



Opportunity International
CANADA

Peru II
Expansion of Microfinance Services

Project Report
August 2007-January 2008

Contents

Project Background	2
Project Objectives	2
Country Profile	3
The Poor in Peru	3
Program Achievements	3
Microenterprise Development Program	3
Capacity Building	4
Loan Officer Training and Cross pollination	4
Clients Training	4
Client Retention	5
Organizational Achievements.....	5
Great Expansion Opportunities in Eastern Lima	5
Successful Partnership with Scotia Bank Peru	6
Next Steps.....	6
Hiring New Staff	6
Insurance	6
Marketing Research	6
Use of Funds.....	7
Appendix A – Results Summary.....	8

Project Background

Opportunity Canada's second project with Opportunity Peru - Peru II - was developed after the completion of a very successful first project in June 2006. Through an investment of \$1.8 million, Peru I achieved the following results:

- Provided microfinance services to **4,343 clients** (project goal was 3,400), 86% of whom were women
- Positively impacted over **21,000 family members**
- Provided **leadership training** to 840 female clients
- Created or sustained over **6,000 jobs**

Opportunity Peru grew from 1,913 clients in 2002 to over 6,900 at the end of 2006. The organization expects to serve over 20,000 poor entrepreneurs by 2010. An initial project was designed to invest a total of \$5.2 million (from OI Canada, US, UK, Germany and Peru) to assist the organization expand operations in the Northern and Southern outskirts of Lima as well as start operations in Eastern Lima. *However, the project was redesigned* in the winter of 2008 in which, Opportunity International Canada will provide \$2.3 and Opportunity Peru will contribute with \$600K to expand operations in Northern Lima and to open a new branch in Eastern Lima. While Opportunity International US has plans to support the expansion of operations in Southern Lima and rural areas in the next couple of years.

Project Objectives

Peru II's objectives are to:

- Provide microfinance services to over 10,000 clients—85% of whom will be women
- Positively impact over 50,400 family members
- **Open 1 branch** in the Eastern Lima.
- **Expand operations** in the Northern Lima branch.
- **Engage Canadians** in making poverty history through microfinance services
- **Strengthen the organization** to position it for **growth** through various capacity building initiatives.

Country Profile

The Poor in Peru

Peru has a total population of 28 million people. Over 48% (13.4 million) of all Peruvians live on less than \$2 a day. Approximately 18% (over 5 million) live on less than \$1 a day; reaching levels of extreme poverty. Lima, the capital and the biggest city in Peru, has a total population of over 9 million people. The majority of its inhabitants are people who emigrated from rural areas during the mid and late 20th century as refugees from the country's internal conflict (Shining Path) or who came to the capital city looking for a better life for their families. The internal immigrants discovered that employment in the formal sector is scarce (54% of the population are underemployed). In addition, over 44% of the population in Lima lives under the poverty line (\$135 per month). Due to the limited resources, the majority of the rural migration has had no choice but to live in squatter settlements on the outskirts of Lima (locally known as "Conos"). Of the 5 million inhabitants of the outskirts of Lima, 3.4 million (or 68%) are economically active poor (EAP).

As a consequence of limited resources and job opportunities, the poor in the "Conos" had to become extremely creative and start small businesses to help generate income to provide to their families. Entrepreneurial behaviour becomes a crucial engine of innovation and growth for the economy. The 2006 Global Enterprise Monitor study rated Peru as "the most entrepreneurial country in the world with 40.2 percent of adults engaged in early-stage entrepreneurial activity....based on opportunity, not only necessity."

Opportunity International Canada has partnered with a local NGO, called ASIDME, to serve all entrepreneurs on the outskirts of Lima with loans, training and insurance in order to help them sustain and grow their business that will provide for them and their families. This project plans to serve over 10,000 clients in the Eastern and Northern "Conos" of Lima. Opportunity clients in Peru are the poorest of the poor with monthly incomes ranging from \$35-\$100. The areas in which Opportunity works are communities built on hills of sand or rock. People construct their homes with scraps of wood, plastic, tin and woven sugar cane bark.



The majority of homes have limited or no access to running water and no sewage system. Electricity is pirated and the pollution is terrible. Opportunity is working to help provide a hopeful future for families living in these conditions.

Program Achievements

Microenterprise Development Program

This project was initially designed to support the infrastructure and capacity building of Opportunity Peru's growth strategy in the Northern, Southern and Eastern Cones of Lima. Opportunity International Canada's contribution was to be matched with other sources of funding

for the loan portfolio. The Opportunity International Regional Office developed a new strategy where Opportunity International Canada will contribute with funds not only for infrastructure and capacity building but also for loan funds to expand operations in Northern and Eastern Lima while Opportunity International US will contribute with funding for the expansion plans in Southern Lima.

