Microcredit diaries: Assessing microcredit impacts on grassroots development in Peru, Nicaragua and Mexico[1]

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Executive Summary

Presentation

The evaluation addresses eleven microcredit related projects in three countries: one in South America – Peru - one in Central America – Nicaragua - and one in North America - Mexico. The evaluation has been carried out by a team of researchers led by Marcelo Neri from the Center for Social Policies at Fundação Getúlio Vargas (CPS) in Brazil and includes as byproducts besides this report, individual report and video for each of the 11 microcredit experiences assessed. The following description concerns the fourth year of the project.

Objectives

The objective of this microcredit evaluation is to help the IAF to set a vision on how to support microfinance and microcredit programs in a way that is consistent with IAF philosophy and mission, which is to allow people to control their own circumstances.

Methodology

With respect to the evaluation methodology, a few changes were introduced this year. First an organizational assessment of the institution was done, through document analysis and interviews with grantees and the main stakeholders. Since mid-2007 the evaluation started to emphasize the beneficiaries' impacts, in order to understand the beneficiaries' perspective, through open-ended interviews. Given the topic at hand, microcredit, which has many specific related issues, an institutional and regulatory analysis was also carried out. Another novelty in this year's evaluation was the financial data analysis and some credit related macroeconomics analysis, which are really essential, because the framework and the regulatory and the macroeconomic contexts of each country can impact considerably on the institution's performance.

The report is divided in three countries, and each has a macroeconomic background and regulatory framework. The evaluation included an individual report for each of the 11 experiences evaluated. While last year they had twenty-five pages on average, this year this length increased to forty-five pages each with an executive summary to facilitate the introduction to each report. The report is divided in three

countries, and each has a macroeconomic background and regulatory framework. There are videos of all evaluation fieldtrips, with the inclusion of twelve DVD sets, as well as photos so that everything is historically documented. There are also relevant interviews with specialists in each country: Hector Madariaga and Alipio Montes from Fondesurco in Peru, from Accede in Mexico and Roberto from Nicaragua. Besides, interviews were taped and put within the country report together with a summary. Microfinance issues are very rich, so restricting it to the evaluator's own words would detract from the richness of the audio-visual material that is linked at specific points of the report. All information is available on the website.

Scope of work: Main questions addressed

At the programs level

- Are IAF-supported credit funds reaching the poorest? If not, why not?
- Can IAF-supported credit funds help the poorest? If so, how? What are the most appropriate credit funds as development tool?
- What are the impacts of credit funds with technical assistance to borrowers, their families and their communities?
- Which credit funds work best? Which ones have the greatest impact for the borrowers? and
- What do credit funds recipients think about the funds as a development strategy?

At the institutional level

- Does the management of credit funds build stronger institutions overall?
- Could credit services have been attained elsewhere? If so, under what conditions?
- What are the institutional challenges for managing a micro-credit fund portfolio as a component of different objectives and activities? How do grantees overcome the challenges?
- Have grantees creatively responded to the needs of their clients? If so, how?
- What are the innovative aspects of each micro-credit fund?
- Do micro-credit funds continue with similar purposes and goals after the IAF grant expires?

At the country level

- Do IAF-supported credit funds fit into a country context or existing legislation and micro-lending institutions?
- What is the impact of IAF-supported credit funds on other in-country micro-finances institutions?

Typology and Ranking

Credit itself does not create opportunities, but allows people and institutions to take advantage of the existing opportunities. If the operational/development side of the initiative is not working well, you may still have a very nice credit component, but it won't work. The credit is just a means, not an end. The typology that follows is based mainly on two criteria: the grantee's level of credit specialization, which was the main characteristic considered, and the potential of the grantee's development activities. We tried to rank theses institutions from a microcredit perspective. The basic classification was

(i) Advanced level. grantees have a good microcredit and development strategy. One lesson learned is that when an institution tries to do both microcredit and other activities together, the results can be quite limited. Credit specialization is key, there are many different ways to achieve that, and as a result the grantee experiences transparency, outreach, self-sufficiency, growth potential, and social return.

ACCEDE was chosen as the top institution, due to its financial and social results and the fact, that although not knowing much about credit, they evolved and ended up creating different enterprises. It personifies very much the type of the ideal IAF approach. The second is a pair of Peruvian institutions, CEDER and AEDES. They are linked to Fondesurco, which is a very strong credit institution. They have different ways of doing this division of labor. ACCEDE divided its operations internally, whereas CEDER and Aedes delegated fund management to Fondesurco. What we really observe in some cases, in some cities, is zero percent default. The third one is Fundación Leon, in Nicaragua, a purely and strong microcredit institution.

Accede's beneficiaries

(ii) Intermediate group. Grantees have good development projects, but there are competing interests between microcredit and other activities within the institutions. They are not able to disentangle these two parts. For example, if you provide technical assistance and credit at the same time, the borrowers may hold the institution responsible for any failures in their production and will not be willing to repay the loan. About five institutions are in this intermediary level. Another very systematic problem that we find is scarce financial records, which are key. If you are not able to see the records then you really have a problem. Some institutions present growth, but they could leverage this growth if they solve this problem.

Saddles made by Espino Blanco beneficiaires

Starting in this second level, we have Espino Blanco, with a good focus, and that has decided to do the hardest thing, which is to provide loans to agriculture, while Fundación Leon, for instance, does loans for commerce and urban areas, which are easier. Espino Blanco is excellent in terms of transparency.

Apoyo is a big organization, very successful, and very interesting with respect to microfinance and to immigrant's remittances. It fits very well the type of profile IAF is looking for. It is an institution that produces both social and institutional innovation. But it had problems with the microcredit provision, specially concerning the division of labor.

Vox Net Phone card which decreases calling costs to the USA

Then we have CEDES, from Peru, a very serious organization, but which has also problems referring to these competing interests. They have what Roberto Garcia saw as a "poverty relief approach", instead of a "structural sustainable approach" to lending. At last we have CDPZ, a small institution that does not have an activity that will generate income to the community and that is not very transparent.

(iii) Basic Level. These projects have a weak credit component, and these competing interests may degenerate into a poor governance problem. The point here is that the division of labor between the credit and the other part not only allows to manage risks, these competing interests bias downward the expected return and the expected impact of theses institutions. It takes the strength from the institution. In the third level, we first have Agrodersa, from Nicaragua, which is a very serious institution. However, its staff is not specialized in finance, but by agronomists without experience on credit.

Agrodersa's beneficiaries

Emucosa and Knan Choch have both a serious governance problem If an institution starts in the wrong path, it is hard to recover, especially if it is a small institution. The type of problems they both experience are similar. In Emucosa, they had the *caja-chica* type. Each small community enterprise managed credit by themselves, then they decided to form a single organization, the Emucosa, but after this governance problem, they went back to the *caja-chica arrangement*. These institutions ended up not recovering their loans and not covering operational costs.

Warehouse - Grupo K´nan Choch

Macro Environment

What the evaluation shows as well is that, although the literature says that the framework and macro conditions are key to the performance of a credit related organization, they are not the sole determinants of it. There are institutions in the same environment that show different performances, and institutions in different environments with similar performance. It means that they are not so dependent on the environment. An interesting fact is that there are advanced, intermediary, and basic level organizations in the three countries. The environment does not affect the institutions, but only the degree of success they experience.

Leon 2000's cashier

IAF's Role

According to an IAF representative, based on Agrodersa and Leon's example, IAF has a role in making the financial institution to advance thorough the various levels, but one has to be very careful with the ones in the basic levels. She recommends a focus on higher institutions that already do credit. The

basic level institutions have such a long learning curve. Another commented issue is the timing of the grant and the length of time spent with the grantee.

Specificities and Similarities of the Countries

The selection of the projects was considered very good. First of all, all the countries are in a post-stabilization period. The problem was not only high inflation, but that you interfere with contracts when you do these stabilization plans, and there is a very small chance that a credit institution could prosper during those times. In all these countries there were recently natural shocks and it is remarkable that people really deal well with this uncertainty, as well as the ability to restart and the way they adapt to and incorporate it in their practice. In all of these countries, although they are in different stages, social safety nets are expanding, so there is a new income source reaching the poor that help microcredit institutions to go where they did not go before.

With respect to the legal framework, there are changes but sometimes they don't happen as fast and not always in the best direction for the institutions. But, still, in all these countries, we had low credit for GDP ratios, very low compared to other regions. And it is not only a problem of quantity of credit, but also the quality of the credit. There is a lot of state lending, and a lot on institutions complain as dumping, in a sense, in investing political interests. When a state bank forgives loans, it really makes the environment for microcredit more sterile .

The other thing is that in Latin America there is a tradition for microcredit, but more for the upper income, more for the short term, and more for consumer credit, instead of long-term, lending to institutions, to the poor, and for productive purposes, which really represents the frontier of microcredit in the continent. Plus you have specific problems in these countries, which are all very present in our report. For example, immigration is an important issue, and therefore we produced a section on that on the Knanchoch report. In Nicaragua, there were a land reform, as well as a Sandinista revolution, and it is a beautiful experience to see how this affects credit and the incentives for people to produce. People have revealed their preferences, for instance, when they say that "when I divide the land with other people I don't work as much, now I work more.". Besides, there is a serious energy

shortage in Nicaragua, which affects a lot the producers. There are small businesses, however, that buy a generator, and therefore beat all the competition. The lesson here is that in adversities you have opportunities, and some entrepreneurs are really looking ahead. In Peru, for example, Sendero affected places in both ways. Some regions, like Abancay, people immigrated to towns because of Sendero, while in Cotahuasy there were people fleeing towns.

Cotahuasi, La Union, Peru

Transparency

AEDES, CEDER and Fundación are in the MixMarket database, so everyone is able to compare them, and realize that they both got prizes for transparency. Their balance is on the Internet, and it is clear that transparency makes a difference. Lack of transparency is a serious problem present in most the institutions. But there are different reasons for it. Agrodersa, for example, is a very open institution, but does not have sound records because the managers did not know how to make them. But most of the grantees promised to send the data, but did not. Most of the time it has always been a struggle to get routine financial information.

Propoorness and Women

Finally, an interesting point is that all these microcredits are pro-women. Although most of the entrepreneurs and farmers are not women, most of the microcredit's clients are women. Besides, the study found suggestions that the more pro-poor the institution is, the more pro-women it is, according to the small amounts of loans, and the fact that for each male there are three females, a rate which increases for the top performers: the ration is 0.75. Another finding is that the advance institutions are usually not very pro-poor. It is a limitation they have and assume it. According to them, the very poor would not repay the loan.

Leon 2000's beneficiary

Winning features

According to the evaluation, the winning features are

(i) a clear vision on the mission and focus; (ii) good alliances, as in the case of Fondesurco; (iii) an internal division of labor, like ACCEDE, distinguishing credit from other operations; (iv) Financial ethos (interest rates, recovery) That is the use of financial tools and the objective of recovering their capital, which is not so obvious as it seem, since it does not happen in many institutions; (v) high level of information disclosure; (vi) self-criticism and the capacity to learn from their own mistakes and set new re-evaluating strategies. (vi) Generally pro-women

Challenges

- Willingness to borrow is determined by the borrower's access to collateral (land with and without title (induvidual X communal).
- There is no such thing as the best credit model (e.g. individual or group lending or still institutional lending)
- A beneficiary's repayment capacity should not be underestimated.
- Diversification of the portfolio – spreading risks so often associated with agricultural activities.
- The commercialization-credit nexus.
- Capacity building and technical assistance: sine qua non condition to improve the efficient use of resources.

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1. Introduction

Generalizations about the concept of poverty, and the ensuing statistics, may lead to an oversimplification of the phenomenon while creating the illusion of simple, standard and straightforward solutions. The mainstream Western perspective has only (relatively) recently begun to include other aspects of a person's life, aside from income and consumption, in the concept of poverty. Acknowledging, for instance, the existence of poor people's assets and capabilities is central to this shift in perspective, as well as the recognition of cultural aspects of traditional communities:

"In the Andean communities, it is not very common to refer to well-being in material terms. Criteria other than possessions are considered more important and relevant: comuneros are considered rich for being good workers, being responsible and/or having a good network (…). The Quechua language does not allow for a literal translation of the words wealth or poverty. There is no word for poverty as such, but there are two categories that have been used to define rich and poor: qhapaq and waqcha. Qhapaq means capable, abundant, rich in possessions (…). Waqcha means orphan, someone without relatives or kin, lacking in family relations rather than in money"2.

Microcredit as a development strategy could do exactly that: recognize the existence of assets and capabilities of the poor by investing in them. The issue has recently attracted increased widespread international attention, as Mr. Muhammad Yunus was awarded the 2006 Nobel Peace Prize for his actions ahead of the Grameen Bank, which he founded. Microcredit, however, had been on the development agenda and practice for many years beforehand in an earnest effort to boost the productive capacity of impoverished people, who for many reasons have remained excluded from the formal financial sector. Many positive outcomes are envisaged as a result of microcredit initiatives. For instance, it is intended that the borrower's income should increase after the loan is repaid. Other positive knock-on effects include for example the re-insertion of children into the school system, as they do not have to work anymore to help increase the household income and the

[2] Zoomers A. "Pro indigenous Reforms in Bolivia: is there an Andean way to escape poverty?" Development and Change 37(5): 1023-1046 (2006).

enhancement of social capital among community members (Sadoulet, Janvry and Davis, 2001).

The Inter-American Foundation began funding micro-credit projects during the mid 1970's, that is, "at a time when offering credit to the poor and excluded was still groundbreaking". Microcredit is still very much in demand to this day and the IAF continues to fund a variety of credit programs in response to the proposals it receives. Based on this continuous demand and on the array of past experiences, the IAF asked Fundação Getulio Vargas to evaluate 11 micro-credit projects that expired in 2003 and 2004 in order to learn about the different micro-credit projects it has funded and their impact on the IAF target population. The idea is to help IAF define a coherent vision of how to support micro-finance programs consistent with its philosophy and mission.

The IAF philosophy could be summarized as follows:

"The IAF defines "grassroots development" as the process by which people in communities organize themselves to deal with shared concerns about the social, cultural, and economic well-being of their families, communities and societies. It is based on the premise that the key to sustainable democracies, equitable societies, and prosperous economies lies in the engaged participation of all citizens in a context of equitable access to decisions that are important to their lives. This sense of ownership and participation, organizational development, and networking to build social capital is needed to complement human and physical economic assets.

The IAF also believes that the sustainability of development rests on people's capacity to control their own circumstances, and sees the enhancement of this capacity as a principal result of the projects it supports."

Eleven projects were selected in 3 countries - namely: Mexico, Peru and Nicaragua - to assess their long-term impact on the grantees and their beneficiaries. Each project had a different goal and overall strategy (Table 1) and was implemented in different setting, by grantees with different skills levels, but all without exception used one form or another of microcredit to different degrees. This diversity

decreases the generalization potential of the findings, but provides an excellent opportunity to find qualitative evidence on what works in terms of microcredit. Therefore, each impact evaluation focused on the expected and unexpected outcomes of the intervention, as well as the possible mechanisms that ensured these outcomes. Given the diversity of experiences that have been evaluated in the past months, we hope to provide more evidence to understand the impact of different projects and strategies on beneficiaries.

Evaluation Team from CPS/FGV

The evaluation has been carried out by a team of researchers led by Marcelo Neri from the Center for Social Policies at Fundação Getúlio Vargas (CPS) in Brazil and includes as byproducts besides this report, individual report and video for each of the 11 microcredit experiences assessed that are also available at http://www3.fgv.br/ibrecps/iaf2_website/index.asp. All projects were visited by Marcelo Neri, Ana Beatriz Andari and André Neri. Marcelo Neri and Ana Beatriz Urbano both from CPS at FGV were the main evaluators and authors of all microcredit evaluations. Pedro Jacobi from USP participated as an evaluator helped the evaluation in two of the Nicaraguan experiences. The videos of the projects were produced by André Neri and Marcelo Neri, while photos were taken by Ana Beatriz Andari and André Neri. Luisa Carvalhaes and André Neri produced the website of the project. Gabriel Buchmann, Ana Lucia Calcada, Luisa Carvalhaes, Helen Harris also from the CPS provided excellent support for the project as a whole.

Table 1. Fund Purposes

Project Number	Project Name	Grantee	Fund Purpose
PU-481	Desarrollo Agropecuário de la Província General Sanchez Cerro mediante la gestión local concertada	Ceder, Arequipa, Peru.	A credit fund was implemented to help support the dairy and fruit productions.
PU-507	Reforzamiento de las capaciades en post cosecha de los productores ecologicos de la provincial de la Union, Arequipa.	Aedes, Arequipa, Peru.	Credit to enhance commercialization of agricultural products Credit to establish small-scale agricultural enterprises
PU-493	Desarrollo social y commercial de la microcuenca de Pichirua	Cedes, Abancay, Peru.	Credit to help farmers engage in improved production of both crops and livestock.
PU-492	Mejoramiento de Ganado Ovino en Arapa Y Chupa	Emucosa, Puno, Peru.	Credit for the production of forage (pasture).
NC- 227	Programa de desarrollo local sostenible de la micro, pequena y mediana empresa en el municipio de Leon	Fundacion Leon 2000, Leon, Nicaragua	Credit for small-scale entrepreneurs and cooperatives to strengthen and consolidate their activities.
NC-230	Fondo de credito rural para la reactivacion economica y social de 4 municipios del departmento de leon afectados por el Huracán Mitch	Espino Blanco, Leon, Nicaragua.	Credit Fund and a Social Investment Fund to help reactive economics affected by the Hurrican Mitch.
NC-234	Proyecto de rehabilitación y converavión del corredor biologico Volcan Masaya – El Chocoyero	Agrodersa, Managua, Nicaragua.	Credit to support productive activities by projects beneficiaries.
ME- 407	Proyecto de Intervencion integral en divcersos ambitos de la vidalocal en dos microrregiones geograficas del Estado de Jalisco	Accedde, Guadalajara, Mexico.	Credit Fund to leverage a ten-to-one contribution from the Banco de Mexico FIRA program for loan for productive projects (livestock, agriculture) by community associations and producer groups.
ME-431	Fondo para el financiamiento de proyectos agriculos, peducarios, acuicolas y microindustriales que estimulen el arraigo de productores organizados de comunidades rurales.	Fundacion Apoyo al Campo, Mexico, DF.	Credit to finance productive projects that would help keep farmers in Mexican soil – avoiding migration to the USA.
ME-426	Proyecto de desarrollo local y participación comunitaria en el municipio de Zaragoza, Veracruz	CDP-Z, Veracruz, Mexico.	Credit to provide affordable housing for low-income beneficiaries
ME-419	Capacitación y comercialización en hortalizas orgánicas, Chiapas	Group Knan Choch, Motozintla, Mexico.	Credit to improve agricultural yields.

This report works as a digest of the main findings from each individual project report. We shall begin by presenting in the second and third section conceptual and methodological aspects related to microcredit evaluation. In the following sections we draw a brief picture of Latina America and each country's macroeconomic situation as well as its recent financial history in order to set the context for the analysis. The next sections will lay down the main general issues that arose from the impact evaluation studies carried out this year. The analysis of these impacts will lead to important overall recommendations for the IAF future interventions. The general conclusions are summarized in section 17. Section 18 summarizes lessons learned at each of the eleven experiences assessed.

2. Microcredit: Conceptual Aspects

Motivation

Around the world, millions of the poor must make their living in order to survive. Often times, through self-employment in the informal economy, or through small family owned informal businesses. Although frowned upon by some economists as a setback to development, due to lack of regulation among others, more and more policy-makers are becoming aware that the key to economic and political development may in fact lie in the informal economy. The informal economy of the developing world grows at quick pace, likely being permanent. This is a significant source of sustainability for most individuals in the developing world, but it offers many limitations, such as the exclusion from financial capital, a key foundation for investment and further economic growth. With no access to financial capital, the poor are faced with large barriers into business, and more importantly, barriers causing them to move up the income ladder and pull themselves out of poverty. The positive news is that as the informal economy

Cheese producer - informality

grows, so does the market for microcredit. Through the recognition that lack of access to financial services is a serious limitation to the poor, microcredit capitalizes on the poor's entrepreneurial spirit, aiming to provide a starting place for them to achieve economic sustainability and place themselves on the first step towards climbing the economic ladder out of poverty.

Microcredit programs, often geared at the very poorest segments of the population, offer a means to attack poverty at the grassroots level. Ultimately, microcredit programs result in the production of material goods, as well as social goods (such as the development of social capital, improvement in women's quality of life, etc.) It empowers the population, while encouraging partnerships between the provider and the lending groups. The programs' often focus on women, and thus are attributed to empowering them and encouraging their self-reliance through developing their own means of income. Through group loans with mutual responsibility, microcredit programs stimulate a sense of community and sharing, providing capacity-building and leading people to converge to pool their resources for the betterment of the community. Furthermore, benefits are felt at the business, household and individual levels. Microcredit benefits the enterprise (business) level through output and income (less consistent in asset accumulation and employment) and positive effects are felt on households, families communities and institutions in income/receipts, asset accumulation and overall improved living/working conditions.

General Definitions of Microcredit and Microfinance

The term microcredit has different definitions. For Gulli (1998) this consists of small scale financial services, that is, those involving small amounts, while Schreiner (2001) does not define the term by the value loaned, but as credit provided to those of low income. We will combine the two definitions, designating as microcredit small value loans given to low income individuals.

Microcredit belongs to the field of microfinance, and involves the supply of credit to clients not provided for by traditional banking sector, including only the loan sector. Microfinance refers to a breadth of diverse financial services, including microcredit, microsavings, microinsurance, real estate credit, and immigrant

remittances, to cite a few major services. Other examples of programs in the field of microfinance is the opening of bank stations in traditional commerce (e.g. bakeries, grocery shops, etc.) recently approved by the Central Bank, and even programs of land regularization, in a broader sense.

Microfinance institutions provide financial services to clients that have been excluded from the formal banking sector, aiming to serve individuals whom traditional banking institutions do not deem worthy of being served, having as their major clientele micro-entrepreneurs (or nano-businesses). Micro-entrepreneurs can be regarded as independent economic activities involving a reduced volume of resources, ranging from traveling salesperson to a small store with few employees, and including any business between these extremes. Even though they are small, these activities can be considered entrepreneurial when considering that agents take risks with their own resources. These microenterprises, due to their typically informal and often times familiar nature, frequently do not possess legal documentation, properties, nor regularized wages, which are demanded guarantees by traditional banking institutions. Therefore, the key to success in microfinance is to develop products and technologies providing financial services to these clients in a sustainable manner. This has become possible through the development of system technology and risk management methods allowing for the concession of loans to these individuals with serious asset restrictions, without formal income documentation nor credit history. In this manner, viable channels of loan distributions have been created, and the transaction costs of small loans have been decreased, therefore surpassing high fixed unit costs associated with very small loans, that have always been a barrier to the poor’s access to credit.

Summarizing, microfinance has, as its objective, the increase of distribution of the financial system in its diverse segments, with particular emphasis on credit, but also on savings and insurance. It can be perceived as a provision of small scale financial services for businesses and families traditionally kept at bay from the financial system.

The Multiple Dimensions of Microfinance

Perhaps the main reason for fascination and admiration stemmed by microcredit is that it appears to be a potential win-win solution (what economists call Pareto) once institutions as well as poor clients gain. This is illustrated by the fact that while some see microfinance as a strategy to reduce poverty, others regard the experience as an innovation for banks to increase their profits.

In truth, microcredit can be understood, in one of its many dimensions, as a public policy carried out by private sector spirit, and its success owes to the fact that it is grounded on incentive mechanism which allows for efficient results. With that, private profit-maximizing institutions are benefited, as they increase their portfolio towards new clients previously considered unattractive, at the same time that they contribute towards the fight against poverty through the provision of financial services to low-income individuals, previously at the periphery of the financial system.

Their characteristics simultaneously combine admired virtues by a diverse variety of schools of thought. While those at the left highlight aspects such as the focus on the community, women and the aide of those least favored. Those in the right emphasize the idea of poverty reduction through the provision of incentives for effort and labor, its non-governmental aspect and the usage of mechanisms guided by market forces.

The Social Dimension

Experiences have demonstrated that microcredit, if well applied, has a role in propelling income improvement as well as the amelioration of living conditions for its clients. There are many cases in which there is a true revolution generated by these programs, as it assists thousands of people to leave poverty and even destitution. Microcredit is inserted in what can be called the promotion of a type of capitalist shock to the poor, allowing those without capital to have access to productive capital. With resources and confidence, the poor can carry out investments that may serve as a structural exit door from poverty. Credit does not create opportunities itself, but it allows that good business opportunities are taken advantage of.

Aside from this, the poor producer is able to establish a history of credit and trust, family members experience an increase in self-esteem, dignity and ability through the opportunities stemming from services providing access to credit. For Muhammad Yunus (1999), founder of the Grameen Bank and the main pioneer in microcredit, the right to financial credit should become a universal right, due to its large social impact potential. According to Yunus, what the poorest need is money, and not training, for in their way, they already have the ability to generate income, they lack capital to solidify this capacity. According to him, microcredit, even with its large potential to remove individuals from poverty, should not be regarded as a policy of assistance. It should by administered, by private management or even public management, but always so as to attain positive returns, so that it may be sustainable. The loss of debt, for example, is extremely harmful to any microcredit business, for it harms its reputation since it turns punishment threats to default non-credible, leading to incorrect incentives from the debtors. What it recommends, for example, is that, facing adverse shocks for the debtors, the debts should be elongated and have their installments reduced, but never forgiven.

On one hand, in its social policy dimension, aside from the direct benefits of access to credit, microcredit generate incentives so that its client is involved in productive activities to be able to pay his/her debt, which will challenge him to increase his/her income. O the other hand, side from social policy, microcredit is a policy of economic development, as it leads to increases in productivity, profit and stability in the microenterpreneurial sector.

The Enterpreneurial Dimension

The challenge of microcredit is not only to carry out operations involving smaller amounts and being able to reach the less favored. It is in carrying out these loans and “getting the money back” in a profitable manner. Economies of scale are important, but the minimum portfolio size necessary for an institution to be sustainable is not as large as previously thought. Institutions in Latin America with the best performance have shown that with one million dollars they can reach good rates of return.

The average global profitability of institutions, as calculated by the Boston Consulting Group, was of 13%. Latin American financial institutions included in the *MicroBanking Bulletin* reported an average ROE of 15.6% against 12.4% in their Asian respective. Aside from this, recent research from *The Microfinance Exchange (MIX)* and the *MicroBanking Bulletin* has shown that it takes 5 to 7 years on average for a microcredit institution to become sustainable.

Possible paths leading to sustainability and profitability, according to Berger (2006), would be:

i) *Upgrading,* which involves the creation of a financial institution regulated by a NGO. It is strengthened into a non-profit institution, and later becomes a profitable institution. The cost of upgrading is considered the highest of the three

ii) *Downscaling,* which consists of previously established financial institutions opening up to micro-clients. Downscaling banks generally start with larger micro-enterprises and only after acquiring certain know-how, begin to expand in the direction of smaller clients. According to Beatriz Marulanda, formal financial institutions enter the microcredit market basically for three reasons:

   a. Consists of a profitable market
   b. Product and market diversification
   c. Fulfillment of social function

iii) *Greenfields,* which involves the creation of entirely new institutions.

Microfinance Characteristics and Technologies

"To say that the poor cannot borrow because they do not have collateral is the same as saying that man cannot fly because it does not have wings." M Yunus

Credit constraint by those least-favored is related to two groups of main factors: i) high operational costs for small operations and ii) lack of guarantees, lack of information (short credit history) and difficulty in monitoring. Microcredit programs were successful exactly because they develop technologies and innovations which have made it possible to overcome these obstacles. We will

shortly describe the most important and most commonly used programs by the majority of microfinance experiences.

Group Lending

Probably the main methodological contribution for the field of microcredit has been group lending, which consists of the concession of credit, having as credit taker not an individual, but a group of individuals, which take loans together and are jointly liable for its payment. In this scheme, each member of a group of loan borrowers guarantees payment for other group members, this being the mechanism known as social collateral. Or, in order to describe more technical language "group members monitor each other and, through joint liability, transform the state-contingent returns of its members´ loans into a security with a different state-contingent pay-off" (Prescott, 1997). The big secret in this mechanism is that neighbors known each other's details regarding their payment abilities better than a financial company may ever know.

By transforming neighbors and community members in co-signatories of a loan, problems of asymmetric information are softened between lenders and borrowers, through the exploration of mechanisms involving social capital and ease of monitoring. Neighbors have the incentive to monitor each other (peer monitoring) and exclude risky borrowers to participate, enabling compliance even in the absence of collateral.

The usage of associations in this process can increase peer pressure so that loans are paid, using individual's social capital, with punishments in the case of non-compliance possibly including subjective

Credit beneficiaries in Omate, Peru: former group, now individual lenders

collective punishments, such as symbolic loss of capital within the community, and even physical aggressions and other types of social sanctions.

Another key to success in this type of scheme, as shown by Ghatak (1999), is that joint liability creates incentives for groups to be formed by similar individuals; in other words, riskier borrowers tend to unite with those of greater risk and vice-versa, as there is no mutual benefit for different borrowers to unite. This process of selection *(sorting)* is important as it distributes the problem of adverse selection by allowing banks to charge differentiated rates from different groups, according to their repayment ability. This aids in the creation of high indexes of compliance and lower interest rates, increasing social welfare. (refer to Varian (1990) and Armendaris and Gollier (1997)).

Another fundamental aspect in group lending is the so-called *peer monitoring*, which is based on the ability of individuals nearby to monitor each other, leading borrowers to not take excessively high risks, softening the problem of moral risk (Stiglitz (1990), Besley and Coate (1995)). With this, banks may charge lower rates and increase their compliance rates. The solidary credit scheme is illustrative of the possibility of simple and cheap solutions having the capacity of easing the poor's restrictions to credit.

There is yet the question of problems inherent to group formation. There should be a strong connection between group members for a scheme such as this to work successfully. However, there is some dissent in whether people have a greater probability to impose harder or softer sanctions on those who are closer than those who are nearer.

Dynamic Incentives

A commonly used strategy, exploring repeated interactions between lenders and borrowers, is to create the following rule of interaction: the bank provides loans increasing throughout time (progressive lending or step lending), conditional on the repayment of past loans, and does not renew the loan otherwise. This credible threat of not renewing the contract with borrowers in default, strengthened by the

expected future increasing flow of loans, acts as a source of incentive for repayment.

The fact that the relationship begins with small values allows the bank to test its borrowers before expanding the value of the loan, permitting the separation of ill borrowers prior to the expansion (Parikshit Ghosh and Debraj Ray 1997).

It is fundamental that the relationship does not have a defined end, so as to avoid the classic difficulty of all relationships with finite horizons, since it is the incentive to default in the last period, which, by retroactive induction, ends removing the incentive from the first payment.

Calendar of Regular Payments

Differing from the traditional modes of credit, where a year's loans are developed with interest at the end of the year, for a good portion of microfinance programs, payment is not given in a regular fashion, and begins shortly after disbursement. In the Grameen Bank formula, for example, calculates the total amount owed, divided by fifty and the payment is then carried out weekly, starting only two weeks after taking the loan.

This brings about some advantages. First, it helps to discriminate the less disciplined and responsible borrowers, helping them to predict future problems. Accordingly, the bank can receive the money before it is consumed or spent in something inappropriate. Thirdly, once the payment starts prior to investment return, it is necessary that the family have some initial income, which causes the bank to assume a smaller compliance risk, and does not depend only on entrepreneurial risk.

Focus on Women

There are some reasons for which women have been regarded as more advantageous borrowers in microcredit programs. First, in general, women represent lower mobility, so that there is a smaller risk of the client receiving the loan and fleeing. There are also very strong cultural reasons for this preference. Women seem to be more sensitive to social punishment, such as verbal hostility (Rahman, 1998). Empirical evidence points out that women invest more in their

children's education and health than men. That is, a social investment in family through women has a greater chance of increasing family well-bring than were it to be carried out through men, an important fact to be considered if the program's idea is to improve the living conditions of the poor. Furthermore, women are generally less favored than men and in many cultures live in an inferior social status situation. Consequently, microcredit could be a tool in the attainment of income inequality reduction among genders. Women's experiences in banking seek to finance a feminine revolution. In the Brazilian case, the greater schooling of women (one more year of education) and the increasing presence of families headed by women in the population have increased the individual and family impacts of credit.

Agent's Direct and Personal Contact

One of the great secret's of microcredit is its clients' loyalty, which is attained through the clients' trust in the institutions and the services provided by them. It is necessary to know the clients well and search for products to comply with their needs. A relevant trace of many microcredit programs, differentiating the provision of traditional credit, is that there is direct and personal contact between the lending institution and its clients. Many programs have a reasonable number of

Beneficiary and credit agent – Espino Blanco, Nicaragua

employees who aim at potential clients to release information in regards to microcredit, accompanying the loan since its disbursement until payment. On various occasions, their fee depends on their performance, causing a diversity of incentives applied to different actors involved are aligned with the initiative's success.

The Matter of Subsidies

Many specialists, heavily based on ill-performing past experiences, have suggested that loans and their rates not be substantially subsidized. According to Robinson (1994), microcredit clients tend to borrow the same value even if interest rates are increased a bit. That is, the demand of microcredit is barely sensitive to variations in the interest rate. In this sense, subsidizing credit ends up being limited to volume. Institutions providing subsidized credit are less inclined to sustainability, since they have little incentive towards efficiency. In these institutions, there is incentive for the corruption of employees, which, facing a demand greater than the available offer of credit, starts to charge a premium to free them. Generally, subsidized credit is connected to elites capturing state benefits, so that credit does not reach those who need it more.

Other characteristics essential for a microcredit project to be successful include: adequate technology of credit, a good system of information technology, risk management and efficient corporate governance, aside from human capital, including banking, management, and business-financial skills.

Microcredit and its Connection to Social Programs

Another point, which will be explored in subsequent sections, is the use of economies of scale and the scope of operations in public policies destined to a large number of people. For example, the registration of those of low-income created so as to allow their access to social programs can be used by credit institutions, taking advantage of a cost already incurred. Complementarily, the comparative analysis of this information carried out simultaneously with programs offers scope economies. The increase in quantity of information included in decisions relative to credit contract may also magnify the perception of other public managers.

Another possibility related to the combination of microcredit to other public policies is the idea of collateralizing the income coming from conditional income transfer programs, such as Bolsa-Família (Neri 2002). This proposal seeks to simultaneously appease public policy and private market instruments towards the promotion of a structural exit from poverty and long-term social inclusion.

Government propaganda on the streets of Tapachula, Mexico

Microcredit and its Impact on Grassroots Development

Although frowned upon by some economists as a setback to development, due to lack of regulation among others, more and more policy-makers are becoming aware that the key to economic and political development may in fact lie in the informal economy, through the means of informal family owned and/or small business or self-employment. The informal economy of the developing world grows at quick pace, likely being permanent. This is a significant source of sustainability for most individuals in the developing world, but it offers many limitations, such as the exclusion from financial capital, a key foundation for investment and further economic growth. With no access to financial capital, the poor are faced with large barriers into business, and more importantly, barriers causing them to move up the income ladder and pull themselves out of poverty. The positive news is that as the informal economy grows, so does the market for microcredit. Through the recognition that lack of access to financial services is a serious limitation to the poor, microcredit capitalizes on the poor's entrepreneurial spirit, aiming to provide a starting place for them to achieve economic sustainability and place themselves on the first step towards climbing the economic ladder out of poverty.

Microcredit programs, often geared at the very poorest segments of the population, offer a means to attack poverty at the grassroots level. Ultimately, microcredit programs result in the production of material goods, as well as social goods (such as the development of social capital, improvement in women's quality of life, etc.) It empowers the population, while encouraging partnerships between the provider and the lending groups. The programs' often focus on women, and thus are attributed to empowering them and encouraging their self-reliance through developing their own means of income. Through group loans with mutual responsibility, microcredit programs stimulate a sense of community and sharing, providing capacity-building and leading people to converge to pool their resources for the betterment of the community. Furthermore, benefits are felt at the business, household and individual levels. As presented in Woller and Woodworth (2001), microcredit benefits the enterprise (business) level through output and income (less consistent in asset accumulation and employment) and positive effects are felt on households in income, asset accumulation, consumption and overall improved living conditions.

