CONFIDENTIAL
INTERNAL USE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

GUATEMALA

SOCIAL ENTREPRENEURSHIP PROGRAM

EXECUTIVE SUMMARY

MICROFINANCE PLUS FOR RURAL FAMILIES IN GUATEMALA

(GU-S1024)

This document was prepared by the project team consisting of Nicole Rossell (MIF/CGU); Andrés Rubio (MIF/CGU); Karen J. Fowle (MIF/DEU); Fernando Campero (MIF/ATF); Choe Young (MIF/KSC); David Bloomgarden (MIF/ABS); Svante Persson (MIF/ABS); Brian Muraresku (LEG/NSG); and Gabriela Torrez (MIF/ATF), Project Team Leader.

CONTENTS

ABBREVIATIONS

PSR	Project status report
USAID	United States Agency for International Development
USDA	United States Department of Agriculture

INFORMATION AVAILABLE IN THE TECHNICAL FILES

PREPARATION

- Project request
- Approved project profile
- Quality for Effectiveness in Development (QED) rating form
- Letter of no objection to the project, issued by the Government of Guatemala
- Articles of incorporation, legal registration, and by-laws of SHARE Guatemala
- Audited 2010, 2011, and 2012 financial statements of SHARE Guatemala
- Individual and group lending policies and manuals of SHARE Guatemala
- Diagnostic needs assessment of the executing agency

Annex I	Logical Framework
Annex II	Institutional analysis and financial projections for the project
Annex III	Plan of operations for the technical cooperation operation, itemized budget, and detailed timetable
Annex IV	Preliminary table of milestones for the technical cooperation operation
Annex V	Historical financial statements and financial indicators of SHARE Guatemala (2010, 2011, and 2012)
Annex VI	Procurement plan for the technical cooperation operation
Annex VII	Summary of financial conditions for the project
Annex VIII	Loan terms and conditions
Annex IX	Manual of credit policies and procedures for the project
Annex X	Summary of integrity review of SHARE Guatemala

I. BASIC PROJECT INFORMATION

A. Executing agency

1.1 SHARE Guatemala

B. Amount and source of financing

	IDB (US$)	Local (US$)	Total (US$)
Reimbursable financing:	1,000,000	209,000	1,209,000
Technical cooperation funding:	215,000	140,500	355,500
Total:	1,215,000	349,500	1,564,500

Source: Special resources of the Ordinary Capital for the Social Entrepreneurship Program

C. Terms and conditions

Amortization period:	6 years
Grace period:	24 months for principal
Interest rate:	Annual variable 180-day LIBOR rate + 450 basis points
Currency:	United States dollars
Execution period:	Technical cooperation operation: 36 months
Disbursement periods:	Reimbursable financing: 24 months Technical cooperation operation: 42 months

1.2 The grace period applies only to the repayment of capital, not interest. The loan will be denominated, disbursed, and repaid in U.S. dollars. The applicable legislation and jurisdiction for the loan contract will be local law.

D. Statement of no objection

1.3 On 8 November 2013, in letter 0883, the Guatemala's Ministry of Public Finance granted the Government of Guatemala's no objection to this project.

E. Background and problem to be addressed

1.4 In the rural communities of the Guatemalan departments of Huehuetenango, Chimaltenango, Alta Verapaz, and Baja Verapaz, the leading sources of income are agriculture, small-scale commerce, and services. These four departments have high poverty levels (ranging from 61% to 78%,[1] compared to the national average of 53.71%[2]) and their populations are largely rural, with 50% to 77% living in rural areas.

---

[1] Huehuetenango, 60.5%; Chimaltenango, 65.57%; Alta Verapaz, 78.24%; and Baja Verapaz, 64.01%.

[2] Source: National Survey on Living Conditions 2011. National Statistics Institute (INE), p. 19, Table 5.

1.5 According to information from the Bank's Country Strategy with Guatemala,[3] poverty figures are more pronounced in rural areas of the country where 71.4% live in poverty, with the highest rate among households whose primary source of income is agriculture (76% of the poor population). Most of these households are small-scale farmers growing traditional crops such as maize and beans. The low income levels are associated with low agricultural productivity, which is impacted by the lack of access to productive infrastructure (such as irrigation during certain times of the year) and limited adoption of new technologies, a result of limited access to credit and information about the technologies.

