December 2005 by means of communication 260-2005-PMP-DN, the Asociación Civil Pro Mujer Perú, current executing agency for the project, requested that the executing agency in the project agreement be changed to PRO MUJER (Programas para la Mujer).
- 1.2 This addendum presents the aspects to be changed in the project's original Executive Summary approved on 19 December 2002.
- 1.3 This addendum is being distributed together with the amended Executive Summary.

II. ASPECTS TO BE MODIFIED IN THE EXECUTIVE SUMMARY

- 2.1 The changes to be made are described below, with reference to the pertinent sections of the Executive Summary:
- 2.2 **Objectives.** Initially, specific objective (ii) was to help Pro Mujer Perú achieve financial self-sustainability. However, after the analysis conducted by the Country Office,¹ it was determined that the operations of PRO MUJER (Programas para la Mujer) have been maintaining a growth and diversification trend that is sound and sustained, with very good portfolio quality (arrears of 0%) and suitable levels of efficiency and profitability. Accordingly, the second specific objective will now be (ii) to contribute to the financial self-sustainability and growth of PRO MUJER (Programas para la Mujer) so that it can offer sustainable financial services to new geographic markets.

¹ The Bank has conducted an evaluation and an inspection visit with PRO MUJER in Peru, in order to make sure that the capacity to administer the credit program to be financed has been maintained or improved since project approval. It has concluded that PRO MUJER does meet or exceeds the Bank's requirements for effective execution of the proposed project.

2.3 **Risks.** Risk 1, related to portfolio control and monitoring in a rapid expansion phase, was removed. During the three years since project approval, PRO MUJER (Programas para la Mujer) has been able to manage its portfolio and finances very successfully and its information system is considered effective.

2.4 **Special contractual conditions.** The following changes were made:

- a. The first condition, which referred to the information system, was removed inasmuch as PRO MUJER has a reliable information system that produces the reports the Bank needs. The first condition precedent to the first disbursement is that PRO MUJER (Programas para la Mujer) submit the following to the Bank's satisfaction: (i) a portfolio report and its financial statements for the month preceding the disbursement request, which will serve to establish the institutional baseline at the start of the project.
- b. In condition (iii) on the baseline, the name of the executing agency is changed from Pro Mujer Perú to PRO MUJER (Programas para la Mujer).
- c. Lastly, the reference to the establishment of a revolving fund with up to 30% of the total amount of the financing component was removed.

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EXECUTIVE SUMMARY

Executing agency: PRO MUJER (Programas para la Mujer)

Amount and source:	IDB (US\$)	Local (US\$)	Total (US\$)
Financing:	500,000	100,000	600,000
Nonreimbursable technical cooperation:	16,000	0	16,000
Total (US\$):	516,000	100,000	616,000

The resources will come from the Swedish Fund for the Financing of Small Projects.

Financial terms and conditions:

Financing:

Amortization period:	10	years
Grace period:	3	years
Disbursement period:	30	months
Interest rate:	3%	real

Technical cooperation:

Execution period:	36	months
Disbursement period:	42	months

The grace period will apply only to the principal sum of the funding and not to interest. The loan will be denominated in local currency (new soles). Maintenance of value will be added to the interest rate and will be set on the basis of the consumer price index of the last six months, annualized, using Central Bank of Peru data.

Problem to be resolved: There are over 60,000 microenterprises and small businesses in the cities of Puno and Juliaca, Department of Puno, involved in economic activities related to tourism and trade. Because of its strategic location in the economic corridor of Peru's southern Andes (Sierra Sur), Juliaca has grown at a rate of 4% in the last few years. There is great demand for microfinance services because of the concentration of microenterprises and the high levels of economic

activity. But the supply of such services is insufficient to meet the demand, especially for the smaller enterprises managed by poor women. For the most part, financial institutions in the area do not cater to the low-income population because these clients lack real guarantees, it is expensive to place small loans, and no methodology has been adopted to reduce credit risk. Accordingly, thousands of microentrepreneurs have no access to a source of credit that would allow them to expand their businesses and therefore increase their revenues.

