

## SOCIAL ENTREPRENEURSHIP PROGRAM

### PROJECT SYNTHESIS

1. **Country:** Mexico
2. **Project Number:** ME-S1007
3. **Project Name:** Rural Financial Inclusion in the State of Puebla and Surrounding Areas through Branchless Banking
4. **Executing Agency:** La Perseverancia del Valle de Tehuacán, S.A. de C.V., Sociedad Financiera Popular (La Perseverancia).
5. **IDB Unit:** Multilateral Investment Fund (MIF)

6. **Financing Amount and Source:**

	<u>IDB</u>	<u>Local</u>	<u>Total</u>
Reimbursable financing:	US\$700,000	US\$250,000	US\$950,000
Technical Cooperation:	US\$250,000	US\$130,545	US\$380,545
Total:	US\$950,000	US\$380,545	US\$1,330,545

7. **Goal and Purpose:**

The project objective is to help improve living conditions for the poor and vulnerable population of the RAAN. The purpose is to expand the supply of credit services for microentrepreneurs and low-income individuals in the RAAN to meet their financing needs and facilitate access to new and improved water and basic sanitation services.

8. **Description:**

- ***Reimbursable financing component***

The Bank will grant La Perseverancia a loan for up to US\$700,000, which would be combined with counterpart funds of US\$250,000. The funds will be used for two credit products:

**Mujer Empresarial Rural [Rural Entrepreneurial Woman] (MER).** This will be a loan product directed to women entrepreneurs and women's business associations in rural areas in the state of Puebla and surrounding areas. With this loan product, La Perseverancia will finance activities such as small businesses (catalogue sales, ice cream parlors, shops), handicrafts, food, alternative medicine products, recycling, beauty services (hair cutting and styling or manicures) and services in general (party decoration, tailoring). These loans will be granted individually or through village banking based on considerations related to the ability to pay, neighbors' references, the financial viability of the business, absence of negative information from the credit bureau, and participation in at least two awareness training sessions on the responsible use of

financial products. The final loan product will be developed on the basis of the project's Credit Regulations, which are found in the project technical files. With these loans funds it will be possible to reach at least 1,224 more women entrepreneurs with training.

**Crédito de Inclusión Rural [Rural Inclusion Loan] (CIR).** This loan product, which is not gender-based, will be open to men and women with productive agricultural activities and at least two years of experience. Like the MER loans, these loans will also be granted through agents using *Persemóvil* who will take the credit applications on their tablets as well as through direct service from credit analysts.

**Use of branchless banking for the new loan products.** Agents equipped with tablets and the *Persemóvil* software will take credit applications for the new products in the field, for which they will have identifying communication material from La Perseverancia. Initially 14 new agents will be set up in the communities to be served by the project, which will be expanded once the process of accepting applications on the tablet is validated. Applications received via the tablet will trigger visits from loan officers to verify information on ability and willingness to pay. In addition, loan officers will be able to coordinate their visits wisely in order to minimize the time and cost of their travel through rural areas.

- ***Non-reimbursable Technical Cooperation component***

The loan will be supplemented with a nonreimbursable technical cooperation component of US\$250,000 from the IDB/MIF, with local counterpart funds of US\$130,545, which will be directed to three subcomponents: (a) development and launch of new financial products and agricultural support; (b) financial and business training; and (c) rural finance technology. The first technical cooperation subcomponent will be used to improve the design and positioning of the two new rural finance products to be implemented by La Perseverancia and to develop a simple and scalable methodology for transferring knowledge on the management of diversified family mini-gardens, so that they fulfill a dual objective. First, they are expected to improve the family's food security and reduce its spending on basic foods such as eggs, vegetables, and fruits, thereby increasing the family's disposable income. Second, they are expected to generate some small surpluses that can be sold locally on a small scale to increase family incomes. The methodology for scaling up the family mini-gardens will be based on the use of demonstration family gardens or farms, which will offer guided visits to members of the community at which techniques will be shared for managing diversified family mini-gardens for food security.

The second technical cooperation subcomponent will be used for financial training in rural areas for project expansion. This will be done using five training modules developed by the Asociación Mexicana de Uniones de Crédito del Sector Social [Mexican Association of Social Sector Credit Unions] (AMUCSS), in which La Perseverancia is a member. The modules include Savings, Credit, Insurance, Family Budget Management, and Hygiene and Safety in the Home.

The third subcomponent will be used to implement the branchless banking technology in rural areas, particularly for selecting La Perseverancia's correspondent agents, training them to accept and process credit applications, to process withdrawal, deposit, loan

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payment, and remittance payment transactions, and for installing and supporting the *Persemóvil* hardware (tablets and printers) and software on the tablets.

## **9. Beneficiaries:**

The network set up by La Perseverancia would benefit 2,267 people with incomes below the poverty line and living in vulnerable conditions in 239 communities in the state of Puebla, and rural areas in the neighboring states of Veracruz, Hidalgo, Oaxaca, and Tlaxcala, at least 2,000 of whom will be women (88%). It is expected that the average incomes of the beneficiary families is less than \$316 in families with two salaries and less than \$158 in families with one salary. These beneficiaries will be able to access loans and savings through an in-person channel (microbusinesses with tablets) and remotely through their cell phones for transactions that do not require cash deposits or withdrawals. They will thus be able to access financial services and products in their own communities, online and continuously, saving the time it takes to travel to larger communities to access those services. In addition, at least 1,160 persons are expected to complete a basic family financial training program with five modules: (a) credit, (b) savings, (c) insurance, (d) family budget, and (e) hygiene and safety,<sup>11</sup> and 2,267 are expected to implement at least two of the modules (credit and budget). In addition, it is expected that some 400 will develop diversified small-scale family gardens to improve their food security.

The project would also benefit at least 14 microbusinesses that, by implementing the system will diversify and increase their incomes and gain access to a tool they can use to improve the management and efficiency of their own businesses. The project will make an effort to detect promotional and credit analysis adjustments to implement improvements so that the percentage of clients who are women can be increased.

## **10. Expected results and benefits:**

The direct benefits of the project will be accrued by some 2,267 low-income rural microentrepreneurs in the state of Puebla and surrounding areas; it is estimated that more than 92% will be women (approximately 2,100) who will have access to loans to finance working capital for microenterprise activities in rural areas, through services provided by rural agents, reducing the time needed to travel to La Perseverancia's branches. It is expected that about 575 of the beneficiaries will have begun new businesses.

In addition, some 3,000 persons will also benefit from the project's technical cooperation, given that they will acquire better knowledge of financial products, which will hopefully help them to make better financial decisions, reducing their debt to lenders. In addition 1,400 persons will benefit from the visit to demonstration family gardens and some 140 families will benefit from the installation of diversified family gardens, which will increase the food security of beneficiary families by enabling them to incorporate into their diet fruits, vegetables, eggs, and meat from small animals from the family mini-gardens; they will also be able to increase family incomes by selling their surplus locally.