

## **THE MICROFINANCE SECTOR IN PERU: OPPORTUNITIES, CHALLENGES AND EMPOWERMENT WITH GENDER MAINSTREAMING**

**Sara Pait**

**Oxfam Novib consultant for the WEMAN Programme**

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### **QUESTIONS RAISED BY THIS PAPER**

Since microcredit initiatives emerged in Peru in the 1970s, with low-income women playing a key role, a very dynamic microfinance industry has developed in the country, marked by mergers between entities and new investment partners from international consortia. This has allowed expansion of coverage and financial products throughout the country, including rural areas not previously served. One question, however, is whether poor women make up the same percentage of the portfolio that they did in the early stages of the microcredit boom.

The paper examines data showing that, in absolute terms, the expansion of microfinance has increased access to financial products for women entrepreneurs who start businesses as a strategy for meeting living expenses. More than half the recipients of loans for small businesses and microenterprises are women. One recent global study, however, shows that microfinance entities give less preferential attention to women as they grow,<sup>1</sup> partly reflecting what Cheston and Kuhn indicate in their article for the 2002 Microcredit Summit: that microfinance institutions (MFIs) were offering a smaller percentage of loans to women, even when they had grown and had new credit products, and loans to women were smaller than those for men, even when they belonged to the same lending programme, the same community, and the same group of borrowers and products.<sup>2</sup> There has, however, been no clear, systematic monitoring of the influence of microfinance on the lives of the women involved or the impact of loans on their businesses.

This paper analyses current trends in microfinance entities and NGOs in Peru, examining cases of mergers, networking, consortia, and transformation of NGOs into regulated financial

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<sup>1</sup> According to information provided by Mary Ellen Iskenderian, general manager of Women's World Banking (WWB), to Jeremy Caplan of Time magazine (3 December 2008) about a recent study by WWB that examined 27 microfinance organisations and approximately 25 others as a control group (in Latin America, Asia, the Middle East and northern Africa). See the study by Christina Frank et al., *Stemming the Tide of Mission Drift: Microfinance Transformations and the Double Bottom Line*. Capital Markets Group Women's World Banking; 2008.

<sup>2</sup> Cheston, Susy and Kuhn, Lisa, *Empowering Women through Microfinance*, paper for the Microcredit Summit, New York, 10-13 November 2002.

institutions and banks, highlighting the importance of women as clients, both in statistical terms and in the design of products and services. The main questions about the potential of microfinance to empower women are: What progress has been made? What opportunities exist? What are the challenges? And, therefore, what are the relevant strategies?

This paper is one of several being prepared as part of the WEMAN Programme.<sup>3</sup>

## TRENDS IN THE FINANCIAL SECTOR

### Background

In Peru, as in the rest of Latin America, interest in the informal sector emerged in the 1970s, when the number of workers displaced from formal industry increased and they began to establish small businesses or microenterprises whose characteristics differed markedly from those of formal companies. Increasing migration from the countryside to mid-size and large cities, especially the capital, transformed labour and commerce, and the urban informal sector became more complex and important. Between 1985 and 1995, internal violence in the country caused massive displacement of the population, and economic activity in commerce and services became the employment refuge for many displaced people.

Meanwhile, to cope with repeated, extended periods of economic crisis, women began to become involved in income-generating activities to cover gaps in their families' incomes. In an effort to alleviate the effects of the crises, they played an unprecedented role in new informal businesses or productive activities associated with social programmes. Several NGOs began providing loans to groups of women organised as mothers' clubs, so they could engage in group income-generating activities. This paved the way for microfinance for poor women, responding to their demand to generate their own income rather than merely receive food handouts or help with subsistence needs. In the 1980s, national and regional NGOs that began by providing loans to women involved in handout programmes run by the government, churches or self-supporting initiatives, such as CARE, ADRA-OFASA, CARITAS, SEA, EDAPROSPPO, SEPAR and others, established microcredit programmes for self-employed men and women, especially those working in commerce and services. Some of those programmes gave rise to entities specialising in microfinance.

Financial and technical support from private, bilateral and multilateral international cooperation agencies played a key role in the establishment of loan programmes. Several

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<sup>3</sup> WEMAN, Women's Empowerment Mainstreaming and Networking for Gender Justice in Economic Development, is a long-term, worldwide process initially promoted by an Oxfam Novib programme, involving livelihood activities from its Gender Justice Programme and gender mainstreaming from its Economic Justice Programme.

microcredit programmes were created with funds from the Inter-American Development Bank's small projects programme, and many funding agencies became increasingly interested in promoting a sector that showed potential for sustainability. Municipal Savings and Loans (*Cajas Municipales de Ahorro y Crédito*, CMACs) offering lines of credit for small businesses and microenterprises were created with technical assistance from GTZ, and some banks, such as the Banco de Crédito del Perú, began offering financing for small businesses and microenterprises, identifying businesses that, although classified as informal, met certain requirements for fairly rapid formalisation.

In the early 1990s, Finca Perú in Ayacucho introduced solidarity loans for women organised in village banks, who suffered from poverty and unemployment because of the internal conflict in the country. Years later, Catholic Relief Services (CRS) promoted the creation of a collective known as PROMUC, which spread the village banking model throughout the country, initially through franchises. Other village bank programmes were established based on work with craftswomen and rural producers; one example is that of the Manuela Ramos Movement, which engaged in educational work with rural women in areas including sexual and reproductive health and human rights.

During the same decade, Rural Savings and Loans (*Cajas Rurales de Ahorro y Crédito*, CRACs) were established as financial entities initially focusing on the agriculture sector, filling a gap left by the closure of the Banco Agrario, which had collapsed with a large delinquent portfolio. These financial entities gradually began including lines of commercial credit and loans for microenterprises and small business in their product portfolios. Specialised microfinance firms called Enterprises for Development of Small Businesses and Microenterprises (*Empresas de Desarrollo de la Pequeña y Micro Empresa*, EDPYMES) were also established in an effort to regulate the steadily increasing number of entities working in this area.

Meanwhile, savings and loan cooperatives (COOPACs, for their Spanish initials), which predated all the other types of entities mentioned above, played an extremely important role in financing small business activities in the country.

## **Importance of the microfinance sector today**

Peru's microfinance sector is now highly developed. The microenterprise and small business segment<sup>4</sup> is extremely important to Peru's economic growth, representing an estimated 42 percent of GDP and 74 percent of the economically active population.<sup>5</sup>

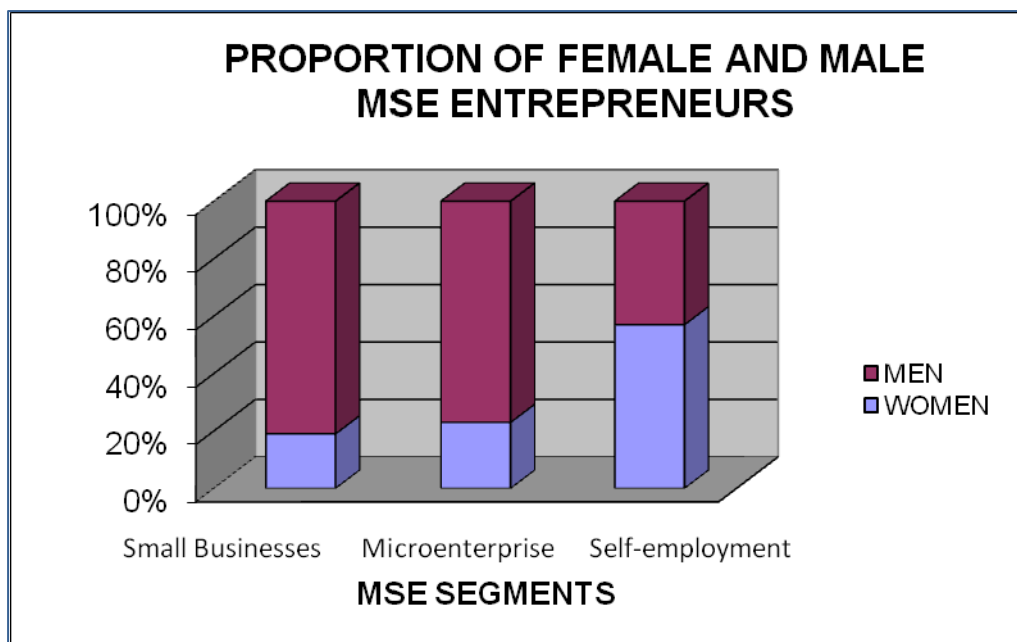
Women play an important role in urban and rural microenterprise, but there is no ongoing monitoring of their participation. Data from the National Household Survey (*Encuesta Nacional*

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<sup>4</sup> MSE, for micro and small enterprise

<sup>5</sup> Figures from the National Institute of Statistics of Peru (*Instituto Nacional de Estadística del Perú*, INEI) <http://www1.inei.gob.pe/biblioineipub/bancopub/Est/Lib0176/C2-2.htm> indicate that in 2005, Peru had an economically active population of 12,000,139 people.