Microcredit's Favorable Attributes

The main characteristics of successful microcredit programs, according to Rhyne and Holt (1994), summarizing that which has been stated above are:

i) the creation of groups of people who borrow together and are jointly responsible for debt payment
ii) bank agent's direct contact with the client's reality and environment, in a system barely dependent on physical agencies, but with many representative agents
iii) small value and progressive loans according to the client's compliance
iv) flexible means and payment due dates in regards to exogenous shocks
v) no subsidized rates nor loans, and no probability of debt canceling

Asymmetry of Information and Credit Constraints

The relationship between lenders and borrowers is characterized by the asymmetry of information. There are two main problems described in the literature: adverse

selection and moral risk. The first involves the creditor's lack of knowledge in relation to type of borrower, that is, the lender does not know how risk inclined is the borrower, how honest, how responsible, etc. On the other hand, moral risk involves the lender's lack of information regarding the type of action the borrower can have. In this particular case, in relation to what the borrower will do with the loan, what type of investment he/she will choose. In their seminal article, Stiglitz and Weiss (1979) describe how the rationing of credit occurs in equilibrium. According to them, the bank's return does not always grow with the interest rate increase, since after a certain point of increase in the rates, there is a reduction in the average quality of borrowers,. This leads to the attraction of less honest, less well-intentioned, or simply those with more risk and more inclined to perform riskier investments, therefore reducing the compliance rate, due to a simultaneous problem of adverse selection and moral risk. There is an optimal interest rate, which therefore brings maximum return to the banks, and if for the interest rate, there are more credit buyers than suppliers, there will be credit rationing. That is, many agents will not have access to credit even though they are willing to pay a higher interest rate. Holgan (1960) also shows that the existence of asymmetries in the evaluation of contracts between creditors and debtors leads to a smaller quantity of credit available than that demanded. A large part of the problem is due to the fact that typically, the debtor has knowledge and technology not shared with the lender, otherwise, the lender would also be the entrepreneur.

There is an extensive literature regarding the role of guarantees compensating for market failures of informational nature. Coco (2002) highlights the use of collateral to partially solve this problem, once the offer of guarantees as a reserve of financing would allow for asymmetric information to be overcome, foregoing costly searches and monitoring. However, the poor's assets are not, in general, valid guarantees for loans, as they do not have regularized properties nor verifiable income flow.

This way, the poor's problem is not only the need of assets or opportunities, but also the low quality of these assets, which decreases their ability to benefit the slim opportunities available. Berger & Undel (1998), when analyzing the availability of credit sources in regards to company size, age and availability of information,

demonstrate that small enterprises and those newly-created, probably without collateral, are usually financed by family and friends.

As the business grows, they gain access to credit via financial intermediation and bank credits. Consequently, if the individual does not own starting capital or does not know individuals who do own, he will hardly have access to productive capital through the traditional financial sector, and his only option will be to resort to moneylenders. Pinheiro (1998) shows that how the size of the credit market depends on Judicial efficiency, analyzing how the poor functioning of the Brazilian judicial system limits the credit market, due to the inefficiency in the quality of judicial enforcement of loan contracts.

Some solutions have already been proposed to the poor's problem of lack of collateral. A major part of the informational problem could be avoided in theory, through the establishment of a financial good in adequate collateral for loans, such as the case with durable goods and automobiles. In the case of living credit, the immobility of the asset—object of financing—could allow it to be used as guarantee for itself, but the high informality of housing results in a serious hindrance. De Soto (2001) emphasizes the formal acknowledgement of the poor's property rights as a lever of guarantees for the concession of loans. Following this line, some have proposed the adoption of a large scale process of regularizing urban land. However, there are some obstacles. In the Latin American case, home ownership, even if regularized, is not always accepted as collateral to loans. The stories of mortgage settlements, common in American movies, do not occur in the Latin American reality. On the other hand, access to real estate credit is common to Americans, a rare occurrence in the continent. In other words, the legislation, in its angst to protect home owners from the painful repossession of real estate in the case of non-compliance, results in emptying the credit market. Nonetheless, policies regarding property regularization should be put into practice with moderation, so as to avoid the process' reflux. This would have the objective of increasing the property right of the poor already established in their respective properties and not encourage invasions, which would then contribute to the decrease, not the increase of property rights. The last decades have then witnessed the advent of technologies

that allow access to credit to millions of individuals excluded from the traditional financial sector, which became known as microcredit.

3. Microfinance in Latin America

A Brief History of Microcredit

Halfway through the twentieth century, worldwide governments decided to support initiatives providing wide scale credit to those less privileged, particularly in rural areas. Strategies of poverty reduction through the use of subsidized credit were widespread between the fifties and the eighties. Nonetheless, this first attempt to broaden microcredit was a generalized failure, mainly because of inefficiency, corruption, and highly subsidized interest rates. The latter which resulted in extremely high non-compliance rates, increasing subsidy costs, the co-opting of benefits to the politically privileged (Adam and von Pischke, 1992), and finally credit rationing. Banks had to reduce deposit rates so as to compensate for the low loan rates, and in the end, a small amount of savings was collected, little credit was provided and non-compliance rates exploded while borrowers realized that banks could not last much longer. According to Berger (2006), “Ironically, the cheap credit aimed at reducing inequality ended up making it more severe.”

Grameen Bank’s experience was a turning point in this plot. Grameen carried out important methodological contributions to the field of microfinance, today commonly used by institutions all around the world. Among the main contributions is the use of group loans as mechanisms for borrower selection and guarantees, adaptive loan volume with seasonal terms, the vision of a pro-active bank which goes “towards the people,” and the use of microsavings and microinsurance in the gamma of offered products. The Rayat Bank of Indonesia, on the other hand, was among the first to show how microfinance could be profitable. Its main innovations can be found in incentive mechanisms related to bank employees and a simple low-tech management model of an informational system without computers.

When the Grameen Bank was starting in Bangladesh, a series of experiences were being started here. We can state that the first project of this new wave of

microcredit taking place in the continent was Project Uno in Recife. This project relied on the principle that promptness in approval and in the disbursement of loans tends to be more important to loan borrowers than the interest rate in and of itself. It introduced the procedure of young and pro-active employees going to the field, developing personal relations with the clients and being responsible for all aspects of the loan cycle, from its origin until its retrieval. Other pioneers have been the fund for tricyclists in the Dominican Republic, and Fedecredito in El Salvador. In Latin America, a numerous creation of microcredit provision programs occurred, including: BancoSol, Caja Los Andes, PRODEM, FIE and Sartawi in Bolivia; Caja Social in Colombia; ADOPEM in the Dominican Republic; Financiera Calpiá in El Salvador; Compartamos in Mexico and MiBanco in Peru.

Microfinance in Latin America

Since the 1990s, microfinance has been widely discussed and regarded as a source of economic and social development. The issue was brought to the spotlight, becoming a "hot topic" globally, particularly among the least developed countries in Asia and Latin America. Although present in various countries around the globe, these two regions have emerged as leaders on the topic, each pioneering in its own aspect, with Latin America in its commercial orientation and adaptability, while Asian economies give special consideration to micro-savings. The recognition of microfinance as a means of grassroots development culminated last year, when Muhammad Yunus, founder of the Grameen Bank, received the Nobel Peace Prize (along with the Bank itself) for their efforts to create economic and social development from below—with micro-credit as an important instrument against poverty, and as such, as a means to advance democracy, human rights, and achieve peace.

In Latin America, microfinance began in urban settings, through private and nonprofit institutions that offered small loans for micro-entrepreneurs. Credit was the main service available, as organizations sought to provide access to financial services from the excluded masses. Due to the informality of microenterprises in the region as well as the high cost of doing business, most micro-entrepreneurs did not have the required documentation nor sufficient collateral and assets to access credit. By the early nineties, microfinance institutions (MFIs) in the region had

evolved, increasing their outreach and their sustainability. MFIs became subject to prudential regulation as they upgraded, and in various countries, government institutions were expanded to oversee this booming sector. Aside from upgrading (NGOs and nonprofit organizations becoming regularized), the region also experienced downscaling, as commercial banks and non-banking commercial institutions added micro-credit among the services provided. Depicting the growth of the sector, a survey performed by CGAP and the IDB shows that out of 176 MFIs in 17 Latin American countries, 62 regulated MFIs were responsible for 76% of all credit towards microenterprises, reaching 52% of overall clients (Ramírez, 2004). Nonetheless, non-regulated MFIs remain the most numerous in the region, as can be seen from the table below[3].

MFIS IN LATIN AMERICA

	Number of Institutions	Portfolio (Millions)	Borrowers	Average Loan (US$)
Regulated MFIs	98	4,407	3,848,071	1,145
Downscale	32	1,821	1,260,553	1,444
Greenfield	30	1,005	738,671	1,361
Upgrade	36	1,581	1,848,847	855
Non-regulated MFIs	239	1,035	2,128,062	486
Total 2005	337	5,442	5,976,133	911
Total 2001	184	1,189	1,806,445	659
Increase from 2001-2005	83.15%	357.70%	230.82%	38.24%

Source: Navajas, S. & L. Tejerina (2006a)

Although microfinance has been widespread amongst all Latin American economies, it has shown to be more popular among Central American and Andean economies, particularly Nicaragua and Bolivia, where the penetration rates exceed 20% of the market (Ramírez 2006). The largest economies in the region, namely Brazil and Mexico, have experienced a low, yet steady, development of the sector. This can be attributed to the difficulty and slow growth of NGOs in microfinance in the larger economies. NGOs have played an important role in innovating the field

[3] Aside from downscalers and upgraders, there are three other common types of MFIs in Latin America. These are: i) greenfields, institutions that since their beginning acted as MFIs; ii) non-regulated MFIs, usually NGOs and nonprofit foundations; and iii) credit unions and cooperatives.

and supporting the extension of credit to the poorest, particularly those in rural areas. In fact, as suggested by Marulanda and Otero (2005), NGOs are the best option for the provision of small loans, while commercial banks and regulated MFIs perform better with larger loans. Consequently, Mexico's Compartamos, a regulated MFI, has one of the largest public outreaches in the region, while Brazil's Banco do Nordeste, a commercial bank, is the largest provider of micro-credit in the country.

4. Microfinance in Mexico

Mexico boasts one of the largest economies in Latin America, with a GDP of US$768.4 billion and a population of 103.1 million (World Bank, 2006). Since 2003, it has displayed a growth rate of over 3%, reaching 6.6% in 2003. Due to its vast population, territorial breadth, and closeness to wealthy neighbors, Mexico has been able to gain economic ground in the past couple of years, consolidating its status as an economic force in the developing community. It's GDP per capita increased 4.95% from 2003 to 2004, pushing that value to US$9,774. Nonetheless, with these attributes, a noteworthy portion of the Mexican population still struggles with poverty, fighting a daily battle for subsistence, particularly those in rural areas, often isolated from assistance. These individuals often become engaged in the informal economy, such that the International Finance Corporation estimated that 30.1% of the Mexican GNI is attributed to the informal sector. They also rely increasing on remittances sent from abroad, mostly from family members in the United States. In fact, growth in remittances has been such that while in 2000, remittances amounted to US$7.5 billion, in five years that number had tripled, amounting to US$21.8 billion (The World Bank, 2006).

Microcredit institution in Tapachula, Mexico

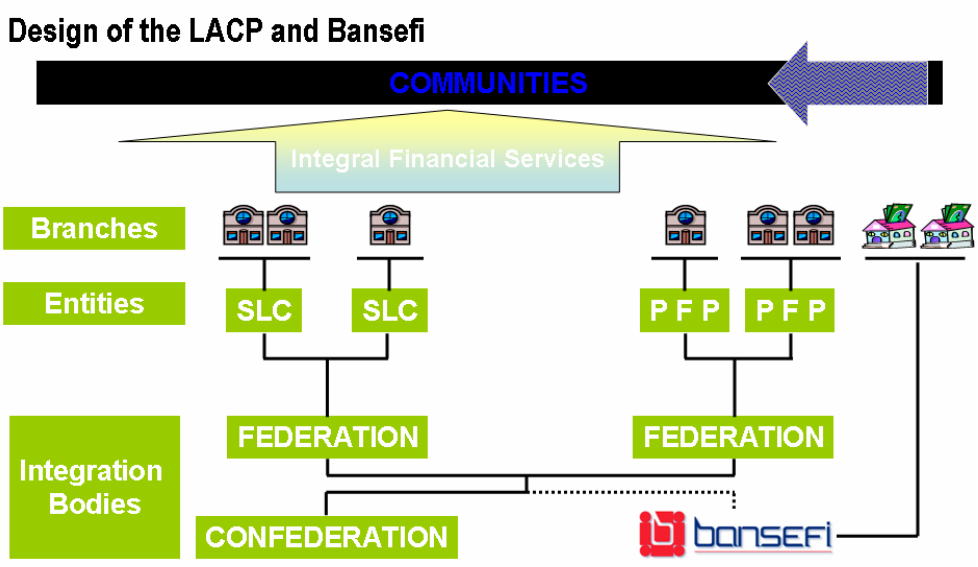
Similar to other countries in the region, the Mexican financial system is shallow, reaching only 15-25% of the urban population, and as low as 6% of the rural (Klaehn et al., 2006). Access to financial services is constrained by large distances, insufficient assets for collateral and lack of confidence in the sector. Not surprisingly then, savings held in banks represent a mere 9.7% of the GDP (Klaehn et al., 2006). In a country where 26% of the population lives on less than US$2 a day, and 10% rely on less than US$1 daily, access to financial services, particularly microsaving and micro-credit, is key to economic prosperity, establishing a participatory and non-paternalistic input so as to empower the poor to make their own decisions and climb their way out of poverty in a sustained manner. With an estimated 8-10 million households as potential microfinance customers, over ten million microenterprises and an informal sector with limited—if no—access to formal financial services, Mexico is a ripe market for microfinance.

Since its inception, microfinance in Mexico has come to encompass micro-credit to the poorest families, in order to support their economically productive activities, as well as remittances from abroad. As the sector evolved, it faced two main challenges: the establishment of a regulated environment and the ability of microfinance to reach untapped markets, particularly in widespread, small rural communities.

Present in Mexico since the 1980s, microfinance gained more domestic and international attention during President Fox's administration. President Fox received the support of the Grameen Bank to establish a microfinance foundation in his home state. The establishment of a special office set up in the Office of the President to support the expansion of micro-credit demonstrated President Fox's concern about the issue. Under his leadership, the Mexican government became the most important and influential player in the sector, as it promoted and encouraged the development of "social banking" so as to increase the depth of the financial system and empower its citizens. Institutionally, the Ley de Ahorro y Crédito Popular (LACP) of 2001 was one of the most important legislative changes in re-structuring the environment. Another significant legislative change was the organic law transforming the Patronato del Ahorro Nacional into the Banco del Ahorro

Nacional y Servicios Financieros S.N.C. (Bansefi). These two laws were attempts to organize, regulate and promote the microbanking system.

The LACP provides savings' security, while ensuring a stable funding source. It also included the hitherto excluded sectors and regions in the provision of formal financial services , thus being an inclusive policy. In simpler terms, the LACP allowed former NGOs, financial organizations, savings cooperatives and institutions to become specialized finance companies providing savings and loan services, supervised by independent federations. Meanwhile, Bansefi became the established government lending fund, reaching low-income individuals, mainly women through popular savings and credit institutions. Furthermore, Bansefi encouraged a savings culture, while collaborating with other government agencies. Aside from providing wholesale banking, it launched an awareness campaign to promote a microbanking network (Microfinance Gateway, 2004).



SLC = Savings and Loan Cooperative; PFP = Popular Financial Partnership (Joint-Stock Company)

Source: Silva, 2002.

In 2005, it was estimated that Mexico was home to 39 MFIs, with a total portfolio of US$471 million and over one million borrowers. The average loan at that time was US$387. Mexico also hosts the MFI with the highest return on assets, calculated at 19.6% (Compartamos Financiera) (Navajas & Tejerina, 2006). Since 1990, Compartamos has served women entrepreneurs in rural regions (over 95% of

its clients live in rural Mexico) in economic activities such as trade, crafts and agriculture. It has grown into the largest MFI in Mexico and in Latin America.

5. Microfinance in Nicaragua

Socio-Economic Context

Two out of three IAF-funded projects, namely Espino Blanco and Fundacion Leon 2000, were implemented in Leon, near Managua. The department of Leon is formed by 11 municipalities with an estimated population of 390.000 inhabitants (2005) in an area of 5107 km^2. The population of the city of Leon, 90 km from Managua is approximately 200.000 inhabitants distributed in an area of 814 km^2. The economy of municipalities around Leon is predominantly rural, and most of the population is dedicated to farming activities, including the production of soy, ajonjoli, peanuts, corn, sorghum and cattle. The system of production is based on the combination of different crops - the main economic activity - and cattle. These municipalities introduced adopted the production of cotton quite fiercely, enlarging the cultivated area and causing serious damages to the environment and to the natural resources. Due to the abuse of pesticides and misuse of the cultivation process, cotton was not any more a lucrative crop in the 90s and this created a very serious economic decline. Some strategies were implemented and one of them, wind curtains was put in practice as part of international aid. The production of cotton was practically eliminated, and it was substituted in many cases by wood extraction and peanut crop. Agrodersa, in its turn, the third grantee evaluated this year, focused most of its activities in La Concepcion – in the Masaya volcan region, also not so far from Managua. La Concha, as it is called, comprises both a small urban and rural areas.

In 1998 the region was severely affected by Hurricane Mitch, which caused serious damages to infrastructure and the environment and natural resources, provoking degradation of soils, impacts on the regions development and on the small micro-enterprises of rural as well urban areas. The impact was so severe that in many cases small producers haven't been able yet to reactivate their properties, with a clear impact to their productivity and the underuse of their land as units of

production in the rural areas. Lack of governmental assistance has worsened a situation where many of the small rural and urban entrepreneurs, mostly located in the peripheral areas of the municipalities are trapped in very precarious productive conditions.

Map 1 - Nicaragua

Source: Lonely Planet.com

The Role of Micro-credit in Nicaragua

Nicaragua is the poorest and most heavily indebted in Central America. Approximately 45 percent of the population of 5.48 million still lives below the poverty line. Most of the population is informally employed to guarantee their survival, which include selling foodstuff in street markets, operating informal taxis and minibuses, small industries/artisanship and small agricultural activities.

Table1 - Microfinance in Latin America and the Caribbean (Circa 2005)

Country	Number of MFIs	(US$ Millions)	Borrowers	Loan (US$)
1 Mexico	39	471	1,217,920	387
2 Peru	67	1,516	1,174,361	1,291
3 Colombia	22	315	608,282	518
4 Bolivia	21	635	548,242	1,158
5 Nicaragua	21	261	399,614	652
6 Guatemala	23	273	360,013	757
7 Ecuador	20	322	327,065	985
8 Chile	5	663	297,995	2,223
9 Brazil	16	91	289,697	313
10 c	15	164	175,716	932
11 ElSalvador	11	138	143,461	964
12 Honduras	14	80	139,424	575
13 Haiti	9	24	81,222	374
14 Paraguay	5	71	59,936	1,193
15 CostaRica	19	341	45,607	7,469
16 Venezuela	5	37	44,969	816
17 Panama	6	16	28,103	552
18 Uruguay	3	10	7,155	1,422
19 Argentina	10	4	10,649	402
20 Jamaica	3	4	10,401	376
21 Guyana	1	2	4,184	413
22 Trinidad&Tobago	1	3	1,733	1,500
23 Barbados	1	4	384	9,446
Total	**337**	**5,442**	**5,976,133**	**911**

Source: Navajas and Tejerina - 2006

The financial system is highly concentrated within three large banks that favor corporate clients and offshore activity, and most institutions that center their activities in micro-finance[4] emerged during the 1990s based strongly on support from international donors, for which microfinance is a tool to reduce poverty. After Hurricane Mitch, in 1998 many donor agencies increased their support to the country. The micro-finance growth is being led by 2 regulated finance companies, 21 non-governmental organizations (NGOs), and 12 finance cooperatives. At the end of 2004, microfinance comprised approximately 300 organizations serving with a combined portfolio of US $240 million (ASOMIF, 2007).

Table 2 : Micro-finance Institutions in Nicaragua

	Regulated finance companies	Private Unregulated Corporations	Non governmental organizations	Finance cooperatives
Organizations that provide financial services to low income	2	7	100	190

Source: ASOMIF -2006

Nicaragua has 21 MFIs with a portfolio of US$ 266 million and around 300,000 borrowers in 2005, where 75% of the number of borrowers and 52% of the portfolio refersto Non Regulated MFIs with an average loan of US$ 652,00 (Navajas and Tejerina, 2006). The regulated MFIs are responsible for a portfolio of US$120 million representing 21% of the borrowers, while credit unions have 2% of the portfolio and 2.6 of the borrowers (Navajas and Tejerina, 2006).

Table 3 – Institutions, Portfolio, Borrowers and Average Loan

Institutions	Portfolio	Borrowers	Average Loan
21 NGOs	U$266 million	300.000	U$ 652,00
2 Regulated	U$ 120 million	85.000	
Credit Unions	U$ 8 million	12.000	
Total		400.000	

Source: Navajas and Tejerina, 2006

Twenty-one of the 100 NGOs are affiliated with the Nicaraguan Association of Micro-finance Institutions (ASOMIF), the two regulated finance companies are subject to the SIBOIF (Superintendence of Banks), and the 12 finance cooperatives are members of the Association of Nicaraguan Savings and Loan Financial Cooperatives (CCFN). According to CLEAR[5], these organizations reported a collective loan portfolio of US $188 million and 317,000 clients at the end of 2004, while the precise size of the collective loan portfolio of the remaining organizations

[5] A Country-Level Effectiveness and Accountability Review (CLEAR) took place in Nicaragua from February 13, 2005, to March 4, 2005, to analyze donor effectiveness in supporting microfinance

was estimated at $50 million in 2001, with c. 155,000 clients. Average loan is between US$ 310,00 and US$ 410,00.

According to a ranking of Latin American and Caribbean countries (Navajas and Tejerina, 2006) using data compiled in 2001, Nicaragua has the largest number of Microfinance clients in relation to its total population (7%) and the relation of microfinance clients to Micro-enterprises represents 58.3%. Other data compiled by these authors show that Nicaragua had around 400,000 MFI clients and around 690,000 micro-enterprises in 2005. When compared with a country like Brazil, with 22,500,000 micro-enterprises and only 290,000 MFI clients or 1,3%, we have an indication of the strength of MFI institutions in the country as can be observed in Table 4.

Table 4 - Microfinance Country Ranking in Latin America and the Caribbean

Country	MFI Clients (Circa 2005)	Household Surveys		MFI clients/ Population	MFI clients/ ME
		Date of Survey	Microenterprises	(%)	(%)
Nicaragua	399,614	2001	684,885	7	58.3
Ecuador	327,065	2003	885,748	2.4	36.9
Bolivia	548,242	2002	1,736,984	5.9	31.6
Peru	1,174,361	2001	4,993,399	4.2	23.5
Guatemala	360,013	2000	1,600,041	2.8	22.5
Chile	297,995	2003	1,497,112	1.9	19.9
Honduras	139,424	2004	1,036,684	1.9	13.4
Dominican Rep.	175,716	2004	1,399,785	2	12.6
Mexico	1,217,320	2004	10,394,629	1.2	11.7
Panama	28,103	1999	289,004	0.9	9.7
Costa Rica	45,607	2004	516,527	1.1	8.8
El Salvador	143,461	2002	1,991,091	2.1	7.2
Guyana	4,184	1999	58,327	0.5	7.2
Colombia	608,282	2003	8,713,336	1.3	7
Paraguay	59,936	2003	1,542,800	1	3.9
Jamaica	10,401	2002	408,627	0.4	2.5
Uruguay	7,155	2004	387,145	0.2	1.8
Venezuela	44,969	2004	3,247,271	0.2	1.4
Brazil	289,697	2002	22,407,968	0.2	1.3
Argentina	10,649	2004	3,787,634	0	0.3
Haiti	81,222	n.a.	n.a.	1	n.a.
Barbados	384	n.a.	n.a.	0.1	n.a.
Trinidad & Tobago	1,733	n.a.	n.a.	0.1	n.a.
Total	5,976,133		67,578,997		
Weighted Average	8.7				

Source: Navajas and Tejerina, 2006

Micro-credit providers have increased the number of credit clients they serve by approximately 26 percent per year since 1999. This growth has, however, been limited to a few institutions: 12 out of the 35 largest MFIs (including 2 finance companies and ASOMIF affiliates) accounted for 80 percent of the increase in number of credit clients and 90 percent of the growth in outstanding portfolios between 1999 and 2004.

ASOMIF members are divided into three categories: Group 1 - 4 organizations with a portfolio greater than $10 million in 2004, Group 2 - 6 organizations with portfolios greater than $4 million and less than $10 million, and Group 3 - 11 institutions with a portfolio less than $4 million. These associations that aggregate microfinance organizations have complemented their financial activities with technical support programs, local training and education facilities.

Within this context, microfinance emerged as an alternative to include those that are not reached by formal financial market, and according to recent studies nearly 20 percent of the Nicaraguan population is either a direct or indirect user of microfinance services.

Despite these problems, analyists emphasize the following concerns about MFIs in Nicaragua (CLEAR, 2005):

1) Exclusive specialization in credit services has undermined efficiency and diversification

2) Overwhelming concentration of donor support on channeling large volumes of credit has weakened the microfinance market

A. Donor aid effectiveness is hampered by the lack of coordination within th e sector

3) The government should encourage a more inclusive financial system

4) Limited service access in rural areas and high cost of credit to clients

ASOMIF affiliated companies reported that 58% of clients were rural in 2004.At the present moment there is a project of law in the Nicaragua Congress which is very relevant for microfinance. It has been approved in its general terms but important topics remain unresolved. It has already been decided that a microfinance institution cannot capture savings. This law, which should have been approved six years ago, comes late, following many years of discussion, and that introducing uncertainties in the planning process of micro-credit expansion.

6. Microfinance in Peru

Brief Socio-Economic Profile

In recent times, Peru has suffered significant change. It has undergone hyperinflation, high economic deficits and political turmoil in the last two decades. These have been efficiently addressed to some extent, resulting in a period of prosperity and growth, even amidst political uncertainty. Peru addressed its economic troubles through a process of structural adjustment and stabilization. Since the Lost Decade, it has lowered trade barriers, opened the economy to foreign investors and contained inflation. Following these changes, Peru has been able to experience average real GDP growth of 5.7% between 2002 and 2006. Inflation during this period was 1.9% on average and Foreign Direct Investment (FDI) inflows as a percentage of GDP are estimated at 3.1%. Last year alone (2006), GDP was estimated at US$93.3 billion, displaying a real GDP growth of 8.0%6.

This significant increase in GDP has been well fed by the record high mineral prices. While the origin of GDP relies heavily on agriculture and livestock (8.4% of total GDP in 2005), Peru exports mostly minerals (6.6% of GDP in 2005), more specifically gold (US$4,409 million in 2006) and copper (US$6,034 million in 2006). This dependence on primary goods subjects the economy to shocks, making it particularly volatile to weather conditions as well as commodity prices (i.e. the impact of El Niño on profitability).

With its structural adjustment and stabilization policies, Peru underwent comprehensive tax reform, leading to a cut in expenditures of state-owned enterprises. This opened the country to private investment and private enterprises, and by 1996, Peru was among the top ten recipients in developing countries of FDI.[7] Concurrently, Peru has one of the lowest public investments in the world (at an average of 2.8% of GDP). Public investment and increased social expenditure to address the underperforming public education and healthcare systems have thus become major issues in President Alan Garcia's economic program, as he struggles with a weak congressional position to reduce Peru's critical poverty levels. By

[6] The Economist Intelligence Unit, Country Briefing 2007.
[7] UNCTAD, 1999.

boosting public investment in basic infrastructure, President Garcia hopes to reduce inequalities and increase the level of social wellbeing of a large group of Peruvians.

Peru is a lower middle income country, with per capita GNI at US$2,610 (2005). It ranks 82nd out of 177 countries in terms of Human Development Index, with a 0.767[8] rate. Although below the average HDI for Latin American countries, Peru boasts a relatively high literacy rate for those above 15 years old, of 87.7% (2004). The combined primary, secondary and tertiary gross enrollment ratio was at 86.4% in 2004. A vast majority of the population is concentrated in urban areas, with 27.4% living in rural regions[9]. Nonetheless, the poverty rate was astounding. As per the UNDP, in the period of 1990-2001, over 40% of the Peruvian population lived below US$2 a day and 15.5% lived on less than one dollar per day[10]. These are the individuals with extremely limited access to credit, who experience daily hardships as they attempt to survive.

Overview of Microfinance in Peru

With the sharp stabilization and structural change following the Lost Decade, goods were liberalized and the state's active participation in productive activities was reduced, so that the government could devote most of its role to regulation. This occurred through the strengthening of the Superintendency of Banking and Insurance (SBS) and the development of a public credit bureau system and private firms' regulation. Presently, the Peruvian financial sector has seven types of institutions, including five types of MFIs (cajas municipals, cajas rurales, cooperatives, entidades de desarollo de la pequeña y micro empresa, and NGOs. These are all mostly regulated by SBS. Aside from these five types of institutions, there is also a commercial bank devoted to microentrepreneurs, Mibanco.

The MFI sector flourished in Peru in the nineties, with access to credit increasing from 17% to 32% in 1997 (FAO Office 2003). The increase in supply of microfinance services is attributed to the 1996 General Banking Law, establishing a new financial system. This law established that: 1) financial institutions were free

[8] Human Development Report, UNDP 2006.
[9] Mix Market.
[10] Human Development Report, UNDP 2003.

to determine interest rates and operations; 2) the State was no longer to directly intervene in the financial system; 3) the Superintendency of Banking and Insurance was strengthened, as all regulated financial institutions had to report to the SBS. However, the upsurge was short-lived, not being able to withstand the macroeconomic crisis of 1997-1998, which resulted from the Asian, Russian and Brazilian crises. At that time, it was estimated that about 42% of Peru's GDP came from the microenterprise sector, who employed 75% of the urban economically active population.

The supply of microfinancial services increased mainly in urban areas, with rural areas maintaining an average access to credit of 20%. Commercial banks were expected to address agricultural credit, which they did temporarily, prior to the recession. According to SBS 2001, only 15% of the loans allocated to agriculture were financed by MFIs. This led to the creation of Agrobanco in 2001; which is aimed at small-scale farmers who need to access credit at low interest rates.

Banco Agrário de Peru (BAP) was established in 1931, but it became truly active only in the 1960s. As the main source of credit for the rural sector, it rarely benefited the most deprived areas, as it concentrated its operations on the (wealthier) coastal region – more specifically, 60% of its credit directed mainly to products of high consumption rates in urban areas. The portfolio also privileged richer farmers, who used to be former clients of the commercial banks, thus decreasing transaction costs related to lack of borrower's information. Allegedly, the Banco Agrario had a passive stance by giving loans to those individuals who approached its offices[11] – a procedure that usually favors, for instance, more well-to-do farmers who will have the knowledge, assets and the initiative to look out for loans.

Banco Agrario's demise followed years of high operational costs, which consumed a third of its income, combined with unsustainable interest rates (average real interest rates of minus 96%)[12]. Additionally, the rural financial sector lacked the necessary regulatory framework that would help in its organization. Under these

[11] http://www.agrobanco.com.pe/serv_faq.htm
[12] Source; http://www.peru.com/articles/99/11/finanzas/19991110/index.htm

circumstances, the government started liquidating the bank in 1992 leaving a void, where it should have left an institutional and regulatory framework for private institutions to step in.

Aside from the high exclusion rate, the bank also operated with subsidized interest rates. According to the Encuesta Nacional sobre Niveles de Vida (ENNIV) only 16% of all rural households obtained some type of credit. Over the past years, traditional banks grew 15%-20% per year in terms of credit, whereas the microfinance institutions were growing at a rate of 37%-38%. This is due to the fact that the microfinance market involves three million micro-entrepreneurs – half urban and half rural – among which only eight hundred thousand have access to microcredit. There is still clearly a lot of scope for expansion. That is the reason why many large banks have their microfinance institutions. Everyone wants to enter this sector, since, despite being very risky, it is very profitable as well.

7. Evaluation Methodology

Impact Evaluation: Conceptual Framework

The IAF asked Foundation Getulio Vargas to evaluate 11 micro-credit projects that expired in 2003 and 2004.

The IAF first funded micro-credit projects during the mid 1970's at the time when offering credit to the poor and excluded was groundbreaking. Over the years, it has funded a variety of credit programs through varied institutions. Other donors followed suit in the 1980s and 1990s, so credit that was once revolutionary has become part of the development lexicon. The IAF continues to fund a variety of credit programs in response to proposals from NGOs in Latin America.

In view of this continuous demand, the IAF wants to learn about different micro-credit projects and their impact on its target population in order to inform its interventions. In this sense, the aim of the evaluations is to help define a coherent vision of how to support microfinance programs consistent with the IAF's philosophy and mission.

The IAF also wants to identify different types of micro-credit delivery mechanisms, as well as different types of organizations managing with micro-credit funds. For this purpose, it is important to examine savings mobilization to understand the impact of micro-credit models.

In its 2006/2007 Scope of Work, the IAF defined the main questions that the impact evaluations should try and answer, namely:

At the programs level:

- *Are IAF-supported credit funds reaching the poorest? If not, why not?*
- *Can IAF-supported credit funds help the poorest? If so, how? What are the most appropriate credit funds as development tool?*
- *What are the impacts of credit funds with technical assistance to borrowers, their families and their communities?*

- *What do credit funds recipients think about the funds as a development strategy?*

At the institutional level:

- *Does the management of credit funds build stronger institutions overall?*
- *Could credit services have been attained elsewhere? If so, under what conditions?*
- *What are the institutional challenges for managing a micro-credit fund portfolio as a component of different objectives and activities? How do grantees overcome the challenges?*
- *Have grantees creatively responded to the needs of their clients? If so, how?*
- *What are the innovative aspects of each micro-credit fund?*
- *Do micro-credit funds continue with similar purposes and goals after the IAF grant expires?*

At the country level:

- *Do IAF-supported credit funds fit into a country context or existing legislation and micro-lending institutions?*
- *What is the impact of IAF-supported credit funds on other in-country micro-finances institutions?*

Meta Analysis Questions:[13]

- "Which credit funds work best? Which ones have the greatest impact for the borrowers?"
- "What are the most appropriate credit funds as development tool?"

Our objective here is how to approach these questions through various qualitative and quantitative[14] methods to evaluate the microcredit programs at hand. Videos

[13] The questions such as will be answered in the meta-evaluation at the end of 2007, when a final report compiles all the year's analyses.

will be available on the project output website. They are complementary to the Impact Report, making the impacts and the current context of the projects more visible. Videos provide images that can enrich the content of the reports - providing a first-hand inspirational account on the lives of some beneficiaries and the grantee organizations.

All evaluation reports, videos and background materials for the current year such as this methodological paper are available on the restricted access output websites: http://www4.fgv.br/cps/simulador/iaf2_website/index.asp Similarly, preliminary bibliographical references are also available on the website to foster methodological exchanges between project participants (and also to facilitate remote access during fieldwork trips). This preliminary methodological report is also found on this project input restricted access website: http://www4.fgv.br/cps/simulador/Site_IAF_Bibliografia/index.asp

Measurement Units and their pros and cons

The most often used units of impact evaluation on microcredit programs are household, business establishment, and institutional environment in which the agent interacts. More seldom, studies have tried to evaluate the program's impact at the individual level (Goets and Sen Gupta, 1995; Peace and Hulme, 1994). Recently, some studies have tried to measure in a number of levels, such as Hulme and Mosley (1996)), which evaluated impact at the household, business establishment and institutional context levels. The main advantages and disadvantages in each unit of impact measurement are listed in the table below. Focusing solely on individual or establishment weakens analysis, the first of neglecting externalities generated by the microcredit program, and the latter for being a category of difficult definition.

[14] We do not believe that the type of quantitative questionnaire present here and the exopperimental (or quasi-eperimental) methodologies presented before would work in the type of IAF projects at hand. Among many short comings, the sampling would just not be reliable because it is picked and provided by the institutions that are object of the evaluation themselves. However, the specific quantitative questionnaire present here does help to complement the qualitative methodology discussed here.

