

**Design and introduction of microleasing for quinoa and dairy producers
with Cabanillas Mañazo in Puno, Peru**

1. DEVELOPMENT RELEVANCE

Economic and poverty context

Peru had been one of the region's fastest-growing economies, 2010 economic growth was a remarkable 8.8%, but by 2018 this had slowed to 2.5%.ⁱⁱⁱ In 2016, subsistence agriculture contributed to only 6% of the GDP, but was the largest sector for employment of the country's work force (25%)^{iv}. For 2017, GDP is expected to slightly slow down, affected by adverse global conditions and uncertainty related to corruption scandals.

Financial sector context

The Peruvian financial system has grown in the last 10 years and Peru has improved in terms of efficiency and stability; however, depth and access remain challenges.^v For example:

- Only 29% of the adult population has access to formal financial systems.^{vi}
- Supply in the financial market concentrates its operations mostly in urban areas.
- People often lack minimal financial education, they handle financial needs on a very informal level and generally mistrust financial entities.
- Financial institutions and the sector in general lack innovative processes and identification of new methodologies to better serve this target group.

Partner financial institutions

Cabanillas-Mañazo^{vii} is a Savings and Credit Cooperative (SACCO) with farmers forming 95% of its loan portfolio in rural microenterprises. Its mission is to promote economic, social and cultural development of associates and community, and to encourage the culture of saving and business opportunities by providing financial and non-financial services. It is associated to, and supervised by FENACREP, the National Federation of SACCOs.

FENACREP is the National Federation of SACCOs. Its mission is to represent, support, direct and supervise SACCOs and to contribute to the socio-economic development by strengthening financial services in rural areas, improving SACCOs management through technical assistance, and promoting financial education.

2. INTERVENTION APPROACH

Capacity building needs

A feasibility study ([SCBF FSW-03](#)^{viii}) on microleasing in Latin America was conducted in 2013-2014 to:

- Confirm the possibility of introducing microleasing to specific markets of Latin America,
- Select the most sustainable partners, and
- Explore the financial needs and value chains.

Table 1: Population and economic indicators ⁱ	
Population in million (2016)	31.8
GDP growth (2016)	3.9%
Inflation (2016)	3.6%
Trade balance (% of GDP) (2016)	0.1%
Foreign direct investment (net) (% of GDP) (2015)	4.1%
Net ODA received (% of GNI) (2016)	0.2%
Remittances received (% of GDP) (2016)	1.5%
Economic Freedom Index ⁱⁱ (score) (2016)	67.4
Poverty indicators	
GDP per capita (USD) (2016)	6,045.7
Gini Index (0= equality 100= inequality) (2014)	44.1
International poverty rate (2014) at 1.90 USD/day)	3.1%
National poverty rate (2015)	21.8%
National rural poverty headcount rate (2014)	46%

Figure 1: Multidimensional poverty index chart (OPHI Country Briefing, Peru, 2017)

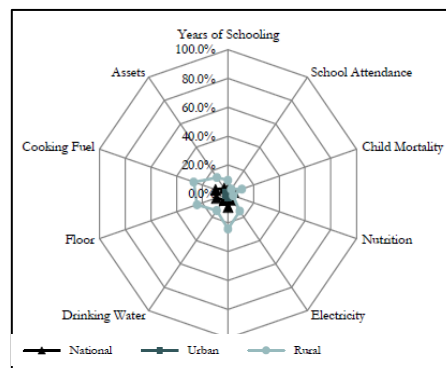


Figure 2: Cabanillas-Mañazo Branch Network

Main activity areas (goals, targets, resources & time frame) and outputs

The project, implemented by Swisscontact, started in April 2015 and was initially planned for 18 months, but then had a no cost- extension until August 2017. The project was divided into three stages. The main funders were SCBF (56%), Peru Opportunity Fund (POF) (36%) and Credit Suisse through the Technical Assistance Facility Swisscontact North America (TAF SCNA) (9%). In 2016, the project obtained additional funding from Secompetitivo Program. The main activity areas were:

- 1) **Market research** (April – July 2015) showed the following results:
 - The studies made it possible to ratify the existence of a potential demand for productive assets in the two chains identified. The SACCO CM was evaluated and approved for the pilot because of its adequate financial and social performance and a good position in the market. In this phase, the collaboration agreements were signed with COOPAC Cabanillas Mañazo and FENACREP. Contact with suppliers of productive assets, insurance companies and government institutions were initiated. Finally, in order to improve the liquidity of the SACCO CM, and with support from the University of Denver, complementary financial studies were carried out to facilitate access to an international credit line.
- 2) **Design of financial product, processes, procedures and tools** necessary to put the product in place as well as the design of the **business model** (August – November 2017). Results were the following:
 - Design of the marketing plan;
 - Elaboration of the business model; Agreements with local suppliers of assets;
 - Elaboration of microleasing manual (it was identified that the regulation of the Superintendencia de Banca y Seguros Peru (SBS) does not authorize a cooperative to implement microleasing, however, the financial product was adapted handling a proper legal, accounting and taxation treatment; resulting in *financed lease*);
 - Capacity building regarding institutionalism and governance (five strengthening workshops were held for managers and senior management of the SACCO CM);
 - Design of the financial literacy training program (created in order to generate a financial culture that contributes to decision making). It changed from initially training local producers to training ten local facilitators as agents of the Puno region, who later trained local producers on issues regarding financial education and cooperatives.
 - A strategic alliance with the Joint Program of Andean Grains of the ILO / FAO / UNESCO and the Ministry of Production was established to implement this activity (5% additional budget).

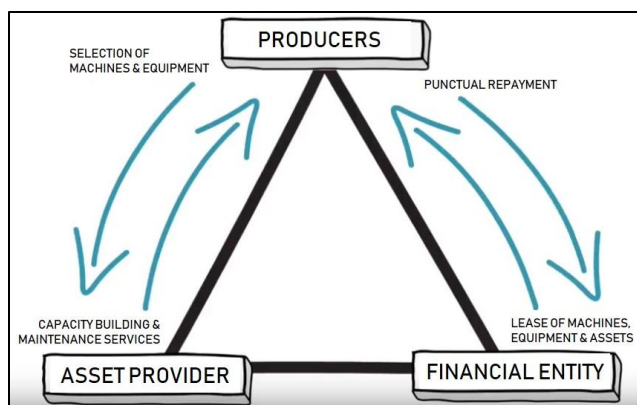


Figure 3: Financial and investment flow

Table 2: Product Design	
Leases Item	Assets for Quinoa & Dairy production
Leases Value	USD 500 – 5'000
Mode of Payment	Fix instalment, according to cash flow of value chain
Interest Rate	18 - 21%
Repayment Period	12 - 36 months
Grace Period	Depending on value chain, asset and client
Owner of Leases	SACCO, until final payment -> transferred to farmer

- 3) **Training and launch of the financial product** (December 2015 – July 2016). The main objective was to launch the financial product and transfer the capacities to the actors to ensure its sustainability. In addition, the model and product were tested and adjusted. Main results:
 - 38 financial literacy workshops took place: 1'400 trained producers (59% women, 41% men);
 - Capacity building of the sales force: 100% of the sales and commercial staff were trained in various workshops during 2016 and 2017;
 - Management of international funds: a credit line of USD 100'000 was approved from POF to the SACCO Cabanillas Mañazo;
 - Monitoring and control of the product: the account and the IT system were adapted;

- The online financial information system for the new financial product was launched in March.
- 4) **Extension Phase** (August 2016 – August 2017). The objective of the extension phase was to validate, adjust and consolidate the financial product and model. Outputs were the following:
- Adjusted product “*financed lease*” in order to have a better guarantee. The policy and procedures manual were also adjusted. A more appropriate accounting manual was developed and the legal terms (contracts and templates) were adjusted;
 - Demonstrations of the correct use of assets: 120 producers of quinoa were trained in four workshops on the correct use of threshing machines;
 - Transfer of knowledge to FENACREP.