*de Hogares*, ENAHO-INEI, fourth quarter 2001), analysed by Trejos Solórzano in 2003,<sup>6</sup> provided a gender breakdown of entrepreneurs in urban microenterprises and small businesses. According to calculations based on the 2001 ENAHO survey, there were about 3 million non-farm MSE employing about 5.5 million workers; 88 percent of these businesses were low-productivity enterprises providing self-employment or jobs for fewer than four workers.

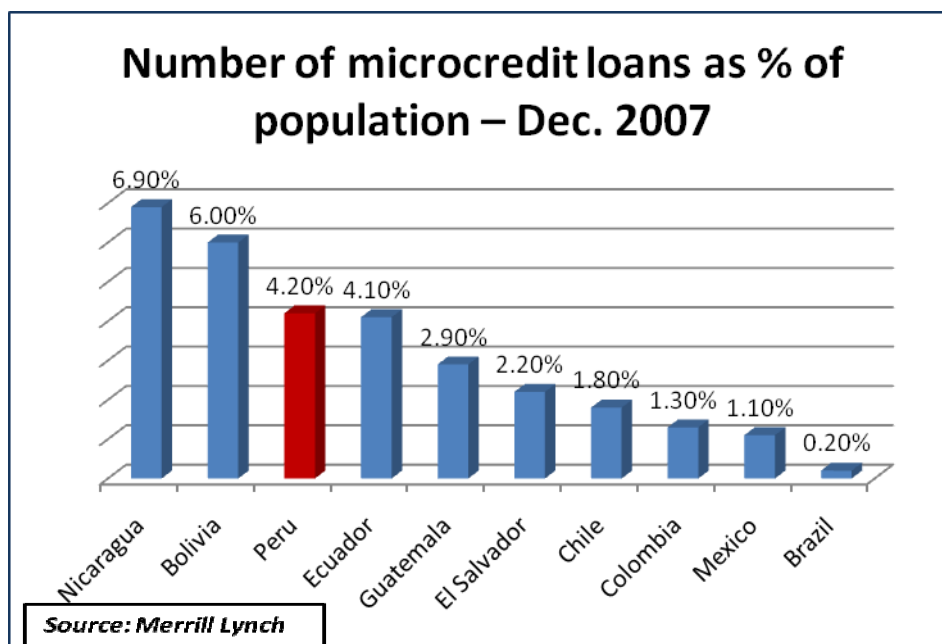


Compiled by author based on data inferred by Trejos, 2003

In development of the microfinance sector, Merrill Lynch<sup>7</sup> estimates that Peru ranks third in Latin America in microcredit based on population size (see following figure). Since Peru's population in absolute terms (approximately 28 million) is greater than that of the higher-ranking countries and those in the following four positions, this is significant.

<sup>6</sup> Juan Diego Trejos Solórzano, *La Microempresa en el Perú a inicios del Siglo XXI, Magnitud, Importancia y Características*, IPES. Local economic development series, Nº 1, 2003.

<sup>7</sup> Graph based on data presented by Clara Serra de Akerman of WWB, Cali, Colombia, at a conference on the financial crisis in January 2009.



In its “2008 Microscope on the Microfinance Business Environment in Latin America and the Caribbean,” published in October 2008, the Inter-American Development Bank (IDB) ranked Peru as having the regulatory environment most conducive to microfinance development, based on information from Peru’s Office of the Superintendent of Banking, Insurance and Pension Funds (*Superintendencia de Banca Seguros y AFP, SBS*).<sup>8</sup> Peru edged out Bolivia, which previously held first place.

### Microfinance entities and their importance in terms of loans/clients

According to information from ASOMIF Perú,<sup>9</sup> among 25 regulated entities specialising in microfinance, including rural savings and loans (CRACs), Edpymes and a Specialised Microfinance Financial Institution, net lending rose from S/. **2,058,608,000** (nuevos soles) in December 2007 to S/. **2,865,019,000** in the same month of 2008,<sup>10</sup> an increase of 39 percent. Most of the loans were for microenterprises, as the following table shows.

<sup>8</sup> This ranking was announced at the 2008 meeting of the Inter-American Microenterprise Forum (*Foro Interamericano de la Microempresa, Foromic*) in Asunción, Paraguay, which was attended by more than 1,500 officials from regulatory agencies and microfinance institutions in Latin America and the Caribbean.

<sup>9</sup> Association of Microfinance Institutions of Peru (*Asociación de Instituciones de Microfinanzas del Perú, ASOMIF Perú*), *Análisis de Variaciones de Principales Indicadores Financieros*, December 2007-December 2008.

<sup>10</sup> During these periods, the exchange rate remained at about 3.00 nuevos soles to the US dollar.

MSE LOANS						
Microfinance Institutions in Peru (In thousands of nuevos soles)						
	Entity	Loans		Variation	Participation	
		Dec 2007	Dec 2008	%	Dec 2007	Dec 2008
1	E. Nueva Visión	21,758	46,203	112%	1.55%	2.34%
2	C. Chavín	23,541	45,894	95%	1.68%	2.32%
3	C. Los Andes	13,804	23,462	70%	0.98%	1.19%
4	C. Luren	91,212	149,186	64%	6.51%	7.55%
5	E. Credivisión	15,300	23,951	57%	1.09%	1.21%
6	E. Alternativa	30,139	46,195	53%	2.51%	2.34%
7	E. Raíz	114,697	169,476	48%	8.18%	8.58%
8	C. Profinanzas	63,933	92,584	45%	4.56%	4.69%
9	F. Edyficar	349,174	499,313	43%	24.90%	25.28%
10	E. Confianza	137,403	196,286	43%	9.80%	9.94%
11	E. Proempresa	71,454	101,649	42%	5.10%	5.15%
12	C. Metropolitana	66,971	94,659	41%	4.78%	4.79%
13	E. Crear Arequipa	124,646	162,712	31%	8.89%	8.24%
14	E. Solidaridad	3,380	4,372	29%	0.24%	0.22%
15	E. Pro Negocios	4,680	12,604	29%	0.33%	0.30%
16	C. Nuestra Gente	175,131	218,444	25%	12.49%	11.06%
17	C. Cajamarca	10,243	12,604	23%	0.73%	0.64%
18	C. Sipan	18,863	19,975	6%	1.35%	1.01%
19	C. Los Libertadores	13,282	13,601	2%	0.95%	0.69%
20	C. Credinka	39,150	39,313	0%	2.79%	1.99%
* 21	E. Mi Casita	0	0	0%	0%	0%
*22	E.CrediJet	0	0	0%	0%	0%
23	C. Prymera	3,823	3,649	-5%	0.27%	0.18%
24	E. Acceso Crediticio	8,920	5,679	-36%	0.64%	0.29%
*25	Efectiva	635	179	-72%	0.05%	0.01%
<b>TOTAL</b>		<b>1,402,138</b>	<b>1,975,363</b>	<b>41%</b>	<b>100%</b>	<b>100%</b>

**\*Non-associated institution**

**Source: ASOMIF Perú.** Includes only Rural Savings and Loans (Cajas Rurales de Ahorro y Crédito, CRACs), Enterprises for Development of Small Businesses and Microenterprise (Empresas de Desarrollo de la Pequeña y Micro Empresa, EDPYMEs) and the Financial Institution Edyficar.

Besides CRACs and Edpymes, the CMAC system of municipal savings MFIs plays a particularly important role in microfinance. In January 2009, lending by Municipal Savings and Loans (CMACs) nationwide totalled S/. 5.68 billion, an increase of 39.35 percent over the same month in 2008. Deposits grew by 26.22 percent in the same period, to S/. 4.5 billion.<sup>11</sup>

<sup>11</sup> According to the president of the Peruvian Federation of Municipal Savings and Loan Associations, (Federación Peruana de Cajas Municipales de Ahorro y Crédito, FPCMAC), Edmundo Hernández, the increase of S/. 936 million in deposits was mainly due to an increase in long-term accounts. [17/03/09 - El Comercio - B-6-Negocios](#)

Among the many entities specialising in microfinance, one that stands out is the first specialised bank, Mibanco, which by the end of 2008 had a portfolio of S/. 1.84 billion (see graph at the end of this chapter ranking institutions by microenterprise share of portfolio).