UNITS OF EVALUATION	ADVANTAGES & DISADVANTAGES	RATIONALE	DATA COLLECTION
Community	Allows for larger intervention externalities to be captured.	Identify benefits and losses for the community as a result of the project.	observation; interviews; transect walks.
	Difficulty in obtaining quantitative data; Limits are arbitrarily defined.		
Institution - Grantee	Data availability; Availability of analytical tools (profitability, transaction costs, etc.)	Capture institutional changes over time, while trying to attribute impacts to IAF intervention. Provide report on current financial and institutional status and future prospects.	semi-structured interview; visits; observation; document review
	How valid are the inferences on results obtained through institutional activity?		**To validate inferences: triangulation**

UNITS OF EVALUATION	ADVANTAGES & DISADVANTAGES	RATIONALE	DATA COLLECTION
Beneficiaries (Families)	Advantage: Easily identifiable and delimited. Main target of the projects.	Understand the beneficiaries livelihoods priorities in order to assess whether the project helped them; Capture unexpected outcomes. Understand if they have increased their capacity to control own circumstances	semi-structured interview; participant observation; visit to productive unit (land or business). Purposefully selected beneficiaries: if possible, a sample that represents both sucessful and unsuccessful cases - based on the questions from the Scope of Work.
	Disadvantage: Most interventions have an impact beyond the individual; makes difficult the partition of impacts		
Benefited businesses	Availability of analytical tools (profitability, return on investment, etc).	Assess if and how the project improve business strategies.	semi-structured interview; visit to businesses; document review
	The definition and identification of these establishments may be done with difficulty; A part of microfinance is used for other establishments and/or consumption; Connections between establishment performance and individual's living standards needs careful evaluation		
Families	Easily identified and defined; Allows for an appreciation of impact in living conditions; Allows for the evaluation of the connection between different establishments and consumption;	Understand how other family members benefited (or not) from the project intervention.	semi-structured interview; observation. Gender-focus.
	Sometimes difficult to determine group members.		

Analytical Framework

STAKEHOLDERS	METHOD	DATA COLLECTION	EVIDENCE AND INDICATORS
Community	qualitative	observation; interviews; transect walks	did the project help to maximize communities assets? did it help to reduce problems? is the community more able to manage available resources? do supported businesses/activities satisfy the main local needs? do they generate linkages within the local economy? has social capital increased?
	quantitative	secondary source of data: socio-economic indicators	immigration patterns; access to credit; production; income, etc...
Institution - Grantee	qualitative	semi-structured interview; visits; observation	how institution used to be, how it is now: human resources, projects profile, capital resources? did its capacity increase? What are the main challenges in managing credit funds? How did grantees overcome them? How can the IAF improve its intervention? What are the project´s main lessons?
	quantitative	primary source of data: financial records	financial sustainability; loans per year; value of loan; value of portfolio; late payments; loans written off; **lending technology:** selection criteria; monitoring; per group, individual, interest rates.

STAKEHOLDERS	METHOD	DATA COLLECTION	EVIDENCE AND INDICATORS
Beneficiaries	qualitative	semi-structured interview; participant observation	perceptions about improvements in living standards; change in livelihoods strategies; reduction of vulnerability to shocks; how did credit influenced these changes? how difficult was it to pay the loan? impacts of technical assistance and/or capacity building. Credit track record.
	quantitative	primary source of data: financial records; questionnaire	income; productive capacity; loan repayment capacity; cost reduction; commercial strategies.
Benefited businesses	qualitative	semi-structured interview; visit to businesses	how did strategy change after the concession of credit? Difficulties to pay? Impacts of technical assistance and/or capacity building. Credit track record.
	quantitative	primary source of data: financial records; questionnaire	revenue; productive capacity; loan repayment capacity; cost reduction; commercial strategies.
Families	qualitative	semi-structured interview; observation	subjective perpection about the changes revealed by the answers to the questionnaire (consumption patterns; diet, etc): "What did it mean to you?". Gender relations; generational changes; immigration patterns.
	quantitative	primary source of data: financial records;questionnaire/ secondary source of data: socio-economic indicators	consumption pattern; diet; school attendance and attainment; living costs.

Qualitative Methods

Qualitative inquiry does not exclude the need to quantitative research: they can actually help complement each other's findings: some data lend themselves to quantitative assessment, whilst other findings are better scrutinized through qualitative techniques.

Qualitative methods include in-depth open-ended interviews, focus groups, observation, documents and case studies. In this particular case, qualitative data is used to assess individual, community and institutional both expected and unexpected outcomes, whilst trying to understand the project's main processes from which lessons can be derived for the IAF interventions. Fieldwork may also represent a valuable opportunity for grantees to "stop and reflect" about these outcomes and lessons. Likewise, in the tradition of appreciative inquiry, fieldwork may offer a chance for some stakeholders to recall positive experiences, which can be useful for their future. As much as possible, multiple sources of data should be approached in order to enable triangulation and enhance the validity of data gathered through qualitative methods.

The main qualitative tool used during fieldwork is the *semi-structured interview*. Unlike questionnaires, interviews are based on open-ended questions, which provide a general framework for the conversation, whilst allowing the interviewer to follow any relevant leads that this conversation may offer. It also gives greater freedom for the interviewee to explore issues that he/she finds important, within their own context. In this way, the topics can be dealt with in greater or less detail, according to the need. Interviews are often also an opportunity for the interviewee to ask questions and solve their own doubts – hence, proving a fairer learning tool for both parties.

We have benefited considerably from the ideas conveyed by the Asset-based community development approach, whose main contribution is to shift focus from a problems/needs-based perspective to an asset-based view. Albeit better deployed in the design and implementation of the project, it can also be quite useful in an ex-post evaluation, through its techniques and paradigms:

- Appreciate inquiry: this was particularly useful in the meetings with the grantees and beneficiaries. “Appreciative inquiry is a process that promotes positive change (in organizations or communities) by focusing on peak experiences and success of the past” (Mathie and Cuningham, 2002: 7). Appreciative inquiry rests on the assumption that “reality is socially constructed and that language is a vehicle for reinforcing shared meaning attributed to that reality” (idem).

- Participatory paradigm: it has been the focus of the development practice for many years now, in an effort to shift power back to communities, who had been at the margin of projects – that left them largely powerless after their conclusion.

- Social capital: it is the force that nourishes the networks and associations, decreasing the costs of transaction and increasing mutual trust. It is perceived as essential to achieving sustained economic prosperity and it related to social equality (Putnam, 2000).

- The concept of community economic development (CED) rests on findings from the community development research Mathie and Cuningham (2002). In short, CED comprises the following aspects: development of economic systems and infrastructure, as an exogenous process that leads to economic growth; development of the economic capacity building of community members whereby economically marginalized groups learn “to exploit the potential of underutilized natural and institutional resources” (idem); and, development of the economic capacity of groups: this assumes that collective action will be the means to identify problems and develop solutions.

Videos

The Centre for Social Policies team registered in video the visits done to the projects site and interviews with its stakeholders. These videos are an integral part of this evaluation and is available on DVD and on the project website together with the main outputs and inputs used in this evaluation. The electronic version of this report will provide links to these resources at specific points of the text.

Interview I - Hector Madriaga from Fondesurco and Alipio Montes from Ceder on microcredit in Peru - Full video

This interview fulfills perhaps the main role of FGV as a messenger for the IAF while also gathering a pool of project-specific knowledge.

ABOUT THE INSTITUTION

Marcelo Neri (FGV): **How important is transparency for microcredit?**

Hector Madriaga (director of Fondesurco) We from Fondesurco believe that transparency is our philosophy, and by transparency we mean not only showing our results, but all the operations we do. We have received for the second time the award for financial transparency given by Cgap. We have been doing this since Fondesurco started, approximately thirteen years ago. This allows us not only to have this kind of recognition, but also that the financial companies open their doors to us. In the beginning of the year we had as well a very good risk qualification. We obtained a B. It is the highest one in Peru, and below only the State Bank of Chile in Latin America, with whom there is no comparison.

Neri: **What are Fondesurco other strong points?**

Hector: After transparency, the greatest fortress of Fondesurco is our patrimony. We have accumulated during those years a patrimony of 1,3 million dollars., what gives us a ratio of one to one.Another fortress we have concerns the theme of specialization: we only do credit. We have got alliances with other institutions, such as AEDES, which is in charge of technical assistance.

Due to our size, at the moment we finance only small projects. The largest project destined to a specific purpose at the moment is the one with APCO and AEDES, a project of 96 thousand dollars to carry out organic cultures. We also have a project of diversification of

production relating cattle and agriculture to commercial activities, which involves around one hundred thousand dollars. We do not have a five hundred thousand dollars project for potatoes, for example.

Miguel Cuevas (IAF) - **Analyzing the project we are financing, I have noticed that there are loans being provided even for funerals. It is quite risky, is not it?**
Alípio Montes (Director of CEDER) Not if you evaluate carefully. If a relative dies, in order to bury the person the peasant has to sell her cow. And if she sells her cow, he turns out to lose her capital. Therefore, it is more profitable to get a loan and keep the cow. It is better to borrow than to have to mortgage her farm, which she will never recover. It seems to be a risky business, but if one looks deeper one will see that, in order to marry their children - and they will do it anyway - the peasants will have to sacrifice their assets if they do not have access to credit.

Hector Madriaga (director of Fondesurco)**:** Five, six years ago, the mainstream thought was that microfinance was only meant to finance productive activities. If a client came and asked for one thousand soles because he wanted to marry his daughter we would not lend it. But today it is possible. The microfinance can be used to a broader set of things, such as the peasant being able to use it to marry his daughter, for example. Obviously the loan will be carefully evaluated, but if he can pay it back, why not to provide the loan? What is the difference between an urban and a rural person? None. Both need the same kind of service: credit both for consumption and for productive activities. Obviously only a small part of our portfolio is dedicated to credit for consumption - it ranges around 3% to 4% of our total portfolio. But if one wants to buy a bicycle or a motorcycle we lend the money, we do not limit ourselves to productive activities.

Miguel Cuevas (IAF): **Have you thought of opening lines of savings, besides the ones of credit?**
Hector: In order to do this we have to become a supervised institution. But we have considered it very seriously, and it is in our medium term plans. It is not interesting to us to remain forever only a credit provider, since the banks provide loans at the same time as

they raise savings. We have already started to talk about establishing alliances with some banks, or even to become a bank._To provide the service of savings as well would lead definitely to more benefits than cost. We would have to pay taxes over income gains. But we would have access to better lines of financing. **video**

ABOUT AEDES AND CEDER

Marcelo Neri (FGV): **How about the relations between Fondesurco and other institutions such as Ceder and Aedes?**

Hector Madriaga (director of Fondesurco): Credit by itself does not promote development, it only does when accompanied by other tools. That is why we make alliances such the ones with CEDER, AEDES. They do their part and we do ours. If we only provided credit I do not think we would have generated the development we did. Between CEDER and Fondesurco, there is a sizeable flow in dialogue and communication, and a very good and close relation based on trust. The relation is really easy-going. With AEDES, in turn, we have only this project with you from IAF and another one with Cordait. We have offices in Puquina and Omate, but we have no office in Cotahuasi. Thus, our relation with CEDER and with AEDES is totally different.

Neri: **How about the methodology?**

Hector: In what concerns methodology of work our relation towards each of them is very different as well. Since we have offices in Puquina and Omate, we visit people and we carry out the evaluations, the outlays and the recovering, We carry out the entire cycle of credit and CEDER give us information about the clients. With respect to AEDES, they give us information about the clients, visit them, help us with the evaluation, and the outlays we make here in Arequipa. It means that normally the clients have to come either to Arequipa or to Cuchibamba – we both have an office in Cuchibamba. They are also sharply different in what refers to the activities they finance, what leads to a different type of credit provided, as well as on the maturity of those credits. The interest rates we charge are different as well. In the case of AEDES the credit is normally in dollars, whereas in the case of CEDER it is part in dollars and part in soles. With respect to information, I would say they are rather

similar. The projects we carry out with CEDER are larger, involving more clients, more movements, whereas the one with AEDES is more limited in what concerns the amount of clients. Those are the major differences concerning our relations with CEDER and AEDES.

Marcelo Neri (FGV):**There is also a sizable difference with respect to the credit model they use, whether the credit is provided to an individual or to a group, or still institutionally for commercialization purposes**

Hector Madriaga (director of Fondesurco)**:** That is correct. AEDES works mainly with associations of producers, the credit is provided to the association, which is completely difference from what CEDER does, which has started with group lending but nowadays works with individual lending. We work together with AEDES in a project with APCO, which involved a loan of 96 thousand dollars to the association and 250 peasants that take part on it and export their production with the help of AEDES.

We have a project with Talleres, for example, where they give incentives for the peasant to export, provide training and technical assistance for them, look for a market for the products, everything. What we do is to provide the supply of credit and to act as an intermediary concerning the payment. The buyers are in Switzerland. They pay in our account and we transfer the payment to the peasants. Hence, the service is complete. The peasant is assisted in all stages of the chain. Therefore, the possibility that is goes wrong for the peasant as well as for us is very small. video

PROFILE OF BORROWERS

Neri: **How about the very poor, do they get loans?**

Alípio Montes (Director of CEDER) We do not lend to those in state of indigence, for those have no need for credit, but for other kinds of subsidies instead. What we do is to lend to those that have potential, once having money, to generate an excess, to capitalize and to pay back the loan. If someone is poor in the sense that she wants one hundred soles, we lend her. As an institution, we choose not to work directly with the extremely poor, since they require a particular kind of social and assistance programs. We work with the poor that have some capacity to develop economically. Besides, we have the conception that those

poor, in their process of developing and becoming less poor, will drag the others as well. In this sense, you will find in Omate and Puquina a very little segment of extremely poor. A recent study, which on one hand has surprised me and on the other hand confirmed an impression we already had, showed that Omate is placed as the 150th among the 1800 districts in Peru with respect to population's average income.

Marcelo Côrtes Neri (CPS – FGV – Brazil): **How about differences between rural and urban sectors?**

Hector Madriaga (director of Fondesurco): We make a chronogram in order to prevent potential problems. And for this we have to consider that the credit for agriculture is different from the one directed to cattle, which is different from the commercial one, which is different from the on directed to handcraft, and also from the one related to fishery. Each activity has a different manner of doing the chronogram. The State has also played an important role in all this, since nowadays the larger part of our clients has got property titles that can be used as collateral. And due to the accomplishment of these factors 100% of the loans from IAF have been recovered.

The subjectivity involved in the provision of credit in the rural zone is more complicated than in the urban zone. In the urban area, there is no problem in providing credit for consumption. If one earns one thousand soles, has got two children, has got a house, one car, one gets easily his request of credit approved. In the rural area, in turn, it is very complicated. It depends not only on this, but also on the perspectives related to market issues, especially those related to prices and to climatic factors.

Neri: **What is the difference in practice between lending to an association vis-à-vis to an individual?**

Hector: Our experience has shown us that to lend to an association is riskier. The interest rates are lower due to the support of *Cordaite*. If it did not exist, the rates would not be as low. Within an association things work as they were not suppose to. To be the president of an association, for instance, gives one privileges one can use in a bad way. A new president

sometimes does not recognize a debt left by the president before him, for example. We had some experiences of embezzlement of funds.

To work with a group lending model has been a lesson for the institution. This model has had some relevant problems. If one does not pay the others become responsible for paying the debt, what is complicate. Besides, group lending is a limitation for expansion. One might need five hundred, whereas another one might need five thousand. With individual credit you have to be responsible for the credit. Nowadays the clients can ask for individual loans without any problem. Most people form a group just in order to get the loan, not because they want to work in a group, to cultivate together, and so on. We had many experiences that showed us that. If there is an association helping and giving them assistance, the results are good. This is the case of AEDES, which acts as an assessor. But if, instead, they are left alone, it does not work.

Miguel Cuevas (IAF): **The individual loans are mainly used for the purchase of inputs, are not they? Or they are also used to increase the production?**

Yes, normally they are. But it depends on the product. In some of them they can use the loan to increase the production, but not with perishable products.

Neri: **About the location choice. Does Fondesurco chose a place with a lot of needs, a place with a lot of potentialities, or both?**

Alípio Montes (Director of CEDER): Exactly, this is the concept. When we arrived at Omate and Puquina, poverty was very large but we saw as well a huge potential, especially with fruit culture and cattle. A study about the impact of social projects on extreme poverty came out with a quite surprisingly result: in this zone where we work the economic situation is very homogeneous. In Omate I do not know pure salaried-peasants, everyone has a piece of land.

One advantage of this region is that each peasant has on average one hectare and a half of land. With this size of land, if the peasant does not cultivate it, he becomes extremely poor, but if he does cultivate it with *palta, lima* or *cilimoya,* he will have an income corresponding to the salary of a teacher. We do only credit, and only rural credit. We have

always been dedicated to that and the future of Fondesurco is to keep providing credit to this sector. We have no interest in Arequipa or any big city, our expansion go the another way towards places each time further away. The idea is to decentralize, and turn Arequipa into an operation center, nothing else.

Hector Madriaga (director of Fondesurco): Our expansion is concentrated in this kind of market, where there is no competition and no supply of credit. For instance, three days ago we started to work in Acari, which is a place which has not access to credit.

Miguel Cuevas (IAF) **And it might not have access either because the costs are too high or because the level of the potential beneficiaries is two low. Besides, people do not have a history of credit.**

Hector Madriaga (director of Fondesurco): In financial terms, it is because the market size is too small. This last place mentioned, for example, has got a population of two, three thousand people, and at a maximum three up to four hundred potential borrowers and this amount of people is too small for a bank. The issue related to open a new office has to do with market size. As well as the traditional banks would not go to Puquina and Omate because of the small size of the market, we also have limitations concerning the size of the markets. In order to open a new office, we need an estimated growth of two hundred thousand dollars in the portfolio in the first year, and a growth of three hundred thousand dollars in the second year, which is the average needed to handle an office. If we do not succeed in having this increment in the portfolio we will not be able to cover our costs.

Marcelo Côrtes Neri (CPS – FGV – Brazil): **And do you succeed to be profitable in that way?**

Hector: All the offices of Fondesurco follow a principle that all loans must be recovered and must generate an excess. We do not have the same excess of a bank that works with a return on equity of 30% - ours is around 17%-18%. Basically our return is so smaller than theirs not because our costs are higher, but because our spread – the difference between the rate we lend and the rate we borrow - is smaller. Curiously, the rate we charge is much lower than those of the traditional banks. video

INTEREST RATES

Miguel Cuevas (IAF): **How about the interest rate charged on loans?**

Alípio Monte (director of CEDER) The rates charged by the banks vary considerably, ranging from 11% - to large amounts of money – up to 60% per year.

Hector: Our interest rates are already lower than those of other institutions. With respect to the operations, the benchmarking – the average - of those who are in this business is 17%-18% of costs in relation to the portfolio. Ours is 15%. Hence, we cannot lower our cost even further. We cannot reduce our staff either. I would say the only way through which we could reduce the rates charged is to have a larger scale. If we enlarge our scale we would be able to lower our interest rates. If we growth this year the amount we are expecting to grow, we will be able to lower them. Our mission, while a social institution, is to provide fair rates. video

LOAN DECISIONS AND ATTITUDES TOWARDS DEFAULTERS

Marcelo Côrtes Neri (CPS – FGV – Brazil): **Is there any difference concerning the need for collateral? Is there social collateral?**

Hector Madriaga (director of Fondesurco): The property title is not a guarantee, it is just a threat. Its function is to make the clients think that if she does not pay she will have a problem with her title. From this you have the information related to the knowledge of the traditions, habits, social relations – if one is alcoholic, does not like to work, etc. This is the first source of information. The second concerns the activity. Ant the third one is the one provided by the risk center. There are risk centers that gather information about the people who are in default as well as about people's credit at each moment. Fondesurco reports and searches for information in two risk centers, where we can find all information we need, which stems from banks, stores and public services, such as telephony. With those three sources of information you have enough to make up the decision of whether to give credit or not.

Marcelo Côrtes Neri (CPS – FGV – Brazil): **Do people with less education have a larger probability of paying back the loan?**
Hector: Yes, in fact they do. There is what we call the defaulter profile, which we use to make the scoring. For example, most of the defaulters are between 30 and 40 years old, borrow between one and a half and three thousand dollars, borrow money to invest in potatoes, have completed the secondary school, have got two children, are married and are men. This is the type of person the most likely to have problems in paying the credit back according to our credit risk model..

I will tell a very tragic story, so that you can see which extremes cases we can face. We had a client in Colca who asked for a loan saying she would invest and work. However, she would not pay us back for a long time despite all our visits, and we knew she had enough money to pay. We then started to pressure and to investigate and then we discovered that all the money went to her brother, who did not want to pay back. She got so desperate with the fact that she owned and did not have how to pay back that she tried to commit suicide. Meanwhile, the brother kept traveling, without worrying about the debt at all. This is the difference between a man and a woman when they are in debt. Fortunately she only went to the hospital but nothing more serious happened. And we felt very bad, especially because we became the villain of the story. And at last we discovered that, besides the fact that she had given all the money to the brother, she had gotten fired and had to go to the streets. It shows why we have to be really careful before starting a judicial process in such cases. These cases are very rare. In the past couple of years we have started only one judicial process.

Marcelo Côrtes Neri (CPS – FGV – Brazil): How is the microfinance´ sensitivity with respect to the macroeconomic situation? Hector Madriaga (director of Fondesurco): Definitely the macroeconomic context impacts sizably. One example is what is happening this year. We had planned to grow 35% this year, and we will grow 55%, because there was an improvement in the market for our clients, the expectations of growth are very positive. Definitely, credit has to be complemented with labor. Our reflections confirm that Fondesurco should provide the services it does to the people, but before the people have to start a process of transformation. video

In keeping with our previous studies in 2006, we privileged a qualitative approach to the impact evaluations. A combination of open-ended interviews, observation and document analysis was suitable in most cases to tackle the concerns of the research within the constraints of the study. Moreover, projects to be evaluated had already been selected according to their diversity in terms of scale, performance and strategy. Therefore, we could virtually typify each case study according to a given performance/strategy category and then identify its most prominent aspects to target better the questions from the Scope of Work. Within each project, we interviewed its main officers, a purposeful selection of beneficiaries, the main stakeholders and specialists, when possible to triangulate as much as possible the information.

Two important aspects were crucial to elucidating the outcomes assessments, namely:

- *Reduced vulnerability or increased ability to deal with their circumstances.*

> "Vulnerability may be defined as an internal risk factor of the subject or system that is exposed to a hazard and corresponds to its intrinsic predisposition to be affected, or to be susceptible to damage. In other words, vulnerability represents the physical, economic political or social susceptibility or predisposition of a community to damage in the case of a destabilizing phenomenon of natural or anthropogenic origin."[15]

- *The contribution of the IAF-funded project to this increased capacity.*

Unfortunately, we faced serious difficulties in most cases concerning the scarcity of financial information, which would be crucial to a thorough assessment of the performance of microcredit programs in terms of financial sustainability and institutional viability. This

[15] Greg Bankoff (Editor), Dorothea Hilhorst, Georg Frerks (2003), Mapping Vulnerability: Disasters, Development and People, Earthscan.

too, however, we took as an indicator of the low not as much a clear resistance to the disclosure of important information, but as the possible lack of information.

This problem is not new to the IAF, as the following excerpt shows:

"An early example of the paucity of financial data in development finance is found in the Inter-American Foundation's *They know how*… publicized in 1977 (available from the Superintendent of Documents, US Government Printing Offices, Washington DC 20402, stock no. 022-000-00137-0, reprinted in 1986). The foundation reports that, 'out of 21 projects, sufficient data (are) available on eight projects to make general statements on loan repayment (rates)'. Twelve projects had been in operation long enough to have expected loan collections, but no data were on hand (pa. 42)."[16]

Inevitably, this shortcoming has created a bias in favor of those grantees that presented financial records, as their performance could be rated. Not surprisingly, those with the greatest capacity to show their financial records also performed better in terms of microcredit service provision compared to their counterparts. For this reason, the "top three financial performances" by the projects concern those that disclosed most of their financial information: Accedde (ME-407), Fundación Leon (NC-27) and Fondesurco – which is not a direct grantee, but manages the funds of two grantees (Aedes, PU-507 and Ceder, PU-493).

Name	Country	Total Assets	Return on Assets	Portfolio at Risk>30 days Ratio	Number of active borrowers	Average Loan Balance per Borrower
FONDESURCO	Peru	2,228,098	5.13%	2.47%	1,818	1,168
Fundacion Leon	Nicaragua	6,263,954	0.22%	6.34%	9,43	554

[16] Von Psichke, "Measuring the performance of small enterprise lenders" in Kimenyi, Wieland and Von Pischke (1998) Strategic issues in Microfinance, Ashgate.

Index	Formula	
Capital	Assets - Passive	066 (Millions $)
Self-Sufficiency	Capital/Assets	17%
Solvency	Assets/Passive	.19%
Liquidity	Current Asset/Current Passive	116%

Aside with their financial situation, this is how the grantees were performing in 2007:

Table 2. Where organizations are now:

Organization	Project Outcomes	Current Status
Accedde	Introduction of bio-fertilizers, increased association between producers, enhanced production.	Increased dvison of labour within the organization: from local development, technical assistance to credit provision and support for commercialization services.
CDPZ	Affordable subsidized housing during life of the project only. Nowadays, strong political participation.	Increased social capital. Health centre. Politically active.
Knan Choch	High default rate. Temporary increase in income. Increased agricultural production. Protected woods area was increased.	Farmers still producing for subsistence, but with greater autonomy as a result of increased productivity. More organic practices. Limited access to credit and markets.
Apoyo	Improved farming practices, access to credit	Mixed record of trust and performance.
Agrodersa	Soil conservation, increased farming, enhanced agro-forestry system,	Diminished credit activities, but sustained the reputation as a reference organization in technical assistance and the trust before its target group.
Espino Blanco	Social investment fund: improved infrastructure, public services, increased beneficiaries' participation in decision making, increased mobilization.	The mobilization was strong, but the grantee's direct involvement in the social strategies has been reduced lately. It is still very much compromised to technical assistance and capacity building.
Fundacion Leon 2000	Strong credit focus.	Social interventions, such as a project with the Spanish cooperation to increase job placement for the youth. Currently, financial services provision provide the resources for these actions.
Emucosa	Improved livestock, Temporary collection action. Break of trust	Efforts to rebuild trust.

Aedes	Improved production and marketing. Increased trust and mutual knowledge (grantee + beneficiaries).	Strong credibility and bond between grantee and beneficiaries. Sustained activities.
Cedes	Improved local development practices: participatory budgets.	Incipient credit/financial culture. The grantee is fostering the formation of producers' association and cooperatives.
Ceder	Improved irrigation, reduced production costs, improved farming techniques, increased milk production.	Sustained intervention, good networking, and high levels of trust among community members.

The overriding concern is thus whether these projects have addressed the socioeconomic development needs of the beneficiaries and their communities, especially in what concerns the following topics:

- Increase in consumption and/or income
- Increase access to assets
- Women's empowerment
- Beneficiaries' empowerment
- Community's social capital

More specifically, what has been the role of microcredit in eradicating poverty? And the contribution of microcredit to these potential impacts? Based on each report findings, this summary report will try to unveil the dynamics of credit delivery in order to investigate the outcomes of each strategy and their possible qualitative impacts.

Each project report has aimed to address these questions in turn within each project's contexts (see website). We shall tackle each issue in turn in the following sections.

8. The concern about Self-Sufficiency

"Microcredit programmes extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families."[17]

Microfinance has been hailed as one of the most promising answers to the challenges of poverty, but its path is fraught with difficulties that can and should be addressed early on in each intervention. Economic theory has it that the demand for- and supply of funds would converge in the financial sector to be channeled towards the activities offering the best return to investment. The interactions between financial institutions and small-scale producers, however, are beset with limitations given the intermediation and information high costs – including the need to assess the profitability and risk of the projects[18] – as well as the diverse range of needs affecting rural farmers (entrepreneurial capacity, infrastructure, etc). These difficulties might include the macroeconomic context, the regulatory framework, grantees' capacity, beneficiaries' needs, etc. Some have argued that its attractiveness lies in its potential to become self-sufficient. The importance of self-sufficiency, however, does not come undisputed in the literature.

First and foremost, we cannot overlook the rift that seems to exist between what Woller[19] called "institutionists" and "welfarists". Put simply, institutionists place great emphasis on financial self-sufficiency and breadth over depth of reach. "Welfarists, on the other hand, emphasize depth of outreach. Welfarists are quite explicit in their focus on immediately improving the well-being of participants. They are less interested in banking per se than in using financial services as a means to alleviate directly the worst effects of deep poverty among participants and communities, even if some of these services require subsidies. Their objective tends to be self-employment of the poorer of the economically active poor, especially women, whose control of modest increases of income and savings is assumed to empower them to improve the conditions of life for themselves and their children. The

[17] http://www.grameen-info.org/mcredit/definit.html
[18] Valdivia, M. 'Del Banco Agrario a las Cajas Rurales: pautas para la construcción de un nuevo sistema financiero rural.' NOTAS PARA EL DEBATE 13, Lima: GRADE, 1995. 146 p. - http://www.grade.org.pe/asp/brw_pub11.asp?id=41
[19] Woller, G. et al. "Where to Microfinance?" in http://www.gdrc.org/icm/where-to-mf.html

center of attention is the "family." Like the institutionists, welfarists have assumed more impact than they actually have been able to document."[20]

"Welfarists distinguish themselves from institutionists primarily by their value-based commitment to serve the *very* poor (…). They do not differentiate themselves by any lesser degree of commitment to sound operational and management practices or to institutional efficiency or effectiveness. But whereas they believe that increasing financial self-sufficiency is generally desirable, they are unwilling to take the next step-to accept that financial self-sufficiency is necessary to fulfill their institutional missions."

Another take on the importance of institutional viability has it that "concern with viability springs from a clear recognition of the scarcity of resources. If resources are limited, without self-sufficient financial institutions there is little hope for reaching the numbers of poor firm-households that are potential borrowers and depositors."[21]

Therefore, three issues arise when discussing the importance of self-sufficiency: the role of subsidies; whether micro credit will lead to increases in income and whether this increase will impact positively in the condition of life; and, finally, if financial self-sufficiency is necessary to fulfill a mission.

Reconciling these differences is beyond the aim of this study, but based on the evaluated experiences, we will be able to test some of the assumptions from each side in order to hopefully contribute to the debate.

9. Good Practice in Microcredit: Reconciling Operational Scale and a Poverty Focus

The group of projects selected for evaluation in 2007 was rich and diverse in their goals and achievements. According to table 2, each grantee is currently at a different moment in their organizational evolution, which in turn also directly affects their target group. All grantees are still active, that is, operating normally - although most of them have faced a steep learning curve as a result of the IAF support.

[20] Woller, G. et al. "Where to Microfinance?" in http://www.gdrc.org/icm/where-to-mf.html
[21] Gonzalez-Vega, C. "Do financial institutions have a role in assisting the poor?" in Von Pischke et. Al.(1998) Strategic issues in microfinance, Ashgate.

One grantee, however, stands out as it has managed to increase the dimension of its operations and provide services (including finance) effectively – i.e. by generating important impacts - without losing sight of its social mission – i.e. keeping services adequate and accessible to the poor.

Acción Ciudadana para la Educación, la Democracia y el Desarrollo (hereafter, Accedde) was formed in 1995 by an interdisciplinary group with a background in participatory local projects. Its mission is to promote and monitor initiatives that strengthen rural communities, based on democratic principles and social justice. Accedde carries out this mission through assistance, capacity building, training, management and knowledge sharing. Its history with the Inter-American Foundation goes as far back as 1998 when the first agreement (ME-407) was signed to implement a diversified development project:

GOALS	Aims of the project	Project Activities and Outputs
Increase effectiveness and democratization of local planning processes	**Strengthen the capacity of local stakeholders to mobilize resources**	Training to 1,350 municipal officials and comms leaders in strategic planning; citizen participation methods, projects design, etc.
	Improve municipal management and planning	Strategic planning workshops
	Increase community services	12 workshops (municipal planning); training and follow-up sessions.
	Increase people's participation	training, meetings
Improve rural social development	**Increase agricultural production**	Provide training and technical assistance on agricultural techniques, credit management and loan funds
	Increase income	Mobilize and channel production and marketing credit to 2,000 small-scale producers
		Establish a Credit Fund with FIRA
		Training to association producers
		workshops: communities' associations
		creation of 12 rural associations

The IAF donation enabled Accedde to leverage a guarantee fund to access FIRA's resources. *Fideicomisos Instituidos en Relación con la Agricultura* (FIRA) are trust funds established by the federal government, whose main objectives are to concede credit, guarantee, capacity building, technical assistance and technology transfer to the rural sector. As a result of its successful management, Accedde has seen this fund grow to encompass an increasing number of beneficiaries from 573 in 1998 to 1891 in 2006.

Accedde has focused its activities on beneficiaries with up to 4 VSMD (valor salario minimo diário – region-specific minimum daily wage), who do not have access to credit and who rely on subsistence. The minimum daily wage in the State of Jalisco, where Accedde has its operations, is c. 49 pesos (US$ 4,50). Most of the loans are directed to small rural producers. For matters of comparison, the Mexican official Poverty Line, which is broken down into food and assets, shows that in 2004 the urban cost of food expenditures is 34% above the one found in rural areas. While the same numbers for assets is 48.7% higher.

Therefore, there is a strong poverty focus in Accedde's operational guidelines. Within this context, it is worth noting also that Accedde has also increasingly targeted women whose financial status in Mexico rural areas is notoriously weak and "whose control of modest increases of income and savings is assumed to empower them to improve the conditions of life for themselves and their children"[22]. Accedde has been prone to a welfarist approach, which is "quite explicit in their focus on immediately improving the well-being of participants"[23]. Although its portfolio is not purely poverty-focused, the inclusion of low-income participants confirms to a great extent that "a poverty focus does not preclude substantial institutional scale – that it is possible to achieve both breadth and depth or outreach with poverty-targeted programs"[24].

Accedde has managed to provide this comprehensive support in a display of its leadership of the process without, however, overshadowing the necessary initiative of each beneficiary (individual or organization) in the process. It has provided the necessary information and technical advice to each client, as an ***enabler of projects***. This kind of leadership requires a sound and deep understanding of the needs of the clients, their cultural background and aspirations (as much as their limitations).

[22] Woller, G. M. and Woodworth, W. "Microcredit as a grass-roots policy for international development", Policy Studies Journal, vo. 29, No. 2, 2001 (267-282).
[23] idem
[24] idem

	Líneas de Trabajo	Destinatarios
Servicios Financieros Gestión de créditos de avío, refaccionario, de arrendamiento, de compra y comercialización de insumos y granos. Formulación de estrategias de financiamiento integral. Acompañamiento legal, fiscal y contable de los sectores productivos rurales.	Financiamiento Rural. Apoyo a la comercialización. Apoyo técnico-administrativo.	Organizaciones de productores agropecuarios de primero y segundo nivel. Productores rurales en actividades no tradicionales. Entidades gubernamentales vinculadas al sector rural. Instituciones académicas orientadas al desarrollo rural.
Educación y Asistencia Técnica Asistencia y desarrollo de capacidades técnico-productivas. Instrumentación de esquemas de agrupamiento empresarial. Formación, capacitación y actualización de recursos humanos.	Asistencia técnico-productiva. Servicios de capacitación. Acompañamiento de procesos organizativos.	
Desarrollo Local y Políticas Públicas Consultoría especializada en procesos de participación ciudadana, administración y gestión publica; planeación para el desarrollo. Asesoría integral a gobiernos municipales. Diseño y promoción de políticas públicas	Administración y gestión pública. Educación y participación ciudadana. Planeación del desarrollo.	Organizaciones ciudadanas. Gobiernos municipales. Redes de ONG'S. Entidades gubernamentales. Instituciones educativas.

6

A case in point to illustrate this leadership is Accedde's partnership with the Sociedad de Produccion Rural (hereafter, SPR) OCIJ Organización Campesina Independiente de Jalisco "Manuel Ramírez", located in Cuquio. SPRs' members' responsibility may vary according to Mexican law, as follows:

> *En las* [SPRs] *de responsabilidad ilimitada cada socio responde por sí de todas las obligaciones sociales de manera solidaria.*
> *En sociedades de responsabilidad limitada hasta por el monto de sus aportaciones.*
> *En sociedades de responsabilidad suplementada además de responder con el monto de su aportación al capital social, cada socio responde hasta por una cantidad determinada en el pacto social, la cual no deberá ser menor de dos tantos de su aportación inicial*[25].