Opportunity International Canada has supported the Peruvian operation since 2003 and wanted to continue to be a key player in the growth of its partner in Peru.

Results for the first year reflect steady growth. Through this project, Opportunity Peru has served 2,586 clients with loans (26% of goal); 87% of which are women. A total of 3,081 loans have been disbursed continuing thanks to the reuse and effective use of funds. Opportunity Peru continues to focus on the poorest of the poor by providing loans as small as \$169. A total of 12,930 family members have been impacted by the loans.

Thanks to Opportunity Peru's good funds management, the organization has generated loan interest, which has been used to reinvest in loan funds. The total funds invested in the loan portfolio were of \$469,221, which was loaned out over and over again, creating a loan portfolio of \$522,089.

IMPACT		
	Actual January 2008	Redesigned Feb 2010
Number of Loans Disbursed	3,081	16,000
Active Clients	2,586	10,000
Number of Clients served	3,290	
Average Loan Size	\$169	\$516
Percentage of female clients	87%	85%
Savings per client	79	\$31
Family members impacted	12,930	50,400

Capacity Building

During the first year of the project, Opportunity Peru focussed its efforts on training loan officers to provide high quality service to clients, as well as provide clients with training modules that meet their needs.

Loan Officer Training and Cross pollination

Loan Officers are the "face" of Opportunity International as they are the staff who deliver financial and customer services to clients. Opportunity Peru gives special emphasis to staff training and growth opportunities within the organization.

Loan officers have been trained in the following topics during the last six months: exploring new markets, negotiation techniques, business/credit evaluation, follow-up and collection techniques as well as conflict resolution. In addition, two experienced staff in the Northern "Cono" were transferred to the Eastern "Cono" to start operations as supervisors in this new market. This has proven to be a successful technique, because experienced staff are able to share their expertise with new staff. Also, it is a great way to promote staff and help them grow within the organization.

Clients Training

Client training is one of the most important components of the group lending methodology. Opportunity Peru gives special focus to the training of group leaders in order to improve team work, conflict resolution and leadership skills. Group leaders are key players in making the

project a success, because they help forming lending groups, encouraging other members to make payments on time and keeping the group together.

In addition, Opportunity Peru provides all clients with training modules about: business management (marketing, credit history awareness, savings) diversifying their businesses (how to make cleaning supplies, gift bags and chocolates), individual development (the value of your word, family relationships, self-esteem) among other training.

Client Retention

Client retention continues to be one of the biggest challenges of Opportunity Peru. Thanks to the support of the Opportunity International Network, a survey is conducted every 6 months to current, former and prospective clients in order to understand their financial needs and how those needs can be better met. The results state that 50% of clients stop accessing loans because their business are seasonal (Christmas, return to school, mother's day, etc) or their spouse's job is not stable, which leaves the financial burden on the client who becomes hesitant about getting another loan.

Another outcome of these surveys has been the importance of rewarding those clients who pay on time and give them the flexibility they might require. Now, clients who are in the group methodology have a choice of payment frequency depending on their past performance. This strategy has proven to be very successful.

Organizational Achievements

Great Expansion Opportunities in Eastern Lima

The Eastern "Cono" of Lima is the most populated "Cono" of the city, with a total population of over 1 million people. The economic activity is mainly in the informal sector. During the first year of this project, Opportunity Peru started a successful operation in Eastern Lima. With only 7 staff working in this "Cono" they are already serving approximately 1,200 clients. Gloria Yabar de Llanos, Executive Director of Opportunity Peru, says: "The demand for microfinance services in the Eastern "Cono" is immense; we can easily serve over 10,500 clients in these areas". The plan is to start partnering with local churches and community initiatives to start reaching the poorest areas in this "Cono".



Local people in this area say that there is no other organization that has offered them small loans to start their businesses and offers training and support. Marcelina Soto, a client of Opportunity Peru in Eastern Lima (left on the photo), says: "I knew how to bake, but I could not start my own baking business because I had no capital. My family was fully dependent on my husband's part-time work income. Now, I feel happier that we have daily income with my bakery thanks to a \$80 loan from Opportunity Peru."

Successful Partnership with Scotia Bank Peru

Opportunity Peru has built a strategic alliance with Scotia Bank Peru that has proven to be extremely successful. Scotia Bank Peru disburses all loans to clients and opens savings accounts on behalf of Opportunity Peru. In addition, Scotia Bank has opened a specific teller for Opportunity clients, so they receive special attention when they come to the bank to make their loan payments. This process replaced a time consuming manual process in which Opportunity Peru had to sign and stamp four cheques per Trust Bank Group for every loan received.