Another group of microfinance entities consists of organisations that are unregulated, but which have extensive experience in microfinance activities. The microfinance initiative of COPEME, the consortium of private organisations for development of small businesses and microenterprise, includes 17 specialised microfinance NGOs in its information system (see following table); 10 of these organisations operate with Village Bank technology, mainly serving women. On average, female clients represent 78.8 percent of cases.

While this sector's client volume and portfolio are not highly significant compared with those of banks serving the MSE sector, these organisations continue to play an important role in providing initial access to financial and non-financial services for people who use loans to start businesses, and who gradually become incorporated into the banking sector.

The following table provides a better idea of the importance of this sector, which mainly serves low-income women with loans smaller than the MSE loans typically received by clients of financial institutions and banks. The loans are mainly to provide working capital, mostly in commerce<sup>12</sup> and services.

<b>Staff, active loans and portfolio of FMIs not supervised by SBS, September 2008</b>						
	No. of analysts	No. of loans	Portfolio (US\$)	Avg. Loan Balance (US\$)	Avg. Loan (US\$)	
NGO Adra Peru	73	36	14,038	3,182,618	227	365
NGO Alternativa	20	10	3,841	866,367	226	312
NGO AMA	47	20	6,801	2,871,807	422	461
NGO ARARIWA	90	55	16,156	6,363,648	394	394
NGO ASIDME	41	24	5,129	728,958	143	310
NGO Caritas del Perú	215	155	29,760	19,650,800	660	878
NGO Edaprospro	35	19	5,115	1,303,752	255	295
NGO Finca Perú	96	34	11,735	2,348,978	200	310
NGO Fondesurco	46	16	4,899	6,459,099	1,318	1,367
NGO Fovida	8	5	671	1,193,150	1,778	1,948
NGO IDER Cesar Vallejo	14	5	2,247	910,222	405	539
NGO Idespa	10	5	1,133	339,038	299	417
NGO Manuela Ramos	73	38	14,375	3,219,686	224	299
NGO Mide	45	26	7,030	1,419,527	202	237
NGO Prisma	153	76	21,169	9,349,856	442	548
NGO Promujer Perú	199	101	45,337	11,107,586	245	287
Micredit	31	12	5,499	2,586,244	470	455

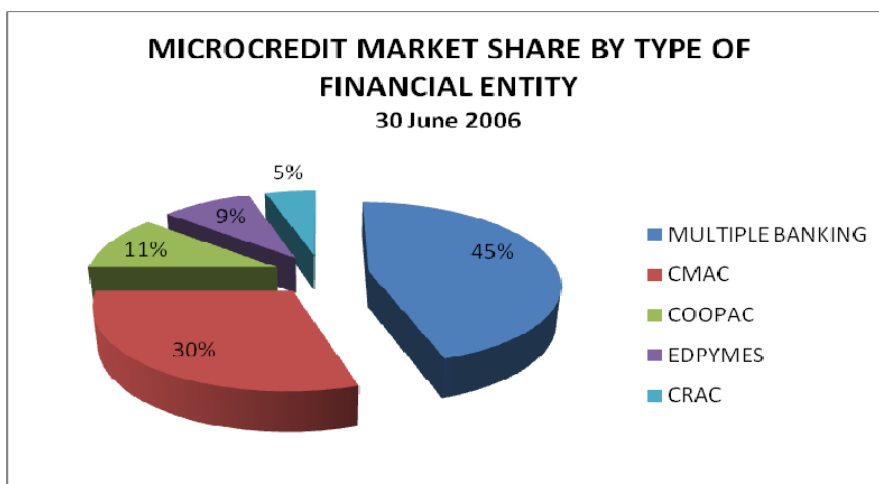
(\*) The No. of Loans column refers to active clients

**Source: COPEME, September 2008**

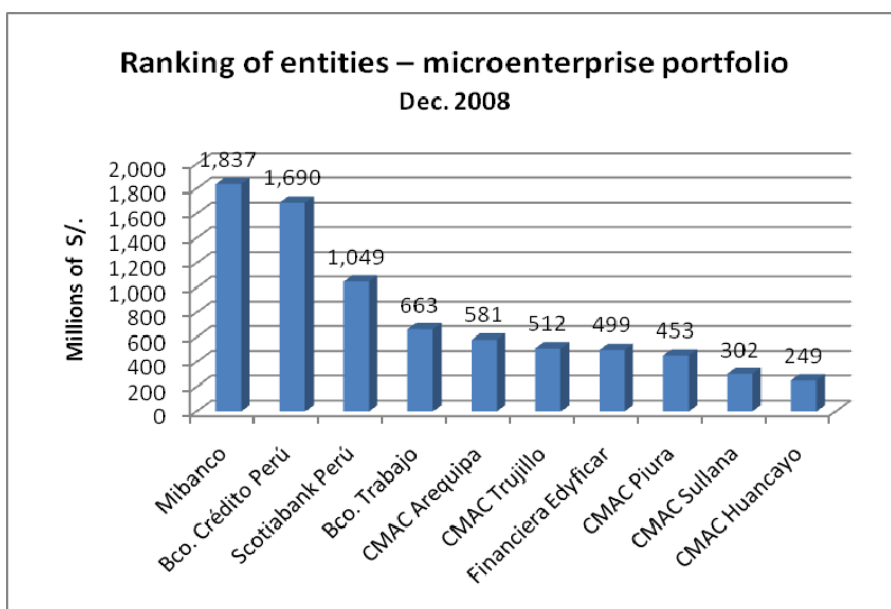
<sup>12</sup> An average of 65.5 percent of the loans made by 16 of the NGOs reporting to COPEME are in the commerce sector. This does not include the NGO Fondesurco, which has 76.5 percent of its portfolio in agriculture and livestock.

The specialised microfinance entities include savings and loan cooperatives (COOPACs, for their Spanish initials). In 2006, there were 164 such institutions serving about 400,000 members.<sup>13</sup>

The following graph shows the importance of the market share of the main financial entities mentioned above, as well as traditional banks, which hold the largest microcredit portfolio. The subsequent graph shows the portfolio share of the 10 institutions with the largest percentage of loans to microenterprises.



Source: Compiled by author based on data from Office of Superintendent of Banking and Insurance (Superintendencia de Banca y Seguros, SBS) and FENACREP



Source: Class & Asociados S.A. Risk Classifier: Risk classification report for Edyficar, based on financial reports from December 2008.

<sup>13</sup> According to data from FENACREP.

## REVIEW OF SELECTED CASES IN THE SPECIALISED MICROFINANCE SECTOR – PROGRESS, OPPORTUNITIES AND CHALLENGES

According to SBS data for the overall financial system, of 308,940 clients who applied to the financial system for the first time between January and December 2007 through the microenterprise loan system, the following percentages did so through specialised financial entities: Mibanco (73,632 clients, 23.83 percent), Edpyme Edyficar S.A.<sup>14</sup> (42,587 clients, 13.78 percent), Caja Municipal de Ahorros y Créditos de Arequipa, (20,438 clients, 6.62 percent), Caja Municipal de Ahorros y Créditos de Trujillo, (17,276 clients, 5.59 percent); and Edpyme Confianza S.A.<sup>15</sup> (13,222 clients, 4.28 percent). Other entities in the financial system accounted for the remaining 141,785 new clients.

Two transformations are under way in the specialised microfinance sector. One is the partial or total merger of some microfinance institutions at the national or Latin American regional level; the other is a shift from lower levels of regulatory requirements and possibilities of financial service coverage to higher levels of requirements and more extensive operations. These institutions have transformed from NGOs specialising in microfinance, Edpymes or rural savings and loans (*Cajas Rurales*) into financial institutions or banks specialising in microfinance.

This section will review some of these cases, identifying mechanisms, prospects for serving emerging entrepreneurs, and the degree to which their vision and strategies emphasise gender and empowerment of women.

This chapter analyses the ways in which larger financial entities with broader coverage are being created and merging, based on the experience of domestic NGOs and intervention from external financial agents. “Holding companies” are also being established to provide larger-scale services to committed organisations, using shared administrative services and technological platforms.

As the case studies show, the common denominator is the increase in the absolute number of women, based on the overall increase in clients. It is also important to identify new opportunities available to clients, both men and women, once they have better service in terms of access and coverage, proximity of offices, interest rates, new technological options (access to cards and automatic teller machines, savings accounts, etc.), and a variety of financial and non-financial products, such as micro-insurance against risks, borrower’s insurance, training, on-line financial information services at Internet portals, etc.

This study found that several of the regulated microfinance institutes are developing special products based partly on the village banking model (with renewable cycles, weekly or bi-

<sup>14</sup> Now Specialised Microfinance Entity (*Financiera Especializada en Microfinanzas*) Edyficar.