[25] http://www.notaria178.com.mx/Sociedades.htm#SPR

By engaging in a credit relationship with an SPR, the transactions costs are substantially lowered for Accedde, since the OCIJ itself monitors its members – as the OCIJ is liable to Accedde. The homogeneity of the members as well decreases the selection and monitoring costs for Accedde. The project's monitoring and follow-up and the credit operations are also entangled, as Accedde has an office next door to the OCIJ headquarters making for an almost symbiotic relationship.

Apart from an institutional (welfarist) ethos and the government policy that binds it, Accedde´s beneficiaries have also counted on moderate interest rates – which makes their loans more affordable and manageable than elsewhere. The Tasa de Interés Interbancário (TIIE) plus 6 percentage points has been adopted by Accedde since 2004 and is defined as follows: *a plazo de 28 días, es la tasa líder o de referencia que la banca ofrece a sus acreditados, y está conformada por las tasas de interés interbancarias que se dan a conocer diariamente por el Banco de México en el Diario Oficial de la Federación*[26].

The poorest borrowers in Mexico are faced with a number of constraints, of which we highlight the following for the purpose of this discussion:

- ✓ Small plots of land
- ✓ Low technology levels
- ✓ An ageing agricultural population: for instance, in 2006, 53,47% of Accedde's borrowers were over 45 years old. Accordingly, this ageing population has decreasing productivity levels, in view of health problems. The rural exodus of young people to urban areas aggravates this problem.
- ✓ A historical exclusion from the formal financial system and an aversion to risk.

In this sense, in order to "help the poorest" a credit fund will have to go a mile further than the provision of loans. The ME-407 grant was designed to bring about comprehensive improvements to the lives of the poor, especially those living in rural areas, by increasing

[26] http://www.bancomext.com/Bancomext/aplicaciones/glosario/nvglosario.jsp?seccion=182&letra=t

their productive capacity, strengthening their marketing potential and enhancing their participation in democratic decision-making. Therefore, any impacts to their lives must be seen within this comprehensive context, i.e. credit is necessary to foster their entrepreneurship, hence lifting them out of poverty, but other actions have proved necessary to fight the social and economic exclusion that are so embedded in Mexico – with which credit has but little reach.

As opposed to minimalist interventions, Accedde has adopted integrative strategies: "integrative programs, on the other hand, incorporate the belief that the lack of access to financial services is only one of the many constraints faced by the very poor, including, for example, social isolation, lack of self-confidence, limited entrepreneurial experience, illiteracy and major health and nutrition problems"[27].

Firstly, in order to increase the efficiency of the loan, Accedde's strategy focuses on orienting borrowers about the intricacies of finance, as well providing technical assistance about the specifics of each business or activity – i.e. Accedde advises borrowers upon the presentation of their project proposal about the adequacy of credit for their strategy, while also adjusting the loan amount according to their repayment capacity and the needs of their activity. Accedde develops from the very beginning of their relationship with their clients a very intensive relationship, which includes one-to-one interviews, telephone follow-ups, technical assistance focusing on management and accountancy, among others. This has increased Accedde's credibility before its clients and also ensured better rates of return.

Project ME-407 helped its beneficiaries by identifying their main assets and exploiting them adequately. Given Mexico's land policy, most people own small to medium plots of land, constraining their production levels, hence their ability to increase income. In this sense, Accedde's efforts to instill an associational culture in Jalisco are therefore welcome - cooperatives or agricultural associations have gathered homogeneous groups that know each other's problems and potentials. Accedde thus has been concerned with a longer-term

[27] Woller and Woodworth (2001).

strategy, which would ensure the sustainability of their productive capacity, as well as increasing the area's social capital.

Mr. Noel Velasquez has taken up the loan himself to improve his butcher's shop. For the last two years, he has taken two successive loans: 10,000 pesos in 2005 (US$ 921) and 15,000 pesos (US$ 1382) in 2006. With improvements in his business after the first loan, he felt that he could take up a higher loan – as "interest rates are not high". His livelihoods strategy is diverse: aside with his shop, he also cultivates sugar cane and maize and runs a blacksmith' shop. He also could not tell for sure what his monthly revenue, but relies on this threefold livelihood sources to keep his family (wife and two children). He has also taken up loans at the Caja de Ahorro, where he has a savings account. He is not aware of the interest rates there, but said that he paid an insurance premium of 500 (US$ 46). In his view, credit has made him work more but has also improved his financial situation, as it has made money available for household basic expenses (food, clothing, etc).

Mr. Velásquez at his butcher's shop

Mr. Manoel Serrano Vasquez reports similar impacts as he tells a familiar story: he had not had access to credit until Accedde granted him 12,000 pesos (US$ 1100) in 2004. His first loan was used to fix equipment in his small shop, not far from the other beneficiaries. After repaying this first loan, he has taken 2 other successive loans. Despite having a low income of 15,000 pesos (US$ 1382) a month, he has managed to repay his loan and invest some money in a new house. He also bought a car recently for his business. Having easier access to credit has improved his life considerably.

As ACCEDDE successfully performed over the years, it has recognized the need to specialize in its various segments and promote a more specific division of labour within the institution. It can be said that its intervention now falls into three broad categories:

- ✓ Production – capacity building and technical assistance (video);
- ✓ Citizen participation – it has established a Local Development department as a result of the great need to strengthen democratic practices. Its main tenet lies on the citizens' participation in public management, mainly through communities' representation in the participatory budget (video);
- ✓ Credit (video).

The institutional outlook and increasing expertise of Accedde is commensurate with this challenge:

- ❖ **Accedde, A. C.**: is the embryo of the remaining organizational arms; it develops strategies to strengthen capacity of other organizations.
- ❖ **Accedder, S. C. Servicios Tecnicos**: technical assistance team.
- ❖ **Vinculamos, S. A. de C. V**.: a platform for commercialization services in the agricultural sector.
- ❖ **Accedde Desarrollo Local, A.C.:** this team is dedicated to build the capacity of social actors and to boost local development processes.
- ❖ **Accedde, S.A. de C.V**.: Provision of financial services.

- ✓ Institutional specialization

Accedde has progressed a lot since the inception of its credit activities. It has increased its physical capital considerably, with the acquisition of its current office building, computers, facilities, as well as its human resources. What's more, the grantee's mission and vision are very clear:

"Promover y acompañar, "*mediante un servicio de asesoría, capacitación, formación, gestión y sistematización de experiencias*",alternativas que fortalezcan el desarrollo

integral de la sociedad rural en el ámbito local y, a partir de la óptica de los sectores rurales marginados e inspirados en valores democrático-participativos, de justicia social y de profesionalismo institucional, así como por medio de procesos de educación y capacitación contribuir a la formación de sujetos activos de su auto desarrollo con una perspectiva humanista".

This mission is also supported by a sound long-term strategy, which builds on the past experience of Accedde – which does not seem to get complacent about its strong progress and good results. Jade, SA de CV is an ambitious project which aims to give greater scale to the Cuquío model, that is, organize a chain of production with other Mexican States, such as Chiapas, for instance. So far, there are 12 partners for this initiative, who together will contribute 5,200,000 pesos. The objective is that Jade manages its own portfolio in the long-term, but it is almost certain that at the beginning it will operate Accedde's. It will rely on a broader joint venture that will turn Jade into a Sociedade Financiera de Objeto Múltiple.

Jade aims to provide a range of financial services to groups, mostly from the rural sector to improve social welfare, introducing a credit technology which makes small loans available through the targeted selection, promotion, integration, follow up and credit repayment. Jade hopes to get into an untapped market: in Mexico, over 95% of the companies are micro-enterprises, which together contribute to half of the GDP and generate 7 out of 10 jobs. Despite this, their access to credit is limited, as they still lack administrative structure, collaterals, and financial information and credit history. Additionally, it is intended that a Jade will help consolidate production and diversify the channels of commercialization.

Furthermore, an underlying important component of Accedde's performance also seems to be the strong values that its staff shares – as some of them came from ITESO (Instituto Tecnológico y de Estudios Superiores de Occidente) where Christian tenets are very prominent. This has given them a distinct sense of mission and commitment throughout the years, providing an important underlying ethos regardless of the demands and circumstances of each period.

Von Pischke (1998:217) proposes that a satisfactory set of financial results should include measures of ***lender liquidity*** ("cash and bank balances, short term investments and debt service collections), ***efficiency*** ("operating costs as proportions of loans outstanding and loans issued"), ***solvency*** ("capital-to-asset ratios after realistic provisions for bad debts") and ***profitability*** ("net profit after tax, return on assets and on equity").

Financially, it is safe to assert that Accedde capitalized on the IAF donations, since their inception in 1999 – when it also began managing PROCREA funds. The IAF resources totaled 200,000 dollars for this guarantee fund that allowed Accedde to access FIRA funds of up to 2 million dollars, at first. As loans were recovered and the guarantee fund increased, Accedde can access up to 20 million dollars. Its financial status (appendix II) gives an estimate of its financial stability over the last 4 years that shows a positive increase in its equity, which grew by 32% since 2003 (see Table below with Accedde's financial situation).

Índice	Fórmula	Dic/2003	Dic/2004	Dic/05	Dic/2006	Observaciones
		(Millones de $)				
Capital Contable	Activo Total – Pasivo Total	13,623	18,546	17,759	18,066	Indica el monto del patrimonio de la empresa
Independencia Financiera	(Capital Contable / Activo Total)	12%	14%	16%	17%	Indica el % de la empresa que es propio
Solvencia General	Activo Total / Pasivo Total	1.12%	1.13%	1.18%	1.19%	Número de veces que el Activo Total cubre las obligaciones a Corto Plazo
Índice de Liquidez	Activo Circulante / Pasivo Circulante	1.11%	1.10%	1.17%	116%	Proporción en que el Activo Circulante cubre las obligaciones a Corto Plazo
Capital de Trabajo	Activo Circulante – Pasivo Circulante	12,369	11,804	13,757	12,582	Disponibilidad inmediata para la operación de la empresa
Razón de Endeudamiento	(Pasivo Total / Activo Total) x 100	89%	86%	78%	81%	% total de fondos proporcionados por los acreedores
Utilidad Neta Ejercida	Ingresos Totales – Egresos Totales	5,310	2,816	599	33	Resultado del ejercicio analizado

Source: Accedde

Accedde has also diversified its portfolio (hence decreasing its risks) and the distribution of credit along the years. As table below shows, the distribution per age groups remained almost unaltered during this period, with the greatest and slightly increasing share targeting those over 45 years old since this age group remained in agricultural activities while members of younger cohorts often emigrated. Another important change refers to distribution per gender: men remain the dominant borrower group, but their share of the

loans have decreased from over 93% to 69%, while women have increased their participation considerably from just above 6% to 31% between 1998-2006.

The absolute number of borrowers varied considerably during Accedde's history – a variation not entirely disconnected from macroeconomic swings. From 1998 until 2003, when Mexico economy experienced a good economic period, Accedde's interest rates were subsidized and its portfolio increased from 573 clients to 7011. Since 2004 though, the number of clients has fallen from 3492 to 1748 in 2006 – as a result of the end of subsidies to the interest rates. Interestingly, it is at this point in time that an important change in the amount of loan happens strongly, that is, in 1998, 76% of the loans were of less than 30,000 pesos (US$ 2764), while in 2006 it had fallen to 54% - at the same time, loans of over 60,000 pesos had risen from 4% to 33% in the same period. Furthermore, the shift occurs more clearly in 2004 when loans above 60,000 pesos (US$ 5529) reach 42,54%. One should be cautious with these regressive figures related to the size of the loans distribution brackets since there is low inflation in the period. Although the following statement, would also not describe Accedde's policy accurately it can also help explain a policy shift: "*emphasis on financial analysis and financial viability could logically lead to subordination of outreach in order to become profitable. One means of doing this, found in directed agricultural credit, is to abandon the original target group (Gonzalez-Vega, 1978). This generally occurs through subtle migration, not as an abrupt change in course, possibly through an increase in average subloan sizes*"[28].

As a result of its credit technology – which ensures effective targeting and follow-up based on a productive portfolio - Accedde's recovery rate remains high: of all the PROCREA funds managed by Accedde since 1998 totaling 655,921,545 pesos (US$ 60453599), overdue payments accrued to only 895.482 pesos (US$ 82532). Therefore, since the inception, 83% of the credit has been paid, 0,001% is overdue and the remaining amount is still being managed. The Pronafim experience, albeit more recent (since 2003), has been

[28] Von Pischke, J.D. 'Measuring the performance of small enterprise lenders' in Kimenyi, M. S. (1998) Strategic Issues in Microfinance Ashgate, page 227.

even more rewarding: of a total portfolio of 113,059,894 pesos (US$ 10420267), there has been full recovery. These indicators hint at the good quality of its loans that has ensured Accedde's solvency and liquidity.

Comparatively, there are the so-called minimalist approaches, where the MFI is more concerned with the pure provision of microloans. The closest case to this approach from the IAF sample was Fundacion Leon 2000 – which, nonetheless, provided some sort of basic capacity building to its clients. Fundación León 2000 is a Non Governmental Organization that develops its activities as a microfinance institution in Leon since 1993. It was created by citizens of the city of Leon that gathered with the aim of searching alternatives to support the socioeconomic and cultural development in the western part of Nicaragua. Its focus is mainly the micro-entrepreneurial activity to assist the urban sector.

It has concentrated mainly in rendering services to the urban micro-entrepreneurial sector in the areas where it operates, reaching part of the peri-urban and practically it does not operate with micro-credit for farming activities. The main activities covered by its programs are small business, small industries, services and consumption and improvement of housing. Its emphasis is on small businesses, mainly food and grocery shops and services. Besides favoring the development of micro, small and medium entrepreneurs, through credit services and in management, it has developed activities in training and technical assistance.

10. Fostering Social Capital

Pierre Bourdieu has defined social capital as "the aggregate of the actual or potential resources which are linked to possession of a durable network or more or less institutionalized relationships of mutual acquaintance or recognition." It might already exist and may affect the functioning of economic activities, as social capital may facilitate access to economic resources. This notion is so intimately linked to the idea of microcredit that is easy to be overlooked as an aspect in its own right. Social capital is not a given, but must be constructed at times for initiatives to prosper and to enable certain mechanisms. The

question that pertains to this study is then if the strategies adopted by the projects increased social capital or undermined it.

The presence of social capital may help lower transaction costs in the case of microcredit, since community members may give out loans based on trust, decreasing the need for intricate control procedures that would inevitably require collateral. Aside from using the available social capital, the project can also help to build it. Investing in social intermediation may improve this process. Social intermediation consists of a "process of interacting with and engaging prospective borrowers to recruit them and make them loan ready"[29] by building their skills, confidence and necessary institutions. If cohesion and collective action are imbued into the process, then the chances for strengthening social capital may be greater.

Bennett[30] makes a distinction between the various roles that the MFI clients can have, from beneficiaries to managers. As she has put it, there is no necessary evolution toward the full group ownership and management by beneficiaries, but encouraging their participation in the various activities of the project is highly desirable.

Despite these convincing arguments, we strive to bring to this report a more realistic view of such process. “A more dispassionate stance will allow analysts to consider all facets of the event in question and prevent turning the ensuing literature into an unmitigated celebration of community”[31]

- ***<u>Bridging social capital as a result of increased trade</u>***

[29] Nitin Bhatt and Shui-Yan Tang, "Making Microcredit Work in the United States: Social, Financial, and Administrative Dimensions," *Economic Development Quarterly,* vol. 15, no. 3 (2001), pp. 229-241.
[30] InVon Pischke et. Al (1998)Strategic issues in microfinance, Ashgate.
[31] A. Portes (1998) ‘Social capital: its origins and perspectives in modern sociology’, **Annual Review of Sociology**, 243, 1, 1−24.

Project PU-507 was very successful in overcoming one of the main obstacles to the success of microcredit programs, namely lack of access to markets. In the report "Promoting Market Access for the rural poor in order to achieve the Millennium Development Goals"[32], the International Fund for Agricultural Development (IFAD) has recognized that "in their participation in agricultural markets, poor producers find themselves at a major disadvantage (…) they lack the collective organization that can give them the power they require to interact on equal terms with other, generally larger and stronger, market intermediaries".

Cotahuasi is located in the La Union province, northeast of Arequipa, part of the Andes Tropicales. La Unión presents one of the highest poverty levels in Peru, marred by the terrorism of the 1980s. Despite this, La Union is slowly being recovered by a series of integrated actions that privilege environmental protection, as Manuel Tejada explained:

> *"La primera Agenda 21 Local de La Unión, fue formulada para el periodo 1996-2001, bajo la perspectiva de que la población de la provincia posee potencialidades para emprender un proceso de desarrollo sostenible y que resultaba necesario una etapa de formación de capacidades dando inicio al proceso. Se destacaron dos aspectos: la gestión planificada, concertada y participativa, y; la experiencia de econstrucción del tejido social, a partir de la promoción de la producción orgánica, para la seguridad alimentaria y la agroexportación."*[33]

Project PU-507 entitled "**Reforzamiento de las Capacidades en Post Cosecha de los Productores Ecológicos de la Provincia de La Unión, Arequipa**" was thus conceived to help bring about the improvements foreseen in the Agenda 21. In fact, the project aimed to *"incrementar el ingreso de 1.000 agricultores y microempresarios de la Provincia de La Unión mediante la mejora de la calidad de sus productos ecológicos"*. Such goal would be achieved mainly through 3 strands of activities, namely:

[32] Discussion Paper, February 2003.
[33] "Agenda 21 local De La Unión - Arequipa, una alternativa para disminuir la pobreza extrema" – Manuel Tejada, Aedes - http://www.condesan.org/e-foros/Municipios2002/MTejada.htm

a) Environmentally friendly agriculture

The project's *piece de resistance* given the favorable conditions for organic production in Cotahuasi.

b) New alternatives for processing local produce

Includes capacity building and leadership formation to consolidate initiatives such as the Asociación de Productores de Cultivos Orgánicos "APCO".

c) Search for international buyers

Once the previous two factors were in place, project beneficiaries and partners could address the international market demand for organic products.

Seeds kept by Aedes to ensure the production's diversity

Aproplame is the association for the commercialization of medicinal herbs and other plants (including mint, for instance). Aedes has been supporting Aproplame since its beginning, when it helped to gather producers around the same project. According to Jaime Vera (33 years old) Aproplame's president, the challenge was considerable as "it is not easy to convince people that there is a market for thyme or mint" when they are so used to cultivating maize, potatoes and wheat, mostly for subsistence. Jaime, however, does not regret his choice to invest his time, energy and resources in these new cultures, as the market for quinoa, mint and *kiwicha* has improved – but the outcomes of this improved market will only be felt according to the interest of each farmer, he says.

In fact, three factors have contributed to Aproplame's positive trajectory so far. Firstly, Cotahuasi has a favourable environment for organic production, as its soil is virtually uncontaminated. Secondly, allied to this natural endowment, Aproplame also gained from its organizational basis, which gathers 120 farmers that help to improve the association's stance when discussing prices and accessing markets, by virtue of the scale of production. The association stores the produce and searches for buyers, decreasing the opportunity costs of each farmer.

Their relationship with Aedes encompasses technical assistance and credit provision. The provision of technical assistance has helped Aproplame to diversify its production, by introducing for instance aniseed and other herbs, and to lower production costs by teaching new techniques (organic compost) and moving to animal traction. The provision of credit for commercialization has improved the relation between the producers and their association and ensured more dynamism in the market because "se cosecha y se necesita que se les paguen". If they do not have credit to pay for the harvest, producers may have to wait for up to 2 months in order to be paid, because it is a long process from the harvest to the payment: the association has to wait to gather enough produce to sell in large quantities; find the buyer and negotiate the price; wait for the buyers to pay for it. In 2004 the association got 2,000 dollars in credit to buy the aniseed production from its members, which helped it to have enough available produce to commercialize with important international clients. At the individual level, their income is still very little as there is an average profit of 500 dollars after the harvest for their self-consumption. This is however a sign of the increase in the price of mint, for instance, which Jaime attributes to the force of the association before its buyers. One kilogram of mint used to be worth 3 soles, and now it has increased to 4 soles. In order to decrease the risks of their survival, producers diversify their livelihoods not only through different herbs, but also by rearing small animals.

Higher prices, improved production techniques and increased organizational effectiveness have also helped to yield positive outcomes in terms of organic certification – which is a strong factor for the independence of the association, closely linked to its bargaining power. Buyers/brokers used to pay for this certification of the association's farmers, which bound producers to the buyers' imposed conditions of prices, sales, etc. Therefore, affording its

own certification has been a *sine qua non* condition for the association's good quality operational growth – which has ensured its autonomy and ownership. Since the beginning of this partnership with Aedes, the organic certificate has been totally assigned to the association. At first, Aedes sponsored the certification process entirely. As Aproplame increased its capacity, producers began paying for 50% of the process by discounting 0,10 soles off the price per each kilogram of production. Jaime has a very assertive position about the need to pay for the certification: "Puede ser pesado, mas é preciso que se acostumbrem".

Kiwicha crop

The project PU-507 (Aedes) helped to establish promising market linkages in the region, as its credit and technical assistance are allowing beneficiaries to engage in food processing (in the case of mills, for instance) and also to bridge the distance between small-scale farmers and traders (like Green Export). Beneficiaries have been encouraged to enter the producer associations, whose functioning has been increasingly improved in order to guarantee effectiveness. This context forms a fertile ground for the provision of trader credit, which has yielded good results.

Choice of product

- High nutritional value for home consumption
- Marketable product
- No crowding-out of subsistence production

Incentives to improving the profile of beneficiaries' production

- Capacity building and technical assistance
- Access to markets
- Credit for commercialization – prompt payment

Association of Producers as the main form of organization

- Collective Sale: small landholdings with greater bargaining power with buyers
- Peer pressure: compliance of member with rules and board's sound financial management
- Company status: contracts with buyers
- Engagement with other stakeholders: e.g. supply contracts with public authorities.

Impacts

- Increased awareness about health; drop in alcohol abuse
- Decreased vulnerability to shocks (contracts' security).
- Increased revenue
- Increased consumption
- Increased food security
- Autonomous organic certification, which helps to increase the independent growth of association

Risks

- Dependence from kiwicha revenue: oscillations in the international market

AEDES LEADERSHIP & ALLIANCES

- ***Building Trust***

Another important example of social capital impacts was the case of Espino Blanco in Nicaragua. In order to increase the efficiency and guarantee good rates of return, it advises borrowers about all the necessary details to the adequacy of credit to their needs and possibilities and established since the first moments of relationship, a very intensive relationship which includes one to one interviews, telephone follow-ups, periodical visits, technical assistance, training on specific issues to improve their performance. This has increased Espino Blanco´s credibility before its clients and also ensured better rates of return. It also has been an important channel for small farmers to have access to technical assistance, one of Espino Blanco's strengths as well as the learning process on organizational practices and strengthening of social capital in urban as well as rural areas.

"Trust has been an essential reference for the clients" affirmed the Executive Director Julio Santana in one of the interviews, and this is confirmed by Emilo Munõz , small grocer shop in Nagarote that said " I have always had credit when I asked for it because we created a relation of trust, and he knows exactly what I can get and pay back, and I also know".

Espino Blanco´s activities promoted an important change in the lives of the beneficiaries, ranging from community engagement to increases in farming performance. The grantee specifically implemented a social investment fund, parallel to its credit operations. The combination of these two programs had on one side the economic improvement and living conditions of individual beneficiaries and on the other the opportunity to aggregate community members in collectively defined projects to improve their quality of life and/or fulfill specific demands decided by communities. The outcomes of the Implementation of the Local Fund for socio-economic and socio-environmental investment are the main innovation of the project.

Within this scope 10 projects of Social Investment Fund were implemented and approximately 1900 families were benefited in different projects, and 8% were beneficiaries of Espino Blanco. The logic that follows the available resources is linked to the borrowing capacity of Espino Blanco, as 2% of each credit obtained goes to this Fund.

The projects linked to the Fund for Social Investment Social Investment are guaranteed by the premise that implies that the larger the number of clients the better to guarantee more funds. During the project the amount spent was US$ 26.173,69, being 37% with funds provided by the Investment Fund, 36% by communities, 20% by municipal governments and 7% by other organizations. The projects developed were an outcome of priorities defined by the communities in direct interaction with the communities and with the assistance of Espino Blanco members.

Espino Blanco's beneficiaries

The investments supported by the project had a varied range: the construction of a substation of police in a neighborhood with serious problems with violence and lack of safety, benefiting almost 1200 households, the construction of communal dwells for 290 families, the construction of pit latrines for 24 families, the reparation of housing for 26 families, the installation of public lighting for 80 families, the reparation of two churches for 108 families. They also implied according to the beneficiaries and leaderships in capacity building to strengthen institutions and leadership.

According to interviews with beneficiaries the interactions were very well evaluated. Manuela Gonzalez and José Jimenez, community leaders in Reparto Ruben Dario in Leon consider the outcomes of the process very positive. They accomplished the construction of a police station in the neighborhood, something that was very demanded by the community. They stress the importance of the alliances and how they helped reduce tensions between households and municipal authorities. The role of Espino Blanco was that of a facilitator that coordinated meetings, organized the activities and gave the input of the building materials, while the municipality designed the project and the community its labor force.

- **<u>The importance of how things are done: Impacts to Citizenship</u>**

Maybe if we had to define Project PU-493 (Cedes) in one word, we would say "integration". The project tackled the identified problems through an integrated strategy made up of credit, technical assistance, capacity building, etc. As one of the main goals of the project was to instill a new mindset among beneficiaries, the process whereby it would be achieved becomes as important as the outcomes.

Alejandro Dias Robles used to be the Pichirua mayor at the time of the project and as such, he helped to manage the local aspects of project PU-493. In his opinion, the credit experience in his village was good because it was focused (it supported the most needed) and very opportune (its timing). The project helped the local population to invest in animals, fruit farming and to reach the market.

The process of capacity building was a very important stage of the project. Interestingly, he noticed that through the capacity building efforts, project staff was able to see each participant's own initiative, character and whether they had the necessary ambition and whether they were "worthy" of this project. The project demanded a shift in thinking that, by definition, takes a long time. Beforehand, people used to make decisions based on a short-term horizon and on highly individual factors. Alejandro, however, noticed that the project has instilled a longer-term collective approach to decisions. People have learned to organize themselves collectively and an association of

An inscription at a Pichirua wall

honey producers has originated from this process. "We learn more together than working alone", he says. What's more, the association can gather more products, hence being stronger in the market. As part of this process, people are learning how to store products together and how to re-invest their gains in the association.

Concomitantly, they have also improved their financial management skills and their responsibility towards each other. Despite the strides made towards a more collective action, Alejandro reveals that producers still prefer to take individual loans because being accountable for someone else's debt is a burden. Aside from credit and collective action, he also reputes technical assistance as crucial to the achievement of goals. For instance, he is now better prepared to manage the irrigation in his land or to plant fruits.

11. The contrast to Social Capital: "bowling alone"[34]

Sometimes, the structural circumstances may not help to foster social capital – as in the case of Nicaragua. "In Nicaragua, a series of commodity booms in coffee, cotton, and meat, together with a set of policy distortions that encouraged the accumulation of land, gave, from the late 19th century, rise to a systematic process of land concentration (e.g. Paige 1997). This process was accentuated by land acquisition through A. Somoza, who assumed the presidency in 1936, and his family. The Sandinista revolution in 1979 unseated Somoza and distributed large tracts of lands to former workers. However, during the Sandinista period, which lasted from 1979 to 1990, and especially in its final phase, the Government distributed, through its agrarian reform program, large amounts of land it did not legally own, thereby laying the seed for continuing insecurity in the sphere of property rights.
(…)

The importance of these issues is most strikingly illustrated by the case of cooperatives. The large majority of these cooperatives have long been disbanded and *de facto* individualized. However, inability to determine whether or not current members of the cooperatives are rightful owners of their land, together with an institutional and legal

[34] In reference to Robert Putnam's reference work.

framework unable to resolve the issues, especially provision of the 5 legally required documentation, at the speed required, made it virtually impossible for members of cooperatives to formally make the *de jure* transition to individual land ownership. The productive inefficiency of collectives and the need to continue fighting legal battles for their land led to a precipitous economic decline of the cooperative sector and a wave of distress sales (Jonakin 1997), both of which affected primarily the poorest groups in the population."[35]

Interestingly, two interviews confirm this trend towards individual activities, as the following excerpts explain. Marlon Valle is one of the three partners in a cooperative that borrows from Agrodersa (Project NC-234). Eight years ago shares of the hitherto communal land were raffled among members of the community and he was assigned some 3 manzanas. Only three years ago he obtained the title deeds. Their involvement with the grantee began with technical assistance, for instance by introducing "curvas a nivel", soil conservation and reforestation and workshops that, according to him, provided the motivation to carry on working with Agrodersa, as he and his friends saw good outcomes from this intervention. Aside with technical assistance, Agrodersa also provided loans at 2,5% monthly interest rates – he took his last loan 2 years ago to improve the "ramada" of chayote and granadilla – both of which he sells directly in the markets. Interestingly, although being a member of a cooperative, he sells his products individually and the advantage of the cooperative is mostly in the wholesale purchase of inputs for production at lower prices and in their mutual support. The previous experience of sharing the land and producing together was rather innocuous because, as he explains, each farmer has his own rhythm and pace, which makes collective work harder because some may produce more than other whilst all reap the same benefits.

Before having access to credit from Agrodersa, he produced less quantity and only three types (beans, maize and citrics). After Agrodersa's project, he now has 25 types of plantation and 3 manzanas in total. "Soy generador de empleo", he says proudly. His total

[35] In **Investment and income effects of land regularization: The case of Nicaragua** Klaus Deininger and Juan Sebastian Chamorro - World Bank; University of Wisconsin, Madison World Bank Policy Research Working Paper 2752, January 2002

annual investment is 60,000 cordobas (3240 USD) and his revenue may reach 80,000 (4320 USD). Before the project, he only had c. 40% of this amount and did not have enough resources to sow the land, in which case “que vá a sacar?” – he asks.

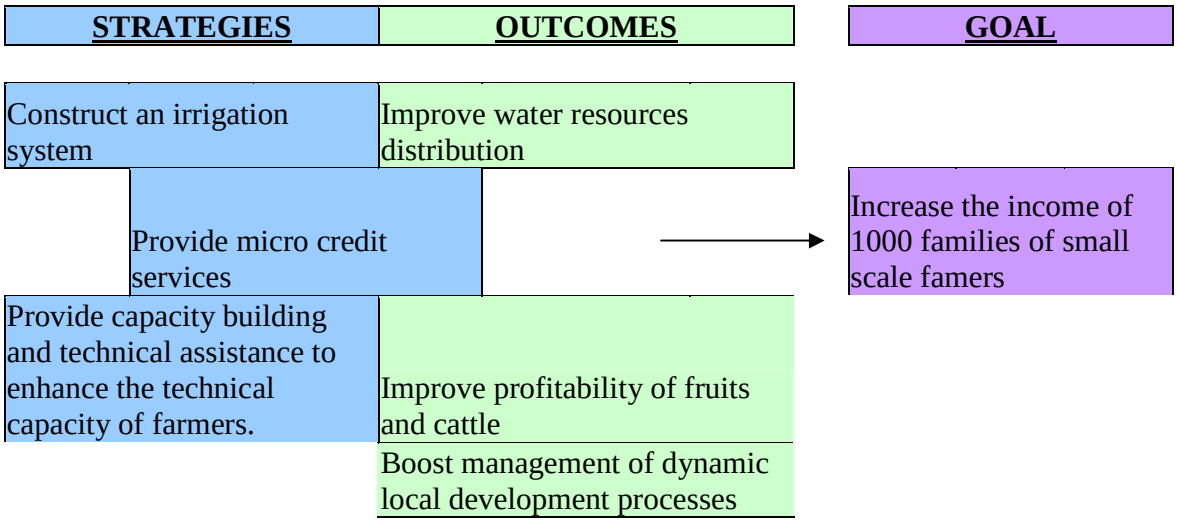
Marlon is convinced about the virtues of diversifying his production: he has products all year round. His income has increased as a result and his family has felt the impacts through a better diet.

Across the road from Marlon’s finca, we met Dom Cristino Aguillar – an older member of the same cooperative. He also used to share the land and later obtained his private farm. Five years ago he began working with Agrodersa. He shares Marlon’s opinion about the benefits of separating the land: it is better because they have greater autonomy. Agrodersa followed in the footsteps of the Campesino Campesino Organization (which helped to build the terrazas). Agrodersa has been of great help because his finca is not considered a sufficient guarantee to secure a loan elsewhere. He needs the loan to invest in the plantation. Two years ago, he borrowed 800 cordobas (43 dollars) to buy the plants. His production of coffee has grown since the start of the project – but he borrowed far less than Marlon and has not been able to increase the size of his land showing a more conservative profile maybe reflecting his age (capacity to produce).

12. Empowerment & Decreased Vulnerability

The Grameen Bank experience (especially) set high hopes for microcredit as a development strategy to empower women who, upon receiving small loans, may improve their stance in the family and in the community. Among all the evaluated experiences, we found evidence in consonance with this expectation. In particular, the case of Project PU-481 - whose logic model could be thus represented:

Figure 1. Project's Logic Model



We selected a group of interviewed women who borrowed from Ceder (whose fund is managed by Fondesurco) in order to illustrate the impacts of credit in the specific case of dairy production. They had already worked with milk production before, but their cattle productivity was low in view of the quality of animals, production techniques and technical aspects – all of which were duly addressed during capacity building. They refer to training as "charlas" (talks), which has also indicated that these sessions were very accessible to them and made them at ease. It was very important to the achievement of goals to introduce changes slowly – not only because of their technological challenge, but also because of their costs. Once the genetic quality of the livestock had been improved, the productivity increased to 15 litres a day to some farms, with the implementation of more effective techniques. In a group of 5 women, the average herd was between 5 to 10 animals, which they buy and sell according to their needs. Their daily activity involves milking the cows and taking the milk directly to the "queseras". For this group of women, the consensus was that credit helped to improve their lives by making an economic activity viable through training and the provision of capital. They used the loans to buy the cattle. They could not recall having specific training on financial management or other related marketing aspects. Nonetheless, they became able to buy more land on which to plant forage – instead of buying it from external sellers, which increased their costs considerable. In addition, they

have more control over the quality of the forage, which ultimately affects the quality of their products (see “The Milk Route” photos).

As production became more efficient, these women noticed the decreasing amount of time they need to dedicate to cattle rearing. Their improved economic status has also increased their autonomy and self-esteem (understood as their perception about their own capacity and means to change their status). As a result of decreased costs and increased gains, their families’ food intake has also improved. Despite their acknowledgement about the virtues of credit, they still repute interest rates as too high vis-à-vis their monthly earnings.

According to her, she could not afford credit elsewhere because it is too expensive. Her financial management and strategy is still very informal though: she could not precise what her monthly income is, although she reports that she managed to repay her loan duly and that “las cosas estan muy a gusto” – she also does not save a formal savings account. Accedde has provided her group with basic financial notions as well, and she now feels a stronger grip on her accounts (“si hay ventas, si se puede gastar”). For instance, she took a 20,000 pesos (US$ 1843) loan last December, which she used to purchase new items and which she plans to repay during this year. The loan’s biggest impact for her though has been a change in household dynamics: as she now has her source of credit, she no longer has to ask her husband for money (he cultivates sugar cane). She has become more independent and he “no longer yells” at her: “nadie me manda, porque nadie me mantiene”.

13. Governance: a crucial winning feature

Two specific cases demonstrated the importance of a good governance structure: Emucosa (PU-492) and Apoyo (ME-431). In both cases, the weak governance structure was an important factor to undermine the achievements of the project.

In the years that preceded the IAF-funded project PU-492, the Emucosa had a mixed track record. The governance structure was weak and easily dominated by the character of the manager in the period 1996-02.

According to some findings in the self-evaluation process promoted by CEDEH, “la junta directive percibia sus sueldos sin consulta a los delegados de las Ecosas, incumplian con los estatuos de la empresa y proponian a sus trabajadores de confianza”. Afterwards, in subsequent years, the perception was also that the president and managers would seek personal advantages through the organization.

The problems referring to the fund management almost compromised the whole project. Shortcomings concerning technical assistance also constitute one the greatest limitations of the project, as the beneficiaries tell about the “falta de equipo tecnico para operacion del centro de inseminación artificial”.