1.6 With respect to access to credit, according to data posted on MIX Market,[4] the level of financial inclusion in the departments in the project's area of influence, with some 27,000 microlending clients reported as of December 2011, mostly in Huehuetenango (9,273 clients) and Chimaltenango (10,248 clients), representing a very low percentage of the overall population. Banking and microfinance services are particularly limited for low-income people in rural areas (far from urban centers), where residents are exposed to climate risks, the seasonal nature of production, and fluctuations in market prices, in addition to lacking collateral. These residents are served primarily by unregulated microfinance institutions grouped in the Network of Microfinance Institutions of Guatemala (REDIMIF), whose total client base as of December 2012 was approximately 85,800, with 74% located in rural areas.

1.7 In addition to their limited access to credit, rural residents face other hardships related to a lack of income in periods outside of planting and harvesting seasons, when entire families must migrate to seek work elsewhere in Guatemala or the region. This seasonal migration takes children—especially those aged 7 to 12—out of school and deprives them of the stability needed for individual and familial development.[5] The lack of resources also leads to high levels of chronic malnutrition in children and preventable childhood diseases. According to UNICEF,[6] Guatemala ranks sixth out of 21 countries with a 48% prevalence of stunted growth, after Timor-Leste, Burundi, Niger, Madagascar, and India.

---

3 Sector Note on Productive Development – Guatemala, July 2012. The Bank's Country Strategy with Guatemala 2012-2016, November 2012.

4 Source: Guatemala Map of Financial Inclusion—The MIX (http://maps.mixmarket.org/guatemala/#/global%2Burban%2Band%2Brural%2Bmapping%2Bproject/all%2Bproviders).

5 Educational statistics from 2009 indicate a primary school enrollment rate (children 6-12 years of age) near 100% (98.335%) but only a 77.6% survival rate at the primary level, which means that only 77 out of 100 children enter first grade and complete sixth grade five years later. Source: Third progress report on fulfillment of Millennium Development Goals, Department of Planning and Programming of the Office of the President, Republic of Guatemala, p. 17.

6 "Improving Child Nutrition: The Achievable Imperative for Global Progress," p. 9.

1.8 Contributing to this chain reaction are limitations in publicly provided health and education services, which pose the need for the nongovernmental/private sector to intervene in these areas to improve families' chances of improving their living conditions.[7]

1.9 For people living in poverty, meanwhile, an emergence or expansion of income sources—if unaccompanied by financial education and training in health, education, and nutrition—entails a risk that this new income may be diverted to consumption activities that have a low impact on quality of life or that fail to prioritize savings, basic primary education for children, healthy eating habits, and preventive practices in hygiene and health care.

1.10 Against this backdrop, the main problem that the project will address is the *low capacity of rural families to meet their basic needs in areas such as health, education, and nutrition* as a result of such factors as a lack of access to financial services to help them generate income, limited access to publicly provided basic services, and a lack of health and nutrition knowledge. This situation reflects the fact that poverty is a multidimensional problem that not only involves limited access to credit as a cause of low income, but entails other factors as well, such as rural families' limited knowledge and limited access to basic services.

1.11 This focus on the multidimensional nature of poverty has been a feature of SHARE Guatemala's work throughout its more than 25 years of existence. Recognizing that financing alone does not solve the problem of poverty, SHARE has developed a comprehensive intervention model that addresses the primary factors essential to sustainable improvements in its participants' quality of life: education, health, nutrition, and economic development. SHARE structures the model around two areas of focus: (i) nonfinancial (social) services such as training in health, nutrition, and education, which are implemented through local personnel who not only know the participants' culture and language, but are also part of the community and therefore have a personal stake in the success of the model; and (ii) financial services, provided through village-banking and solidarity-group methodologies to promote both credit and savings.

1.12 SHARE aims to use this model improve its chances of impacting families as it not only empowers individuals through credit, but also empowers families and communities by attending to the social and health-related aspects of their milieu. This approach, combining nonfinancial (social) services with financial services, has been termed "microfinance plus" in the microfinance industry.

---

[7] According to the national diagnostic health assessment prepared by the Ministry of Public Health and Social Assistance in March 2012, health service coverage for many rural communities was extremely limited. These communities only receive a basic package from the Coverage Extension Program, which consists of one monthly visit to the community from a physician or registered nurse. These physicians and nurses are contracted through health care providers and administrators (nongovernmental organizations), and they perform a mostly curative, less preventive, role.