<sup>15</sup> Soon to be Specialised Microfinance Entity (*Financiera Especializada en Microfinanzas*) Confianza.

weekly payments, minimal requirements for access, etc.), to incorporate new female clients, initially as a strategy for increasing portfolio coverage and depth, rather than promoting access and empowerment of women through participation in groups. The Edpyme Confianza's product, "Woman's Word" (*Palabra de Mujer*), began with an empowerment approach, because it involved funds from Freedom From Hunger and because of the top management's belief that the product would provide a platform for stimulating development of low-income women's enterprises. In other entities that have partly implemented this loan methodology, but without complementary internal account and training services (for example, Mibanco's Chasqui Cash (*Chasqui Efectivo*) or loans to groups of clients at entities such as the Caja Municipal de Huancayo, Edpyme Raiz, etc.), the loans are not specifically designed to empower women, although a high percentage of clients are likely to be women because the loans mainly target merchants.

The challenge is that there is still no monitoring of the breadth and impact of services, broken down by gender. This makes it difficult to establish targets, goals and strategies for gender mainstreaming. The in-depth case studies of EDPYME Confianza and Specialised Microfinance Institution Edyficar shows the financial entities have enough data for a breakdown, but they do not produce such reports periodically. Data for estimating the importance of women's representation in the portfolio was prepared by the two institutions in response to interviews done for this study, but this is not a regular practice at the institutions.

## Network mergers and new opportunities

### The case of the Fundación Microfinanzas BBVA<sup>16</sup>

One significant merger is that encouraged by the **Fundación Microfinanzas BBVA**, which was established by the Grupo BBVA as part of its corporate responsibility strategy in 2007. Fundación Microfinanzas BBVA's goal is to develop a **network of microfinance entities** that will grow to a significant size in Latin America and the world in just a few years. The foundation intends to establish a global network of microfinance entities (MFEs). The network has a common corporate culture, corporate governance system, and shared technological platform, but each entity maintains its own characteristics, although some merged into a regional structure upon joining the network. By early August 2008, the network consisted of a savings and loan, the Caja de Ahorro y Crédito Nuestra Gente, and two entities belonging to the Corporación Mundial de la Mujer (CMM), CMM - Colombia and CMM-Medellín (which became a bank, Bancamia, in October 2008).

The Caja de Ahorro y Crédito Nuestra Gente was established in August 2008 from the merger of Caja Nor Perú, Caja del Sur and Edpyme Crear Tacna (since then, they have maintained the regional identities of Caja Nor Perú Nuestra Gente, Caja Sur Nuestra Gente and Caja Crear Tacna, Nuestra Gente). The institution's goal is to increase its breadth and its presence in rural areas, where there is little microfinance availability. The institution began with a facilitated loan portfolio of 143,644 small-scale Peruvian entrepreneurs. In the medium term, the Fundación Microfinanzas BBVA aims to exceed 1 million clients. The entity has a network of 77 offices serving more than 60 communities throughout the country. Although it does not have a breakdown of the percentage of loans targeting women, with a portfolio in which 39 percent of the loans are in the commerce sector, (where women play a leading role), 25 percent in agriculture, 15 percent in transportation and 5 percent in manufacturing, women probably make up a significant part of the clientele. According to the entity's vice president, "The portfolio reflects the makeup of Peru's small entrepreneurs and the aspirations of hundreds of men and women who work day in and day out to make this a better country."

With 20 years of successful microfinance efforts behind them, after analysing their growth possibilities as NGOs and their ability to provide opportunities to their clients, the Corporación Mundial de la Mujer entities in Colombia that joined the network set out to create Bancamia to help improve the standard of living of low-income people with limited access to financial services. The Office of the Financial Superintendent of Colombia (*Superintendencia Financiera de Colombia*) authorised Bancamia to begin operating in October 2008.<sup>17</sup> In an interview about the start-up of operations,<sup>18</sup> María Mercedes Gómez de Bahamón, manager of the Corporación Mundial de la Mujer-Colombia, said, "We will be recognised in Colombia as the main bank with a social awareness, and the leader in innovation and access to specialised financial products and services for microentrepreneurs, especially women, and for the low-income population in general." The manager of the Corporación Mundial de la Mujer-Medellín, Margarita Correa Henao, said, "We differ from traditional banks in two main ways. First, we want to handle only viable microfinance projects, and second, we want to be a bank with a long-term relationship with microentrepreneurs." Bancamia began with 160,000 clients in 27 cities, 58 offices and 700 employees, making 620 loans a day. In the medium term, it expects

<sup>16</sup> Press release from the Fundación Microfinanzas BBVA; 25 September 2008.

[http://www.fundacionmicrofinanzasbbva.org/castellano/notas/Prensa\\_8\\_2008.html](http://www.fundacionmicrofinanzasbbva.org/castellano/notas/Prensa_8_2008.html)

<sup>17</sup> [http://www.bancamia.com.co/compania\\_historia.php](http://www.bancamia.com.co/compania_historia.php)

<sup>18</sup> 13/03/2008 La Republica.com.co.

to serve 213,000 clients, with a portfolio of 383 billion Colombian pesos (COP), 72 offices and 1,100 employees, and in five years, it expects to have 800,000 clients, 131 offices and 2,480 employees nationwide. Bancamia's portfolio reflects the makeup of Colombia's microenterprise sector, which is 60 percent commerce and 26 percent services, with a smaller percentage in production.

The new organisations in the network of microfinance entities have the opportunity to promote their clients' development with gender mainstreaming, with potential expansion and increased access by the target population, given the significant increase in the number of offices; scalability of operations, allowing better rates and benefits for clients; specialised technology for better access and quality of service; and diversification of products constantly adapting to demand. Bancamia plans to make debit cards, automated teller machines, remittances and other services available to its clients. It hopes to promote education for a culture of payment, beginning with short-term loans, with graduated amounts and terms (from six to 36 months). Because the entities involved in Bancamia are part of the network of institutions promoted by Women's World Banking (WWB), it is hoped that they will implement measures to monitor services to women. This is not necessarily the case with the MFIs involved in the Nuestra Gente consortium. It would be interesting to know whether the associated entities in Colombia make some contribution to this over time, thanks to their experience working with women.

### **The case of Mibanco<sup>19</sup>**

Another important case is that of **Mibanco**, the first bank specialising in microfinance in Peru. Mibanco began operations in May 1998, building on the experience of Acción Comunitaria del Perú, (ACP), an NGO with 34 years of experience in microfinance in Peru. Pioneros con Acción Social, a non-profit ACP group, is now an international holding company with a social mission, which has established a group of complementary companies to promote microenterprise development, giving clients such as Mibanco tools to help grow their businesses, prosper and become incorporated into the economy. ACP is the majority shareholder in Mibanco and a shareholder in other microfinance entities, such as FORJADORES in Mexico, MICROFIN in Uruguay, and Banco Sol in Bolivia. As a holding company, it provides services including micro-insurance, training, housing and infrastructure, and corporate services. Other Mibanco shareholders include ACCION International, a pioneer in lending to microenterprise, and ACCION Investments in Microfinance, an investment company sponsored by ACCION International. Other participating companies include LA POSITIVA, an insurance company, and its subsidiary, SEGUROS DE VIDA; TRIODOS BANK, HIVOS-TRIODOS FONDOS, TRIODOS-FAIR SHARE FUND, and the International Finance Corporation (IFC), a member of the World Bank Group.

At the end of 2007, Mibanco had 286,246 clients with active loans, mainly in the SME sector. Of Mibanco's total loans, 55 percent go to women, who, according to the bank, have demonstrated compliance with payments and other commitments.

This entity's innovative products for microenterprise development include multi-risk insurance especially designed for microenterprise and small businesses, which protects merchandise and equipment so clients will remain credit-worthy and will not face insolvency in the event of fire or other catastrophe. Such products make a significant qualitative contribution to the stability of small entrepreneurs. Mibanco has also developed non-financial supportive services,

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<sup>19</sup> Data from Mibanco's 2007 annual report.

including a series of free programmes for microentrepreneurs and small business owners in the areas of marketing, finance, sales, business management, and legal matters. As of 2006, more than 15,000 microentrepreneurs and small business owners had participated in these programmes.