Governance problems refer not only to possible mismanagement but include also structural rules, such as the short term for each Emucosa and Ecosa manager to remain ahead of the organization, which weakened the communication between them and their respective communities. What´s more, there have been accusations also that the so-called special loans were given without the prior authorization of the general assembly. These various factors influenced the low levels of loan repayment that also de-capitalized the Emucosa.

The project was affected by personal problems between the manager and the project engineer, who left the project. His departure was a major loss to the project given the importance of technical aspects to the success of the intervention. An audit also found out that there was mismanagement of project resources. In view of this, the Ecosas decided for the substitution of the manager – in order to avoid the total interruption of the report.

As the new manager came from Arapa – as opposed to the previous, who was from Chupa – Chupa inhabitants did not lend him the necessary support. In a report at the time, it was mentioned that “hubo la necesidad de centrar las actividades en el distrito de Arapa y, principalmente, en la comunidad de Quesca, comunidad ganadera”. Given this geographical

shift, Quesca and surrounding villages received greater benefits from the project compared to other project communities instating a sense of ill being among them.

Sheep by Lake Arapa

The Final Report (Juan Carlos Rheineck) had already pointed out that "otro de los factores motivadores de la crisis inicial fue la poca transparencia y claridad en el manejo financiero de los recuros por parte del entonces presidente de la Emucosa". The reason for this high default rate is, according to the analysis of Cedeh, due not only to this lack of mutual trust, but also to the inexperience of Emucosa in charging the debt.

If by one side, the managers did not operate carefully, by another side the members of the various Ecosas would not inspect or verify the financial statements or management by the Emucosa management board – in other words, there was little project ownership and much of a passive stance by the beneficiaries. This lessons has been effectively learned by the Ecosas, at a high cost (break of trust), and is being addressed in conjunction with Cedeh, by rendering the management more decentralized – with the decision-making assigned to the Ecosas as well – and increased accountability. The model should be that the Emucosa will help the Ecosas obtain loans and refine their strategic planning, whereas the Ecosas themselves should manage their own resources directly.

Nabal Mamani, who was the Emucosa president in 1998-99, reckons that the biggest mistake in the management of the project budget was that the boards did not observe the Emucosa statute and re-assigned credit funds to other activities (such as operational costs).

After 8 years of operations, and many experiences and lessons, the Emucosa started a duly self-evaluation process in partnership with CEDEH. Through this process, they have reviewed their mission:

"*Somos una organización de 18 empresas comunales de los distritos de Arapa y Chupa. Identificada con la producción agropecuaria para el desarrollo regional, que asumiendo la opcion por los probres, promueve y apoya por medio de la formación humana y capacitacion tecnico administrativa, gestion gerencial a la organización. Empresarial y desarrollar actividades productivas en las diferentes líneas, y potenciar la capacidad de las personas organizadas para mejorar la calidad de vida a través del cuidado de su capital social*"

CEDEH is now working to rebuild their confidence in collective action. During our visit, the current Emucosa president also accompanied us in the interviews in the various communities, re-establishing the ties with the Ecosas. Healing the finances is also part of the joint effort by CEDEH and Emucosa called Fortalecimiento y Gestion del cambio para la consoidación de Emucosa – whose report states that:

"*En la actuallidad se espera un acuerdo de delegados de las Ecosas en la que se defina la tasa de interes uniformizado para Arapa y Chupa; esto a pedido de los socios y delegados de las Ecosas, asi como el lugar donde se hara efectivo el pago de sus deudas, porque existe desconfianza en las Juntas adminsitradoras de Emucosa, asimismo existe desconfianza en sus tesoreros*".

The Gayangareo Case: How it worked & Why it stopped working

When Apoyo (project ME-431) decided to support Agricultores Unidos, given the large number of farmers, it distinguished between the different types of projects, that is, among land with and without irrigation and mechanized and non-mechanized. Once these features were defined, Apoyo could implement a technological package, provide adequate technical assistance and analyse the soil, according to its pH factor and nutrients.

Credit was provided according to some basic criteria, namely, the number of cultivated hectares, the type of plantation and the type of package. Therefore, for instance, a plantation of 3 hectares of maize in irrigated land could obtain a loan of up to 5,000 pesos

per hectare. Credit was provided for few hectares to begin with, in order to verify the progress.

As credit was individual, many important decisions were made by the farmers. Many of them would buy cheaper inputs and/or apply less fertilizers in an effort to cut down on costs, but also compromising the success of the venture. Here, Apoyo faced its first great challenge, that is, how to monitor the project more closely and provide technical assistance to influence better choices.

The solution found was to control the purchase of inputs to avoid future problems during harvests. Therefore, Apoyo began to distribute seeds, fertilizers and other basic inputs. It also included in the loan amount, the number of *jornales* (the value of daily wages): 60 jornales are necessary to sow 1 hectare of maize.

According to Roberto Ramirez, the situation improved once Apoyo began controlling the distribution of inputs – while it gave farmers the time needed to adjust to this new learning process. Apoyo´s first idea was not to interfere at this level, but circumstances were challenging. Likewise, after 2 years, Apoyo also introduced an improved seed which diversified the producion with positive results. For instance, yellow maize could get better prices in the market.

Apoyo´s technicians would make systematic assessments of the production in order to estimate the harvest results. Nevertheless, at the time of the harvest, they noticed that some farmers would sell their produce to other buyers (not to their own association). Apoyo felt that its intervention then should also spread to the commercialization stage, given that this kind of practice directly affected the farmers´capacity to repay their loan – since the group was responsible for the repayment of each individual loan. The fact that farmers were usually organized in ejidos facilitated the inspection of obedience to these rules, since in each ejido one farmer was elected to assist Apoyo´s technicians.

During the first 2 years of the project, groups were re-arranged, as farmers got better acquainted and chose their partners according to their own criteria of trust. All in all,

farmers in that area are a cohesive group, giving each other the necessary support in times of need, e.g. health problems, according to Apoyo´s director, Roberto Ramirez.

Once the main aspects of the production chain had been arranged, Apoyo was better positioned to negotiate with buyers. The price of maize would be established at the beginning of the productive cycle in a consensus with buyers. Then, a meeting with farmers would assess this cycle, defining hectares and production. This price "assurance" proved to be attractive, in an environment where uncertainty can be the rule. As Mr. Ramirez told us, the only drawback is that the benefits of this efficient commercialization (e.g. 48,000 tons in 2004) were too obvious and enticing. Outside producers began selling their produce to the organization, that became de-capitalized, because when organization members bring their produce, they are in fact paying off their debt – while outside farmers were paid in cash for their production. The organization was converted into a commercialization business and "un mal sabor de boca comenzo ai", according to Mr. Ramirez (video).

This operational shift of the organization, combined with the losses from the 2003 hailstorm, helped to perpetrate overdue payments. Apoyo´s *mea culpa* comes with the benefit of hindsight. IAF resources were used to access Fira´s funds, in a 1:10 ratio. As there was a large number of farmers involved, Apoyo trained Siacsa (the administrative arm of Agricultores Unidos) to provide individual credit, assess the harvest and control the pagaré[36]. Apoyo then began lending money to Siacsa, who would buy the inputs and pass them on to producers. Since 2005, Apoyo left the group entirely and engaged in a judicial battle to recover the loans, whose overdue amount reaches 14,000,000 pesos (including interest rates). Mr. Ramirez reckons that they (Apoyo) should not have distanced themselves from the producers.

Accede:

In order to meet these beneficiaries, we traveled to Etzatlán, a small town two hours away from Guadalajara. There we Maria Guadalupe Fragoso Rodrigues, who belongs to a group of 10 women and received her most recent loan in December, 2006. She owns a small

[36] "El **pagaré**, es un título de crédito - o título valor que contiene la promesa incondicional de una persona a la cual se le denomina suscriptora, de que pagará a una segunda persona llamada beneficiaria o tenedora, una suma determinada de dinero" (Wikipedia).

clothes shop in one of Etzatlán's main roads, which is the sole source of income. Before accessing credit, she could rely on the shop's sales to make the necessary inventory purchases. As sales "became very weak", she decided to ask for credit in order to keep the shop well stocked – "hay que tener algo nuevo para vender".

14. Increasing effectiveness: Divison of labour

Most grantees did not have a "financial vocation" prior to their engagement with the IAF, that is, they were purely developmental NGOs that did not provide financial services. Few of them had already engaged in microcredit by the time of their agreement with the IAF (e.g. Fundacion Leon). As the projects were approved and implemented, the grantees had to develop their skills in the field of microfinance. In this sense, the learning curve occurred simultaneously to the project implementation. Moreover, their relationship with their target group had been built mostly on the provision of development services free of charge, which would change dramatically as the credit fund could not preclude the repayment of loans.

As in the case of Agrodersa (NC-234) a shift from purely technical activities to technical+credit services also marked a change in the grantee's relationship with their beneficiaries, as beforehand they would donate the necessary inputs, whereas afterwards they would lend resources and expect a repayment. This required a change in the general culture of relief approach towards a more responsible use and management of resources – which has been out of the control of the grantee. According to Edwin Padilla the technical assistance and credit provision have to go in a parallel but independent way. "We go together to a farm and I say: this man does the credit and I do the technical part. But at the same time it has to be coordinated."

Many challenges would arise from this shift, one of the most important being the muddling of missions within the same organization – that is, technical assistance and capacity building v. microcredit.

In order to overcome the resulting problems that derived from this institutional dilemma, successful experiences have moved towards ingenious models of division of labor: either through an internal process of institutional division where the distinct tasks would be assigned to different departments, as in the case of Accedde (section ##); or by delegating microcredit activities to a specialized (external) organization, as in the case of Ceder (PU-481) and Aedes (PU-507) who have established a very fruitful relationship with Fondesurco, Fondo de Desarrollo Regional, a non-governmental organization specialized in credit for small-scale producers and micro-entrepreneurs in the rural sector.

Credit Technology in Project PU-481

In order to better contextualize Ceder's efforts, it is interesting to see the brief description on Peru's previous experience regarding credit. The challenge was established: against a background of poor credit antecedents, Ceder started implementing microcredit initiatives in Omate and Puquina, through an alliance with Fondesurco – which will be described in more detail now and in the interview with its executive director in the end of the coutry report.

In 1994, Ceder and two other partners founded Fondesurco - an NGO specializing in micro-finance, providing credit to the agricultural sector in South Peru. Ceder has maintained its non-profitable status and continues to focus on developmental activities. Its role is to design the project, raise the funds and implement the initiative. Fondesurco, in turn, will manage the fund and offer the microfinance service. It is committed to matching the funds raised by Ceder in up to 100%. Their institutional closeness risks some mission muddling, but they have strived to make the division of labor more precise, as Ceder will establish the credit parameters for Fondesurco to implement; and it will also contribute with the relevant intelligence about local production aspects that are important for Fondesurco to create the most adequate credit mechanisms. Additionally, Fondesurco founders play of role of overall guidance without interfering in its administration.

Wine producer - Omate

The partnership's "health", according to Hector Madariaga (Fondesurco's director), has been ensured through a clear governance structure, whereby Fondesurco keeps its complete autonomy from its founding partners. In other words, Fondesurco's financial management is well defined having its long-term sustainability in mind and it is not subject to Ceder's own institutional demands. Hector tells of their "mutual trust" as instrumental to the success of this enterprise. Furthermore, they share a fundamental common vision of a socially oriented management that governs their operations. According to the current operating model, Fondesurco has established one office in each town, namely in Puquina and Omate. Despite increasing its operational costs, this physical presence has improved Fondesurco's performance, as the two regions are too isolated from Arequipa (it takes up to 4 and a half hours to cover the 120 kilometers between Arequipa and Omate).

In the case of Project PU-481, the main criterion for the provision of credit is that the borrower applies it to a productive activity. Secondly, that this productive activity focuses on the fruit or dairy production, depending on the location (Omate or Puquina). This sector

approach has increased Fondesurco's staff knowledge, which ultimately feeds back into their procedures in order to provide better services to the rural farmers. IAF-related funds are borrowed at 3% interest rates monthly, as opposed to other projects where the rate is 3,5%.

In order to tackle the informational constraints that are so peculiar in the rural financial market, Fondesurco began its credit operations by providing loans to groups. This strategy remained for over 5 years, until a "knowledge pool" had been built and the operations could be carried out on an individual basis. According to Hector Madriaga: "Before, 99% of our credit functioned through a model of group lending, but now 99% of our clients have individual loans and only 1% borrows within a group." The individual lending is functioning really well. If the peasants want to join a group they can, but they do not need to.

Similarly to the banks, in case of impossibility of recovering the money, Fondesurco punishs the client. Until last year it have had 16 judicial processes. Someone who has been punished due to credit default is in trouble, since here, in order to get a job, for instance, the employer will look at the risk center to find information about the person' credit history. The cases of default correspond only to 3%.

One of the reasons of Fondesurco' success is that they had been in the area for 13 years. This long permanence allows them to get to know people well. Thus, since they know the people, the activities and the problems that can emerge they are able to provide individual credit sometimes without collateral. Obviously, if they start in a new area they will not do that. They start by acting very carefully.

In the meantime, Fondesurco also developed certain mechanisms of credit approval that encompassed other stakeholders' information. For instance, in order to approve credit for irrigation systems, Fondesurco would have access to a list of farmers who did not pay their water bill – this would be used as an indicator of their behavior and solvency. Aside from this consultation, the president of the "Comissión de Regante" responsible for the management of water resources would also give its approval to the loan. Since the inception of the Central de Riesgos, operations became simpler:

"Las centrales de riesgo administran sistemas de registros que contienen información consolidada y clasificada sobre los deudores. La Central de Riegos de la Superintendencia de Banca y Seguros (SBS), es la única central pública existente y se rige por lo dispuesto en la Ley N° 26702. Dicha central de riesgos administra información proveniente única y exclusivamente de entidades financieras, bancarias y de seguros, quienes se encuentran obligadas a reportar mensualmente la información de evaluación y clasificación del deudor debidamente actualizada. La información de la SBS nos puede ser proporcionada de manera gratuita en la Plataforma de Atención Usuarios de la SBS y el único requisito es tener nuestro Documento Nacional de Identidad. Por su parte, las Centrales Privadas de Información de Riesgos (CEPIRS), tales como INFOCORP y CERTICOM, están reguladas por la Ley Nº 27489, y se dedican a recolectar la información que administra la Central Riegos de la SBS, así como otra información diversa proveniente de fuentes privadas37"

Currently, 99% of Fondesurco's loans are now individual – which follows a trend in Peru, where farmers would rather operate individually as opposed to assuming a group loan (regardless of whether their past experience was negative or not), revealing a very conservative attitude that, in their view, helps to protect their few assets.

This individual streak also increases Fondesurco's operational costs relating to credit follow-up. Nowadays, once the credit is approved (based on the Central de Riesgo information and the financial assessment of their productive activity, including cash flow and seasonality) Fondesurco monitoring consists of a loan repayment follow-up: if and when a borrower does not meet the repayment schedule, a Fondesurco agent will be responsible to visit him, enquire about the reasons for the lack of repayment and seek a flexible solution, which may include rescheduling. Some projects may entitle the borrower to a longer grace period, where the first payment will only occur 5 months after the concession of the loan. In these cases, the officer's visits may be more frequent, since they lack the mechanism of repayment indicator.

37 http://64.233.169.104/search?q=cache:ejeucQ5wGfoJ:www.oscar.gob.pe/interior/notas%2520de%2520interes/centralesRiesgo.pdf+central+de+riesgo&hl=es&ct=clnk&cd=6&gl=pe

According to Hector Tapia (director of Fondesurco) the recovery of unpaid loans work as follows: “First of all, we start with a good evaluation. Second, we consider one day of delay as the member being in default. The financial world considers as a criterion for default a period of one month, but for us the criterion is one day. If an individual does not pay in the deadline, the next day we are visiting her to charge for the money. If the default is due to a reason such as the clients having been robed, any serious family problem, or a bad harvest, that is, something justifiable, we renegotiate the debt. This renegotiation in some cases can lead to a refinancing, which is not common, but possible. On the other hand, if a person has capacity to pay it back, but does not want to, our reaction is totally different, we pressure with lawyers, notifications and other serious threats.”

A relevant idiosyncrasy, not unrelated to rural poverty, in these markets where Fondesurco operates is the desire of borrowers to repay their loans whenever they have “money in their pockets”. A crucial incentive influencing this behavior is that interest rates are discounted according to the earlier repayment the debts. This factor creates a liquidity problem for Fondesurco, whose safe insurance is limited, but they may, for instance, receive up to 300,000 dollars in monthly amortization as a result, instead of the foreseen 120,000 dollars.

Fondesurco’s institutional strengthening is closely linked to the project PU-481. According to Mr. Madariaga, it was difficult for them to obtain resources around 1999, when the IAF approved the grant to Ceder. They had access but to a few donors from Japan and Belgium, which hampered their capacity to grow. IAF funds increased their portfolio helping them to achieve greater operational scale. What’s more, the IAF project was Ceder’s first opportunity of providing loans in soles, overriding the past obstacle of providing loans in dollars in distant areas, given the exchange rate oscillation. Their institutional learning is also closely attached to their

operations in Omate and Puquina, which enhanced their knowledge about rural markets. In addition, this experience shaped their portfolio: 95% focuses on productive activities (instead of consumption) and 37% are women borrowers.

Fondesurco has had a very respectable performance in the past few years, according to the Mix Market database. To begin with, its outreach (Table 1) has increased in absolute figures, as the number of borrowers increased from 1,094 in 2002 to 1,818 in 2006. This increase in the number of borrowers has been matched by an increase in staff number. Only 20% of the loans in 2005 were below the US$ 300 threshold – hinting at the dimension of its outreach to the poorer borrowers in its portfolio. Given this profile, Fondesurco occupies a different niche in the Peruvian market, compared to other similar MFIs (Microfinance Institutions – Table 2). Fondesurco has got eight agencies, if you consider Puquina and Omate with two thousand clients. Before, everything was in dollars, but it has changed. At the moment, for example, 57% of the clients' portfolio is in soles, and this is important, since the peasants organize their activity entirely in soles. The average of Fondesurco clients is 7 loans. It uses progressive lending, starting from small amounts of, for instance, 300 dollars, which go up progressively and lead to individual lending.

According to Fondesurco Executive Director, Hector Madriaga" Three factors determine the success of credit: (i) the clients should honor their word; (ii) the financial institutions should adequate themselves to the local conditions; and (iii) the activities should be profitable." Before, everything was in dollars, but it has changed. At the moment, for example, 57% of the clients' portfolio is in soles, and this is important, since the peasants organize their activity entirely in soles.

Fondesurco thinks to raise savings in the long run.. It would have to pay taxes over income gains. The main benefit is the opportunity of providing this service to people who otherwise would not have access to it. A second one is the opportunity of income gains by means of saving. Whereas the banks give 1%-2%, Fondesurco gives to its sources of financing 8%-9%. It should earn more profits in this way. Today it earns 18% on average. A typical financial institution earns 35%.

Fondesurco received for the second time the award for financial transparency given by Cgap. What this prize recognizes is the effort the institution has been making in showing the financial information publicly. Besides, this information is audited, and the quality of this audit is the same of the one of a bank. It is not only a financial audit, but a portfolio audit as well. That is, it analyses client by client. In addition, there is a managing audit. This one is more dedicated to the issue of whether the institution is managing standards in what concerns human resources, logistic, procedures, the system of control, the management of risks, etc. In the beginning of the year Fondesurco had as well a very good risk qualification: B, which is very high in microfinance for Latin America parameters.

Aedes & Fondesurco

Aedes has established a very positive alliance with Fondesurco. Since 1994, Fondesurco has focused on feasible models for rural credit, which currently include different types of loans:

- "Libre disponibilidad": for individuals to cover costs not directly related to productive activities, such as food, education, wedding costs, household appliances, etc.
- "Working Capital": for individuals who want to invest in the following activities: agriculture, cattle raising and commerce.
- Fixed Assets: same as above but directly linked to the purchase of fixed assets related to the economic activity.
- Infrastructure: working capital related to the refurbishing, enlargement of facilities.

Fondesurco provides loans from 350 nuevos soles to 35,000 nuevos soles, with interest rates varying from 2,5 to 3,5% monthly depending on the currency, product and guarantee. This rate includes the IGV tax to which Fondesurco is responsible (Mibanco for instance may charge up to 4%, even without the incidence of the IGV). The institution focuses 80% of its activities on agriculture and cattle. Given its excellent performance in the last years,

Fondesurcos has been given a rate “B” for its “procedimientos sofisticados y eficientes, perspectivas de evolución a largo plazo. Algunas mejoras pueden ser aportadas. Los riesgos a largo plazo están identificados en el plan estratégico (...) El aumento de la competencia será balanceado en el corto plazo por el buen posicionamiento y la capacidad demostrada de FONDESURCO de adaptarse internamente”.

Fondesurco has strengthened its credit methodology by incorporating agile information flows thanks to a new software system. Furthermore, “el seguimiento de las actividades se ha tornado más ágil, con reportes más detallados y completos tanto para el personal de campo como para la gerencia. A nivel gerencial se cuentan con reportes resumidos, siendo de rápida disponibilidad y permiten monitorear la institución desde diversos ángulos.

The selection of clients is an initiative of the credit analysts who work in the field – “se cuenta con criterios prudenciales para filtrar clients no sobreendeudados (no mayor a 2 préstamos en el sistema financiero) por medido de verificaciones en las centrals de riesgo”. They will assess the client’s willingness to repay the loan and their cash flow (considering the seasonality of the rural calendar). If a potential costumer exceeds certain limits, they will probably ask for guarantees (collateral). Furthermore, decentralized committees speed up the disbursement of loans. Credit analysts have worked in the organization for a long time and have gathered the necessary knowledge about the rural sector but the report warns that “mayor complementariedad con personal técnico en temas agropecuarios enriquecería el personal de campo”.

Drying herbs - Omate

According to Hector Madriaga Tapia, Fondesurco’s director, the arrangement with Aedes allows an interest rate of 1,5% with a flexible deadline stretching up to 5 days. Their experience with interest rates charging is extensive: in 2006 they decided no to charge interest rates for overdue payments, assuming that beneficiaries would

meet their payments. This worked, however, as a negative incentive as people did not comply with the schedule. Therefore, they resume charging interest rate in 2007, which helped to raise the repayment levels. In this circumstance, they observe minimum default – which, in fact does not reach 5%. Hector Spinoza (Estamir Industries) illustrates the point: "The collateral they demand are the title of our house and a receipt of the water and light bills, nothing else."

The interest rates charged are enough to cover the operational costs involved in this alliance with Aedes. Furthermore, to every input made by Aedes, for instance, Fondesurco is committed to providing a matching fund. It currently has a 1,200,000 dollars capital. There are gains for both parties, i.e. Fondesurco benefits from Aedes' local knowledge of the benefited community and Aedes benefits from Fondesurco financial expertise. Fondesurco asserts that, without Aedes, it would have been virtually impossible to reach the Cotahuasi area given the high costs (distance) and the need for specialized personnel dealing with the rural sector demands. Furthermore, Aedes provides another comparative advantage as it has specialized in organic production.

Fondesurco has treaded a successful path since its foundation in 1994, when 13% of its portfolio was considered risky. For them, profit is also assessed in terms of the social gains experienced by their clients – hence their alliances with organizations whose ethos are related to development.

Fondesurco's break-even point used to be an 800,000-dollar portfolio operating 5 agencies with fixed costs. Nowadays, with 7 agencies its point has risen to 2,300,000 dollars. Their aim is to lower the interest rates and increase the number of clients, to which it will have to raise its portfolio to 3,000,000 dollars by the end of this year. They hope to achieve this by accessing resources from the international cooperation agencies.

Interestingly, the scenario for microcredit in Peru has changed considerably since 2000. In that year, electoral purposes conduced to detrimental decisions regarding credit, for instance by exempting overdue repayment from its respective penalties. There was some group lending, but in 2001 with the land titling regulation, they could ask for real guarantees, such as mortgages and up to 2003, 90% of its loans were guaranteed in this

fashion. Combined with this, the government also enabled the functioning of Risk Central (central de riesgo) where debtors are registered in a public database for consultation by the interested researcher. Mr. Madariaga considers this an extremely important factor for change.

In the case of Apco, the previous acquaintance with Aedes has helped decrease the number of guarantees demanded by Fondesurco. Up to 5,000 sole loans do not require mortgage, but only that activity is developed in the region; that Aedes guarantees the loan; and, that the borrower is not registered in the Risk Central.

The positive trajectory of Fondesurco, Aedes and its beneficiaries/clients have already shown interesting changes: beforehand farmers would ask for credit in order to sow their fields, while nowadays their loans are invested in enlarging their business (for instance, by acquiring new land, etc).

15. Microcredit General Lessons

The most important lessons from the evaluated experiences could be summarized as:

a. **Willingness to borrow is greatly determined by the borrower's land tenure and/or access to other resources.**

   Despite the fact that microcredit has traditionally granted access to loans without the need for collaterals, the greater part of the 11 experiences showed that there was a serious requirement in terms of collaterals. Therefore, beneficiaries' promptness to borrow was not only determined by their financial skills or entrepreneurial profile, but most importantly, by the existence and size of their assets that could be given as collateral.

b. **A beneficiary's repayment capacity should not be underestimated.**

   Many experiences showed that poor borrowers were just as punctual in their repayment as higher income clients. In reality, it was not uncommon for these poorer borrowers to even repay their loans before schedule. In this sense, repayment

capacity was more a question of proper planning and loan adjustment according to the client's profile, rather than income *per se*. In view of this, many grantees found that it was more important to establish and enforce fair rules without underestimating the borrower's ability to repay, but instead to know his/her profile better to instill a responsible credit culture.

c. **Diversification of the portfolio**

The initiatives that have lasted longer, as in the case of Fondesurco (Aedes and Ceder, Peru) were careful in spreading the risks so often associated with agricultural activities either by lending to other sectors (urban) or by tackling different areas concomitantly.

d. Social intermediation costs are worthwhile.

Social intermediation involves efforts to build the capacity, skills and confidence of potential borrowers. In all initiatives, without exception, there was the need for addressing these constraints and enhancing these factors so that the project would yield a good result. In some cases, unfortunately, this lesson had to be learned at the expense of the project's success. Grantees that took an extra stride to build up the capacity of their clients, such as Accedde, have enjoyed better results of their projects not only in terms of microcredit, but also in broader terms (wider impacts).

e. Ensuring good repayment rates, *responsibly*

Aside from this social intermediation, the financial management skills of beneficiaries should also be enhanced through specific capacity building, if possible, prior to the provision of loans – so as not to burden beneficiaries with debt. Successful experiences have also carried out a good "credit profile" assessment before the loan in order to tailor the repayment conditions to the borrower's profile.

f. **Joint provision of capacity building and technical assistance**

Capacity building and technical assistance were *sine qua non* conditions to improve the efficient use of resources. The constraints to poor people go beyond the mere lack of liquidity and encompass also the lack of abilities to escape the trap of poverty. Providing credit alone, without identifying their other needs might implicate in greater burden or debt to the clients.

g. Improve access to markets

Access to markets constitutes one of the conducive factors for an increase in income and, consequently, in raising living standards for poorer farmers.

As small size landholdings prevail in rural areas, the scale of production is usually not enough to reach distant markets and the local economy is not so well developed as to absorb a larger scale production, so farmers tend to produce for subsistence. Gathering in an association or a cooperative not only helps to convey each small-scale production, but also helps to enhance social capital – if and when these organizations have a good governance structure, clear rules, strategies, etc.

h. Lower monitoring costs

If breadth of outreach cannot be achieved at first, it will be necessary to lower costs, without compromising the quality of the service, in order to keep a sound financial balance. It is clear that social intermediation costs are worthwhile and should not be cut, especially in a context of poorer borrowers whose profile may need to be lifted up to a sound repayment capacity. Therefore, using creativity could lower other costs. In some cases, the grantees took advantage of available information to infer a borrower's repayment capacity – e.g. based on the public water service payment record.

i. Paying serious attention to community-building efforts

Individual methodology has prevailed over solidarity groups among the evaluated projects. The exceptions have been loans given out to cooperatives, which have worked well. As we explained before, dispensing with the group methodology may hinder the access of borrowers who lack physical assets to provide as collateral. More importantly, however, the prevailing methodological choice has, however, undermined the gains that

derive from group loans, which include greater social interaction, empowerment, etc. Individual loans tend to yield good results but are constrained to the household (increase in income and consumption, decreased vulnerability, etc).

j. Improving the focus

Obviously, some borrowers are poorer than others. Providing credit alone to allegedly poor borrowers may help to stress power and wealth differences among the destitute group, as some of them have previous existing assets (i.e. those assets not provided by the project such as human capital, land, etc.) that may entitle them to take better advantage of the loan. The box below indicates some of these assets:

Box 1. Reaping the Benefits of Credit in a Constrained Setting.	
1. Access to alternative income	For instance, access to pensions may help increase the affordability of credit while it "buys" the time that some productions may demand in order to become ripe and produce gains.
2. Previous financial and managerial knowledge	It helps to focus the choice of production and its management (including knowledge about costs), diminishing the risks of failure.
3. Good quality land	Land is for most beneficiaries their main resource, and as such, it needs to be productive.
4. Association membership	Those who join productive associations may have increased access to markets.

16. Special Recommendation: Timing and Structure of the Grant

When faced with a grant proposal, the IAF representative may not have much time or access to all the relevant data (sometimes even because the grantee does not have it) to make a fully informed decision. Given these constraints, a rapid appraisal is called upon. In the case of projects involving microcredit components, some indicators may help in this decision because they will demonstrate the readiness of the grantee in implementing such a project.

To begin with, the grantee may not have substantial experience with financial management. In this case, the institution may need to be strengthened before accessing the donation in order to better use the money. This challenge should not be underestimated as creating "viable institutions can be a project in its own right and building strong organizations can be even more important than the swift disbursement of funds." (Schmidt and Zeitinger & Kimenyi, Wileand and Von Pieschke, 1998).

As it has been argued, "it is by no means certain that rational donors (in particular, governments who "remain committed to poverty alleviation well after international agencies have moved on to the next Big Idea") will abandon microfinance "if subsidized microfinance proves to deliver more bank for buck than other social investments" (Morduch, p. 1998c, p. 44)[38]. This perspective sheds some light on the dilemma about subsidized programs. The IAF has traditionally fulfilled its role in Latin America by investing in promising, but somewhat risky programs, where the grantee usually climbs a steep learning curve as the project unfolds – but at the same time, the grantee finds itself stronger at the end of this process. In order for the microcredit project to deliver "more bank for buck" in the case of the typical IAF grantee, social intermediation costs, for instance, are crucial because the role of the grantee won't be simply to provide credit but to change the behavior of the beneficiary so that his/her situation improves. Social mediation

[38] **Where to microfinance?** * Woller, Gary M.; Dunford, Christopher; and Warner Woodworth 1999 Published in *International Journal of Economic Development*, Vol. 1, No. 1, pp. 29-64.

costs, however, will affect the budget and compromise the pure self-sufficiency of a project almost inevitably – because the aim will not be purely financial, but above all, social. As a result, the project can truly serve the IAF values, as described at the beginning of this paper. Subsidies are not necessarily evil, but may in fact help to place the grantee at a more stable path towards sustainability.

This path may be long, however, exceeding the usual 3 to 4 years of the IAF grant. In this sense, the strategy does not necessarily need to include credit immediately, but include it half way through the project, once the grantee is more prepared to deal with the demands of fund management intricacies. The initial analysis of the project should be absolutely realistic about the feasibility of the strategy. The biggest risk in microcredit projects are not the poor borrowers' repayment capacity, but the expectations about what might be achieved with such a service.

If on one side, the capacity of the grantee should never be ignored at this first appraisal of the project (regardless of its intentions), on another side, the strategy of the project should not overlook the capacities of the potential clients or beneficiaries of the project. Microcredit may not be always the appropriate response for poverty reduction. "For microcredit to be appropriate, a pre-existing level of on-going economic activity, entrepreneurial capacity and managerial talent is needed"[39]. As we have seen, the level of economic activity may not be sufficient to provide enough income, so access to markets is essential. Moreover, entrepreneurial capacity and managerial skills may need to be improved – through capacity building efforts and experience. Aside from these, we could also mention social capital as one important condition for the project.

The poorest of the poor have pressing needs which microcredit cannot address isolately – at least without burdening them - such as health and education. In this case, the grantee may need to take its target group through a process where basic needs are met and other capacities are built. "This progression of support services– from grants to training to savings to self-employment–appears to be sufficient to break down the barriers of extreme

[39] http://www.cgap.org/docs/FocusNote_20.html

poverty, social isolation, lack of productive skills, and poor self-confidence that previously kept this population from self-employment."[40]

The IAF will need to distinguish between each grantee and its capacity, strategy and aim, in order to define the appropriate response, or different instruments for different cycles in the life of the MFI[41]. This should not detract from the IAF's risk-taking ethos. One of the main merits of the IAF is to tread where other donors won't do until the path has been paved. Nevertheless, learning from the past risks is key: it will increase the effectiveness of the IAF interventions.

[40] In Donor Brief, CGap, May 2002, "Water water everywhere, but not a drop to drink."
[41] Idem.

17. Overall Conclusions (Executive Summary)

Presentation

The Inter-American Foundation (IAF) has hired the Centre for Social Policy of the Getúlio Vargas Foundation in Rio de Janeiro, Brazil, to carry out the evaluation of several development projects in Latin America, entirely or partially funded by the IAF. Throughout 2007, FGV evaluators carried out the assessment of eleven IAF-sponsored projects spread out around Latin America.

The ex-post evaluations assessed the long-term impacts of the projects on the lives of their beneficiaries, through the use of qualitative and quantitative methods of research. The evaluation findings will help the IAF consolidate and disseminate its knowledge on the strengths and weaknesses of microcredit-related strategies.

The evaluation has been carried out by a team of researchers led by Marcelo Neri from the Center for Social Policies at Fundação Getúlio Vargas in Brazil. The following description concerns the fourth year of the project. The evaluation addresses eleven microcredit related projects in three countries: one in South America – Peru - one in Central America – Nicaragua - and one in North America - Mexico. Project goals ranged from an increase in the income of small-scale producers Guadalajara in Mexico, to help for low-income, rural Nicaraguans affected by Hurricane Mitch to recover productive capacity, and prevent future environmental disasters.

A Study of Micro-Credit

11 projects in 3 countries

Mexico (ME-):
407 (Accedde), 419 (GCK), 426 (CDPZ) & 431 (APOYO)
Peru (PU-):
481 (CEDER), 492 (AEDES), 493 (CEDES) & 507 (Emucosa)
Nicaragua (NC-):
227 (Fundación Leon) , 230 (Espino Blanco) & 234 (Agrodersa)

Objectives

The objective of this microcredit evaluation is to help the IAF to set a vision on how to support microfinance and microcredit programs in a way that is consistent with IAF philosophy and mission, which is to allow people to control their own circumstances.

Methodology

With respect to the evaluation methodology, this year a few changes were introduced. First an organizational assessment of the institution was done, through document analysis and interviews with grantees and the main stakeholders. Since mid-2007 the evaluation started to emphasize the beneficiaries' impacts, in order to understand the beneficiaries' perspective, through open-ended interviews. Given the topic at hand, microcredit, which has many specific related issues, an institutional and regulatory analysis was also carried out. Another novelty in this year's evaluation was the financial data analysis and some credit related macroeconomics analysis, which are really essential, because the framework and the regulatory and the macroeconomic contexts of each country can impact considerably on the institution's performance.

The report is divided in three countries, and each has a macroeconomic background and regulatory framework.The evaluation included an individual report for each of the 11 experiences evaluated. While last year they had twenty-five pages on average, this year this length increased to forty-five pages each with an executive summary to facilitate the introduction to each report. The report is divided in three countries, and each has a macroeconomic background and regulatory framework. There are videos of all evaluation fieldtrips, with the inclusion of twelve DVD sets, as well as photos so that everything is historically documented. There are also relevant interviews with specialists in each country: Hector Madariaga and Alipio Montes from Fondesurco in Peru, from Accede in Mexico and Roberto from Nicaragua. Besides, interviews were taped and put within the country report together with a summary. Microfinance issues are very rich, so restricting it to the evaluator's own words would detract from the richness of the audio-visual material that is linked at specific points of the report. All information is available on the website.