1.13 "Microfinance plus" has a number of advantages in terms of financial performance and customer service, but it also faces challenges related to sustainability and impact. Entities using "microfinance plus" have often been unable to fund their social services with their own resources, have experienced problems related to operational efficiency, and have been exposed to controversy over the impact of their social interventions.

1.14 A number of studies, for example, have suggested that the provision of nonfinancial services to complement financial services has a positive impact on loan repayment by microfinance clients.[8] Other studies on the combination of training in health and education with credit have yielded a variety of outcomes, with some showing this combination to be associated with greater income and savings, improved knowledge and practices related to health and nutrition, and empowerment of women in family decisions. However, these studies have not been conclusive as to the impact on children's nutrition, which upon further analysis appears to be associated with the quality of education services.[9]

1.15 As for the role of women, experience in microfinance has shown that the increased income generated by women has a direct impact on improved socioeconomic conditions for the household and family, and "microfinance plus" (microfinance in combination with nonfinancial services—i.e., health, education, and nutrition) is known to work better with women, who are more receptive to these services because they concern themselves with children's health and education to a greater degree than men do.[10]

1.16 SHARE uses a microfinance model for village banks and solidarity groups. It finances the investment needs of female members of village banks in amounts ranging from 1,000 to 8,000 quetzales (approximately US$130 to US$1,000) each. Solidarity groups, consisting of both men and women, finance investment needs for up to 15,000 quetzales (US$2,000) per member. As of December 2012, SHARE had a portfolio of US$8.2 million with 10,580 clients and a 6.55% portfolio at risk more than 30 days past due.

1.17 SHARE also provides support in social services such as education and nutrition. In the past five years, through food-security and education programs funded by the United States Agency for International Development (USAID) and the United States Department of Agriculture (USDA), SHARE has provided services to: (i) reduce chronic and overall malnutrition in children under age 5 by promoting exclusive breastfeeding, increasing families' dietary diversity, and introducing

---

8 "Microfinance Repayment Performance in Bangladesh: How to Improve the Allocation of Loans by MFIs." Marie Godquin, TEAM Université Paris—Pantheón Sorbonne, and CNRS, France. *World Development*, vol. 32, no. 11, pp. 1909-1926. 2004.

9 "What is the Evidence of Microfinance Impact? A Review of Microfinance Impact Evaluations in Latin America and the Caribbean." Working paper. Multilateral Investment Fund. September 2011.

10 *The Economics of Microfinance*. Beatriz Armendáriz and Jonathan Morduch. Chapter titled "Gender," p. 183. Massachussetts Institute of Technology Press. 2005.

agricultural practices for improved nutrition; and (ii) improving the quality of education in rural communities by training teachers and providing them with teaching material, providing grants for school lunches and breakfasts as a way of encouraging children's school attendance, and strengthening the capacity of education boards through active parental involvement.

1.18 SHARE has achieved noteworthy outcomes in access to credit and basic services such as education and nutrition for rural families, and its impacts on the target population have received positive evaluations. However, if SHARE is to expand its services to new areas and new families, it needs resources to increase its loan portfolio and achieve greater efficiency and scale, as well as to fine-tune its model for social-service interventions on a sustainable basis. To this end, it has requested the support of the Social Entrepreneurship Program.

II. THE PROJECT

A. Objective and purpose

2.1 The objective of the proposed project is to improve the economic conditions and quality of life of rural families who are clients of SHARE Guatemala. The project's purpose is to expand and fine-tune the model of financial and social services used by SHARE Guatemala in the departments of Huehuetenango, Chimaltenango, Alta Verapaz, and Baja Verapaz on an efficient, sustainable basis.

2.2 The project will include two components: a US$1,209,000 reimbursable financing component (IDB: US$1 million; local contribution: US$209,000[11]) and a US$355,500 nonreimbursable technical-cooperation component (IDB: US$215,000; local contribution: US$140,500[12]). Both components will be executed by SHARE Guatemala.

2.3 The ***reimbursable financing component*** will provide microloans using village-banking and solidarity-group methodologies. SHARE Guatemala will use these methodologies to provide its rural clients access to financing for their productive activities, in amounts adjusted[13] to the economic situation of families on a gradual, incremental basis. The practice of saving will also be promoted, which will enable families to generate their own funds over time to supplement their capital needs. These savings will be deposited at a regulated financial entity on behalf of the village banks.