## **Cases of NGO microfinance programmes that have become EDPYMES and, later, Specialised Microfinance Entities.**

### **The case of Edyficar<sup>20</sup>**

Because of changes in the Peruvian financial system's legal framework, in 1997 the NGO CARE created the Edpyme Edyficar as a private, non-governmental financial entity. The Edpyme began operating in 1998, based on CARE Peru's Plan for Transfer of the Small Economic Activities Programme. In March 2008, EDYFICAR was authorised to begin operating as the Edyficar financial institution, making it the first EDPYME to become a financial institution. It expanded the number of approved operations from 10 to 40, including the possibility of providing savings services to clients.<sup>21</sup>

Edyficar's majority shareholder is CARE Peru, an international, non-profit development organisation with a social mission. The main shareholders are CARE Perú (77.11 percent), Microvest Fund (8.53 percent) and the World Bank's International Finance Corporation (IFC) (5.41 percent). EDYFICAR has partnered with the IFC to improve its strategic plans, the evaluation of its products and services and financial management, and to implement an area for ongoing enhancements. Microvest serves as intermediary between capital sources and the MFI.

In serving microenterprises and small businesses, Edyficar plays an important role in microfinance trends in Peru, which are marked by efforts to deepen credit. The financial entity has been expanding its portfolio of clients in lower socio-economic sectors (C, D and E, based on the poverty line and unsatisfied basic needs approach), whom it aims to serve efficiently and productively, with benefits for both clients and the institution. In 2007, the institution had the second-largest number of clients moving into the banking system (14 percent of total new banking system clients).<sup>22</sup>

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<sup>20</sup> Edyficar data from: Edyficar's Web portal, 2007 annual report, economic-financial report to the board of directors for the first quarter of 2008, and joint interview with General Manager Ana María Zegarra and Board of Directors member Iris Shimabukuru on 4 February 2009.

<sup>21</sup> Over the past 10 years, Edyficar has set milestones in development of the Peruvian microfinance market. In 2005, it participated in the world's first securitisation of a microfinance portfolio (BlueOrchard). In 2006, it acquired the Edpyme Crear Cusco through a merger. It was the first microfinance company to sign an agreement with the Banco de la Nación for shared use of facilities in places where the BN was the only bank. In 2007 it became the first non-bank microfinance company to successfully participate in the equity market (issuing S/.150 million in corporate bonds) and to receive authorisation from the SBS to become a financial institution.

<sup>22</sup> In addition, according to financial data as of 31 December 2008, analysed by the risk assessment firm Class y Asociados, S.A., Edyficar had the seventh-largest microenterprise portfolio among entities providing financial services to the sector, with S/.499.3 million. Edyficar's progress is assessed in comparison to all companies operating in the microcredit market, including banks, CMACs, Edpymes, etc. In December 2008, Edyficar's share of the entire financial system's microenterprise portfolio was holding steady at 4.8 percent. The top spots were held by Mibanco (1.84 billion), Banco de Crédito del

In 2007, Edyficar served 137,721 clients, with a portfolio of S/.382.3 million in loans, 91 percent of which targeted the microenterprise sector. The institution has a strong commitment to this entrepreneurial sector of the population, which makes a major contribution to job creation and economic development in the country. Fifty-four percent of the institution's clients are women, who can use their loans to improve their families' health, education and housing situation. One of Edyficar's goals is to contribute to greater equality in Peruvian society, since inequality between men and women in social and economic development is most evident in the sectors it serves. Its goal, therefore, has always been to provide financing for women's entrepreneurial initiatives.

At the end of 2008, Edyficar showed the following portfolio distribution:

TOTAL EDYFICAR PORTFOLIO DISTRIBUTION (In nuevos soles, year end, December 2008)				
GENDER	No. of Clients	% Clients	Active Portfolio	% Portfolio
FEMALE	92,362	51.10%	272,717,383	46.90%
MALE	87,805	48.50%	293,314,202	50.40%
LEGAL ENTITY	718	0.40%	15,780,740	2.70%
<b>TOTAL</b>	<b>180,885</b>	<b>100.00%</b>	<b>581,812,324</b>	<b>100.00%</b>

*Source: EDYFICAR*

According to data from Edyficar, the number of clients increased by 23.86 percent over 2007, but women as a percentage of total clients decreased from 54 percent to 51.10 percent (2.9 percent in one year). This confirms a trend found by a Women's World Banking study, which shows that in financial entities that have become regulated, there is an increase in the absolute number of women, but a decrease in women as a percentage of the total client base.<sup>23</sup>

An estimate of the average loans for men and women, based on a portfolio breakdown by gender and the number of clients of each gender, shows that the average loan for women is S/. 2,952.70 (equivalent to US\$ 918.59),<sup>24</sup> while the average loan for men is S/. 3,340.52 (US\$1,039.24). There is a gap of 6.16 percent between the average loan amounts for men and women, although this amount is not very significant.

The following table shows a portfolio breakdown by economic sector and gender.

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Perú, (1.69 billion), Scotiabank (1.05 billion), Banco de Trabajo (663 million), CMAC Arequipa (581 million), and CMAC Trujillo (512 million).

<sup>23</sup> In the WWB study mentioned earlier in this paper, the entities that became regulated financial institutions increased their client base by an average of 30 percent annually. By the end of five years, women as a percentage of total portfolio fell from an average of 88 percent to 60 percent. In the case of Edyficar, it is too soon to determine a trend, since the comparison is only from one year to the next, but monitoring is needed to see if the same trend occurs.

<sup>24</sup> At an exchange rate of S/. 3.21 to the US dollar.

EDYFICAR PORTFOLIO DISTRIBUTION, BY ECONOMIC SECTOR AND GENDER (in nuevos soles, as of year end, December 2008)					
SECTORS	GENDER	Nº Clients	% Clients	Active Portfolio	% Active Portfolio
COMMERCE	FEMALE	63,381	62.55	184,412,409	56.41
	MALE	37,686	37.19	136,615,072	41.79
	LEGAL ENTITY	267	0.26	5,858,361	1.79
Total COMMERCE		101,334	100.00	326,885,842	100.00
PRODUCTION	FEMALE	5,521	33.90	18,543,686	29.51
	MALE	10,635	65.29	41,157,656	65.50
	LEGAL ENTITY	132	0.81	3,135,309	4.99
Total PRODUCTION		16,288	100.00	62,836,651	100.00
SERVICES	FEMALE	23,460	37.08	69,761,287	36.32
	MALE	39,484	62.41	115,541,473	60.15
	LEGAL ENTITY	319	0.50	6,787,070	3.53
Total SERVICES		63,263.00	100.00	192,089,831	100.00
Total EDYFICAR		180,885		581,812,324	

**Source: EDYFICAR**

As the table shows, the greatest volume of clients is in commerce, and the largest percentage of women clients is concentrated in that sector. The percentage in the active portfolio for women is smaller than the percentage of women clients in each sector (commerce, production or services), a trend confirmed by many previous studies. In the services sector however, this gap is negligible.

### The case of Confianza

The origins of **Edpyme Confianza S.A.** can be traced to a 1992 agreement between the NGO SEPAR and the Inter-American Development Bank (IDB) to create a Business Development Programme (*Programa de Desarrollo Empresarial, PDE*). The institution acquired extensive experience in providing loans to rural and urban microenterprises to help generate income and create jobs.

With the experience gained through assisting and promoting small-scale producers and small businesses and microenterprises in the Mantaro River Valley and the area of Pazos, Huancavelica, the Edpyme Confianza was established as a member of the Peruvian financial system in September 1997 and began operating in June 1998. In February 2008, the organisation began converting to a Specialised Microfinance Entity, a process that should be completed in June 2009. The institution currently operates with 27 offices in five regions of the country, and plans to expand to two more regions in the near future.

At the end of 2007, Edpyme Confianza had 51,775 active loans with a portfolio balance of S/. 186,536,000, a 55 percent increase over the balance at the end of the preceding year.<sup>25</sup> At the end of 2008, the Edpyme had 59,173 active loans and a portfolio of S/. 269,559,328, representing portfolio growth of 30.8 percent over the previous year.<sup>26</sup> Confianza has a strategy for deepening its market with two products, **“Woman’s Word” (Palabra de Mujer)**, which uses the village bank model with education, but without an internal account, and **“Rural Credit” (Crédito Rural)**, which has enabled the institution to expand coverage through various existing branches, leveraging its experience in comprehensive rural financing. Confianza’s portfolio is mainly concentrated in commerce, followed by agriculture, with services and other sectors making up only a small percentage.

Besides the NGO SEPAR, Confianza’s shareholders include investors such as Triple Jump/ASN Novib Funds, Rural Impulse of Luxemburg; ResponsAbility/Credit Suisse of Switzerland; Oikocredit of Holland; CAF; and others, as well as local businesses whose capital contributions strengthen the entity’s management. New financial instruments, such as subordinated loans and standby loans, have been implemented, and the institution has approached the capital market about issuing bonds. In 2007, a technical assistance agreement was signed with the IFC for a programme to strengthen the institution so it could become a financial institution, Financiera Confianza.