Evaluation Methodology

- ✓ **Organizational Assessment from Focal Groups**
- ✓ **More Emphasis on the Beneficiaries**
- ✓ **Analysis of Institutional & Regulatory Credit-related Mechanism Design**
- ✓ **Financial Data & Macroeconomic Analysis**
- ✓ **Reports*, Websites*, Videos, Photos, Monograph**

www.fgv.br/cps

Typology and Ranking

Credit itself does not create opportunities, but allows people and institutions to take advantage of the existing opportunities. If the operational/development side of the initiative

is not working well, you may still have a very nice credit component, but it won't work. The credit is just a means, not an end. The typology that follows is based mainly on two criteria: the grantee's level of credit specialization, which was the main characteristic considered, and the potential of the grantee's development activities. We tried to rank theses institutions from a microcredit perspective. The basic classification was

(i) Advanced level. grantees have a good microcredit and development strategy. One lesson learned is that when an institution tries to do both microcredit and other activities together, the results can be quite limited. Credit specialization is key, there are many different ways to achieve that, and as a result the grantee experiences transparency, outreach, self-sufficiency, growth potential, and social return.

ACCEDE was chosen as the top institution, due to its financial and social results and the fact, that although not knowing much about credit, they evolved and ended up creating different enterprises. It personifies very much the type of the ideal IAF approach.

The second is a pair of Peruvian institutions, CEDER and AEDES. They are linked to Fondesurco, which is a very strong credit institution. They have different ways of doing this division of labor. ACCEDE divided its operations internally, whereas CEDER and Aedes delegated fund management to Fondesurco. What we really observe in some cases, in some cities, is zero percent default. The third one is Fundación Leon, in Nicaragua, a purely and strong microcredit institution.

(ii) Intermediate group. Grantees have good development projects, but there are competing interests between microcredit and other activities within the institutions. They are not able to disentangle these two parts. For example, if you provide technical assistance and credit at the same time, the borrowers may hold the institution responsible for any failures in their production and will not be willing to repay the loan. About five institutions are in this intermediary level. Another very systematic problem that we find is scarce financial records, which are key. If you are not able to see the records then you really have

a problem. Some institutions present growth, but they could leverage this growth if they solve this problem.

Starting in this second level, we have Espino Blanco, with a good focus, and that has decided to do the hardest thing, which is to provide loans to agriculture, while Fundación Leon, for instance, does loans for commerce and urban areas, which are easier. Espino Blanco is excellent in terms of transparency.

Apoyo is a big organization, very successful, and very interesting with respect to microfinance and to immigrant's remittances. It fits very well the type of profile IAF is looking for. It is an institution that produces both social and institutional innovation. But it had problems with the microcredit provision, specially concerning the division of labor.
Then we have CEDES, from Peru, a very serious organization, but which has also problems referring to these competing interests. They have what Roberto Garcia saw as a "poverty relief approach", instead of a "structural sustainable approach" to lending

At last we have CDPZ, a small institution that does not have an activity that will generate income to the community and that is not very transparent.

(iii) Basic Level. These projects have a weak credit component, and these competing interests may degenerate into a poor governance problem. The point here is that the division of labor between the credit and the other part not only allows to manage risks, these competing interests bias downward the expected return and the expected impact of theses institutions. It takes the strength from the institution.

In the third level, we first have Agrodersa, from Nicaragua, which is a very serious institution. However, its staff is not specialized in finance, but by agronomists without experience on credit.

Emucosa and Knan Choch have both a serious governance problem If an institution starts in the wrong path, it is hard to recover, especially if it is a small institution. The type of

problems they both experience are similar. In Emucosa, they had the *caja-chica* type. Each small community enterprise managed credit by themselves, then they decided to form a single organization, the Emucosa, but after this governance problem, they went back to the *caja-chica arrangement*. These institutions ended up not recovering their loans and not covering operational costs.

Types of Organizations

(from a micro-credit perspective)

- ✓ **Advanced**: connected with a strategy, credit specialization, transparency, good outreach, self-sufficiency, growth potential, sound social return.
- ✓ **Intermediate**: good real projects, competing interest, learns from experience, applies knowledge to new projects, scarce financial records, reasonable growth, opportunity to leverage.
- ✓ **Basic:** weak credit component**, poor** governance structure, difficulties in recovering loans & covering operational costs, low impacts on the beneficiaries and unsustainability.

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Types of Organizations

(from a micro-credit perspective)

Type/Country	Mexico	Peru	Nicaragua
Advanced	Accedde	Ceder Aedes	Leon 2000
Intermediary	Apoyo CDP-Z	Cedes	Espino Blanco
Basic	GKC	Emucosa	Agrodersa

Macro Environment

What the evaluation shows as well is that, although the literature says that the framework and macro conditions are key to the performance of a credit related organization, they are not the sole determinants of it. There are institutions in the same environment that show different performances, and institutions in different environments with similar performance. It means that they are not so dependent on the environment. An interesting fact is that there are advanced, intermediary, and basic level organizations in the three countries. The environment does not affect the institutions, but only the degree of success they experience.

A Challenged Myth

"The regulatory framework & macro conditions are paramount to the performance of credit-related organizations"

- Evidence 1: institutions within the same regulatory environment with very different performances.
- Evidence 2: institutions in different environments with similar qualitative performances.

IAF's Role

According to an IAF representative, based on Agrodersa and Leon's example, IAF has a role in making the financial institution to advance thorough the various levels, but one has to be very careful with the ones in the basic levels. She recommends a focus on higher institutions that already do credit. The basic level institutions have such a long learning curve. Another commented issue is the timing of the grant and the length of time spent with the grantee.

Specificities and Similarities of the Countries

The selection of the projects was considered very good. First of all, all the countries are in a post-stabilization period. The problem was not only high inflation, but that you interfere with contracts when you do these stabilization plans, and there is a very small chance that a credit institution could prosper during those times. In all these countries there were recently natural shocks and it is remarkable that people really deal well with this uncertainty, as well as the ability to restart and the way they adapt to and incorporate it in their practice. In all of these countries, although they are in different stages, social safety nets are expanding, so there is a new income source reaching the poor that help microcredit institutions to go where they did not go before.

With respect to the legal framework, there are changes but sometimes they don't happen as fast and not always in the best direction for the institutions. But, still, in all these countries, we had low credit for GDP ratios, very low compared to other regions. And it is not only a problem of quantity of credit, but also the quality of the credit. There is a lot of state lending, and a lot on institutions complain as dumping, in a sense, in investing political interests. When a state bank forgives loans, it really makes the environment for microcredit more sterile.

The other thing is that in Latin America there is a tradition for microcredit, but more for the upper income, more for the short term, and more for consumer credit, instead of long-term, lending to institutions, to the poor, and for productive purposes, which really represents the frontier of microcredit in the continent.

Plus you have specific problems in these countries, which are all very present in our report. For example, immigration is an important issue, and therefore we produced a section on that on the Knanchoch report. In Nicaragua, there were a land reform, as well as a Sandinista revolution, and it is a beautiful experience to see how this affects credit and the incentives for people to produce. People have revealed their preferences, for instance, when they say that "when I divide the land with other people I don't work as much, now I work more.". Besides, there is a serious energy shortage in Nicaragua, which affects a lot the

producers. There are small businesses, however, that buy a generator, and therefore beat all the competition. The lesson here is that in adversities you have opportunities, and some entrepreneurs are really looking ahead.

In Peru, for example, Sendero affected places in both ways. Some regions, like Abancay, people immigrated to towns because of Sendero, while in Cotahuasy there were people fleeing towns.

Transparency

AEDES, CEDER and Fundación are in the MixMarket database, so everyone is able to compare them, and realize that they both got prizes for transparency. Their balance is on the Internet, and it is clear that transparency makes a difference. Lack of transparency is a serious problem present in most the institutions. But there are different reasons for it. Agrodersa, for example, is a very open institution, but does not have sound records because the managers did not know how to make them. But most of the grantees promised to send the data, but did not. Most of the time it has always been a struggle to get routine financial information.

Propoorness and Women

Finally, an interesting point is that all these microcredits are pro-women. Although most of the entrepreneurs and farmers are not women, most of the microcredit's clients are women. Besides, the study found suggestions that the more pro-poor the institution is, the more pro-women it is, according to the small amounts of loans, and the fact that for each male there are three females, a rate which increases for the top performers: the ration is 0.75.

Another finding is that the advance institutions are usually not very pro-poor. It is a limitation they have and assume it. According to them, the very poor would not repay the loan.

Winning Features

- ✓ Clear vision, mission, focus.
- ✓ Good alliances or Internal division of labor: credit operations distinct from others.
- ✓ Financial ethos (interest rates, recovery)
- ✓ High level of information disclosure
- ✓ Self-critical organizations: re-evaluating strategies.
- ✓ Generally pro-women

Challenges

- Willingness to borrow is determined by the borrower's access to collateral (land with and without title (induvidual X communal).
- There is no such thing as the best credit model (e.g. individual or group lending or still institutional lending)
- A beneficiary's repayment capacity should not be underestimated.
- Diversification of the portfolio – spreading risks so often associated with agricultural activities.
- The commercialization-credit nexus.
- Capacity building and technical assistance: sine qua non condition to improve the efficient use of resources.

18. Individual Microcredit Experiences: Lessons Learned

1. Accedde, Jalisco, Mexico

There is no doubt that Acción Ciudadana para la Educación, la Democracia y el Desarrollo (Accedde) is the most successful microcredit experience among those four experiences visited in Mexico within the course of this year evaluation project. Accedde pursues an integral way of providing credit funds which is close in spirit and practice to the so-called grass-root development approach. Its main characteristics are summarized below.

History of the project

Accedde was formed in 1995 by an interdisciplinary group with a background in participatory local projects. Its history with the Inter-American Foundation goes as far back as 1998. The agreement was extended in September 2001 to last until July 2004. The project (ME-407) implemented a diversified development with the following features: Management of guarantee credit fund; Promotion of economic and socio-political development in the target communities; Support technical education and regional integration; Promote sustainable agricultural practices; Improve municipal management and Promote citizen participation, learning and dissemination on community development issues.

The environment

In Mexico, over 95% of the companies are micro-enterprises, which together contribute to half of the GDP and generate 7 out of 10 jobs. Despite this, their access to credit is limited, as they still lack administrative structure, collaterals, and financial information and credit history.

Nopal plantation – Cuquio, Jalisco

Macroeconomic crises in Mexico also affected the grantee's ability to keep its supply of credit. For example, as the Mexican government withdraws the subsidy to Accedde's interest rates, the grantee had to increase it by 6 percentage points – rates that hitherto had been at TIIE +0. As a consequence, there followed a sharp decrease in the number of credits between 2003 and 2004.

Accedde faced a complex mix of resistance to innovation in many levels: incipient credit "culture". Accedde also struggled against established traditional models in different fronts. For instance, some beneficiaries have shown resistance to adopting bio-fertilizers, afraid of

changing old ways of cultivating maize. Some of Accedde´s interventions were thus progressive, introducing changes slowly and gaining support as results were shown.

The role of the grant

Project ME-407 relied on a comprehensive strategy, which went beyond the provision of credit alone, whereby Accedde had an integral involvement with its beneficiaries (from selection to loan repayment). Project ME-407 helped its beneficiaries by identifying their main assets and exploiting them adequately. Nevertheless, the project had a strong focus on credit, as 41% of the IAF donation was used to leverage a credit fund.

In total, the IAF donated US$ 586,729 for Accedde. The IAF donation enabled Accedde to leverage a guarantee fund to access FIRA's resources established by the federal government, whose main objectives are to concede credit, guarantee, capacity building, technical assistance and technology transfer to the rural sector. Accedde fund grow in number of loans beneficiaries from 573 in 1998 to 1891 in 2006. The IAF donation was instrumental in "taking Accedde to the next level and sustaining it there".

Accedde gained excellent experience during this time and it now provides support to 40 towns in the region. Accedde believes that the IAF donation enabled the conditions for people to organize themselves. Accedde has also successfully managed Pronafim funds (micro-entrepreneurs). Once the requirement is approved, groups are organized and a loan is given – although each beneficiary is responsible for the repayment of the whole group. In this sense, trust is the biggest asset at stake.

Financially, it is safe to assert that Accedde capitalized on the IAF donations, since their inception in 1999. The IAF resources totaled 200,000 dollars for this guarantee fund that allowed Accedde to access FIRA funds of up to 2 million dollars, at first. As loans were recovered and the guarantee fund increased, Accedde can access up to 20 million dollars.

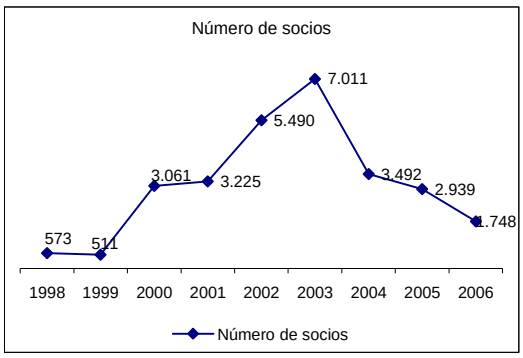
Credit History

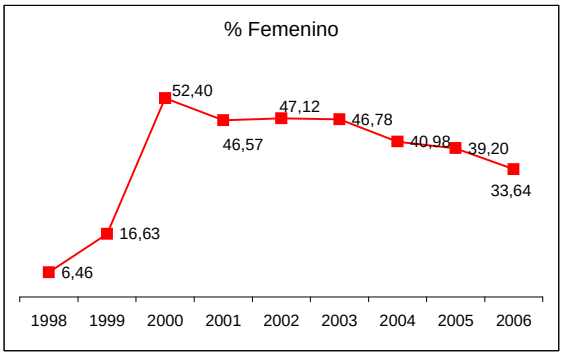
The absolute number of borrowers varied considerably during Accedde's history – a variation not entirely disconnected from macroeconomic swings. From 1998 until 2003, when Mexico economy experienced a good economic period, Accedde's interest rates were subsidized and its portfolio increased from 573 clients to 1748. Since 2004 though, the number of clients has fallen 50% until 2006 – as a result of the end of subsidies to the interest rates as the graph illustrates.

ACCEDDE staff has observed other marked improvements in their clients as a result of access to credit, such as an encouragement to go back to school, incentive to search for other sources of finance and an increase in self-esteem. One can also observe a shift in investment: the first loan is usually applied to buying primary inputs for the business (*avío*). As the production/business becomes more stable and profitable, operating costs are more easily covered, and the second loan will be probably used to buy machinery (*refaccionário*).

Accedde´s beneficiaries have also counted on moderate interest rates – which makes their loans more affordable and manageable than elsewhere. The *Tasa de Interés Interbancário* (TIIE) plus 6 percentage points has been adopted by Accedde since 2004.

Accedde manages two large funds – namely, PROCREA and PRONAFIM – that also have historically being designed for the lowest income segments of the population, or those who are not included in the formal financial system. Accedde's recovery rate remains high: since the inception, 83% of the credit has been paid, 0,001% is overdue and the remaining amount is still being managed with PROCREA. The Pronafim experience, albeit more recent (since 2003), has been even more rewarding: of a total portfolio of 113,059, 894 pesos (US$ 10420267), there has been full recovery.





Source: Accedde

Profile of Borrowers

In 1998, 76% of the loans were of less than 30,000 pesos (US$ 2764), while in 2006 it had fallen to 54% - at the same time, loans of over 60,000 pesos (US$ 5529) had risen from 4% to 33% in the same period. Furthermore, the shift occurs more clearly in 2004 when loans above 60,000 pesos (US$ 5529) reach 42,54%.

Accedde has also increasingly targeted women whose financial status in Mexico rural areas is notoriously weak. Men remain the dominant borrower group, but women share of the loans have increased considerably from just above 6% to 31% between 1998-2006, although there is a downward trend in the process starting in 2000 as the graph above illustrates.

An ageing agricultural population: for instance, in 2006, 53,47% of Accedde's borrowers were over 45 years old aggravated by the rural exodus of young people to urban areas in Mexico and elsewhere.

Reaching the poorest

There is a strong poverty focus in Accedde's operational guidelines. Accedde has focused its activities on beneficiaries with up to 4 region-specific minimum, who do not have access to credit and rely on subsistence. Accedde has adopted integrative strategies where the lack of access to financial services is only one of the many constraints faced by the poor. Accedde's strategy focuses on orienting borrowers about the intricacies of finance,

providing technical assistance. Accedde develops from the very beginning of their relationship with their clients a very intensive relationship, which has ensured better rates of return and repayment.

IAF credit funds pursue ideally three main requisites: (i) that credit is accessible - provide diverse loans from 1,000 ((US$ 92,17) to 10,000 (US$ 921) pesos – reaching the lowest income segments, who demand smaller credits and cannot provide collateral.; (ii) that credit is cheaper than in other funds - in Pronafim's case, for instance, interest rates of 3,5% are applied on remaining overdue balance – as opposed to other financial operators that charge interest rates over the total amount of the loan; and (iii) that its repayment period is adapted to each project's needs - ie. spread over a period of up to 6 months – hence covering most beneficiaries' business cycle. All this characteristics determine the ability of credit to reach the poorest segments of the Jalisco society where Accedde operates.

The role of technical assistance

The participation in Accedde's credit schemes and technical assistance has helped producers to decrease costs of production, for instance, through the use of biofertilizers and improved seeds and also helped them to maximize the wholesale purchase of inputs, which has dropped their prices. And also organizing their marketing schemes (bypassing intermediaries) all have enhanced poor farmers' income.

Technological improvements have increased production and, consequently, income. Likewise, the use of machinery has decreased the need for children to help in the family land, and they can now attend school. Credit also allowed producers to better manage their finance. Previously, any profit from maize cultivation would be spent on inputs for the next cycle of production – thus leaving little income for the family's immediate needs. Nowadays, any profit can be used to meet their immediate needs, as they have learned how to manage credit for production.

Maize has an additional advantage because it can be stored up to 6 months, which may help secure better prices, as it becomes more capitalized. Demand for maize has been steady (and high) as it accounts for a great share of Mexican diet. Despite advances, Cuquío could improve its land productivity - which currently is 7 tons/ha on average, whereas other parts of Jalisco produce up to 10 tons/ha and the United States, up to 18 tons/ha.

Institutional features

The management of credit funds strengthened Accedde in many ways. Accedde's organizational capacity has only increased over the years. It has recognized the need to specialize in its various segments and promote a more specific division of labour within the institution into three broad categories: Production – capacity building and technical assistance; Citizen participation – it has established a Local Development department; and Credit.

Given this institutional division of labor, Accedde has invested considerably in specialized personnel to assess perform the main functions in it credit operations, such as: assessment of borrower profiles, give financial and technical advice, ensure adequate follow-up.

Accedde's efforts with cooperatives or agricultural associations have gathered homogeneous groups that know each other's problems and potentials, as well as increasing the area's social capital. Accedde has also driven a shift from a concern with survival to a focus on community potential. Project ME-407 relied on a comprehensive strategy, which went beyond the provision of credit alone, whereby Accedde had an integral involvement with its beneficiaries (from selection to loan repayment).

Overall Accedde's institutional features are: Good risk management; Robust repayment collection system; Good geographical coverage; Good quality assets; Strong administrative experience; Sound organizational structure: credit committee, rural technical experts and good governance.

2. Apoyo, Mexico City, Mexico

Access to Financial Services

Usually there are no schemes of savings in the Mexican poorest areas such as those where Apoyo operates. But not because there are no people desiring it. The poor areas are the ones with more difficulties in access to infrastructure and thus credit. The credit business in rural areas is rather risky. The very existence of social programmes in rural areas generates a culture of assistance. The economic principle becomes: "I cannot pay a credit because I am poor. If you want to give me, so give me assistance, give me money and do not ask me to pay back!" There is also the issue of the interest rates and credit programs that become donations in the course of the process. The Mexican government insists to work only with individuals, not with organizations. What happens is that people do not remain in programs like the ones supported by Apoyo and leave it for assistance programs.

Apart from lacking experience, Apoyo also felt the lack of a regulatory framework on the criteria for selecting its borrowers. Apoyo objective is not the credit in itself. Credit is only perceived as a tool and may benefite by a division of labor with other more specialized institutions . In the words of Roberto Ramirez, Apoyo Director: "when we see there are intuitions like ACCEDDE, that are dedicated to credit, we learn from them and it is interesting for us to expand working relations with them: You do better the credit part, I do better the trade and the technical part".

The macro-economic context also helped during the project implementation but since 2005 the economic environment has been "adverse" for rural Mexico, as the leading party is urban-based and public policy tackling the countryside have changed. The interest rates have also increased to 16% a year for productive activities. Additionally, Mexico only produces 15% of the fertilizers it consumes – hence importing can raise the costs of production. Apoyo have become more selective about the projects and more aware about evaluation and control. The main lesson here is to have understood that it is more rewarding and effective to focus on projects of community development that are associated with, but not exclusively concerning, credit.

On average loans paid 2,5% interest a month to lender. When asked about repayment rates on outstanting debts Ms Eleonora Occhoa, Apoyo Administrative Director says: "Sometimes it (debt) grows so much that we needed to restructured the debts, because they could not pay in the right time. But then it was restructured and then they paid."

Apoyo closed some of its offices in Zacatecas, for instance, because there was not sufficient margin to keep it especially in view of low interest rates (7 or 8% per year). Besides, production levels were low and beneficiaries were good producers but did not have a entrepreneur profile. Apoyo has welcomed this scaling down in its operations, as a means for better quality services.

Ms Eleonora Occhoa adds: "The projects are different. In the rural zone we work mainly with young people, young people coming from migration. They have some problems because they are not so responsible, organized and constant. For instance, the women are always more constant.

Other Financial Services

Apoyo credit scheme involves the provision of insurance which lowers the risk of the operation. But beneficiaries usually see insurance as something very costly, "If we do not use we will lose it". And there is a feeling that is where the government should work a bit more.

The greatest advantage of the IAF's funds is that they can complement supports and schemes of saving and financing that legislation does not allow. In other words, IAF funds have the virtue that they can create schemes of innovation. On the other hand, it was challenging to enforce some rules and apply more control to the use of resources. In Ramirez view, there were not enough basic rules about the management of these funds, so it became necessary to orient people towards a process of sustainability.

Accountancy Services and Fiscal Incentives

The projects in rural Mexico, which are Apoyo main target face a serious a lack of accounting knowledge, and therefore rural enterprises have problems in developing it. They have a lot of potential fiscal benefits.

Apoyo is submitted every year to an auditory by the secretary of finance in order to review if we remain susceptible to be considered a non-profit organization. They help Apoyo as an accounting enterprise. Apoyo started to work with groups, to organize their accounting, in order to improve their control. The IVA recovery is one kind of fiscal gain due to improved accountance practises. But there other kinds. support from the government due to integration to Unión Campesina, provides subsidies for each cultivated area. The government, gives subsidies between 12 and 20%. Especially when agricultures cultivated fields they were given by the government.

The institution presented the records to track the financial performance and outstanding *campesinos* debt. Despite of the merits in organization and innovation of Apoyo, the conditions for a sound financial evaluation were just not there.

In sum Project ME-431 achievements are diverse and mostly positive (logic model, page 7). It managed to increase people's income and to increase productivity in the countryside, albeit only temporarily in some cases. It is important to note that the aim of working with expatriate Mexican citizens has been reviewed by the grantee. Therefore, Apoyo continued implementing the project focusing on its remaining aspects, while improving its bi-national strategy which only now starts to bear more fruits (recent projects).

Positive Outcomes

- Increased efficiency
- Increased production
- Increased income
- Increased organizational coherence
- Fostered entrepreneurship
- Women's autonomy
- Better spending, insurance and saving patterns
- Better use of subsides and fiscal incentives
- Better investment decisions
- Better access to communication and educational services
- Induced technological diffussion
- Reduced incentives to emigrate to the US

Constraints to the Achievement of Outcomes

- Old-fashioned detrimental farming practices
- Natural disasters (e.g. hailstorm)
- Financial Mismanagement
- Lack of trust
- Lack of Financial Accountability and Independence
- Ill-information and lack of ownership of projects

3. CDPZ, Zaragoza, Veracruz, México

Overview

CDPZ's cattle

The project ME-426 was implemented in Zaragoza, a small town of 9000 inhabitants, mostly rural, located in the Las Selvas region in the State of Veracruz, Mexico. IAF funds totaling $ 423,596 would be used for training workshops, technical assistance, start-up capital for infrastructure and operating expenses for the micro-enterprises as well as some administrative expenses. The organization CDP-Z would contribute financial and in-kind resources for training and workshops. The project aimed to address: the lack of adequate housing and health services; and, low income levels by integrating training, technical assistance and investment/operating capital to allow the community to construct and operate a traditional public health center, establish and begin operation of a housing micro-enterprise, and establish a pilot enterprise to raise cows for both meat and milk consumption.

Although housing funding is the fundamental part of the project. CDP-Z did not provide the evaluation team with any financial record related to the project which is an indication of its status looking from a microcredit perspective. This seem to be a common feature of small projects that ask for a revolving fund to complement its actions (and do not borrow this expertise from other specialized credit institution). ME-426 presents valuable lessons by contrast with the role played by a typical microcredit institution.

Sustainability of impacts

One key aspect is the need of Mexican social policies to change from transferring compensatory poverty alleviation resources to policies that attempt to enhance the poor income generating potential and their ability of self-insure against adverse shocks, through assets accumulation and grass-root development. Non-agricultural wages and public income transfers, like Oportunidades, have increased their participation in the income sources of the rural population between 2000 and 2004. More specifically for villages with 2,500 to 14,299 inhabitants in the South-East Region (which includes the state of Veracruz) income from work has decreased from 87% to 76%, while public transfers have increased their participation from 2% to 19%.

Three broad types of capital enhancing policies are implemented by CDP-Z with the grant support: housing, health and cattle breeding, but the main effect is probably to enhance the creation of social capital through the organization itself.

The possibility of offering the possibility of housing finance at affordable interest rates and prices satisfies not only the demand for affordable housing services but also the need to supply life-cycle assets for the old age. The comparative technological advantages found in housing building activities using local knowledge and reproducible physical resources (e.g. palm trees) also justifies the intervention as a way of relaxing existing credit constraints. The main financial issue here is not to distort too much the housing funding conditions in order to avoid the incentives for the diversion of the project funds into other financial applications. Of course, the final outcome depends crucially on how strong is the commitment of the organization filling its housing supply mission.

Volunteers at the alternative medical centre

The preventive health approach pursued in the project is atypical and may also justify the type of intervention as a result of financial markets failures. Recent studies have shown that the main source of the probability of entering poverty (narrowly defined as insufficiency of per capita income with respect to a poverty line) are health shocks. Health services are seriously precarious in Saragoza, where there was only one *primer nivel* medical unit and 3 doctors in 2000. In the area of health, CDP-Z and community members would establish and operate a traditional public health center, complete with hydrothermal baths and botanical garden for natural medicine production. This innovative center would operate on the basis of recovering administrative and operational costs while providing service to the municipalities 8,000 residents.

Although there is a component of cattle breeding and small crops in the project. This is certainly not the emphasis of CDP-Z or the project at hand. This component of the project would provide more for subsistence needs than selling the production in the market. Although the health component of the project attempt to fit in this category, it will probably generate more external impacts to the wellbeing of individuals in the community than a possibility of generating sustainable incomes. The key elements of the project at hand namely housing and health are very much in line with a direct welfare effect of the project, boosting the community well being. Overall this raises a question about the capacity of maintaining these effects in the long run or perhaps more challenging reproducing this type of project in other areas in a sustainable manner.

Housing funding environment

The housing funding part is the key component of ME-426 project budget and it is worthwhile looking at the environment of official projects that attempt to extend access to the formal housing sector, in particular for the lower income sections of the population with an eye in: Overcrowded housing, Housing expenditure share of total expenditure, the physical state of the houses and property rights associated.

There is a widespread shortage of adequate housing for the poor around the world. Many microfinance institutions (**MFIs**) have started providing housing financial services. The main constraint of official housing projects has been that they have not been able to reach scale, the main microlending programs for housing are:

Mibanco's Micasa credit program where the income cap is 3 vsmd DF (e.g. 3 times the Federal District minimum wage). The benefited family may count on credits ranging from 18,000 pesos (US$ 1658) to purchase a plot of land with basic services to 25,000 pesos (US$ 2300) to build a basic rural housing unit, among others. Interestingly, "few projects are completed with a first loan and financing 'stages' of a project with multiple, shorter-term loans rather than a larger, long-term loan reduces interest and risk".

Fideicomisso Fondo Nacional de Habitaciones Populares (**FONHAPO**) focuses mostly on non-salaried families with individual incomes ranging from 2,5 to 4 times vsmd and helps them to improve, acquire or build housing. It offers a diverse portfolio of financial products. Fonhapo will provide up to 90% of the total cost, whereas the beneficiary will respond to 10%. The beneficiary will have to pay up to 25% of its personal income per month or up to 30% of its family income.

Programa **Vivienda Rural** targets the rural poor homeless or living in bad conditions in areas with less than 5,000 inhabitants, are entitled to access this program. Among many requirements, the beneficiary is expected to demonstrate land tenure. Families may receive up to 24,000 pesos (US$ 2211) (subsidized) in order to build their house.

Housing funding implementation

Native housing

In the area of housing, the grantee would establish and manage a building materials fund and oversee the construction of at least 100 new homes. CDP-Z would manage a revolving loan fund to finance housing construction with repayments set at 33% of the cost of the home. Approximately 100 loans would be provided for up to $2,500 at below market rates of interest. In addition, the project will establish three sustainable community micro-enterprises and manage a revolving loan fund. After an initial budget adjustment, CDP-Z managed to build 97 houses. At that time, 16 to 18 jobs were created in order to build each

house, hence exceeding the initial target (around 8). Over 185 people were reported to have been trained on subjects as diverse as construction, credit, savings and natural resources. The project was originally designed as to allow the money from loan repayments to help establish a rotating fund for the construction of additional houses. CDP-Z managers indeed established a retailer of construction materials– a micro-enterprise that has been operating commercially for the past two years, but it has not yet begun to provide credit for additional housing as a social enterprise *per se*.

Each house cost a total of 32,000 pesos (US$ 2950), of which IAF donated 19,057 pesos (US$ 1756) that would be partially recovered by the Committee (33%). This amount should cover the costs of building the "lower part" of the houses; each beneficiary would be responsible for the costs and workforce of the roof made of palm leaves. Beneficiaries also attended courses on housing and credit related issues. The finished houses measure 42 square meters building homes took 2 months on average. An interest rate of 9% would be applied on the total loan amount. The interest payments and amortization would be used to capitalize a construction material low prices shop. In terms of payment while some took nearly two years to pay off their debt, some were able to pay it all before. The CDP-Z reported that only 3 people did not pay up the whole loan.

After the IAF withdrawal there have been no credit schemes and no more houses have been built. Loan recovery money has been used to stock a construction material shop, buy a delivery car and form the fund. The shop generates seven direct jobs, from the salesperson to a brick-molder. Their goal is to build 6 houses per year, with interest rates of 5% per year – despite this increase in interest rates, the demand is still strong for this kind of scheme.

The housing project present key strengths, namely: accessible technology, sustainable use of local resources, speedy construction, housing structural robustness, the use of social capital to achieve low lending risks, reinforcing social cohesion.

Project-sponsored housing

Health Centre

The Health Centre opens every Monday, Wednesday and Friday where c. 10 volunteers provide traditional therapies at low prices. The main objective of the Health Centre is to prevent diseases through herbal medicines and hygiene improvement measures – thanks to their preventive actions, there have been great strides in reducing cholera and intestinal illnesses. These volunteers have worked there for over 2 years, showing a strong commitment to this initiative. They have attended capacity building on how to prepare herbal medicine – which they sell to help cover the costs of the clinic.

Livestock
Through the IAF donation, the Comite could buy 20 cows. The aim of the cattle farm was not only to raise the income of participants, but also to improve the quality of local cattle. We had the opportunity to visit part of the farm, where c. 12 cows were kept. There were 20 cows initially (bought with IAF funds) which have increased to 45 nowadays. Their main problem is the shortage of pasture. They have started replicating the project, by providing assistance to a similar group in neighboring Coatzacoalco.

Recommendations
i) The houses lack bathrooms for instance or an indoor space for hygiene. As most of them also lack piped water. Most beneficiaries are still unable to carry on improvements to their houses that they repute important, mostly due to the lack of employment opportunities in that region that hinder an increase in their income and curb access to credit.

ii) It is reasonable to expect that the various project activities be better integrated, in order to achieve greater advances. The livestock strategy seems out of place in this context, where initiatives to improve human capital for instance would have been welcomer.

iii) The project design also contemplated two main efforts aiming to improve the health of the population in Zaragoza with a Health Centre and a kitchen. Gathering efforts would be more productive than scattering initiatives. There could have been more integration between the grantee and the public authorities in order to make both initiatives more effective.

iv) For future lending programs, interest rates should be kept at the market level taking into consideration the cost of capital, expected loan losses, the related administrative costs. Imposing low interest rate levels is limiting the institution to self-finance its growth and creates donor dependency. Pricing is the fundamental to sustainability.

v) There was little acknowledgement of the need for an improvement in the capacity of the grantee to manage financial funds. The institution did not present the records to represent its credit repayment performance and its financial status. Although, the IAF “strict audits and monitoring” gave them opportunities to correct any mistakes and impose more discipline on them. We could also not have access to the beneficiaries’ database.

The main question is: What did the project really tried to achieve? What was its main intent? Was it a donation? Or was it intended as a starting point for a revolving fund that would generate enough resources to make the grantee operations sustainable? None of these questions could be clearly inferred from the project documents, or through interviews with CDP-Z personnel.

4. Knan Choch, Motozintla, Chiapas, Mexico

The situation observed four years after IAF grant to the Group Knan Choch (GCK) expired was of low economic and social activities. *Campesinos* nowdays rarely gather around the institution. If one abstracts from subsistence crops, the institution is neither fostering cultivation for commercialization nor processing agricultural products. It is worth mentioning an ongoing attempt at recovery on both fronts (cultivation and processing) previously associated with Centro de Agroecologia San Francisco de Asís A.C (CASFA) intervention. Through interviews, we noticed a steep learning curve derived from the past years' difficulties but it is too soon to say whether GKC will be restored to its previous *tiempos de arriba*.

GKC's warehouse

GKC does not present a successful credit history since loans seldom reached agricultural producers – of which only 5% repaid their outstanding debt. Here, we synthesize the lessons learned from the microcredit component of the grant. To make sound inferences about credit performance, one must first look at the environment around GKC and the specifics of its production process. In the second part of the lessons below, we move on to organizational issues more directly related with credit arrangements.

A. Microcredit and the Real Side Surrounding Environment

1. Chiapas status as most underdeveloped Mexican State with respect to illiteracy, extreme poverty, malnutrition - just to mention a few – makes sustainable agricultural credit schemes harder to implement but at the same time more necessary.
2. Similarly, local conditions such high geographical dispersion and Sierra Madre soil conditions that demands fertilizers, also make credit schemes harder to sustain. On the other hand, about 70% of the agricultural land in Chiapas are in the hands of rural producers leading to a concentrated demand for investment and credit**.**
3. There is no established tradition of organic agriculture in Chiapas, which would not require fertilizers thus sparing producers from this purchase. Complementarily, the erosion found in the mountains around Motozintla points towards the lack of environmental sustainability. In this sense, funding organic production efforts may allow the establishment of an innovative learning process that may lead in the long run to a more autonomous and sustainable production process.

4. Adverse climatic shocks associated with Hurricane Stan after the grant expired may also have contributed to the collapse of the productive and organizational activities.
5. The main social problem found there is the emigration of young males towards the US creating a vicious cycle, whereby agricultural tradition is lost and families do not have perspectives to earn a living there.
6. Increasing religious and political fragmentation also hindered the accumulation of social capital that is crucial for GKC institution building.

B. Production Choices

7. The initial choice of crops cultivated relied more intensively on potatoes production. This created a dependency on relatively risky and expensive seeds per *cuerda* of land cultivated. In the case of papas people do not cultivate their own seeds.
8. Chayotte and papas delivered presented heterogeneous quality due to lack of adequate production planning which by itself raised commercialization barriers and disappointment of the initial idea of paying micro-loans in kind.
9. The machines bought to cut Chayotte and papas in slices (*a la francesa*) presented technical problems –oxidized razors that did not resist a larger scale production process and the required reliability to supply an upscale market.
10. Opportunities to reach an upscale market occurred at some point but the lack of capacity to regularly supply the quantity and quality required closed the "commercialization doors" that had just opened.