2.4 The resources for this component will be used to create 165 village banks and 144 solidarity groups. The average loan amount for this component has been

[11] The counterpart resources for this component will come from other loans to which SHARE has already committed.

[12] The counterpart resources for this component will come from SHARE's own resources.

[13] Ranging from approximately US$132 (first cycle) to US$1,052 (seventh cycle) per village-bank client, and from US$263 to US$658 per solidarity-group member.

estimated at US$342 per member for village banks and US$526 per member for solidarity groups, which is consistent with the average amounts in SHARE's current portfolio. The loans will be used primarily for working capital, with an average term of 12 months and annual interest rates of approximately 28% to 30% in local currency on unpaid balances. In issuing loans, SHARE will use its lending methodology, policies, and procedures for village banks and solidarity groups. As a condition precedent to the first disbursement of reimbursable financing, the credit manual to be used on the project will be submitted to the Bank's satisfaction. The Bank's loan to SHARE will be denominated in U.S. dollars, with variable interest based on the 180-day LIBOR plus 450 basis points, a six-year term, and a grace period matching the loan's execution period.

2.5 The nonreimbursable ***technical-cooperation component*** will seek to: (i) strengthen and fine-tune SHARE's financial-service model through its business development (microlending) program by strengthening the program's governance and efficiency and adopting good microfinance practices, while continuing the current social-service program with external resources; and (ii) support SHARE in developing a service model in a specific social area (nutrition, health, or education) for beneficiary families of the microlending program, with the aim of achieving concrete social impacts and a high likelihood of sustainability over the medium term with partial funding from the resources of the microlending program. The resources of this technical cooperation component will also be used to establish the baseline, conduct evaluations (midterm and final), and perform the fiduciary ex post reviews required by the Bank/MIF.

2.6 This support is expected to allow SHARE to achieve outcomes that translate into better and more credit services for its rural clients, as well as to establish a social-service model ("microfinance plus") that is less reliant on grants and can be maintained by the organization partly from the revenues of the lending program insofar as this program achieves scale and efficiency.

2.7 **Project beneficiaries** will be: (i) for village banks: women in rural areas, with monthly income typically ranging from US$125 to US$187 (1,000 to 1,500 quetzales) earned from various types of independent businesses (agriculture, handicrafts, or services). Due to their low income levels, members of village banks have an extremely high degree of physical and social vulnerability, and they are subject to food insecurity and the various health and nutrition problems that this entails. Although very hard-working, they are at an incipient level of development as entrepreneurs, and they have been marginalized by cultural paradigms and by gender and ethnic inequality. Many women in village banks are heads of household, since many males migrate to the United States or to other villages in search of work; and (ii) for solidarity groups: men and women in rural areas, with monthly income typically ranging from US$187 to US$750 (1,500 to 6,000 quetzales), also earned from various types of independent businesses. They are typically more developed as entrepreneurs in comparison to members of village banks, although their payment capacity remains insufficient for access to personal loans. Both groups of beneficiaries are mostly indigenous (Quiché, Kakchiquel, or Mam), have had little formal schooling, and are from communities with inadequate access to basic services (water, sanitation, and road infrastructure).

B. Expected outcomes and benefits

2.8 The Bank's resources will directly benefit: (a) some 2,989 **rural families** who will have access to: (i) loans to finance their productive activity; (ii) services to support their children's education (nutrition, school breakfasts) as part of SHARE's current services; and (iii) savings, as this activity will be promoted among the clients of village banks, with an estimated US$250 per member on average for 60% of the members upon project completion (these savings will be deposited in a regulated financial institution). Some 65% of the beneficiary clients will be women. Based on SHARE's previous experience, an estimated 50% of the beneficiaries will have increased their net worth by the end of the project. (b) **SHARE Guatemala** will benefit from an increase in its portfolio of loans to village banks and solidarity groups; (ii) adoption of best microfinance practices in corporate governance and operational efficiency; and (iii) design and testing of a potentially effective social-intervention model that is highly likely to be sustainable in the future. These benefits for SHARE will allow its social services offering to change significantly over the medium and long terms, which will benefit the rural families who will benefit from SHARE in the coming years.