The following table of client and portfolio distribution shows that 49 percent of clients are women and 50.6 percent are men. In active portfolio, or portfolio balance, the percentage for women is slightly smaller than loans to women as a percentage of all loans, confirming the trend, mentioned above, toward higher loan amounts for men than for women (see following table).

DISTRIBUTION OF TOTAL CONFIANZA PORTFOLIO (In nuevos soles, year end, December 2008)				
GENDER	No. of Clients	% Clients	Active Portfolio	% Portfolio
FEMALE	29,015	49.03	130,200,658.00	48.30
MALE	29,941	50.60	138,291,223.00	51.30
LEGAL ENTITY	217	0.37	1,067,446.00	0.40
TOTAL	59,173	100.00	269,559,327.00	100.00

**Source: Based on data provided by CONFIANZA**

<sup>25</sup> 2007 Confianza annual report.

<sup>26</sup> Data provided by the CONFIANZA Edpyme. In addition to processed data, information was obtained from an interview with Elizabeth Ventura Egoavil, executive president of CONFIANZA, on 11 February 2009.

The following table of average balances by loan type shows that the loans with the largest gender gaps are **commercial loans** (the largest loans, which finance working capital and acquisition of fixed assets for mid-size businesses in urban and rural areas), **mortgages** (available to individuals who have business income and/or regular remuneration), and consumer loans (for financing consumer needs of dependent workers and independent professionals). **According to these data, the ceiling of access for women is related to their inability to demonstrate sufficient steady cash flow or regular income.**

Type of loan	CONFIANZA: Average loan balance(S/.)			
	Female	Male	LEGAL ENTITY	Total
Commercial	5,831	8,466	4,821	7,081
Consumer	4,063	4,490	-	4,361
Mortgage	3,577	4,256	-	4,017
Microenterprise	4,534	4,607	4,974	4,569
Total	4,487	4,619	4,919	4,555

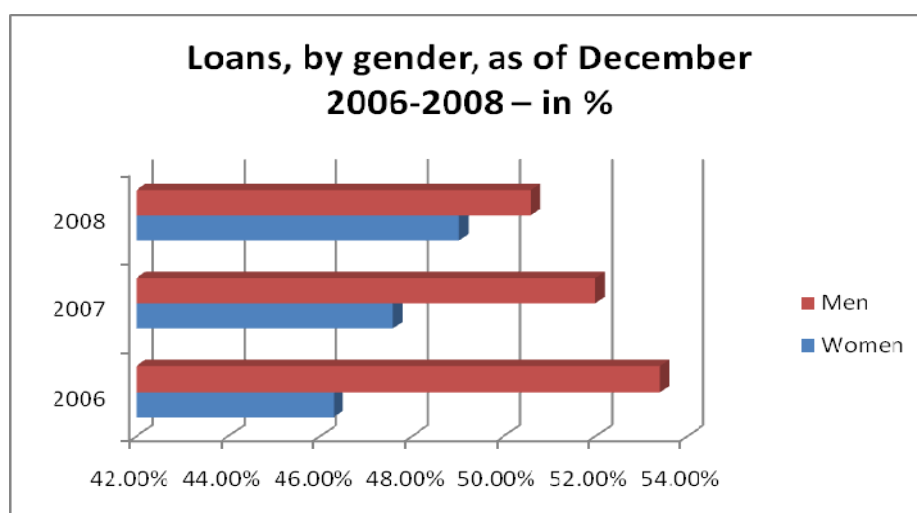
*Source: CONFIANZA, December 2008*

The following table shows a breakdown of loan type by gender. Most male and female clients are in the microenterprise (MES) loan category, where the percentage of female clients is greater than that of male clients, and there is little gender-related difference in the percentages of loans and proportion of active portfolio.

The graph that follows shows a gender breakdown of Confianza’s loans at the end of each of the past three years. There is a slow upward trend in loans to women, due to the increase in loans from the “Woman’s Word” (*Palabra de Mujer*) product since the end of 2006; this product has been well received in the areas where it is offered. **These data indicate that when there is an explicit policy to promote portfolio growth for women, the downward trend in loans to women in regulated financial institutions does not hold true.**

CONFIANZA PORTFOLIO DISTRIBUTION BY LOAN TYPE AND GENDER (In nuevos soles, year end, December 2008)					
SECTOR	GENDER	Nº Clients	% Clients	Active Portfolio	% Active Portfolio
MES	FEMALE	25,295	53.83	114,694,421	53.42
	MALE	21,553	45.87	99,301,577	46.25
	LEGAL ENTITY	139	21.19	691,434	0.32
Total MES		46,987	100.00	214,687,432	100.00
COMMERCIAL	FEMALE	237	36.13	1,382,048	29.75
	MALE	341	51.98	2,886,960	62.15
	LEGAL ENTITY	78	11.89	376,012	8.09
Total COMERCIAL		656	100.00	4,645,020	100.00
MORTGAGE	FEMALE	57	35.19	203,902	31.33
	MALE	105	64.81	446,870	68.67
	LEGAL ENTITY				
Total MORTGAGE		162	100.00	650,772	100.00
CONSUMO	FEMALE	3,426	30.14	13,920,287	28.08
	MALE	7,942	69.86	35,655,816	71.92
	LEGAL ENTITY				
Total CONSUMER		11,368	100.00	49,576,103	100.00
Total CONFIANZA		59,173		269,559,327	

Based on Confianza's 2007 annual report and data provided as of December 2008



Source: Based on data provided by CONFIANZA

The following table compares two cases – Edyficar and Confianza – in a series of areas involving current or potential strategies for mainstreaming gender in their organisations and interventions.

<b>COMPARISON OF TWO FINANCIAL INSTITUTIONS SPECIALISING IN MICROFINANCE IN A SERIES OF AREAS RELATED TO CURRENT OR POTENTIAL STRATEGIES FOR GENDER MAINSTREAMING</b>		
<b>ORGANISATION</b>	<b>EDYFICAR</b>	<b>CONFIANZA</b>
Monitoring of data broken down by gender	Gender breakdown of portfolio in institution's annual reports.	Gender breakdown of portfolio in institution's annual reports and monthly portfolio reports.
Changes in service to women when the entity became a financial institution	There have been no major changes in portfolio makeup since the entity became a financial institution. There have been changes in the NGO CARE's programme: of the groups with revolving funds (income generation programme for women), only a few remain in Puno and Juliaca; the women have shifted to larger individual loans with lower interest rates.	Eighty percent of portfolio earmarked for microenterprise loans, the area of the financial institution where there are more women (20% for other products). There is no risk of change in mission, vision or social commitment.
Monitoring of impact on clients	<p>Before becoming an EDPYME; since the time of the NGO CARE programme, there was monitoring of businesses and individual entrepreneurs in the value chain facilitated by another institution (Perú Mujer). Impact was found.</p> <p>As a Financial Institution, monitoring has been done of cases of female entrepreneurs whose businesses have grown (with Care's support, for social performance). CARE is interested in an impact study to assess fulfilment of Edyficar's social mission. The housing product for construction and improvement of entrepreneurs' homes, is considered one of the products with the greatest visible impact.</p>	<p>Until 2006, periodic client monitoring was done using five variables: equity, income, job creation, sales and skills development (publication about Confianza's clients).</p> <p>After 2006: redirection of social responsibility plans. In 2007, evaluation of social performance was done, with Microfinance rating.</p>
Market research on supply of/demand for products and services in different client segments	For product design, an Edyficar client profile has been developed. The most important variable is education. The profile defines the kind of communication clients prefer, whether they like to be visited, etc. Possible products for women: savings for children (men are more likely to view savings as an asset).	Market research in line with requirements for opening offices; generally includes supply of and demand assessment for products and services. Confianza is also strengthening a product that rewards good clients with preferential rates and terms and larger amounts.
Client satisfaction surveys focusing on products, service, information, etc.	Until three years ago, monitoring of service quality using anonymous client methodology (interviews of clients leaving offices or phone calls to a sample).	Until 2006: workshops with best clients to encourage responsible credit use and assess client satisfaction. Periodic surveys of service quality. An outside consultant recently completed a marketing/anonymous client study.