C. Microcredit and Organizational Issues:

11. Neither the institution nor the IAF audit reported presented the records to track the financial performance and outstanding *campesinos* debt. Changes in management may have compromised the availability of financial records and, as a result, the conditions for a sound financial evaluation were just not there.
12. The difficulty in accessing financial credit records may suggest the need for relying on IAF audit reports as a basic source of grantee's financial information. It would facilitate the comparison between different institutions across countries, which is especially useful for a meta-analysis.
13. During the grant period, GKC implemented another project together with IAF's without previous planning, decreasing the transparency of the monitoring process.
14. Following up the grantee after the grant expired - often mentioned during the interviews - indicates one of two alternatives for the IAF: either the IAF should be prepared to monitor and interact on a more permanent basis in the undertaking, or the process of selecting grants should put more emphasis on the initial level of social capital and the internal organization that will allow for greater sustainability after the grant expires.
15. Although Motozintla private interest rates for loans ranging between 7% and 25% per month are prohibitive, public policies that do not enforce the repayment of official loans makes it highly unlikely the repayment of loans by NGOs and of Campesinos to the institution.

16. As the IAF grant is a donation, this may have limited incentives for second-level borrowers to repay their loan. . There is, according to different interviews, an intrinsic difficulty to ensure that resources reach the field.
17. Overall, GKC experience is consistent with the idea that IAF grants that finance a small revolving fund may be a less effective way to finance microcredit for agricultural activities than supporting specialized second floor microfinance institutions. This is of course just one case also obscured by the lack of financial data, and operational difficulties occurred during the project's implementation.

5. Ceder, Arequipa, Peru

Background

In Omate and Puquina districts, a farming development program financed by IAF was launched in 1999, in the province of Nazanticero. This project had many components, but one its main objectives was to increase the profits of the peasants. It involved around one thousand peasant families dedicated to cattle, production of milk and fruit culture. For them, there was as basic components the building of irrigation infra-structure, such as channels, reservoirs, etc. Another strand was the development of *pisoforajero*, with the introduction of new species, such as *palpa, avena, dartiles,* etc. A third strand was everything that concerns the genetic improvement of the cattle, through artificial insemination.

Milk producer – Puquina, Arequipa

Besides, there was a component which was vital: the implementation of credit services oriented to the constitution of assets and working capital assets in milk cattle and in fruits, and working capital for inputs and for commercialization. The methodology consisted on the project being proposed by the possible clients, and Fondersurco was in charge of evaluating with criteria of credit recovering. This fund has enlarged, and nowadays it has about 100 thousand dollars.

Project Description

Project "Desarrollo Agropecuario de la Provincia General Sanchez Cerro mediante la gestión local concertada" aimed to increase the income of 1000 families of small farmers, dedicated to livestock raising and fruit farming. The project was implemented from 1999 to 2004 and could be summarized as follows:

Project's Logic Model

STRATEGIES	OUTCOMES	GOAL
Construct an irrigation system	Improve water resources distribution	
Provide micro credit services		→ Increase the income of 1000 families of small scale famers
Provide capacity building and technical assistance to enhance the technical capacity of farmers.	Improve profitability of fruits and cattle	
	Boost management of dynamic local development processes	

The project aimed to address the region's main problems, including: scarce arable land and water resources; insufficient technology applied to fruit and dairy production; fruit plagues; cattle vitamin deficiency; difficult dairy and fruit marketing; low social capital among small scale farmers (hampering access to credit and market). With a view to counter-balancing these issues, the grantee capitalized on the region's main assets, namely: natural resources and adequate environment for fruit and cattle farming; local producers' experience; Omate's good reputation for avocado and lime; and an increasing demand for cheese, yogurt and butter in the market.

Ceder provided both capacity building and technical assistance regarding cattle management and fruit production

The project's central hypothesis was thus that the farmers' increased technical capacity, allied to a larger supply of capital and an improved infrastructure, would increase productivity and profitability – hence, ultimately, increasing income. This was not an exclusive microcredit project, but included other actions that are just as important to the achievement of the outcomes – and which will be considered accordingly.

Microcredit

In 1994, Ceder and two other partners founded Fondesurco - an NGO specializing in micro-finance, providing credit to the agricultural sector in South Peru. Ceder has maintained its non-profitable status and continues to focus on developmental activities. Its role is to design the project, raise the funds and implement the initiative. Fondesurco, in turn, will manage the fund and offer the microfinance service. It is committed to matching the funds raised by Ceder in up to 100%. Their institutional closeness risks some mission muddling, but they have strived to make the division of labor more precise, as Ceder will establish the credit parameters for Fondesurco to implement; and it will also contribute with the relevant intelligence about local production aspects that are important for Fondesurco to create the

most adequate credit mechanisms. Additionally, Fondesurco founders play of role of overall guidance without interfering in its administration.

In order to tackle the informational constraints that are so peculiar in the rural financial market, Fondesurco began its credit operations by providing loans to groups. This strategy remained for over 5 years, until a "knowledge pool" had been built and the operations could be carried out on an individual basis. The individual lending is functioning really well. If the peasants want to join a group they can, but they do not need to. One of the reasons of Fondesurco' success is that they had been in the area for 13 years. This long permanence allows them to get to know people well. The cases of default correspond only to 3%.

Currently, 99% of Fondesurco's loans are now individual – which follows a trend in Peru, where farmers would rather operate individually as opposed to assuming a group loan Fondesurco monitoring consists of a loan repayment follow-up: if and when a borrower does not meet the repayment schedule, a Fondesurco agent will be responsible to visit him, enquire about the reasons for the lack of repayment and seek a flexible solution, which may include rescheduling. Their institutional learning is also closely attached to their operations in Omate and Puquina, which enhanced their knowledge about rural markets. In addition, this experience shaped their portfolio: 95% focuses on productive activities (instead of consumption) and 37% are women borrowers.

Fondesurco has had a very respectable performance in the past few years, according to the Mix Market database. Its outreach has increased, as the number of borrowers increased from 1,094 in 2002 to 1,818 in 2006. Only 20% of the loans in 2005 were below the US$ 300 threshold – hinting at the dimension of its outreach to the poorer borrowers in its portfolio. Given this profile, Fondesurco occupies a different niche in the Peruvian market, compared to other similar MFIs.

Three factors determine the success of credit: (i) the clients should honor their word; (ii) the financial institutions should adequate themselves to the local conditions; and (iii) the activities should be profitable." Before, everything was in dollars, but it has changed. At the moment, for example, 57% of the clients' portfolio is in soles, and this is important, since the peasants organize their activity entirely in soles.

Winning Features:
The main contributing factors to the project achievements have been:

- Ceder's partnerships: good stakeholder assessment.
- Farmers' subjective values: a personal drive to grow and the tendency to risk.
- Farmers' financial management: ability to save and invest wisely in between harvests.
- Low default rates: farmers tend to be very committed to timely loan repayment as a way to avoid denting their reputation.
- Collective action: given the diminished size of farms, farmers who sell their products together experience better bargaining power.

- Profile of the investment: the use of loan should be properly targeted to have a long lasting effect for the beneficiary.
- Establishment of productive chain.

Recommendations:
Here are some brief recommendations to be incorporated in similar projects:

a) Strengthen capacity building aspects regarding farmers' financial management and not only the production technical aspects.

b) Foster the formation of cooperatives of producers.

c) Assess and increase effective access to markets, at the local, regional and national levels.

d) Monitor the use of loans to detect if and how income is increased and savings are generated – hence understanding important behavior that directly will affect the project's impacts (beyond the control of the grantee).

e) Establish targets for the main activities of the project in order to improve the monitoring of its progress and enhance the mechanisms that allow for the timely correction of mistakes. The Grassroots development framework is a useful aggregate database, but it is not adequate to indicate the achievement of project-specific short-, medium- and long-term outputs and outcomes.

f) Devise loans that are better suited for the cash flow of borrowers, considering particularly their production cycle (harvest). Farmers appreciate longer repayment periods that spread the costs of interest rates, and that also frees more monthly income for other expenses (including food). Heavier installments may also increase their vulnerability to external shocks (prices, earthquake, etc.).

6. AEDES, La Union, Peru

Project Background

Cotahuasi is located in the La Union province, northeast of Arequipa, part of the Andes Tropicales. La Unión presents one of the highest poverty levels in Peru, marred by the terrorism of the 1980s. Despite this, La Union is slowly being recovered by a series of integrated actions that privilege environmental protection. Project PU-507 entitled "**Reforzamiento de las Capacidades en Post Cosecha de los Productores Ecológicos de la Provincia de La Unión, Arequipa**" was conceived to help bring about the improvements foreseen in the Agenda 21. In fact, the project aimed to "*incrementar el ingreso de 1.000 agricultores y microempresarios de la Provincia de La Unión mediante la mejora de la calidad de sus productos ecológicos*". Such goal would be achieved mainly through 3 strands of activities, namely:

Kiwicha plantation - Cotahuasi

d) Environmentally friendly agriculture

The project's *piece de resistance* given the favorable conditions for organic production in Cotahuasi.

e) New alternatives for processing local produce

Includes capacity building and leadership formation to consolidate initiatives such as the Asociación de Productores de Cultivos Orgánicos "APCO".

f) Search for international buyers

Once the previous two factors were in place, project beneficiaries and partners could address the international market demand for organic products.

The interesting result is a rich mix of accounts that – albeit being diverse enough to inform us on the different livelihoods strategies - still allows us to make certain generalizations about the impacts of project PU-507, which include:

- **More Dynamic Markets**
- **Increased Income: improved consumption patterns**
- ***Effective Enterprises: Increased opportunities***
- ***Food security***
- ***New financial habits: Increased Savings***

- ***Women: increased self-confidence***
- ***Business Growth***

Sendero

Manoel Tejada (Director of AEDES) : "Around 1995 we were living a period of war, it was madness! If one just asked: "How many kids have you got?" he would listen as an answer:"What do you want to know? Do you belong to the Intelligence of the government or the one of Sendero?" We had Sendero Luminoso, and everyone had to choose sides, either the one of the government or the one of Sendero. There were no roads and therefore it was a abandoned place, without any possibilities to work. Nowadays, many of those who had left are regressing, and are finding many opportunities. Among the APCO members, for example, there are many who had lived out of here for a long time and, once back and had seen the organic system have decided to stay and to join us."

The Credit Model

Aedes has established a very positive alliance with Fondesurco, Fondo de Desarrollo Regional, a non-governmental organization specialized in credit for small-scale producers and micro-entrepreneurs in the rural sector which currently include different types of loans:

- "Libre disponibilidad": for individuals to cover costs not directly related to productive activities, such as food, education, wedding costs, household appliances, etc.
- "Working Capital": for individuals who want to invest in the following activities: agriculture, cattle raising and commerce.
- Fixed Assets: same as above but directly linked to the purchase of fixed assets related to the economic activity.
- Infrastructure: working capital related to the refurbishing, enlargement of facilities.

Fondesurco provides loans from 350 nuevos soles to 35,000 nuevos soles, with interest rates varying from 2,5 to 3,5% monthly depending on the currency, product and guarantee. This rate includes the IGV tax to which Fondesurco is responsible (Mibanco for instance may charge up to 4%, even without the incidence of the IGV). The institution focuses 80% of its activities on agriculture and cattle. Given its excellent performance in the last years, Fondesurcos has been given a rate "B" for its "procedimientos sofisticados y eficientes, perspectivas de evolución a largo plazo.

According to Hector Madriaga Tapia, Fondesurco's director, the arrangement with Aedes allows an interest rate of 1,5% with a flexible deadline stretching up to 5 days. Their experience with interest rates charging is extensive: in 2006 they decided no to charge interest rates for overdue payments, assuming that beneficiaries would meet their payments.

This worked, however, as a negative incentive as people did not comply with the schedule. Therefore, they resume charging interest rate in 2007, which helped to raise the repayment levels. In this circumstance, they observe minimum default – which, in fact does not reach 5%. Hector Spinoza (Estamir Industries) illustrates the point: "The collateral they demand are the title of our house and a receipt of the water and light bills, nothing else."

The interest rates charged are enough to cover the operational costs involved in this alliance with Aedes. Furthermore, to every input made by Aedes, for instance, Fondesurco is committed to providing a matching fund. It currently has a 1,200,000 dollars capital. There are gains for both parties, i.e. Fondesurco benefits from Aedes' local knowledge of the benefited community and Aedes benefits from Fondesurco financial expertise. Fondesurco asserts that, without Aedes, it would have been virtually impossible to reach the Cotahuasi area given the high costs (distance) and the need for specialized personnel dealing with the rural sector demands. Furthermore, Aedes provides another comparative advantage as it has specialized in organic production.

In the case of Apco, the previous acquaintance with Aedes has helped decrease the number of guarantees demanded by Fondesurco. Up to 5,000 sole loans do not require mortgage, but only that activity is developed in the region; that Aedes guarantees the loan; and, that the borrower is not registered in the Risk Central. The positive trajectory of Fondesurco, Aedes and its beneficiaries/clients have already shown interesting changes: beforehand farmers would ask for credit in order to sow their fields, while nowadays their loans are invested in enlarging their business (for instance, by acquiring new land, etc).

Recommendations

a) **Long-term vision**: the IAF intervention must be part of a longer-term project that will continue even after its exit from the area. On a positive note, the IAF still funds Aedes' projects that are trying to replicate the Cotahuasi experience.

b) **Credit ethos**: Ensure that the grantee is committed to credit beyond the life of the IAF intervention – which could be demonstrated by its commitment to credit services or the quality of its credit-related alliances, as in the case of Fondesurco.

c) **Autonomy of beneficiaries**: The sustainability vision of the grantee has been very strong, orienting the project towards its autonomy, that is, by focusing on products that are demanded by the international market. Good indicators of this achievement are that Apco is now able to negotiate with other fund resources; that the local government is hiring local micro-enterprises; and that Apco and Aproplame are signing important contracts in conjunction with each other, joining their forces to respond to the demand.

d) **Strong institutions**: Moreover, institutions such as Apco are more able to experience further gains given sound institutional arrangements, such as:

- Good administrative organization;
- Solid export market;
- Annual renewal of board.

- Accurate weighing of the product delivered ensures the organization accountability and it helps to strengthen trust.

e) **Market focus**: Since engaging in the project, Aedes has faced various challenges, of which the most striking has been the "tough rules of the market". As part of the initiative's sustainability, the grantee had to improve its marketing strategy by diversifying the supply of products (alternating kiwicha, herbs and wheat, for instance) and also reaching out to possible buyers. They have also mainly learned that the demand for one product may generate the demand for another and that the producers must grab such opportunities.

f) **Productive chain**: Perhaps, however, Manuel Tejada, Cedes director, summarizes the most important and yet simplest lesson: "Hay que terminar lo que haces". This has meant a pragmatic concern about every stage of the productive chain and its development effects on those involved by meeting their needs and building on their capacities and assets.

Progress monitoring: The GDF could also incorporate specific indicators that are relevant to assess the achievement of certain outcomes in the case of this kind of project, such as: productivity growth (plants per hectare); productive area; increase in the number of association members, etc. Additionally, in order to help "wealth rank" beneficiaries (is the project helping the poorest?) monitoring should also include a brief profile of each beneficiary, including its assets, for longitudinal studies.

7. Cedes, Abancay, Peru

Background

This impact evaluation aimed to assess the long-term impacts and the lessons learned from project PU-493 that could also help in the design of future similar interventions. Project PU-493 was implemented in a highly poor area called Pichirua, near Abancay in the Apurimac State in Peru. Loans were provided to urban and rural borrowers alike, but who were both excluded not only from the financial system services but also from the opportunities that could help them improve their productivity, such as technical assistance and capacity building.

Small-scale farmers still face: (a) the formal financial system's "lack of imagination" to meet rural small-scale clients' needs; as well as (b) the government's resistance to validate micro-credit initiatives. Rural activities of small-scale producers are beset with unattractive features for commercial banks, such as lack of collateral, need for training and close-up monitoring, low profitability and climate variation. Cedes was imaginative in seeking solutions to minimize these problems, for instance, through:

- The introduction of fruit farming;
- Support to integral agricultural management and infrastructure: irrigation systems, livestock and family support.
- The provision of micro-loans.

Once credit is approved, a payment schedule is designed together with the borrower according to their monthly income – after an assessment of his/her income and expenses including the revenue from the sale of their products. In order to help them comply with credit requirements, beneficiaries have also had access to the following services provided by Cedes:

a. Technical assistance on their plantations in order to avoid losses.
b. Capacity building for an adequate production and commercialization.
c. Constant presence of the credit officer in the field to follow up the recover loans.
d. Interest rates varied from 2,1% (compensatory, in dollars) to 2,5% (default, overdue payment also in dollars).

Credit

Credit was ***one*** of the instruments deployed by Cedes to enhance the beneficiaries' skills that could increase their autonomy and self-reliance in the future, thus improving their quality of life either individually or collectively. Despite many efforts, it was particularly difficult for Cedes to instill a credit tradition among its beneficiaries towards a mindset where credit is an opportunity for growth and development, instead of a donation. financial services were never in Cedes' "DNA" as they see credit as an instrument of social and economic change, but never intended to become a purely financial entity. financial services were never in Cedes' "DNA" as they see credit as an instrument of social and economic change, but never intended to become a purely financial entity.

Natural disasters, such as drought are a constant threat to the beneficiaries' survival. Credit may help to afford a shift in their economic activity, hence increasing the beneficiaries' security

Meeting with beneficiaries

Although beneficiaries have had access to important factors of production (labor, for instance) through credit, its impacts may have been limited due to the region's characteristics, such as: weak markets and infrastructure. Furthermore, fixed repayment schedules can make them especially vulnerable in view of the dynamics and timing of harvest (the main source of income for a great deal of beneficiaries).

The project tackled the identified problems through an integrated strategy made up of credit, technical assistance, capacity building, etc. As one of the main goals of the project was to instill a new mindset among beneficiaries, the process whereby it would be achieved becomes as important as the outcomes.

- **Reach, Depth and Sustainability: credit fund as a development strategy.**

Project PU-493 was designed to target poor and marginalized groups in Abancay, Peru. During project implementation, the grantee reached the poorest (**"Regional Context"**) through a number of activities that included capacity building and provision of credit. The extent to which credit provision helped those beneficiaries varied considerably, according to the type of market, available assets and strategies adopted. Credit has definitely helped the poor in terms of increased capacity to produce and increased access to important factors of production, among others. With modest loan amounts, they have experienced life quality gains, such as improvements in housing, food security and education to their children. The

sustainability of such interventions, however, should be the core question. Why outcomes do not last? What factors are at play?

- **Long-Term Impacts: Related issues (“Impacts”).**

Strategies v. Impacts

In this section, a blend of interviews will show the diversity of the livelihoods strategies of the beneficiaries and how their chosen strategies may affect the outcomes of credit.

Constraints: Commercialization, Harvest Timing and Infrastructure.

Although beneficiaries have had access to important factors of production (labor, for instance) through credit, its impacts may have been limited due to the region’s characteristics, such as: weak markets and infrastructure.

Credit: An Opportunity to Shift Activities

Natural disasters, such as drought are a constant threat to the beneficiaries’ survival. Credit may help to afford a shift in their economic activity, hence increasing the beneficiaries’ security.

The importance of how things are done: Impacts to Citizenship

Maybe if we had to define Project PU-493 in one word, we would say “integration”. The project tackled the identified problems through an integrated strategy made up of credit, technical assistance, capacity building, etc.

- **Grantee: Institutional Challenges**

The grantee has faced various obstacles in order to achieve the outcomes outlined above, namely:

- Low financial culture among beneficiaries;
- Weak local markets;
- Infrastructural constraints to commercialization;
- Lack of consistent public policies;
- Grantee’s lack of tradition in the financial services market.

Recommendations:

a) <u>For the impacts of micro-loans to last longer:</u> it seems appropriate to improve the analysis of each business proposal prior to the concession of credit, including the capacity of each borrower to perform the required activities. This should increase the likelihood of sustained benefits for the borrower, while also avoiding extra burdens on already constrained resources.

b) <u>In very deprived regions, the diverse needs go beyond the provision of credit and</u> <u>include the widespread lack of:</u> increased capacity; stronger and connected markets; to solid social

networks; increased self-confidence, and the like. Therefore, not only an equally diversified strategy will be required, but also one that lasts longer than usual (i.e. more than 4 years) in order to address the basic needs.

c) Within this longer and diversified strategy, the external environment to the project should not be overlooked – as it can also help to enhance (or mitigate) outcomes by virtue of improved infrastructure, for instance. The "bridge" between the grassroots level and the regional government need to be worked on, in order to ensure long lasting results: public policies should be consistent with the efforts at the grassroots level – since that is where the innovations and initiatives are. A broader stakeholder analysis and strategy needs to be designed to prevent mitigating effects against the efforts of the grantee and the beneficiaries. In this sense, the grantee should engage in the public policy debate especially concerning trade issues.

d) Instill an entrepreneurial and profit-oriented mindset: The capacity of the grantee to perform financial tasks is important for the achievement of outcomes because it includes the selection of beneficiaries, follow-up, expertise in investment, etc. Therefore, it needs to be valued and enhanced accordingly - if outcomes in this field are to be attained.

e) Capacity building could be improved and monitored specifically in view of the following:

"The provision of market and price information can assist producers with farm-gate marketing decisions: linked to training both to help them interpret and act upon that information, and to organize collectively, it can also help them to understand marketing processes more fully and to develop strategies to achieve better and more stable prices for their agricultural produce".

8. Emucosa, Arapa and Chupa, Peru

Background

After a drought in 1983, the Puno bishop organized tiendas comunales to help alleviate the extreme poverty in the region. In 1992, the tiendas in Arapa and Chupa got independent from the Puno-CASOP organization and established a "caja intercomunal" with an input of 1,000 soles from each tienda in order to attract savings and concede credit to the tiendas members – in the void left by the demise of Banco Agrario de Peru. The tiendas would buy supply from

Lake Arapa

wholesalers and sell it at low costs to the local consumers.

These small tiendas already had a vocation for independence as in 1995 they formed the Empresas Comunales (hereafter, Ecosas). Apart from marketing produce (as in the tiendas) they also engaged in trout fishing and organized credit provision and savings. Eighteen Ecosas have formed the Empresa Comunal de Servicios Agropecuarios Arapa Chupa Ltda. – which is dedicated to the rural development in Arapa and Chupa. Following the incorporation of this Emucosa, an agreement was established with the IAF in January 2001, to be carried out for two years. The original agreement had it that the project would last from January 2001 to 2003, with a total budget of US$ 138,950. At the end of 2003, an extension was agreed upon for the project to last until January 2004 with an additional budget of US$ 37,000.

The main objective of the project was to: "Elevar la capacidad adquisitiva de la población beneficiaria mediante el mejoramiento genético del hato de ovinos de los pequeños productores, transfiriendo conocimientos técnicos sobre su cuidado y proveyendo créditos para la producción de avena forrajera."

Project Outputs

- **a)** Artificial Insemination
- **b)** Improvement of breed
- **c)** Animal Health
- **d)** Credit fund for Forage Production

Credit

Exact information about the figures relating to the credit funds is seriously blurred by the lack of records, but we managed to compile some data during our trip to Peru, in an effort to draw a clearer picture of the overall situation of the credit fund.

A sheperd in the streets of Arapa

As the sheep quality was improved, they also needed a better diet – which would be achieved by implementing more hectares of forage. Firstly, the Ecosas decided to hand out 100 soles for each member for this end. High default rates hindered this scheme after the first year and

there are no reliable records about the total capital that has been recovered. After the second cycle of the project, given this episode, the money was given to each Ecosa that would decide how to assess and provide loans. Each Ecosa guaranteed the loans with its own capital. By January 2003, 23% of the loans had been recovered (of the 46,000 soles from the previous cycle). The report also mentions that in many instances, only the interests had been paid back and that the main capital amount had been granted over again. In 2003, new loans were given by the Emucosa to the 18 Ecosas "en forma communal y equitativa por el valor de 5,590 soles to each Ecosa" which in turn would provide loans to its members. The Ecosa would be responsible for the overall amount of the loan and would also oversee the forage production. In total, 127 hectares of oat had been planted in 2002/03.

The IAF would initially provide US$ 39,660 (c. 134,844 soles) for forage production activities. As mentioned above, however, a total of US$ 29,412.00 was distributed among the Ecosas, or 5,796 nuevos soles to each of them. At the end of the project, the fund had 104,328 soles. This reduction of the initial amount was due to the low recovery rates of the first periods of the project, as the final report mentions: "La disminución del fondo se debió a que en la primera rotación del crédito, no se tiene información exacta de los créditos que fueron entregados por lo que la recuperación fue bastante difícil y con lo que se consiguió recuperar se decidió mantener la actividad aunque ya no se entregaron los créditos a personas sino a las empresas comunales para que ellas garanticen la devolución de los fondos con sus aportes en el capital social de EMUCOSA".

We had access to only one financial statement, kindly made available by CEDEH, which comprises the budget items and its allocation by the grantee by September 2001 and shows that some of the credit fund had been re-allocated to cover expenses of a different nature:

According to the records to which we had access, the 18 Ecosas still owed to the Emucosa a total of 107878,51 nuevos soles by December 2006 – without considering the interest rates. Some of the Ecosas have already formed their own funds, called Cajas Chicas, where they capture their members' capital and form petty cash funds for internal loans. CEDEH officers explained that Ecosas' members have paid some of their loans back to the Ecosas, but in view of the Emucosa's break of trust, the Ecosas did not pay their group loans back – retaining the resources and thus forming these funds, which they prefer to manage. We had only access to anecdotal data on the amount of these petty cash funds, which in some cases range between 7,000 and 12,000 soles.

The existence of Sendero and its activities – and here both its presence as well as the resistance (specially the one played by the church) against it was very strong - has affected the economic activity of such communities, in particular the microcredit, because people we afraid of gathering, of planning, of taking risks, and so on.

Governance

According to some findings in the self-evaluation process promoted by CEDEH, "la junta directive percibia sus sueldos sin consulta a los delegados de las Ecosas, incumplian con los estatuos de la empresa y proponian a sus trabajadores de confianza". Afterwards, in

subsequent years, the perception was also that the president and managers would seek personal advantages through the organization. The problems referring to the fund management almost compromised the whole project The project was affected by personal problems between the manager and the project engineer, who left the project. His departure was a major loss to the project given the importance of technical aspects to the success of the intervention. An audit also found out that there was mismanagement of project resources. In view of this, the Ecosas decided for the substitution of the manager – in order to avoid the total interruption of the report.

If by one side, the managers did not operate carefully, by another side the members of the various Ecosas would not inspect or verify the financial statements or management by the Emucosa management board – in other words, there was little project ownership and much of a passive stance by the beneficiaries. These lessons has been effectively learned by the Ecosas, at a high cost (break of trust), and is being addressed in conjunction with Cedeh, by rendering the management more decentralized – with the decision-making assigned to the Ecosas as well – and increased accountability. CEDEH is now working to rebuild their confidence in collective action.

Recommendations

Project PU492 was designed to achieve an improvement in the income of farmers in the regions of Arapa and Chupa, Puno, Peru. The improvement in the quality of the livestock allied with the higher quality of pastures formed the strategy to raise living standards for these farmers. The financial support of the IAF is identified as one of the factors that gave a boost to the grantee in its first – and more important - stages. As the intervention by the IAF coincided with these initial phases of the organization, when the learning curve is steeper, an almost intuitive assumption is that the project could face difficulties given its unprecedented character for the stakeholders – leaving important lessons to be learned.

The project was implemented with some difficulty, particularly with regard to the grantee's management - based on the reports, observations and direct accounts of the beneficiaries and of CEDEH officers. More specifically, these problems concern the poor governance structure of Emucosa that found a risky match in the passiveness of most Ecosa members. There have been suggestions that the Emucosa managers have mismanaged resources, thus weakening the organization's financial stance. This led to a break of trust by the various Ecosas' members, so that the Ecosas started defaulting the loan payments – which left the Emucosa even more vulnerable financially speaking.

As each Ecosa would have the autonomy to manage its own loans, some peculiar inequitable situations could also be observed there. We have noted that the ownership of certain assets, such as houses and land, granted access to higher loans for some people; while those with fewer resources could not provide the desired collateral, hence accessing smaller loans. This may have perpetrated the inequality of many communities, as those beneficiaries who accessed higher loans have progressed to activities such as trout fishing,

which require more capital. Other limitations faced the some beneficiaries concern their geographical location that was distant from the insemination centers.

Despite these constraints, beneficiaries at large have widely accessed the projects' inputs, such as training, credit, animal health centres, etc. Even those who accessed smaller loans still tell of the benefits experienced as a result of the project activities, which include:

Box 1. Summarized Impacts of the Project

✓ **Sustained livestock raising**: from better breed enabled by the project the beneficiaries still have good livestock.
✓ **Increased income**: from the sale of milk, meat and wool.
✓ **Increased patterns of consumption** As a result of income increase: improving food intake (rice, sugar, etc) And as a result of better quality animals: products for home consumption
✓ **Increased savings**, from better financial management of extra income.

The formation of tiendas comunales and, later on, of the Ecosas have re-affirmed the Andean tradition of social capital. As a result, even after the break of trust between the Emucosa and the Ecosas, these have continued implementing activities in their own communities capitalizing on the social capital that had been built. It is almost as if they had gone back to their roots after experiencing a larger credit system. The formation of the Cajas Chicas may indicate some important points about the beneficiaries' capacity:

Box 2. Indicators of Beneficiaries' Capacities

✓ **Loan repayment:** It helped to form these cajas: capacity to manage loan demands (interest rates, deadlines). The only constraint to a more successful repayment rate was the lack of trust in the Emucosa's management board.
✓ **A vocation for saving:** After the repayment of loans, which indicates sound management of their resources.

✓ *Sound internal organization:* As they decide in a general assembly who shall receive the loans, whose range is not discrepant as the "special credit" by the previous Ecosa arrangements.
✓ *Equitable participation:* Loans shall be given to all members before someone can borrow for a consecutive time.

Albeit there were good impacts for the beneficiaries, it seems that the project's governance shortcomings have compromised the sustainability of the project. Once beneficiaries lost access to the larger loans, they had to start selling their own assets to buy forage, for instance. This can weaken their situation in the longer term, unless they are able to re-organize themselves and reclaim their right to the Emucosa's funds.

Therefore, in the future, similar projects should pay increased attention not just to the design of the strategy in what concerns the beneficiaries' capacity to repay the debt, but also look further to the ability of the grantee to properly manage the funds. The leadership of each community should be enhanced to own the project, hence becoming more involved in the decisions made by the general assembly at Emucosa. Likewise, managers' skills could also be enhanced. Beyond that, the long-term strategy of bridging the producers with feasible markets should also be factored in the project long-term strategy.

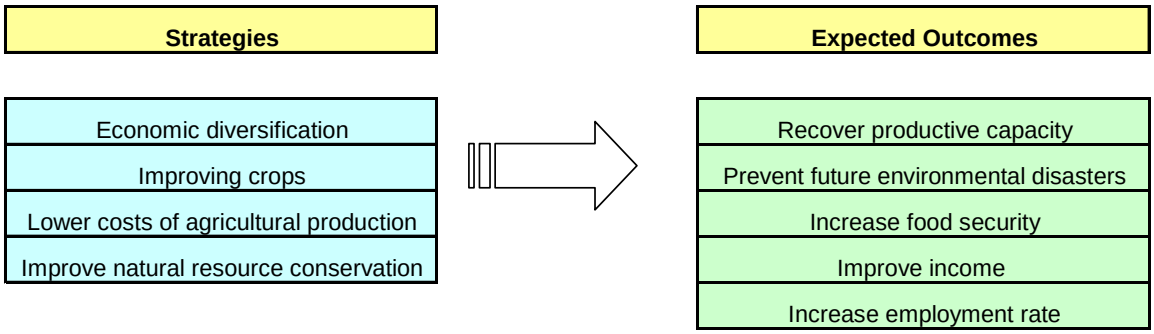
9. Agrodersa, La Concepcion, Nicaragua

Background:

Through the IAF project, AGRODERSA would help low-income, rural Nicaraguans affected by Hurricane Mitch recover productive capacity, and prevent future environmental disasters, by implementing activities in agricultural production and natural resource conservation. AGRODERSA would accomplish this by promoting economic diversification, improving crop yields, lowering agricultural production costs, increasing the use of agro-forestry practices and promoting various other natural resource conservation measures in the low-income communities. The initial project was structured under four components: organization, qualification, technical assistance and material delivering – inputs in general.

AGRODERSA would provide the farm families with vegetable and legume seeds, and baby chicks, to improve their agricultural production and enhance their economic security. As a direct result of project activities, it is anticipated that over 400 families of small-scale farmers would be able to recover from the crop losses suffered as a result of Hurricane Mitch and take major steps towards decreasing future environmental damage.

Fig. 1. Project Flowchart (initial design)



The initial agreement did not foresee credit fund. According to a timely mid-term evaluation, however, there was a clear demand for credit by the beneficiary families. Based on this diagnosis, an amendment was requested. The grantee requested additional US$ 89,960.00 and an extra year for the completion of the project. With an adjustment in the

initial budget allocation, the Revolving Credit Fund was established with US$106,488.00. The fund would finance productive activities and would support the establishment of small businesses.

The conditions for accessing loans included: a) The credit should be used for project-related activities; b) Provision of a collateral: as most people do not have a title deed, the grantee would accept a letter from the municipality guaranteeing the solvency based on the land tax that the beneficiary paid; c) Interest rates were kept at 2,5% over the balance of the debt (not on the whole capital). capital). The majority of credit was individually granted. Most loans were destined to agriculture or services.

The beginning of credit activities was difficult because the staff lacked the necessary experience with financial issues to implement it. Interestingly, this shift also marked a change in their relationship with their beneficiaries, as beforehand they would donate project inputs, whereas now they would lend it and charge it back. According to Julio Cardenas from Agrodersa: "... It was hard for us to be tough with them. We are neither bankers nor financial men, we are agronomists, we like the countryside."

Credit Constraints

Officers and beneficiaries alike blame low repayment rates on the macroeconomic situation in Nicaragua. Some circumstances have indeed affected people's ability to repay their loans. For instance, as coffee prices plummeted, there have been high migration rates from the countryside. Public policies did not address such shift and small-scale farmers were left helpless. Few public resources are allocated to the rural sector that comprises most of the poor in the country. There are 1.6 million rural poor or 68.5% of the total rural population (1998) but more worryingly c. 30% of the total population. And access to productive resources is difficult: arable land makes up 15.9% of the land area in 2002, while irrigated land was 4.4% of cropland in the same year.

The number of loans has dropped considerably since the beginning of the credit fund – from almost 200 loans between June 2002 and May 2003 to 47 in 2006 (albeit on a rather positive note, there has been a greater balance in the gender distribution of loans). Conversely, the average loan amount has increased in the same period from 1130 cordobas to 4550 cordobas,

As a result of subsequent defaults and the end of the IAF agreement, the Credit Fund is virtually inactive. In order to recover the fund, they would have to implement a serious and costly strategy of personal visits and legal demands.

Credit-Related Lessons

Firstly, there is a strong perception in Agrodersa that credit is not efficient for small-scale activities, which need subsidies instead. Agrodersa staff agree that separating credit from agricultural operations would have been desirable to increase the effectiveness of both strands of activities.

Evaluating the beneficiaries' business profile before granting the loan. They would be stricter in their assessment of beneficiaries even though this might increase their costs.

The soil conservation was the central aspect of the project initially and worked well, albeit being costly, laying the foundation for the later stages as they managed to diversify the production in the *fincas*. Credit thus is important as it ran parallel to or in the footsteps of the improvements in the productive structure. Agrodersa recognizes the conflict of interest inherent to this dual operation of credit provision and technical assistance/capacity building. This creates a certain degree of confusion that the producer himself does not appreciate. The necessity of credit is paramount, but there is a void in public regulatory policy referring to this theme.

Likewise, one of the main indicators of the beneficiaries' progress as a result of the project was the evolution in their demand, according to Agrodersa: at first, they would require productive inputs; in the last year of the project, they asked for credit (demonstrating an increased ability to repay).

The macroeconomic situation in Nicaragua has shown slightly better indicators, but rural poverty is still prevalent. This has made Agrodersa's targeting more important, but its effectiveness harder in view of the wide needs of the rural population in terms of access to resources, markets, etc.