Objectives:

The **main objective** of the project is to improve access to financial services (microcredit and savings) for poor women microentrepreneurs in the city of Juliaca and other new markets, to help them increase their revenues, build up their businesses, and improve their living standards.

The **specific objectives** are: (i) to increase the number of low-income women microentrepreneurs who have access to credit for their businesses and to personal savings services, by adding 7,000 new clients to more than 300 village associations; and (ii) to help PRO MUJER (Programas para la Mujer) achieve financial self-sustainability so that it can offer sustainable financial services to new geographic markets.

Description:

The project is comprised of a reimbursable financing component and a nonreimbursable technical-cooperation component.

The purpose of the *financing component* (Bank: US\$500,000; PRO MUJER (Programas para la Mujer): US\$100,000) is to increase the credit portfolio of PRO MUJER (Programas para la Mujer) in order to expand its financial services in Juliaca and other possible new markets in the south of Peru. These resources will allow PRO MUJER (Programas para la Mujer) to offer *microcredits* to low-income women microentrepreneurs, through village associations whose members would provide a joint and several guarantee. The expansion of the program will also enable these members to increase their own capital and have resources for emergencies through the promotion of *savings* in the internal accounts of each association. The financial services expansion is expected to allow PRO MUJER (Programas para la Mujer) to reinforce financial self-sustainability in its operations.

The *technical cooperation component* (Bank: US\$16,000) will finance the project's midterm and final evaluations.

Environmental and social review:	The Committee on Environment and Social Impact approved the profile of the operation at its 1 February 2002 meeting. Its recommendations were taken into account in the design of the operation.
Beneficiaries:	The project will benefit over 7,000 new clients—low-income women—through financial and nonfinancial services offered by PRO MUJER (Programas para la Mujer). The target population is comprised of women microentrepreneurs whose monthly family income ranges between US\$200 and US\$400. Approximately half (50%) of the women are speakers of indigenous languages—aymara or quechua.
Risks:	Because the specific market niche of PRO MUJER (Programas para la Mujer) is comprised of the lowest economic strata and aggressive expansion in this niche is anticipated over the next few years, there is a risk that projected demand will not materialize or that growth will be based on a selection of clients with high-risk profiles. Both situations could make it difficult for PRO MUJER (Programas para la Mujer) to achieve the growth rates, portfolio quality, and self-sustainability called for in the project, which could affect its capacity to absorb the proposed amount of the financing or, worse, its ability to repay the reimbursable resources received from the Bank. <i>Mitigant:</i> The project has incorporated three mechanisms to mitigate these risks and ensure prudent and responsible portfolio growth: (i) the inclusion and monitoring of financial self-sustainability indicators to measure the progress of PRO MUJER (Programas para la Mujer) in generating enough operating revenues to cover its operating and financial costs during this growth stage; (ii) the structuring of the financing component into two separate tranches, with the contractual condition that PRO MUJER (Programas para la Mujer) show positive trends in its financial self-sustainability and portfolio quality rates for the Bank to proceed with the disbursement of the second tranche of the financing; and (iii) PRO MUJER (Programas para la Mujer) participates in a local risk-assessment system, set up by microfinance institutions in Puno and Juliaca, the objective of which is to share the list of delinquent borrowers and thus avoid high-risk clients.
Strategy of the government and the Bank:	The program activities are consistent with the priorities of the new strategy of the Bank with Peru (CP-2353, presented to the Programming Committee of the Board of Executive Directors on 10 April 2002) because they will: (i) provide financial and nonfinancial services for microenterprises to improve their competitiveness and expand their participation in the markets; (ii) generate opportunities for low-income women microentrepreneurs to increase their revenues; and (iii) support poverty reduction efforts through services that reach the poorest segments in the Andes, with

emphasis on areas with indigenous communities, and that promote the productive potential of women.