C. Sustainability and outcomes of the financial analysis

2.9 The project's financial viability was evaluated on the basis of: (i) SHARE's capacity to maintain a sound financial position, honor its financial obligations to the Bank and other creditors, and maintain the project-supported credit products beyond the life of the financing; (ii) the establishment of competitive financial conditions to allow SHARE to serve its target clientele, cover its operating costs, and generate surpluses; and (iii) demand for financial and social services among its rural clients as a result of better market conditions and client-protection practices.

2.10 SHARE's historical financial statements (in document VI of the project technical files) show a favorable financial position, with US$13.48 million in assets, US$5.8 million in liabilities, and US$7.6 million in equity as of December 2012. Its solvency levels are adequate, with a total leverage ratio of 0.8 (which is low for a microfinance institution) and long-term liabilities that fund the loan portfolio at 20% (with the rest funded by equity). Its financial structure includes payables and receivables pertaining to the execution of social projects, reflecting to its character as a social organization. However, its microfinance activity accounts for some 61% of its assets, and the portfolio has grown steadily at an average annual rate of 20%. Its portfolio quality has remained on par with standards for Guatemala's microfinance industry, ranging from 6.5% to 7% in recent years. SHARE has adopted good microfinance practices—improving its credit methodology, increasing its risk coverage, and closely monitoring the operational self-sufficiency of its microlending program with a view toward achieving self-sustainability and generating surpluses in 2014. As of June 2013, the program was 96% operationally self-sustainable. The financial structure of SHARE's income statements also reflects its social character, with significant amounts in grants (US$17.6 million in 2010, US$15.3 million in 2011, and US$10.8 million in 2012), primarily from U.S. aid organizations (USAID, USDA), which are effectively administered and have yielded annual returns ranging from US$880,000 to US$980,000, thereby increasing its equity by the same amounts. Moreover, SHARE's revenues from lending have been increasing as its portfolio has grown, and it has been careful to maintain an adequate balance in order to offer its clients competitive interest rates. The ratio of revenues from interest to portfolio amount was 28% in 2011 and 2012.

2.11 The financial projections for SHARE's microlending program (to which the Bank's financing will contribute), included in document II-A of the technical files, indicate surpluses starting in 2014, which will grow from US$207,000 to US$1.4 million primarily as a result of greater revenues from interest on a larger portfolio. The ratio of interest revenues to portfolio will remain around 30%, and spending will grow conservatively by 10% to 12% in the first years and 16% to 17% thereafter. Financial expenses will account for 33% of total spending. The main assumptions behind these projections are based on sustained growth in SHARE's loan portfolio, with care taken to maintain and improve efficiency and loans issued at current market rates for the microfinance industry.

D. Credit risk for the Bank

2.12 The Bank's credit risk is moderate because SHARE has a long track record, has gained a strong foothold in Guatemala's rural communities, and is in a sound financial position. It has emphasized its loan program in recent years; its portfolio has grown steadily; and it has adopted good financial practices, leading to positive performance indicators. However, it still needs to strengthen its corporate governance, become more efficient, and attain scale to make the program 100% sustainable and generate surpluses. A few years ago it began receiving funding from local and international financing entities (Trust for Local Development in Guatemala, Oikocredit, etc.), although these entities are still few in number. With the resources from the Bank's financing, SHARE will expand its village-banking and solidarity-group financial products in a market featuring strong competition with aggressive practices, which has led to debt distress in some parts of the country.

2.13 As for social services, SHARE has strong support from international financing entities (USAID, USDA) and has long relied on grants from these entities, which appear to be stable over the short and medium terms. However, SHARE needs to prepare to provide social services that are effective for its target population and have a horizon of sustainability based on a portion of the surpluses from its microlending program. This is one of the main challenges to be supported by the project, and over the medium term, SHARE is expected to design and implement an effective social-intervention model that can accompany its financial services and be maintained over the long term. If it can meet this challenge, SHARE will become a successful "microfinance plus" organization.