ORGANISATION	EDYFICAR	CONFIANZA
Monitoring of male/female client loss and reasons why they leave	Risk management has led to monitoring of client dropout rate. Monitoring has found that there is a seasonal pattern clients leaving and entering the institution. (Study is not broken down by gender.)	Until 2006, there was monitoring and recovery of Confianza clients (zero delinquency).  Processing and analysis of database currently under way for monitoring of clients who have left.
Is there a product specifically focusing on women's empowerment?	CARE has provided financing to people involved in market chains in rural areas. Participation in funds for water and sanitation established through the Juntos programme. With the EC's PROPOLI programme, support was provided for bidding processes in which women participated. There is also an agreement with mining companies, but this is very risky as the delinquency rate is high.	In February 2007: agreement with Freedom From Hunger for Loans with Education programme for women. Confianza's "Woman's Word" ( <i>Palabra de Mujer</i> ) has provided 7,764 loans, served 948 groups, and has portfolio balance of S/. 3,868,677, with average loan amount of S/. 500, in eight provinces in the central highlands (currently being implemented in several districts of Lima).
Training of loan counsellors and staff serving women and poor clients	There is a school for collaborators. Analysts' commitment is high, as reflected in low staff turnover.	Loan analysts for "Woman's Word" Credit with Education programme have received ongoing training in the lending and social methodology introduced in Confianza by Freedom From Hunger for this team and product. In March 2009, training in GALS methodology was done with staff for this product, which is offered as part of the WEMAN programme.
Agreements with other entities to provide non-financial services to clients	Specific agreements with CARE, depending on opportunities.	Agreement with Freedom from Hunger mentioned above. Plans include working with the NGO SEPAR to complement non-financial services.
Explicit or implicit gender policy involving MFI's collaborators	Women make up a large proportion, including 50% of financial institution's staff, 45% of analysts and 80% of management team.	Male and female collaborators have same possibilities, based on performance. Forty percent of management team and approximately 50% of analysts are women.
Greatest risk for clients, especially women, in this context of crisis	Oversupply of consumer credit from commercial firms.	Group: Female clients who could be over-indebted with consumer credit or those involved in agriculture export chains (artichokes, etc.). Individual loans: clothing manufacturing and agro-industry. No signs found yet, but great care is taken in evaluation of new loans.

## **VICISSITUDES OF A PRODUCT DESIGNED FOR WOMEN IN A FINANCIAL INSTITUTION**

### **A NEW OPPORTUNITY**

The visit by Freedom From Hunger (FFH), which offered a line of credit with training for women's groups, provided an opportunity for Confianza to meet a long-standing goal of deepening its portfolio and lowering average loan amounts.

### **UNSUCCESSFUL PRIOR EFFORTS TO DESIGN DEEPER PRODUCTS**

There had been previous efforts to establish measures, such as expanding market niches in rural areas and serving urban street vendors who did not have fixed points of sale, but they were not well received, and there was little effort by loan analysts to expand the client base. An effort was made to motivate them by changing incentives, providing rewards for the number of clients rather than portfolio balance, but this was unsuccessful, as serving more clients was more time consuming.

### **NEW PLAN MEANS A NEW STRATEGY**

The new plan meant the design of a completely different strategy. First, the Credit with Education programme was assessed and the decision was made to adapt it to the lending and client-capture possibilities of a financial institution. Internal account and independent use of savings could not be included, as this would constitute a conflict of interest with direct saving in the financial institution once the Edpyme became a financial institution specialising in microfinance. To include training as part of the regular operation of groups, a new team of analysts was trained to provide loans with the added value of training for clients. FFH assisted with training for human resources, a market study and selection of areas of operation, identifying types of activities of potential clients. Training of the team took six months.

### **ENSURING THAT THE NEW PRODUCT IS NOT VIEWED AS A MARGINAL PRODUCT IN THE ORGANISATION**

At first, there was a tendency to consider the new product marginal, and it was noted that the clients had to wait to be served. As a strategy for design and pilot implementation of the product, the general manager's office became directly involved, while awareness raising was done so managers of other areas and units would understand the product's value and contribution. One teller was assigned to the product to expedite client service. All managers were involved in the plan with support from FFH. The "Woman's Word" product began to grow, and other analysts became interested in including these clients in their individual loan portfolios.

### **CONNECTION WITH THE NGO**

To position the product, some women leaders from the organisation CRYM, which was connected with the NGO SEPAR years ago, spread the word among women in their areas. An added advantage is that these women are also good advocates and media spokespersons. "Woman's Word" has been well promoted and has attracted media attention.

### **THE COMPETITION: SIMILAR PRODUCTS "WITHOUT TRAINING" AS A POTENTIAL THREAT**

The product has been growing, but there are potential threats in the marketplace. New products are appearing in banks and municipal savings and loans (such as Mibanco's Crédito Chasqui, or Chasqui Loan, which offers a group product for women, at lower interest rates to the client because it does not involve training). There is also a growing problem of front-line staff leaving and taking their clients with them.

## PROGRESS, OPPORTUNITIES AND OUTLOOK FOR NON-REGULATED ENTITIES SPECIALISING IN VILLAGE BANKING<sup>27</sup>

The main entities specialising in Village Banking are members of the Consortium for Promotion of Women and the Community (*Consortio de Promoción de la Mujer y la Comunidad*, PROMUC). PROMUC currently has 13 associates, seven of whom have joined since 2006, expanding the organisation's breadth and prospects for the future.<sup>28</sup> Founded in 1994, PROMUC is a Peruvian network of non-profit or non-governmental organisations (NGOs). The NGOs associated with PROMUC are partly or completely dedicated to providing microfinance services, mainly using Village Banking methodology, although some PROMUC associates use other terms to describe these groups of clients.

### Historical data:

Village banking methodology began to expand after the creation of the Finca Perú programme in Ayacucho in 1993, which followed several pilot projects in the region beginning in 1990.

PROMUC was established in 1994 with financing and technical assistance from Catholic Relief Services, leading to creation of and support for the village bank model in various organisations that formerly had different financial offerings, including Alternativa, EDAPROSPO, SEA, and others.

By 1996, various organisations that provided assistance to women in "soup kitchens" were offering loans for income-producing activities. After the 1997 Microcredit Summit, which was attended by Hillary Clinton, USAID began promoting microfinance activities with a minimalist approach, using the village banking methodology to help women belonging to organisations that assisted with basic survival needs. These programmes included those sponsored by Cáritas, PRISMA, Adra Ofasa and CARE. Since 2006, when the franchise model broke down, communal banking entities that were not integrated into PROMUC before have joined, enabling the organisation to position itself as a consortium with a new outlook.

As of June 2007, PROMUC's member organisations served 5,824 village banks with 126,000 female microentrepreneurs as clients, with an active portfolio of US\$20 million and a savings balance of US\$12.2 million.

The following table shows the increase in the number of clients and the portfolio balance at the end of 2008. The number of village banks had risen to 8,436, the number of clients to 132,246, and the active portfolio to US\$33,677,101.

<sup>27</sup> Data from the PROMUC Web page and information provided by members of the consortium's board of directors: Diego Fernández Concha of Prisma and José Loayza Pacheco of Alternativa.

<sup>28</sup> Current PROMUC member organisations are ADRA Perú; Alternativa Perú; Arariwa; Caritas Felices; Finca Perú; Prisma; Pro Mujer; Cáritas del Perú; CENCA; Edaprospro; Manuela Ramos; Servicios Educativos El Agustino; Red Rural Sondondo.

**Loan portfolios of PROMUC members: December 2008**

Institution	Ner of Village Banks	Ner Of Village Banks clients	Village bank portfolio (US\$)	Overdue portfolio	Savings balance (US \$)	Avg. Portfolio per member (US\$)	Women Clients (%)
Adra Perú	682	14,488	3,786,359	0.00%	2,186,113	261	100.00%
Alternativa	142	3,687	932,157	0.34%	623,476	253	86.52%
Arariwa	1082	16,769	6,326,086	2.07%	1,721,632	377	78.00%
Caritas del Perú	485	5,004	1,515,841	0.47%	940,724	303	88.87%
Caritas Felices	90	1,752	290,715	0.00%	164,719	166	81.00%
Cenca	41	817	68,248		45,222	84	87.00%
Edaprosopo	364	3,427	919,830	0.27%	519,643	268	89.55%
Finca Perú	648	12,276	2,748,151	0.60%	2,945,853	224	93.00%
Manuela Ramos	774	15,774	4,044,379	0.13%	1,326,558	256	100.00%
Prisma	1421	11,537	5,770,172	1.43%	2,275,536	500	72.00%
Promujer Perú	2627	45,352	7,136,957	0.00%	3,751,409	157	93.00%
Sea El Agustino	72	1,403	139,785	0.09%	57,599	100	84.00%
Total	8,428	132,286	33,678,679	0	16,558,482	246	95.72%

Information compiled by PROMUC main office team from data provided by affiliated NGOs.

(\*) Information available only through September 2008.