This alliance has improved client customer service and has minimized security issues. In addition, it has saved an incredible amount of time for staff which has increased the efficiency of our partner in Peru. Scotia Bank has also helped Opportunity Peru upgrade its Computer System to match Scotia Bank's system. This upgrade has sped up various loan disbursement processes: including data entry, transaction reconciliations, follow-up and customer service.

Next Steps

In the next six months, the following activities will take place:

Hiring New Staff

Two new teams of Loan officers will be hired to expand operations in the Northern and Eastern "Conos" of Lima. People in the deserts of the "Conos" are desperately waiting for capital to sustain and grow their businesses. Opportunity Peru is thrilled to be able to continue expanding its services to more people in these marginalized areas of Lima.

Insurance

There is great demand for microinsurance products among Opportunity Peru clients in Lima. Opportunity Peru has plans to partner with a local Insurance company to develop specific insurance products for their clients.

Marketing Research

Opportunity International Peru is currently conducting market research to expand microfinance services into the Ica Region, south of Lima. It would be the first time Opportunity Peru has worked outside of the Department of Lima. This new initiative would also require the development of new microfinance products that would meet the needs of the poor entrepreneurs in the rural areas of this new region.

Use of Funds

During the first year of the project, a total of \$792,017 (27% of the project) was used. The cost breakdown of each component of the project is outlined below:

Expense	Feb-July 2007	Percentage
Loan Funds	468,225	59%
Operations	289,617	37%
Capital Acquisitions	17,686	2%
Capacity Building	9,456	1%
Monitoring & Public Engagement	7,033	1%
Total	792,017	100%



We are so grateful for the generosity of Opportunity donors. Thank you for partnering with us to make this project possible and for your commitment to making a real and lasting difference in the lives of thousands of Peruvians!

Appendix A – Results Summary

	Jan-10	Jul-07	Jan-08	Jan-10	%
	ORIGINAL			REVISED	achieved
Client Impact					
1 Trust Banks operating	280	104	117	286	41%
2 Total Trust Bank clients	5,040	1,981	2235	5,153	43%
3 Average client per TB	18	19	19	18	
4					
5 Senior Trust Banks operating	280	12	14	212	7%
6 Total Senior Trust Bank clients	4,200	204	242	3,176	8%
7 Average client per Senior TB	15	17	17	15	
8					
9 Solidarity Groups operating	350	9	9	175	5%
10 Total Solidarity Group clients	3,500	123	109	1,751	6%
11 Average client per Solidarity Group	10	14	10	10	
12					
13 Total active clients	12,740	2,308	2586	10,080	26%
14 Female clients	10,800	2,022	2,253	8,568	26%
15 Female %	85%	88%	87%	85%	
16 Male Clients	1,940	286	333	1,512	22%
17 Male %	15%	12%	12%	15%	
18					
19 Family members impacted	63,700	11,540	12930	50,400	26%
20 Female TB leaders trained	3,640		700	2,691	26%
21					
22 # of clients withdrawn from program		365	704		
23 Total # of clients trained	10,192	2,673	3290	8,064	41%
24					
25 Financial Impact					
26 Funds invested in loan portfolio	\$2,550,000	\$354,515	\$ 469,221	\$2,080,640	23%
27 Total amount of loans disbursed	\$6,375,000	\$468,225	\$ 522,089	\$5,201,600	10%
28 Total number of loans disbursed	18,000	3,072	3,081	16,357	19%
29					
30 Client Savings	\$ 318,750	\$ 75,016	103,664.68	\$ 312,096	33%
31 Average savings per client	\$ 25	\$ 33	79	\$ 31	256%
32					
33 Average overall project loan size	\$ 354	\$ 152	169	\$ 318	53%
34 Average Trust Bank client loan	\$ 330		\$ 152	\$ 201	76%
35 Average Senior Trust Bank client loan	\$ 530		\$ 210	\$ 266	79%
36 Average Solidarity Group client loan	\$ 1,000		\$ 398	\$ 488	81%
37					
38 Overall Arrears rate	3%	0.4%	0.43%	3%	
39 Trust Bank arrears rate	3%	0.1%	0.11%	3%	
40 Senior Trust Bank arrears rate	3%	0.3%	0.32%	3%	
41 Solidarity Group arrears rate	3%	0.0%	0.00%	3%	
42					
43 Overall repayment rate	97%	99.6%	99.6%	97%	
44					
Loan loss Provision	\$ 191,250	\$ 2,561	\$ 6,693	\$ 156,048	4%

Appendix B – Client Story



Off the Streets! Home Based Business

Isabel Medina used to sell snacks and sweets on the streets of Lima. After 3 loans (\$70, \$100, and \$150) from Opportunity Peru, she is now able to have a home based business, which has experienced an increase in profits from \$15 to \$25 a week. At age 50, with three children, she does not need to be on the streets anymore; she can now work from home.