E. Strategy of the Bank and the MIF

2.14 The Bank's Country Strategy with Guatemala 2012-2016 focuses on improving the living conditions for the Guatemalan population, particularly in rural areas. The strategy's priority target areas are structured along two axes, the first institutional, covering the areas of fiscal and municipal management, social protection, and peaceful coexistence and citizen security; and the second addressing rural development, including the areas of productive development, health, and transportation. The strategy also calls for working in the crosscutting areas of climate-change adaptation and mitigation, natural disaster impact mitigation, indigenous peoples, and gender; and for promoting regional integration, particularly in the transportation and energy sectors. This project is framed within the rural-development axis, as it will help achieve the strategic objective of generating opportunities to improve the productive income of the rural population by seeking growth in the annual income of rural households through access to productive assets. The country strategy calls for some of these actions to be taken through the Bank's work with the private sector; such is the case with this project, which will be financed by the Social Entrepreneurship Program, and administered by the MIF, under the Bank's Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations. In geographic terms, and in view of the country strategy's priorities, the project includes the provision of project services in the departments of Alta Verapaz and Baja Verapaz, which have been prioritized for promoting access to financial services among low-income rural populations.

2.15 In the MIF's new Access Framework, the project fits within the "rural and new generation microfinance" agenda because it seeks to expand financial services in rural areas (credit and savings), combined with nonfinancial social services to better meet the economic and social needs of rural residents who lack such services. Specifically, the project will contribute toward the agenda's target for new clients. Lastly, the project falls within the Social Entrepreneurship Program's strategic line of Rural Finance and Business.

F. Summary of environmental and social review

2.16 This operation has been preevaluated and classified in accordance with the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Because its impacts and risks are limited, the project has been classified under Directive B.13. This project will comply with the Environmental and Social Guidelines for MIF Financial Intermediary Operations and with all applicable environmental, social, safety, health, and labor policies in Guatemala.

G. Special conditions, disbursements, and procurement

2.17 **Conditions precedent to disbursements.** As a condition precedent to the first disbursement of *reimbursable financing* resources, SHARE Guatemala will submit, to the Bank's satisfaction: (i) the credit manual and policies for extending credit to rural clients using project resources, duly approved by SHARE and including the Bank-instructed list of excluded activities for lending operations. It must also comply with the disbursement commitments set forth for the first disbursement of this component.

2.18 As a condition precedent to the first disbursement of the *technical cooperation* resources, SHARE Guatemala will submit, to the Bank's satisfaction, evidence that: (i) the project execution team has been designated, including a project coordinator, a person in charge of communications with the Bank, and an accounting assistant (SHARE employees), who will support execution and will be responsible for communication and coordination efforts with the Bank/MIF.

2.19 **Disbursements of reimbursable financing.** Disbursements under this component will be contingent upon SHARE Guatemala's fulfillment of institutional performance indicators agreed upon with the Bank, which may be adjusted on an exceptional basis if the borrower provides a good reason for doing so. These indicators are listed in the table below, along with the estimated amounts to be made available once the indicators are fulfilled. These indicators will also be used to monitor the loan throughout its term.

Indicators / Conditions	**Formula**	**Estimated disbursement amounts**			
		First disbursement	**Second disbursement**	**Third disbursement**	**Fourth disbursement and until contract completion**
		US$250,000	US$250,000	US$250,000	US$250,000
Institutional portfolio at risk (> 30 days)	Balance on principal of loan portfolio more than 30 days past due / balance on principal of gross portfolio	<8%	<7%	<7%	<7%
Risk coverage ratio	Loan-loss provisions / portfolio at risk > 30 days	**>80%**	**>85%**	**>90%**	**>100%**
Operational self-sufficiency of loan program	(Operating revenue of loan program – grants of loan program) // (financial expenses of program + expenses for loan losses + operational expenses of program)	**>97%**	**>99%**	≥100%	≥100%
Annualized return on assets (unadjusted)	SHARE's operating revenues / average assets: (total assets year 1 + assets year 2) / 2	≥1%	≥1%	≥1%	≥2%

2.20 Disbursements may take the form of advances or reimbursements of funds for the tranches listed in the table above. For justification of disbursements, SHARE Guatemala will submit portfolio reports as evidence of loan placement. Supporting documentation for each loan will be kept by SHARE Guatemala and will be reviewed in its annual audits.

2.21 **Disbursements of the technical cooperation funding**. Disbursements of the technical cooperation funding will be contingent upon verification of milestone fulfillment using the means of verification agreed upon between SHARE and the Bank/MIF. Milestone fulfillment does not relieve SHARE of its responsibility for fulfilling the indicators in the logical framework and the project objectives.

