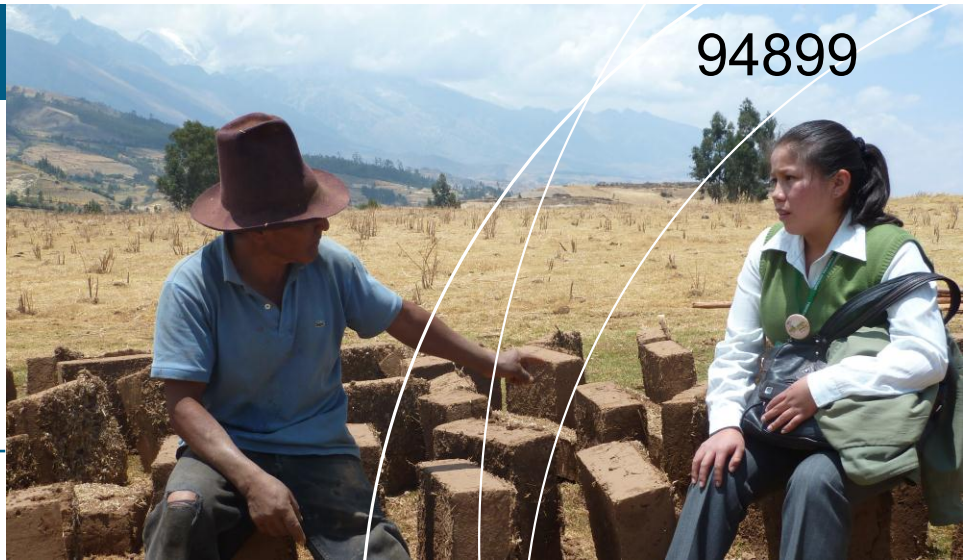


Microfinance

Stories of Impact

This series provides examples of our impact, expertise and lessons learned working with clients and partners.



Making Microcredit Accessible for the Poor in Rural Peru

Peru's microfinance industry has been developing rapidly over the last two decades, providing the country's low-income population with an opportunity to escape poverty. Yet micro-lending in Peru has largely focused on urban areas, while a quarter of the country's population – nearly 8 million people - in rural areas remains under-served.

IFC is working with local microfinance institutions (MFIs) to increase access to credit in remote rural areas of Peru. While challenging, lending to farmers in the country's highlands has proved to be a profitable field, helping MFIs tap into new growth area and contributing to development of rural communities.

“With this loan, I am going to earn money. I will invest in olluco [local root crop], get good earnings from selling the harvest, and with these earnings, I'll have some savings”

—Elmer, farmer from the high plains of the Peruvian Andes and a client of *Financiera Edyficar*

RESULTS & IMPACT

- IFC has provided support to two Peruvian MFIs - *Financiera Edyficar* and *Caja Arequipa*:
 - Assisted in developing micro-loan product for small-holder farmers – among the first in Peru
 - Trained 50 loan officers in agri-lending
 - Developed methodology for assessment of agri-loans
- Since 2012, *Financiera Edyficar* and *Caja Arequipa* extended over 2,700 loans to farmers in the rural areas of Peru totaling \$4.1 million
- Nearly 50 percent of farmers who received micro-loans are women
- Building on success of the pilot project, *Financiera Edyficar* is now expanding to five more rural areas in Peru
- *Caja Arequipa* has started providing micro-loans in Apurimac, one of the country's poorest regions

The Opportunity

Peru's microfinance industry has been ranked number one for the last 5 years in the Global Microscope, the annual study that analyzes the enabling environment for microfinance in developing countries around the world. However, micro-lending in Peru largely focuses on urban areas, while a quarter of the country's population in rural areas remains underserved.

More than half of rural households live below the poverty line, and 1.3 million farmers in Peru do not have access to formal financial services. Yet, despite ever-increasing competition among MFIs in the cities, Peruvian MFIs are reluctant to expand to the rural areas.

Local MFIs lack knowledge about agricultural lending, do not have methodology to assess such loans, and perceive lending to farmers as difficult because of specific risks related to weather and price volatility of agricultural products.

In addition, remote locations, poor roads and low population density in Peruvian highlands, or "sierra", make it hard to reach the clients.



Florencia Valentina Cordero, a client of Financiera Edyficar, from Mancos, Yungay province in Peru (Photo above and front page: Martin Spahr, IFC)

Our Approach

IFC has been working with *Financiera Edyficar* since 2004, investing a total of \$18 million into the institution over the years and playing an instrumental role in *Edyficar's* transformation into a commercial MFI. Building on this relationship, *Edyficar* and IFC launched a new agricultural micro-lending product to expand *Edyficar's* reach into Peru's rural areas. Later another local MFI - *Caja Arequipa* - started a similar project with IFC support.

Since the beginning of the project in April 2012, IFC has:

- Assisted *Financiera Edyficar* and *Caja Arequipa* in designing a micro-loan product tailored to the needs of the smallholder farmers
- Developed methodology for assessment of agri-loans, taking into account specific risks pertaining to farming, such as irregular cash flow due to changes in crop prices and weather
- Helped identify and train over 50 loan officers, many of whom come from farmer families and speak local languages
- Provided advice on incentives and compensation structure for loan officers
- Advised *Financiera Edyficar* and *Caja Arequipa* on how to develop agent networks and use temporary kiosks in remote highland areas

As of August 2013, *Financiera Edyficar* and *Caja Arequipa* have distributed 2,700 loans totaling \$4.1 million. Nearly half of these loans were extended to women.

Building on the initial success in the Caraz area, *Financiera Edyficar* is now expanding to five more rural areas in Peru - Chulucanas, El Pedregal, La Joya, Sullana, and Tarapoto. At the same time, *Caja Arequipa* is starting to provide micro-loans in Apurimac, one of the country's poorest regions.

The example of *Financiera Edyficar* and *Caja Arequipa* has demonstrated that lending in the rural areas can be a commercially viable segment, making rural micro-lending more attractive for other market players in Peru and beyond.

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries.

REGION: LATIN AMERICA AND THE CARIBBEAN | COUNTRY: PERU | STRATEGIC PRIORITY: AGRIBUSINESS | THEME: MICROFINANCE | BUSINESS LINE: ACCESS TO FINANCE

CONTACT

Martin Spahr | Lima, Peru
MSpahr@ifc.org | + 51-1-611-2503
ifc.org/gfm

October 2013



IFC

**International
Finance Corporation**
World Bank Group