Rationale:

The project is justified because it will: (i) expand access of women microentrepreneurs, of which about 50% are indigenous, to a constant source of *credit* under suitable conditions to meet their business needs; (ii) help establish a source of capital and funds for emergencies through the cumulative *savings* of these women microentrepreneurs; (iii) generate a positive impact on the well-being of the microentrepreneurs' families, as a result of the increased *income* from their businesses; and (iv) contribute to the continuing provision of microcredits to low-income women in the Juliaca area through a self-sustaining Peruvian institution.

Special contractual clauses:

Prior to the first disbursement of the resources of the financing component, PRO MUJER (Programas para la Mujer) will present the following to the Bank's satisfaction: (i) a portfolio report and its financial statements for the month preceding the disbursement request, which will serve to establish the institutional baseline at the start of the project; (ii) a work plan that highlights the activities to be carried out during year one of the project, including a timetable; (iii) a report that contains data on the socioeconomic baseline of the clientele of PRO MUJER (Programas para la Mujer); and (iv) the final Credit Regulations.

Disbursements: To ensure that PRO MUJER (Programas para la Mujer) has the capacity to absorb the anticipated total amount of the financing (US\$500,000) and maintain the high quality of its portfolio, while at the same time improving its index of financial self-sufficiency during the projected rapid expansion, disbursements of the financing component will be divided into two separate tranches, as follows: (i) a first tranche of US\$250,000 upon fulfillment of the conditions precedent; and (ii) a second tranche of US\$250,000 once the results of the midterm evaluation have been submitted to the Bank's satisfaction, which will include an analysis of the indicators measuring improvement in the institution's financial self-sustainability and portfolio growth and quality.

For PRO MUJER (Programas para la Mujer) to have access to the second tranche of the financing component in the amount of US\$250,000, the results of the midterm evaluation must demonstrate to the Bank's satisfaction that PRO MUJER (Programas para la Mujer) has made satisfactory progress in achieving the targets for the following indicators—active portfolio, portfolio quality, and adjusted financial self-sufficiency—based on a proportional relationship thereof. If the midterm evaluation detects significant deficiencies (margins above 20%) in terms of achieving these indicators, the Bank

and PRO MUJER (Programas para la Mujer) will agree on the necessary corrective measures, including suspension of disbursement of the resources.

Reports: PRO MUJER (Programas para la Mujer) will submit semiannual reports to the Bank containing financial and narrative information, within 60 days after the end of each six-month period, beginning with the six-month period in which disbursements begin. As a minimum, the reports will include: (i) a description of progress with the project execution plan and its indicators and a narrative of the main achievements and difficulties encountered by the project in reaching its targets and objectives vis-à-vis the current plan; (ii) performance indicators (using the indicators established in the logical framework and project annexes) and the consolidated financial statements of PRO MUJER (Programas para la Mujer); (iii) an update of the performance indicators and execution plan for the following 12 months, including measures to overcome obstacles identified; (iv) information on execution of gender-related and environmental activities; and (v) a statement on the use of Bank resources and counterpart contributions. The last of these reports will constitute the final report and is to contain a summary of the results achieved in comparison with the original objectives.

Evaluations. In order to ensure the proper execution of the project, the Bank will use resources from the technical cooperation component to conduct a midterm evaluation and a final evaluation of the project. The midterm evaluation to be commissioned by the Bank will be done once 50% of the financing component has been disbursed. The following elements will be covered by the evaluation: (i) number, terms, and conditions of loans disbursed; (ii) performance indicators of PRO MUJER (Programas para la Mujer), with special emphasis on active portfolio, portfolio quality, and adjusted financial self-sufficiency indicators; (iii) expansion of financial services in Juliaca and new areas of southern Peru; and (iv) lessons learned and recommendations for improving the project.

The Bank will commission a final evaluation when 100% of the financing component has been disbursed.

**Exceptions to
Bank policy:**

None.