Remains to be mentioned that several challenges caused substantial delays during the project, such as the PFIs lack of IT systems, unpredictable shifts of harvesting seasons due to El Niño weather pattern, lack of funds to push the roll-out of the products and additional efforts to on-board the new president of the PFI, after elections.

Value Chain	No. of Leasings	Total amount USD	%
Microleasing - Dairy	115	137'806	60
Microleasing - Quinoa	30	49'485	15
Microleasing – Others	46	32'168	24
TOTAL	191	219'459	100

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

Cabanillas Mañazo is offering a financial product whose benefits have been recognized and accepted by the clients/SACCO members involved (11 regional suppliers of productive assets and the quinoa producers cooperative Coopain Cabana). The rural producers can now access, without further guarantee, productive assets that have different benefits like reducing cost of production, improving the quality of products, saving time, improving productivity and increasing incomes. Borrowers’ feedback shows high satisfaction with the financial product.

“With microleasing I can purchase the asset directly and do not risk using the money on something else”
 Seferino Mendoza Calle, Producer.

“Microleasing is accompanied with good support by the institution (Coopac CM) after the purchase of the asset”
 Magdalena Flores, Producer.

Dionicia Mamani Cutipa is 44 years old and lives in a rural area of Puno called Lampa. She acquired two machines, allowing her to produce higher quantity cheese in less time. She now sells the cheese in the markets of her region and even in some markets in the capital of Peru, Lima. She has been able to formalize her small company called Planta Quesera Santa Dionica.

Baillon Apaza Yucra is 58 years old, and lives in Huañoco, Cabana. He raises bovine animals and through microleasing acquired a milking machine. The machine saved him time by increasing the amount of daily delivery, between 150 to 200 liters. He also produces quinoa, for which he requested a second lease for a thresher. The thresher saves him time and effort, improves the quality of the production and reduces costs.



Partner financial institution/s level

The PFI – Cabanillas Mañazo – is well-acquainted with the product features, procedures and benefits. The number of placements is still low at present (191 microleasing contracts issued between March 2016 and September 2017), yet the concept of the model has been proven and the demand for the product is foreseen to grow, including through other value chains. Cabanillas Mañazo is expected to continue growing its membership and other financial institutions serving the area are interested in replicating and offering the product.



At the end of 2016, Cabanillas Mañazo was awarded “Best Organization” of the year by *Peruvian Company of the Year* - an award initiated to foster and incentivise healthy competition, promoting management efficiency and high-quality products and services.^{ix}

The General Manager of the SACCO, Jaime Otazú, has attributed this award to incorporation of innovative financial products, client satisfaction and successful management of international projects and funds.

“Microleasing is the main product in the expansion of Cabanillas Mañazo, the clients are very satisfied.”
Jaime Otazú, General Manager

“Microleasing is a product serving the associates, it helps them in their daily businesses.”
Mario Miranda, Chairman of the Board of Directors

Financial sector level

Through the microleasing project, SACCOs are now able to purchase productive assets on behalf of their clients and offer those assets to their members. They can now ensure a) the real use of the financial resource and b) having a guarantee on the productive asset. This reduces transaction costs and offers them better prices. Moreover, asset providers sign agreements in which better sales conditions can be offered. They also see the product as having a great potential to increase their future sales:

“We plan to continue working with the cooperative under microleasing modality, and we have expectations that the number of customers will increase. We see the benefit for suppliers, customers, and the cooperative.”
Alex Machaca Quispe, Manager Andina Importaciones SAC, Asset Supplier

“We want to continue working with the cooperative and we think the number of clients will increase, since you see the benefit for everyone.”
Willy Coaquira, Manager of Andean Emrecos del Peru, Asset Supplier

Financial institutions such as banks, as well as other SACCOS at a national level, expressed interested in replicating the model. Through the agreement with FENACREP – who supervises 159 SACCOS – it is expected to reach more SACCOS at a national level and to cover the demand for producers of other value chains.