**PROMUC's** mission is to promote gender justice in the village banks' target population, contributing to the integral, sustainable development of low-income women, especially female entrepreneurs, by promoting and innovating in village banking methodology and strengthening its associate institutions.

The services PROMUC provides its associates are related to: a) capacity building, b) financing; and c) advocacy on public policy. It also has a work area focusing on its own institutional development as a microfinance network.

An evaluation of PROMUC carried out as part of an organisational strengthening project funded by ICCO<sup>29</sup> found that:

- PROMUC has successfully reinvented itself through strong renovation of its membership and openness to new issues, functions and relationships. The inclusion of seven new associates led to significant quantitative and qualitative change. PROMUC has engaged in a successful process of organisational change and openness, and is recognised as a representative of the NGOs that provide microfinance services using the village banking methodology.
- The challenge for PROMUC is to define its future direction and determine how to make the best use of its new potential.
- The market for microfinance in Peru is developing and growing rapidly, stimulated by favourable economic, political and institutional conditions. This is good for PROMUC and its associates, but the sector's dynamism and growing competition from regulated microfinance institutions pose a threat to the consortium and its members.

<sup>29</sup> Consultants: Julio A. Berdegué and Augusto Cavassa, June 2007.

- With regard to fulfilling its institutional commitments, PROMUC is outstanding in the training of its associates' personnel, although it should better interconnect its various work areas (training, technical assistance, advocacy, etc.), setting targets related to the issues the consortium and its associates have set as priorities and improving its prospects for financial sustainability.
- PROMUC's associates contribute to Peru's development through village banking. They particularly contribute to the development of the women involved in village banks, helping them grow their businesses and improve their living conditions (especially housing and education). The social impact on gender relations, however, is less clear. It is not easy to determine the extent to which PROMUC has contributed to this development objective, because of the complexity of the relationship between a second-tier network and the living and working conditions of women entrepreneurs.
- The NGOs belonging to PROMUC agree that the consortium is useful to them and has helped with the development of their organisations.

### DIRECTORS' OPINIONS OF PROMUC

An interview with members of the PROMUC Board of Directors<sup>30</sup> highlighted certain bottlenecks and challenges facing the consortium:

**Question:**

What is happening with the regulated entities that also have village bank programmes and a mission similar to that of PROMUC's members? Are there plans to include these entities in the consortium? What would happen if one of PROMUC's members became a regulated institution? Would it remain a member of the consortium?

**Answer:**

The entities that make up the consortium are growing and adapting to different regulatory models. For example, PRISMA is moving toward regulation in a process that will involve its conversion into one of the existing models; ADRA/OFASA is proposing a drastic separation of its microfinance area from its other intervention portfolios; FINCA is exploring alternatives to regulation (such as cooperatives); CÁRITAS has already become an EDPYME; and FONDESURCO is in the same process.

At one point, this was a key issue for discussion in the consortium, but now things have settled down. PROMUJER, for example, started out thinking it would become a regulated institution, but later decided it could continue growing without being forced to become regulated.

Before thinking about including other entities as members of PROMUC, the organisations are seeking to integrate new associates into their own organisations to help with their own processes of growth and regulation. We hope the organisations that join as associates or future stakeholders are committed to the same mission and vision. It is clear, however, that the consortium could open its doors to entities such as Confianza or Credivisión, whose visions are very similar to those of the consortium's members.

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<sup>30</sup> Diego Fernández Concha of PRISMA and José Loayza Pacheco of Alternativa, 3 April 2009.

**Question:**

Is there interest in having PROMUC promote closer integration of its members for access to integrated platforms of services, technological and administrative support, and monitoring and accountability?

**Answer:**

It is important to keep in mind that several of the organisations in the consortium have their own institutional platform of integrated support, because they work in areas such as economic development, market development, health, legal defence, etc. The member entities are multipurpose and therefore have ad hoc support platforms.<sup>31</sup>

PROMUC should contribute specialised village banking technology, drawing on its members' experience. Efforts were made to do this when the consortium began with the support of Catholic Relief Services (CRS), using a franchise model designed to reproduce best practices and performance benchmarking. Ultimately, that did not work, but it contributed to the members' autonomous growth.

**Question:**

How is the "climate of competition" with regard to new entities that target the same segment served by PROMUC's members?

**Answer:**

There is very aggressive competition, as there are efforts to lure away the consortium members' personnel to entice clients to switch institutions. Uncontrolled growth of a credit line in one competing entity led to client over-indebtedness, and the institution itself had to take steps to slow that expansion.

**Question :**

What steps are member organisations taking to avoid adverse impacts on their programmes from the financial crisis?

**Answer :**

Some members, such as ADRA, are taking precautions in areas such as loan size and stricter analysis for loan approval. In Alternativa and PRISMA, there may be greater risk in areas hardest hit by the crisis, such as mining regions. Given this risk, the alternative is to invest more in areas of possible expansion and limit investment in the highest-risk areas. One concern is lack of liquidity in the financial market, which makes it important to measure risk more carefully and make decisions rapidly.

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<sup>31</sup> Interviewer's note: This does not mean that if the microfinance program becomes a regulated institution, it does not gain independence from the organization and adopt other technological support requirements and specialization in services.

Because of the nature of our clients' business activities (small-scale commerce and services targeting local/regional markets), the crisis has not really been felt.<sup>32</sup> For example, PRISMA has maintained an annual portfolio growth rate of 52 percent (between March 2007 and March 2008).

Risk coverage through solidarity guarantees in village banks is fairly effective. Most members have a scale of guarantees. For example, each member of a group of between two and four guarantors, who are the first ones affected if the member does not repay her loan, could turn to the bank's contingency fund, if there is one, and finally to the savings of the all the members as a whole.

**Question :**

How can gender mainstreaming among the consortium's member organisations be ensured?

**Answer :**

PROMUC is organised in committees. Each committee makes proposals and seeks funding for its activities. There are various committees, including Social Performance, Capacity Building, Microinsurance, Gender, Rural Life, Public Policy Advocacy, and Governance.

The unusual thing about the consortium's members is that some, such as Alternativa, were pioneers in addressing the gender issue quite before they joined PROMUC,<sup>33</sup> so they are open to new methodologies in this area.

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<sup>32</sup> At least so far (Interviewer's note)

<sup>33</sup> It is important to determine how to integrate this knowledge into the consortium to encourage gender mainstreaming in communal bank programmes (interviewer's note)

### **OUTLOOK AND CHALLENGES FOR PROMUC AND NON-REGULATED MFI'S SERVING THE VILLAGE BANKING SECTOR**

For PROMUC's member organisations, the current challenge is to attract new members and shareholders for each organisation to allow significant institutional growth that will ensure sustainability.

PROMUC has a gender committee that has promoted gender awareness-raising events at meetings with associates and in the Latin American Gender and Microfinance Workshop in Costa Rica.<sup>34</sup>

Some PROMUC members, such as the Movimiento Manuela Ramos and Alternativa, have extensive experience in gender mainstreaming in their organisations. There is consensus, however, that this alone will not ensure effective gender mainstreaming in the village bank interventions or empowerment of women entrepreneurs.

Some PROMUC members (which are also members of COPEME) have promoted the WEMAN Programme in Latin America. Two PROMUC members, Finca Perú and the Movimiento Manuela Ramos, are already using the Gender Action Learning System (GALS) Methodology,<sup>35</sup> which is being introduced as part of the WEMAN programme's Credit with Education activities.<sup>36</sup> Several other participating organisations, such as PRISMA, Alternativa, and Adra Ofasa, are pilot testing this methodology in their programmes, and other entities, such as Edaprospo and Surgir, plan to introduce it soon.<sup>37</sup>

PROMUC must still find ways to meet the challenge of mainstreaming gender among its associates and promoting the sustainability of women's empowerment process already begun by them.

<sup>34</sup> Awareness-raising Workshop: Women's Empowerment through Village Banks. San José, Costa Rica, 27 November 2007.

<sup>35</sup> GALS Manual, Steering Life's Rocky Road, Equal and Together. Preliminary version. Linda Mayoux, July 2008.

<sup>36</sup> The GALS methodology was designed by Linda Mayoux based on experience in Africa and Asia in the past five years. Since 2008, it has been adapted in Latin America thanks to assistance from various institutions in the Andean Region and Central America. GALS is a community-driven empowerment methodology that will be the foundation of the WEMAN process in areas related to gender, focusing especially on efforts by women and men to develop a vision of change, appreciate their strengths and accomplishments, and analyze and address gender inequalities in the family and community as challenges for fulfilling their vision.

<sup>37</sup> It is estimated that in 2009, more than 4,000 women from village Banks will be using GALS Tools in their personal and group education and planning activities.