10. Espino Blanco, Leon Nicaragua

Overview

Espino Blanco is a institution focused in the provision of credit mainly for low income borrowers in the rural areas of Nicaragua. It initially operated a credit fund, but in very primitive manner, without the necessary tools to handle with credit in a efficient manner. IAF project allowed them to hire advisors – among which was Roberto Garcia (LLAS) – that fortunately managed to tackle most of its fragilities. This allowed it to remain until today and developed into a sustainable institution. Espino Blanco is an institution of intermediary level of development and carries out operations of commerce and services as well as agriculture and cattle raising.

It is a very clear example of an institution which received a fund from IAF, managed it well, made it grow a little bit and it is still providing services to the people. It is far from

well develop as Leon 2000, in size as well as in professionalism, but it carries a clear mission of micro-credit which is not the case in other institutions such as Agrodersa, for instance. Besides, the fact that it extends its services also to agriculture and cattle raising is very valuable as well, since those activities are far more difficulty than to deal with commerce and services.

History of the project

The Sociedad de Servicios Integrales para el Desarrollo Rural "Espino Blanco" y CompañiaLimitada was constituted legally on June 6, 1996 as an agro-forestry organization. ESPINO BLANCO is created as a private institution whose main goals are to provide technical services, advice, training, technical assistance, manage and intermediate credit funds, as to also formulate, execute and follow-up of projects with community participation. Its philosophy and methodology is focused in rural participatory intervention towards the development and empowerment of local capacities to commit themselves in the process of planning and execution of activities.

The project NC 230 is focused on the strengthening of productive systems of the peripheral areas (urban and rural) of four - León, Telica, La Paz Centro and Nagarote, of the ten municipalities that compose the department of Leon. The challenge of the Project was to improve the economic situation of farmers and small entrepreneurs, reactivation of their economies alter the dramatic effects of Hurricane Mitch, enabling improvement in living conditions, reducing environmental degradation, increase of productivity and mainly enlarging the entrepreneurial capacity of small and medium entrepreneurs through the implementation of a credit fund and a fund of social inversion, what is the main innovation and exemplarity of the project, notwithstanding its reduced resources but relevant impacts.

Financial Environment

The financial system is highly concentrated in three large banks and favors corporate clients and offshore activity, and most institutions that center their activities in micro-finance[42] emerged during the 1990s based strongly on support from international donors, for which microfinance is a tool to reduce poverty. After Hurricane Mitch, in 1998 many donor agencies increased their support to the country. The micro-finance growth is being led by 2 regulated finance companies, 21 non-governmental organizations (NGOs), and 12 finance cooperatives. Presently the number of organizations that provide financial services to people that have very limited access or no access to the traditional banking represents around 300 institutions, which are composed of 2 regulated finance companies and approximately 7 private unregulated corporations, 100 private NGOs, and 190 cooperatives, around 300 organizations with a combined portfolio of US $240 million (ASOMIF, 2007).

Micro-credit providers have increased the number of credit clients they serve by approximately 26 percent per year since 1999. This growth has, however, been concentrated in a few institutions: 12 out of the 35 largest MFIs (including 2 finance companies and ASOMIF affiliates) accounted for 80 percent of the increase in number of

credit clients and 90 percent of the growth in outstanding portfolios between 1999 and 2004.

Within this context, microfinance emerged as an alternative to include those that are not reached by formal financial market, and according to recent studies nearly 20 percent of the Nicaraguan population is either a direct or indirect user of microfinance services.

Role of the grants

The project relied on a comprehensive strategy, which went beyond the provision of credit alone, as they had an involvement with its beneficiaries – ranging from from selection to loan repayment. The projects helped their beneficiaries by identifying their main potentials, but it had a strong focus on credit, as in the case of Espino Blanco 71%.

In total, the IAF donated US$ 308,151.92 to Espino Blanco . This donation enabled the institution to leverage a credit fund whose main objective is to concede credit, guarantee, capacity building, technical assistance and technology transfer to urban and rural borrowers. Espino Blanco fund did not grow significantly in number of loans beneficiaries.
It is safe to say tha Espino Blanco capitalized on the IAF donations and it enabled activities that in the case of Espino Blanco stimulated the communities to organize within the Social Investment Fund premises, and as to the individual loans both institutions developed specific processes of dissemination of the existence of credit for low income families and micro-entrepreneurship.

Credit History and Profile of Borrowers

Espino Blanco had a rate of 1.5% monthly for a term of 18 months for borrowers at the rural areas and for the other the average loan was of 12 months at 1.5%. Most of the clients have a story of continuity. Most of the clients are women, representing 54% in Espino Blanco.

Reaching the poorest

There is a strong poverty focus in both institutions operational guidelines.
Espino Blanco focused its activities on beneficiaries who do not have access to formal credit. It has adopted integrative strategies where the lack of access to financial services is only one of the many constraints faced by the poor. Its strategy focuses on orienting borrowers about the intricacies of finance, providing technical assistance. It develops from the very beginning of their relationship with their clients a very intensive relationship, which has ensured better rates of return and repayment.

Role of technical assistance

The participation in both institutions credit programs and technical assistance has helped clients to obtain better outcomes and make a more adequate use of the resources, and in the case of the farmers and small industries it also helped to organize their merchandising schemes.

Institutional features

Both institutions had an important development with IAF grant in terms of strengthening of their organizational capacity. The fact that both projects relied on a comprehensive

strategy, which went beyond the provision of credit to its beneficiaries, implied in the development of institutional strategies. Both institutions, at different levels invested considerably in specialized personnel to assess perform the main functions in it credit operations, such as: assessment of borrower profiles, give financial and technical advice, ensure adequate follow-up.

The overall the institutional features have been: adequate risk management; adequate repayment collection system; focused geographical coverage; good but organizational small administrative experience; credit committee, experimented rural technical assistance.

11. Fundacion Leon 2000, Leon, Nicaragua

History of the project

Fundación León 2000 is a Non Governmental Organization that develops its activities as a microfinance institution in Leon since 1993. It is created by citizens of the city of Leon that gather with the finality of searching alternatives to support the socioeconomic and cultural development in the western part of Nicaragua. Its focus is mainly the micro-entrepreneurial activity to assist the urban sector.

It has concentrated mainly in rendering services to the urban micro-entrepreneurial sector in the areas where it operates, reaching part of the peri-urban and practically it does not operate with micro-credit for farming activities. The main activities covered by its programs are small business, small industries, services and consumption and improvement of housing. Its emphasis is in the small business, mainly comestibles and grocery shops and services. Besides favoring the development of micro, small and medium entrepreneurs, through credit services and in management, it has developed activities in training and technical assistance.

The covenant between IAF and Fundación León 2000 – NC 227, was to establish and manage a small loan fund that will provide credit, technical assistance, and training to rural and urban participants, the majority of them women, in both new and established micro-enterprises in León, benefiting directly 5,040 persons. The resources were destined to award approximately 1.800 loans within an average of US$ 2.500,00 for solidarity groups, cooperatives and individual small businesses.

History of Leon 2000

According to Marcos Hernandez, the executive director of Leon 2000, as well as one of the founders. “Our institution started in 1994, after a period of war we went through in our country and a transition for a left-wing to a right-wing government. The government created The Program for Support of Small and Medium Enterprises (PAMIC), which fostered the beginning of many of the microfinance institutions that exist today in the country. It was based on funds from Norway and Holland. PAMIC then started to give place to international institutions, such as the IDB, the IAF. Some funds were based on donations, others in credit.”

Nowadays, Leon 2000 has many projects with international organisms, such as Global Partnership, Micafon, with IMF we have a project involving renewable energy, and with

Proder - an institution from here - we have a project involving housing improvement. Leon 2000 is carrying out at the moment 7 projects. Its focus and objective has always been to finance the very poor and rural sectors, because the traditional banks do not think it is worth to reach them. Fundación Leon 2000 focus its operation in the provision of credit mainly for low income borrowers concentrated in the urban areas

Financial Environment

The financial system is highly concentrated in three large banks and favors corporate clients and offshore activity, and most institutions that center their activities in micro-finance[43] emerged during the 1990s based strongly on support from international donors, for which microfinance is a tool to reduce poverty. After Hurricane Mitch, in 1998 many donor agencies increased their support to the country. The micro-finance growth is being led by 2 regulated finance companies, 21 non-governmental organizations (NGOs), and 12 finance cooperatives. Presently the number of organizations that provide financial services to people that have very limited access or no access to the traditional banking represents around 300 institutions, which are composed of 2 regulated finance companies and approximately 7 private unregulated corporations, 100 private NGOs, and 190 cooperatives, around 300 organizations with a combined portfolio of US $240 million (ASOMIF, 2007).

Micro-credit providers have increased the number of credit clients they serve by approximately 26 percent per year since 1999. This growth has, however, been concentrated in a few institutions: 12 out of the 35 largest MFIs (including 2 finance companies and ASOMIF affiliates) accounted for 80 percent of the increase in number of credit clients and 90 percent of the growth in outstanding portfolios between 1999 and 2004.

Within this context, microfinance emerged as an alternative to include those that are not reached by formal financial market, and according to recent studies nearly 20 percent of the Nicaraguan population is either a direct or indirect user of microfinance services.

Role of the grant

The IAF donated U$ 367.580.00 to Leon 2000. These donations enabled to leverage a credit fund whose main objectives are to concede credit, guarantee, capacity building, technical assistance and technology transfer to urban and rural borrowers. Leon 2000 is 80% to leverage a credit fund. Leon 2000 fund did grow significantly in number of loans beneficiaries from 2,904 in 1999 and at the end of 2006 it reaches 9,430. The IAF donation was instrumental in strengthening the organization institutional basis.

Credit Methodology

Leon 2000 started to work at the same time with the methodology of group lending as well as individual lending. It also had an experience with the methodology of communal banks with 5 communal banks at the same time. The communal bank work is determined by its statute, involving the issues of control, savings, association, loans, etc. To give an example,

it is common that non-members should borrow at higher interest rates than members. But it was discontinued due to transportation problems they had to get back to work with group lending. Others, in turn, start to work individually. But after all the methodology was a steeping stone to other methodologies.

According to Maria Dolores, from Leon 2000 staff, this experience with communal banks has been a key source of knowledge and produced positive results. The clients have done well and many of them still work within groups.

The combination between individual with group lending is decided in the field. The credit assessor offers both type of products and the client chooses which one she will have. It depends as well on certain pre-conditions. If one, for example, has neither collateral nor bailer, he has to borrow within a group. . The issue of collateral depends on the methodology of the loan. Individual loans involve clients that have better conditions of repayment, because their businesses are larger, and therefore they can borrow higher amounts. They can use as mortgage collateral, pignoratious collateral or fiduciary collateral. Those who borrow with the methodology of group lending are the ones that have fewer resources. They borrow using only pignoratious or fiduciary collateral, since they cannot provide any property as collateral. In Nicaragua it is quite slow, a judicial process takes usually from eight months to more than one year o recover the collateral. The loan conditions have exactly the same conditions, the same interest rates, the same payment periods independently on it being provided within a group or individually.

Leon 2000 is an institution that lives up to the History of the city that it carries in its name. Leon 2000 developed the ability of allowing people to recover from the climatic and other types of natural shocks. For example in the case of exogenous events such as climatic shocks – one might think also about the constant switches in Nicaragua's political pendulum - there is a fund destined to help with shocks. Besides, in such cases Leon 2000 provides loans at smoother conditions than the usual ones and refinance the old loans. This winning feature is a source of knowledge for IAF partners elsewhere.

Credit History and Profile of Borrowers

Leon 2000 has in 2007, nine offices distributed in the western region of Nicaragua, with a directive board composed of seven members and a professional body of 73 persons. An important issue presented by the interviewed from the direction is the stability of its employees, who stay an average of six years. The number of clients per credit agent is around 300. The percentage women promoters represents 14% of 29 (ASOMIF, 2006),
In 2005, according to data from MicroRate, it is ranked in 11th place within microfinance institutions belonging to the Nicaraguan network ASOMIF.

Leon 2000 average loan was seven months at 1.2% per month rates of interest rate. **T**he interest rates are at the moment 1,76% per month Most of the clients are women, representing 72% in Leon 2000. The report of Fundación Leon 2000 indicates that the annual rotation rate for urban microentrepreneurship is 1.2, while for housing it reaches 0.5. As in many cases the loan brings very small profitability, the small shop owners have to make two loans per year, so that their business can survive. The indicators of very small

delay in the payment of installments indicate the fact that the beneficiaries carry on their agreements.

According to data obtained from Mix Market Report (www.mixmarket.org/en/demand - 23/6/2007, the number of borrowers in 1998 was 2,310, in 1999 when the grant by IAF was obtained it had 2,904, at the end of the project it had reached more than 6.000 clients and at the end of 2006 it reaches 9,430. Only 8,5% are solidary borrowers. During the period of IAF grant it practically doubled the number of beneficiaries. Presently the average duration of loans is around 9 months, and interest rates are an average of 2.0%/month.

Reaching the poorest

There is a poverty focus in Leon 2000 operational guidelines. Leon 2000 activities are oriented to provide credit to urban households and small businesses and industries. Its logic of action centers in orienting clients and giving technical assistance, and strengthening a method of strong control to avoid delays, keeping always other warrants to guarantee a pressure of collection on clients as to reduce risks.

SOCIAL PROJECTS

Leon 2000 focus and strength has always been the financing of microfinance industry, but they have also contributed to the fields of construction, culture, sports. It has been carrying out a ten years a program to help rural poor children to get clothing and material to school. These children arrive often at school without shoes. Leon 2000 does not give money to them, but get them godfathers that will give money to buy material as well as clothing to be used at school. Besides, Leon 2000 gives donations from our resources to schools and libraries. Leon has been carrying out for 8 years a project call Happy Christmas, which consists in giving toys and games to poor rural children in Christmas. Last year they distributed around 5 thousand toys. Every Leon 2000 sets a target about donations to give. At the moment they have been through some natural disasters, and Leon 2000 is donating goods to some of its clients.

Poverty and Gender Biases

The average value of loans was during the project around US$ 450,00 and nowadays around US$ 600,00. There is no information about borrowers below poverty line nor of clients in bottom half of the population below the poverty line. Data from Asociación Nicaraguense de Instituciones de Microfinanzas (ASOMIF) from December 2005, indicate that the average loan per client is U$ 505,67 , that delays of portfolio are less than 2%, and that 60% of the borrowers are women with an average loan of U$ 421,39 , while the loan for men is U$ 722,39. The number of women borrowers was 78,3% in 1999 and 68,5% in 2004. Women are the majority of clients this happens especially in the low amount ranges where the ratio of women to men is around 3 in both number of loans and the size of the loans, the women to men ratio falls gradually as we move to upper brackets reaching 1,01 in the case of number of loans and to 0,75 in the case of loans size in the upper bracket. The bias in favor of women in the access is mostly observed in low loans levels which may

imply – to be tested - that micro-credit programs that are more pro poor have also a gender bias favorable to women.

Role of technical assistance
The participation in both institutions credit programs and technical assistance has helped clients to obtain better outcomes and make a more adequate use of the resources, and in the case of the farmers and small industries it also helped to organize their merchandising schemes.

Institutional features
Leon 2000 invested considerably in specialized personnel to assess perform the main functions in it credit operations, such as: assessment of borrower profiles, give financial and technical advice, ensure adequate follow-up. The overall institutional features have been: adequate risk management; robust repayment collection system; urban focused geographical coverage; good organizational and administrative experience; credit committee.

The evaluation of Leon 2000 indicates that the IAF grant was essential to its functioning and expansion. Almost all loans are for individuals. Only 8,5% are solidary borrowers. During the period of IAF grant it practically doubled the number of beneficiaries. The relevant outcomes of Leon 2000 performance are linked to benefits obtained from jobs creation, income improvement and capacity building and participatory learning benefits.

In the following week of our last interview Leon staff was going to Guatemala to receive a prize for our transparency from the IDB. They also will receive a certificate from Mix Market, Leon 2000 has won The Five Diamond prize for financial transparency. The organization just made a business plan for the next five years, in which expect to have a growth of approximately 30% in its portfolio and a cumulative growth of 20% in the number of clients.

Interview II - Roberto Garcia on IAF microcredit projects in Nicaragua

http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_TUDO_v.1.wmv

- ✓ **Personal experience and the beginning of microfinance in Nicaragua**

Roberto Garcia is The Inter-American Foundation LLAS in Nicaragua and given his experience he provides support to credit activities. Roberto has worked with micro-credit for more than twenty years. He was the founder of the first micro-credit experiences in Nicaragua starting with a Canadian religious organization involved in economic development projects that launched the first project in microfinance in Nicaragua. When it had around six thousand clients and one million dollars in its portfolio it evolved to a microfinance bank named ProCredit. This interview closes the 2007 evaluation project which fulfills perhaps the main role of FGV as a messenger for the IAF while also gathering a pool of project-specific knowledge.

- ✓ **History of microfinance in Nicaragua and IAF projects**

Neri: **Could you talk in general about micro-credit experiences here in Nicaragua?**

In the Eighties, during the revolution, both the economy and the financial market were severely affected. The financial market was nationalized, and the revolution bank gave many benefits to the peasants, which were not sustainable. They provided credit as donations and in at least two different moments a massive donation took place. People received credit, land and tractors, did not pay it back and the government was not concerned about it. It damaged the economy but especially in what refers to the economic culture, destroying the culture of responsibility towards financial duties.The paradigm of the nineties was to provide technical qualification, technical support and credit. But, as long as the institutions developed, it become clear the need to separate financial services form non-financial services.

Therefore in the nineties we started to implemented micro-credit experiences such as those that already existed in other South American and African countries, seeking to rebuild a culture of repayment among the microentrepreneurs as well as among the peasant and the rural population in general. Then we launched around five projects with cooperation of European Union, USA, Netherlands, Switzerland and Denmark. At that time, we had a

parallel development of two different approaches. On one hand we represented a *business approach*, aiming to teach people how to make business and to reintroduce a culture of repayment. On the other hand we have entities carrying out a *relief approach*, based on donations, gifts and assistance. These strands developed separately from each other, and obviously the second one turned out not to be sustainable. The ones that have evolved and succeeded in consolidating themselves were the ones who had a focus on business.
http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_1-Hist.Microfin_experiencia.wmv

Neri: **How would you classify these institutions we are interested in concerning these two approaches you mentioned before?**

Roberto: I would say Espino Blanco is in the intersection, Agrodersa would belong to the relief approach and Leon 2000 to the business approach.
http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_3-inst_evaluadas.wmv

Neri: **We found quite different economic perceptions and perspectives across the different projects. Could you compare the projects regions in economic terms.**

Roberto: There is not much regional inequality. Although, there is more poverty in Leon and *Chilandea*, where are Espino Blanco and Leon 2000, than in *La concha de La Conceición*, where is Agrodersa. I think this difference is due to (i) people's attitude towards credit; (ii) the capacity to organize in order to develop this sort of activity.

Micro-credit Issues

- ✓ **Credit for Commercialization**

Neri: **Do you think the issue of commercialization is important? How do you see credit linking with commercialization, for example, to achieve better prices?**

Roberto: I see this as the formula of success. If a donor does not succeed at the end in strengthening its organization in helping the producers to commercialize its products, the chances of success are very small. Lack of access to markets is one of the main difficulties faced by the producers. Ten years ago the problem was lack of money to produce and in reaction to that there was an effort by development and assistance institutions to overcome this problem by providing technical qualification and credit. Then, when they managed to overcome this production problem, the main problem was to find channels to the markets. Otherwise they would either produce and stay with the production, or produce and have the production bought by a very low price, because the intermediaries would be the ones to appropriate the aggregated value. Therefore now the main issue is marketing and there are even those who speak of exporting towards global markets.

- ✓ **Land Reform**

Neri: **The basis of a micro-credit industry involve the question of collateral and property rights. How these issues evolved during Nicaragua recent history and how theses changes have affected the micro-credit industry? What is the situation of land distribution in the country and the use of land as collateral?**

Roberto: The revolution at the Eighties, by means of a large land reform, redistributed millions of hectares of land among the peasants and non-peasants as well. However, since the government in power expected to be forever in power, it did not worry about the juridical aspect of it. Therefore, when there was a change in the ruling power, many people were in a situation that they occupied a piece of land without having the property title , and this is a huge problem in Nicaragua. Among the small landowners, the large majority,

surely above 80%, does not have the property title of their lands which would allow them to use it as collateral.

Before we used to have a lot of land belonging to the municipalities, but nowadays it is very rare to find communal or collective land, because the land reform gave them all to individual peasants. A lot of land was confiscated, but the property was not transferred. This problem is not so present currently, but it is a problem which is latent, since it is not solved. There are many people who still demand their land back, but this land are being used by someone else.

- ✓ **The Juridical System**

Neri: **What about the judicial system of Nicaragua? Does it have enough speed to make the micro-credit system to function? For example, with respect to the use of housing as collateral and enforcement of property rights, does it work well?**

Roberto: Yes, it has been working perfectly for more than one century with individual credit. Social credit – in this group we have group lending and communal lending – exists then as an alternative to the poor people who have no possibility to offer a collateral and whose business are really small, without even a fixed place. The chosen lending methodology is directly linked to the poverty level of the segment it serves. For example, in the nineties, the moment when we had the boom of microfinance, the step system we had was: (i) communal bank – between 15 and 20 members - to the poorest, (ii) group lending – between 5 and 7 members - to the a little bit less poor, and (iii) individual lending to the even less poor. The three are poor, the three are microentrepreneurs, but at different levels of poverty and business structure.

http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_4-Reforma_agraria_colaterales.wmv

The role of the Inter-American Foundation

Neri: **Do you see a contradiction between donations and microfinance? I mean, IAF provide grants, which are a kind of donations, whereas at the same time seeking to develop micro-credit projects.**

Roberto: Yes, there is a contradiction. However, in the way we manage it in Nicaragua, IAF provides donation, but which is not supposed to be directly consumed. It is not a donation to be given away but, instead, to strength institutions, groups and communities. It works very well and people understand it well. Of course, if someone arrives at a community and asks if they want to receive helicopters, food, inputs or whatsoever they would be glad, and will support the idea, but they know they have to make an input. IAF supports development projects, not assistance projects. Therefore, in order to succeed in its mission, IAF has to identify institutions that have this kind of approach.
In my opinion, institutions such as Leon 2000 should not receive support from IAF, since they already have a volume of resources and a presence in the market large enough to raise funds from the capital market. Therefore, the money from IAF, which is relatively not much – between 12 and 14 millions dollars per year to be split among around sixty institutions – should finance institutions that really need it, the small ones. The role of IAF should not be to develop the sector of microfinance, but to support the development of the territory from the level of localities.

It is true that then IAF is one of the institutions that has less requirements with respect to the presentation of proposals and also one of the institutions that intervenes less in the projects executions. In my opinion, this is a good thing. However, it does not mean that the fund is free to be used anyhow. Everyday, thousand of people are doing thousand of business, without the need of IAF or whatsoever. What IAF does when it supports this kind of initiative is to try to organize these relations and capitalize the best ways of doing business to show to the small microentrepreneurs the most efficient way of doing it.
http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_5-IAF.wmv

II. Recommendations at Programs, Institutional and Country Level

http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_2-evolucion.problemas.soluciones.wmv

IAF-supported credit funds fit into the country context and existing legislation and micro-lending institutions. The examples of the two grants to FUndacion Leon and Espino Blanco indicate this adequacy. Agrodersa presented limitations in terms of the vocation of the

institution for credit services, but even in this circumstance, micro-credit helped its clients to meet some basic needs and defend against risks. As to the impact of IAF-supported credit funds it will depend basically on the existing information network. The existence of ASSOMIF is an important reference as to the potential multiplying factor vis-à-vis other in-country micro-finance institutions. Its network could be used as an extraordinary multiplicator of better practices and of innovation.

IFfuture IAF grants should consider the importance of training associated to market needs, and their chances to increase production and basically improve beneficiaries` entrepreneurial skills. This may allow them to look for other opportunities, and in most cases this has not occurred because their range of action is much reduced.

The IAF should strengthen its project monitoring, as the institutions consider it having more feedback on their activities, the gaps and advances that are to be evaluated so as to reduce shortcomings. The importance of strong financial reporting cannot be too stressed here either: it both helps to ensure accountability as well as to help train the grantees in the financial routines that will help in the future management of funds, once the IAF withdraws.

It is also important to stress the important role of the “social investment fund”, and although not very significant in monetary terms, its outcomes in social and socio-environmental terms have been considered relevant. It is an important and creative innovation to strengthen community based development, a very relevant aspect to consider in IAF projects. The more initiatives within this framework the more social aggregation of local stakeholders and the aggregation of social capital, which is essential to reduce social exclusion and increase social participation and co-responsibility in the formulation, implementation and management of collective goods. This implies in creation effective conditionalities within projects to allow the implementation of this innovative way to articulate individual financing performance to collective outcomes converted in social investments according to the amount generated.

In spite of the high participation of women in MFIs, data indicate that they receive 42% of the funds in the urban sector and 17% in the rural one (Deugd, 2002), and the amount per women client is much lower than for men, indicating lower payment capacity.

We agree with Marulanda and Otero(2005), that micro-lending programs have the potential to cover their own costs. The interest each borrower pays helps to finance the cost of lending to another. In most poverty alleviation efforts, every person helped brings the program closer to its financial limits. Successful micro-lending programs, on the other hand, generate more resources with each individual they help. As a result, well-managed micro-lending programs generate more income than they spend. Once they become economically viable financial institutions, they have the ability to access a virtually unlimited source of lending capital.

It is also important to stress that technology—both software and hardware—will be fundamental to improve the quality of the financial services offered to low-income people in the region because they will allow microfinance institutions to improve their efficiency and expand their services to unserved markets, with both costs and risks that are reasonable. This is already to be seen in both cases evaluated as they have the means to develop the follow-up of its clients and to reduce the delay of payments.

Micro-credit can only be provided to those people (or population segments) that have an established minimum capacity to repay a loan.

Therefore, in the next years, there should be a focus on providing financial services to the poorest people , to result in the deepening of efforts to effectively reach unserved markets.

Nicaragua has the lowest commercialized microfinance market in Latin America, where institutions that seek profit represent only 6% of the total of clients and 16% of the funds. NGOs are responsible for the expansion of coverage, representing 75% of the total of clients and 60% of the funds invested. These data should indicate that given this situation

the coverage to the low income groups would be significant. But this is not necessarily occurring to reach the poorest, between US$ 100,00 and US$ 150,00 (Lanuza, 2004). These data are relevant to analyze the fact that it is one big challenge to reach the poorest and that the best way could be through solidary loans, but this has prooved very little effective and most beneficiaries oppose to it. Presently from most NGOs, a very small number is reaching efficiently with an average amount of US$300,00, and this could mean that the techniques of loans are inadequately used (ASOMIF, 2006). The changes that occurred at the beginning of 2004, when ASOMIF was successful to pass a law at the National Congress, where spaces are created within banking regulation to allow the functioning of microfinance institutions, that due to their size cannot become finance institutions, particularly most of NGOs. The law eliminates the ceiling on interest rates and establishes a specific legislation designed for small microfinance institutions. The challenge now is to reach an adequate scale as well as to be able to increase loans to reach the poorest, and particularly through group loans.

http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_6-conclusion.wmv

19. Additional references:

Videos – Index:

The Centre for Social Policies team registered in video the visits done to the projects site and interviews with its stakeholders. These videos are an integral part of this evaluation and is available on the project website http://www3.fgv.br/ibrecps/iaf2_website/index.asp together with the main outputs and inputs used in this evaluation. The electronic version of this report will provide links to these resources at specific points of the text.

Videos Nicaragua

AGRODERSA – NC-234	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/agrodersa_TUDO_V.2.wmv
1- Abertura	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/AGRODERSA_1-abertura.wmv
2- Historico de la instituición	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/AGRODERSA_2-hist_inst.wmv
3- Atividad/Credito	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/AGRODERSA_3-credito_atividades.wmv
4- Credito x assistencia técnica	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/AGRODERSA_4-cred_assistencia.wmv
5- Uso de credito/Credito-Monto/ Grupos/Cooperativismo	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/AGRODERSA_5-uso.cred_monto_grupo_cooper.wmv
6- Garantias/Interes/Plazos/Morosidad	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/AGRODERSA_6-garantia_interes_prazo_mora_futuro.wmv
ESPINO BLANCO – NC-230	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ESPINO_TUDO_V.1.wmv
1- Abertura	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ESPINO_1-abertura.wmv
2- Historico/atividad de la instituición	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ESPINO_2-historic_inst_cred.uso_iaf_atuacao.wmv
3- Monto de credito/Mora/Convenio de cooperación mutua/Grupos/Garantia	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ESPINO_3-cred.monto_mora_convenio_grupo_garantia.wmv

4- Interes/Plazo/Forma organizativa	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ESPINO_4-interes_prazo_SA_ass.tec_comp_fut.wmv
LEON 2000 NC-277	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/Leon_tudo_v.2.wmv
1- Abertura	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/LEON_1-abertura.wmv
2- Historia y atividad de la instituición	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/LEON_2-hist_inst.wmv
3- Credito/Monto/Microfinanzas/Proyecto social/Credito grupal x individual	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/LEON_3-cred_monto_microfin_proj.soc_grupo_indiv.wmv
4- Tasa de Interes/competência	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/LEON_4-interes_competencia.wmv
5- Asistencia tecnica/Garantias/Mora/Transparencia/Uso de credito	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/LEON_6-assit.tec_garantia_moroso_transparencia_cred.uso.wmv
ROBERTO GARCIA	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_TUDO_v.1.wmv
1- Historia de las microfinanzas en Nicaragua/Experiência	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_1-Hist.Microfin_experiencia.wmv
2- Evolución de los problemas y respectivas soluciones	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_2-evolucion.problemas.soluciones.wmv
3- Instituiciones evaluadas	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_3-inst_evaluadas.wmv
4- Reforma agraria y colaterales	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_4-Reforma_agraria_colaterales.wmv
5- IAF	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_5-IAF.wmv
6- Conclusión	http://www3.fgv.br/ibrecps/VIDEOS/iaf_nc/ROBERTO_6-conclusion.wmv

Videos Peru

CEDER – PU-481	http://www3.fgv.br/ibrecps/videos/iaf_pu/ceder_filme_v.3.wmv
1- Abertura	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDER_1-abertura.wmv
2- Historico local/La instituición/Fondesurco/Uso del credito/	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDER_2-hist_inst_fondesurco_cred.uso_cred.grupo.indiv_mercado.wmv
Credito individual x grupal/Aceso a Mercados	
3-Grupos asociativos/Riego/Credito x asistencia tecnica/Genero	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDER_3-assoc_riego_credxxassist.tec_genero.wmv
4- Migración/Fondesurco/Tasas de Interes/Competência	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDER_4-migra_fondesurco_interes_compet.wmv
5- Resistencia al credito/Inseminación artificial/	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDER_5-cred.receo_insem.art_mora_garantia.wmv
morosidad/garantias	
6- Resumen	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDER_6-conclusion.wmv
AEDES – PU-507	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/AEDES_TUDO_V.3.wmv
1-Abertura	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/AEDES_1-abertura.wmv
2- Sendero/Historia/Imigración/Credito	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/AEDES_2-Sendero_hist_migra_cred.grupo_cred.inst_comerc.wmv
3- Aceso a Mercado/Grupos asociativos/Fondesurco/Uso del credito/	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/AEDES_3-mercado_assosciacion_fondesurco_cred.uso_garantias_tit.propr.wmv
Garantias/Titulos de propriedad	
4- Ventas governamentales/Genero/Credito/Interes	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/AEDES_4-vendas.gov_genero_cred.interes.wmv
5- Credito solidario x asociativo/Comercialización	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/AEDES_5-cred.solid_cred.assoc_comerc.wmv
6- Produtos organicos/Asistencia tecnica/Caja rural	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/AEDES_6-organicos_assist.tec_caja.rural.wmv
FONDESURCO	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/Fondesurco_tudo_V.1.wmv
1- Historia/La instituición/Morosidad	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/FONDESURCO_1-abertura.wmv
2- Fondesurco y sus parceros	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/FONDESURCO_2-fondesurco_y_parceiros.wmv
3- Prestamos	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/FONDESURCO_3-prestamos.wmv
4- Tasa de Interes/Individuo x grupo	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/FONDESURCO_4-interes_individuo_grupo.wmv
5- Criterio de Prestamo/Morosidad	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/FONDESURCO_5-criterios.prestamo_morosidad.wmv

EMUCOSA PU-492	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/EMUCOSA_TUDO_V.4.wmv
1- Abertura	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/EMUCOSA_1-abertura.wmv
2- Historia local/La instituición/Morosidad	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/EMUCOSA_2-hist_inst_morosidad.wmv
3- Inseminación artificial/Mercado/Ineres/Credito/ División de Emucosa/Caja Chica	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/EMUCOSA_3-insem_mercado_interes_cred_divisao.emucosa_caja.chica.wmv
4- Sendero/Huelga/Proyectos/ Reunion con las enpresas comunales (Ecosas)	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/EMUCOSA_4-cendero_huelga_proyectos_reunion.ecosas.wmv
CEDES – PU-493	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDES_TUDO_V.1.wmv
1- Abertura	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDES_1-abertura.wmv
2- Historia local /Instituición/Creditos-monto/Grupo	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDES_2-historico_inst_cred.monto_grupo.wmv
3- Garantia/Propiedad comunal/Competencia/Morosidad	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDES_3-garantias_prop.comunales_competencia_morosidad.wmv
4 -Uso de los creditos/Parcerias/Organización/Mercado	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDES_4-cred_uso_parcerias_organizacao_mercados.wmv
5- Gobierno/Morosidad/Sendero/Migración/Credito-monto/Credito para los pobres/Assistência técnica/RESUMEN	http://www3.fgv.br/ibrecps/VIDEOS/iaf_pu/CEDES_5-governo_morosidad_sendero_migra_cred_quant_pobres_ass.tec_resumo.wmv

Videos Mexico

ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/accede_todos.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/accede_Jorge_director.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/acceder_humberto_coordinador.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/campesino_herculano.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/campesino_javier.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/campesino_maria.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/campesino_norberto.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/accede_fernando_financeiro.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/campesino_martins.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/campesino_hilario.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/nikutli_jorge.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/accede_fidel_des_local_cuquio.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/accede_guilhermo_consejo_directivo.wmv
ACCEDE	http://www4.fgv.br/cps/simulador/VIDEOS/IAF/MX/accede/accede_ignacio_desarollo_local.wmv
Apoyo	http://www3.fgv.br/ibrecps/VIDEOS/iaf_mx/apoyo/roberto_ramirez.wmv
Apoyo	http://www3.fgv.br/ibrecps/VIDEOS/iaf_mx/apoyo/agricultores_unidos.wmv
Apoyo	http://www3.fgv.br/ibrecps/VIDEOS/iaf_mx/apoyo/eleonora_ochoa.wmv
Apoyo	http://www3.fgv.br/ibrecps/VIDEOS/iaf_mx/apoyo/mena.wmv
Apoyo	http://www3.fgv.br/ibrecps/VIDEOS/iaf_mx/apoyo/sergio_garnero.wmv
CDPZ	http://www3.fgv.br/ibrecps/VIDEOS/iaf_mx/cdpz_presidiente.wmv
CDPZ	http://www3.fgv.br/ibrecps/VIDEOS/iaf_mx/cdpz_casa_salud.wmv
CDPZ	http://www3.fgv.br/ibrecps/VIDEOS/iaf_mx/cdpz_rancho_plantacion.wmv
CDPZ	http://www3.fgv.br/ibrecps/VIDEOS/iaf_mx/cdpz_credito_viviendas.wmv

Videos Mexico

G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/William_Gamboa.wmv>
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/Gerardo_Ernandez.wmv>
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/Jose_Cervantes.wmv>
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/Jorge_de_la_Reina.wmv>
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/Cornelio.wmv>
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/Jaime_Gonzalez.wmv>
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/Epifanio_Velazques.wmv>
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/UNICACH_Fernando_Castellano_Jose_Luiz.wmv>
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/huracan_stan.wmv>
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/hijos_campesinos.wmv>
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/instalaciones_gkc.wmv>
G. Knan Choch	
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/tapachula_motozintla.wmv>
G. Knan Choch	
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/ninos_sierra_madre.wmv>
G. Knan Choch	
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/william_completo.wmv>
G. Knan Choch	
G. Knan Choch	<http://www4.fgv.br/cps/simulador/videos/iaf/mx/gerardo_hernandez_completo.wmv>

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