2.22 Under the risk- and performance-based project management approach, disbursement amounts will be based on the project's liquidity needs for up to a six-month period. These needs will be agreed upon between the Bank/MIF and SHARE Guatemala, and will reflect the activities and costs programmed in the annual planning exercise. The first disbursement will be contingent upon fulfillment of milestone 0 (conditions precedent), and subsequent disbursements will be contingent upon fulfillment of the following two conditions: (i) MIF verification that milestones have been fulfilled in accordance with *semiannual* plans; and (ii) justification by SHARE Guatemala of 80% of the cumulative advances of funds.

2.23 **Procurement.** For the procurement of goods and the contracting of consulting services under the technical cooperation component, SHARE will be governed by the Bank's procurement policies (documents GN-2349-9 and GN-2350-9).

2.24 Since the diagnostic needs assessment of the executing agency (http://mif.iadb.org/projects/prjrissummary.aspx?proj=GU-S1024) found a ***low*** level of risk/need, the project team decided that, in accordance with Appendix 4 of the aforementioned policies, SHARE Guatemala will use the private-sector methods detailed in Annex 1 of the Operational Guidelines for Technical Cooperation Projects (document OP-639). In addition, ***annual ex post*** reviews will be conducted of the project's procurement activities. Before commencing project procurement, SHARE will submit the project's procurement plan to the MIF for approval. This plan will be updated annually and whenever a change occurs in procurement methods and/or in the goods or services to be procured.

H. Reports, evaluations, and audits

2.25 **Project status reports**. Throughout project execution, as the executing agency, SHARE Guatemala will submit project status reports (PSRs) to the Bank/MIF within 30 days after the end of each semiannual period or more frequently as determined by the MIF and notified at least 60 days in advance. The PSRs will report on progress in project execution, milestone fulfillment, outcomes attained and their contribution to project objectives based on the logical framework and other operational planning instruments. The PSRs will also report on problems encountered in execution and possible solutions. Within 90 days after the end of the execution period, the executing agency will submit to the MIF a final PSR outlining outcomes attained, the sustainability plan, findings of the final evaluation, and lessons learned.

2.26 **Baseline and project evaluation.** SHARE Guatemala will be responsible for gathering and analyzing relevant information to monitor the project's performance indicators. Technical cooperation resources will be used, during the first six months of the project, to hire a consultant to develop the project baseline and establish a simple, cost-effective monitoring system focused on capturing the outcomes and benefits of the financial-service model in view of the clients' socioeconomic conditions. Project performance will be monitored on the basis of the indicators in the baseline and the logical framework.[14]

2.27 A midterm evaluation of the execution process and of progress in expected outcomes will be conducted 18 months into the project. This evaluation will use quantitative and qualitative methods to measure, at a minimum: (i) the project's response to the originally identified problems that gave rise to it; (ii) progress in providing financial services to rural families and designing a sustainable social-intervention model; (iii) degree of fulfillment of project performance indicators; (iv) monitoring analysis of socioeconomic indicators of selected clients vis-à-vis the baseline; and (v) review of the execution process, procurement of services, efficiency of the executing agency, progress in expected outputs, etc.

2.28 A final evaluation will be conducted 36 months into the project, with a focus on: (i) the project's immediate effects on the beneficiary population, as reflected in clients' socioeconomic indicators; (ii) outcomes in terms of improved social indicators of clients who participated in the social-intervention pilot project; (iii) lessons learned and recommendations for future similar projects; and (iv) prospects for sustainability of services provided by the project. The specific questions to be answered in the final evaluation are: (i) To what extent did the financial model that was implemented help increase the net worth of the project's beneficiary clients and their families? (ii) How effective was the social-intervention pilot project that was implemented in the project? (iii) What is the likelihood that the social-intervention model will be sustainable with a portion of the surpluses from SHARE's microlending program?

2.29 Both evaluations will be conducted by selected individual consultants or a consulting firm hired by the Bank's Country Office in Guatemala using technical cooperation resources. These may be individual contracts for each study, or a single firm or consultant may be hired for both studies. SHARE will be responsible for measuring project impacts 72 months into the project, and it will use its own monitoring systems for this purpose.

2.30 The Bank/MIF will review the outcomes and recommendations in the PSRs and evaluation reports. If significant deficiencies in project execution are found, the Bank/MIF may take whatever measures it deems appropriate, and may suspend disbursements if necessary.