“Microleasing is an added value for the cooperative. MiBanco is already copying us; they are leasing milking machines, but the rates we have are lower than the competition”
Abel Luna, Credit Chief of CM



4. LESSONS LEARNT^x

All project stakeholders and beneficiaries confirmed the relevance of the newly designed microleasing product. Experience shows that this product responds directly to the needs of producers at the base of the pyramid, allowing them to incorporate technology into their traditional production processes, improve their productivity, and increase income. In addition, the product has the advantage of reducing the risk of the financial transaction, which leads to reduced cost of the product.

The pilot confirmed the demand for and the feasibility of a product offering leasing of productive assets. Looking into replication and product up-scaling the following inputs should be taken into consideration:

- It is important to **consult learnings and products** (methodologies, procedures, guides) of previous experiences in microleasing; however, these should only be seen as input and cannot replace the project planning process, which should be preferably participatory and locally adapted.
- For the planning, **different kind of barriers** such as legal restrictions, diverse segmentation of target groups and adaptation processes within financial institutions need to be considered.
- In the case of projects in the agricultural sector, the **production cycle** should be considered; preferably more than one productive cycle should be covered.
- As part of the project planning, it is important to construct a **risk management matrix** that allows analysing the risks (impact vs. probability) and determining prevention and mitigation measures. In the case of agricultural projects an analysis of climatological factors must be included in the risk analysis.
- Additionally, the proposal should establish **realistic targets, sufficient resources and processes**, based on specific contexts and productive cycles of value chains, as well as related to the size and maturity of the partner financial institution(s).
- The development of a new product implies a whole process that is preferably done in **two stages**:
 - a) consolidate the product and its model of operation, including pilot applications, with the purpose to test and adjust the model.
 - b) Apply the lessons of the pilot to scale up massively
- If possible, the new products or services should be **tested in two different types of financial institutions**. For example, in the case of microleasing, it could be tested in a SACCO and a rural bank, as they have different methods to serve the target population.
- It is necessary to **minimize partnership risks**. Preferably, the pilot experience of an innovative product should be carried out in institutions with which a previous organizational and capacity building program has been done to ensure that they have the necessary competencies to implement the pilot.
- The **sustainability strategy** of the project must be planned from the early phase of the design and introduction of a new product. A **market approach** has a win-win focus for all stakeholders of the model, so that stakeholders involved should have an interest in developing and maintaining a well-functioning market. Thus, a market approach pursues the sustainability of the project. The market approach of the business model identified the incentives for the suppliers of productive assets, SACCOs and producers. The incentives are information on the financial history of the borrower producers, simplification of procedures for credits, after sales service and reducing risk of non-payment.
- Beside the selection criteria outlined in the application, the following aspects need to be considered: Timeframe & project design, selection of sector, selection of financial partners, selection and collaboration with other partners. Additional information available in the SCBF final reports for Microleasing in Nicaragua & El Salvador.
- For further information on the microleasing model, watch the video: [Swisscontact explains Microleasing](#)

ⁱ The World Bank Group (2016). World Development Indicators database. Washington, DC. <http://data.worldbank.org> (accessed 21.08.2017 and 06.02.2019)

ⁱⁱ Heritage Foundation, (2016) Index of Economic Freedom, <http://www.heritage.org/index/ranking> (accessed 21.08.2017)

ⁱⁱⁱ <https://oxfordbusinessgroup.com/overview/branching-out-wide-range-services-make-sector-regional-leader> (accessed 05.05.2018)

^{iv} <http://documents.worldbank.org/curated/en/107451498513689693/pdf/P162084-06-26-2017-1498513685623.pdf> (accessed 21.08.2017)

^v <https://www.focus-economics.com/countries/peru> (accessed 05.05.2018)

^{vi} Findex 2014. <https://openknowledge.worldbank.org/handle/10986/21865> (accessed 05.05.2018)

^{vii} www.coopac-cm.com.pe/ (accessed 17.09.2018)

^{viii} http://scbf.ch/wp-content/uploads/2015/04/SCBF_FSW-03_FeasibilityStudy_LatinAmerica_Swisscontact_Microleasing_final.pdf

^{ix} <http://www.premioempresaperuana.com/> (accessed 05.05.2018)

^x <http://scbf.ch/product-upscaling-interventions/>