2.31 **Financial management and supervision.** SHARE Guatemala, as the project's executing agency, will establish and maintain proper accounting of the project's finances, internal control, and filing systems in accordance with the Bank/MIF's

[14] The indicators in the logical framework may be modified by agreement between the Bank/MIF and SHARE.

financial-management standards and policies. Because the diagnostic needs assessment of the executing agency found a medium level of need/risk in financial management, semiannual ex post reviews will be conducted of supporting documentation for disbursements (http://mif.iadb.org/projects/prjrissummary.aspx?proj=GU-S1024). The Bank/MIF will hire independent auditors to conduct the ex post reviews of both procurement processes and the supporting documentation for disbursements of the technical cooperation component. The ex post reviews will include an analysis of the financial statements that SHARE Guatemala will prepare annually as part of its financial management. The related cost will be financed with technical cooperation resources in accordance with Bank procedures.

2.32 During project execution, the frequency of the ex post reviews of procurement processes and supporting documentation for disbursements, as well as the need for additional financial reports, may be modified by the MIF based on the findings of the ex post reviews conducted by the external auditors.

2.33 **Auditing and monitoring of the reimbursable financing.** To facilitate the monitoring of the reimbursable financing, SHARE Guatemala will submit to the Bank: (i) on an annual basis over the life of the loan, within 120 days after the end of each accounting period, its audited financial statements; (ii) on a semiannual basis, its interim financial statements signed by its executive director and finance manager; and (iii) on a semiannual basis, or as it emerges, information on significant changes in the institution (board of directors, equity, shareholder structure, financing, etc.).

I. Project risks and mitigating factors

2.34 The project faces the following risks: (i) ***Corporate governance risk****:* SHARE Guatemala's board members have extensive experience in social development programs, some of which have been in microfinance; however, it needs to strengthen its capacities to manage and control a growing microlending program. *Mitigating factor:* Technical cooperation resources will be used to finance actions to strengthen the institution's corporate governance through a diagnostic assessment and improvement plan, as well as other instruments developed for microfinance entities. (ii) ***Market risk.*** Although coverage of financial services is low in Guatemala, the concentration of microfinance institutions in some rural areas that are more populous and closer to urban areas, combined with aggressive practices by international microfinance institutions, has led to debt distress among clients, which compromises the quality of microfinance institutions' portfolios. *Mitigating factor:* Through its constant presence in rural communities and its financial and social services, SHARE has earned its clients' loyalty and, as a result, SHARE has a near-zero delinquency rate in markets where other microfinance entities have high delinquency rates (e.g., Chimaltenango). To further mitigate this risk, SHARE has fine-tuned its group lending methodologies (village banking and solidarity groups) by including procedures to limit the number of outstanding loans that its clients may have, credit checks at credit bureaus, and financial education and training on debt distress for its clients. (iii) ***Operating risks:*** SHARE operates in remote rural areas with limited access, leading to high operating costs that could rise even higher due to factors beyond SHARE's control. *Mitigating factor:* SHARE closely monitors its operating costs and plans to use project resources to conduct a diagnostic assessment and develop a plan to make its microlending program more efficient. This study may yield a number of strategies to support the entity in mitigating the aforementioned cost increases. (iv) ***Exchange-rate risk.*** The Bank's loan will be denominated in U.S. dollars, and therefore SHARE will assume the exchange-rate risk in extending loans to its clients in national currency (quetzales). *Mitigating factor:* To mitigate this risk, a competitive interest rate in U.S. dollars has been set to offset projected fluctuations in the exchange rate between the quetzal and the U.S. dollar.[15] (v) ***Climate or natural disaster risk.*** Natural phenomena (storms, landslides, or flooding), should they occur, could compromise repayment of loans by SHARE's rural clients. *Mitigating factor:* Although this risk is difficult to mitigate, SHARE has experience in reprogramming loans in the wake of natural disasters, and it has worked with its clients when such events have occurred in the past. The preventive measures SHARE has implemented to mitigate this risk include diversification of geographical regions where there are different production schedules and types of agricultural production, and diversification of portfolio products (group loans, housing, village banking, etc.), and when clients are impacted by natural disasters, SHARE has a policy of renegotiating the debt by restructuring principal, extending terms, and/or discounting the interest.

J. Exceptions to Bank policies

2.35 None.

[15] The exchange-rate projections for the next five years have been taken from the reports of the Economist Intelligence Unit; see Annex VIII in the technical files.