

# SUSTAINABLE MICRO-CREDIT PROGRAM CHILE



**Project Brief  
2005-06**

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# Chile Sustainable Micro-Credit Program

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## Background

Chile's economy is prosperous and stable, following the transition to a civilian government in 1990 after 17 years of military dictatorship. The country is one of the most economically developed nations in Latin America with a low level of corruption and theft.

Chile has also achieved considerable improvements in key social indicators, such as infant mortality, life expectancy, coverage of primary and secondary education, and in housing during the past decade.

However, serious income inequality remains an issue. Chile has the second worst income distribution in the region, with the top 20% of the population getting 56.4% of the country's total income, while the bottom 20% getting only 4.2%.

This means that although Chile has managed to reduce the poverty rate, from 40% in 1987 to 17%, the poorest of the poor in Chilean society do not earn enough, and are still struggling to make a decent life. These vulnerable groups include women, children, and indigenous groups, who remain unemployed and under the poverty line.

The micro-enterprise sector plays an important role in the generation of employment and economic opportunities in Chile, and particularly for the poor. According to the UN's Economic Commission for Latin America and the Caribbean (ECLAC), the micro-enterprise sector at the national level represents 82% of enterprises and accounts for about 40% of those employed - about 2,000,000 people working in the production or service sectors as independent workers or entrepreneurs.

The Programa de Desarrollo Económico Social Sostenible (PRODESS or Sustainable Economic and Social Development Program) was created in 1998 to complement World Vision Chile's (WVC) activities in poor communities organized as Area Development Projects (ADPs). Its purpose is to support the micro-entrepreneurs that preferably come from these ADPs and to promote their economic and social development by means of providing credit, technical assistance and training, in order to overcome their poverty and improve their quality of life. In this context, micro-enterprise is one of the more feasible alternatives for the poor.



## Development Needs

According to ECLAC, 57.3% of the population living under the poverty line are concentrated in the metropolitan region of Santiago and its surroundings, such as Renca, Concepcion and Temuco. These people live in precarious conditions, without much knowledge and skills in micro-enterprise development (MED). The majority of those working in some form of MED are women, mainly in domestic labour, tailoring and commerce. Men are more likely to be involved in manufacturing, construction, and repair services. The Centro de Estudios de la Mujer (CEM or Women Studies Centre) has verified that micro-enterprises belonging to women are more uncertain than those of men, which is reflected in the smaller size and scale of operations, as well as their higher dependence on unpaid family labour.

For this reason, PRODESS has established a credit policy giving priority to women micro-entrepreneurs, who currently comprise 65% of its clients. In geographic terms, PRODESS' target groups are those micro-entrepreneurs coming from the poorer communities of the metropolitan region.

Although it has been verified that micro-entrepreneurs require training, technical assistance and credit to improve their management, few micro-entrepreneurs receive or have access to this type of support.

## How Project will Address Development Needs

Studies in Chile indicates that improving income within the poorest families is directly linked to micro-enterprise. To start a small-scale income activity requires only a minimum capital, adequate training and appropriate support to expand the skills and capabilities of each person. Therefore, the two key factors in increasing micro-enterprise activity are access to credit and providing support through training for the micro-entrepreneur.

PRODESS focuses its programs mainly on women micro-entrepreneurs, as studies show that the majority of the micro-entrepreneurs who live in precarious conditions are women. Also, program experience show that women entrepreneurs are better at paying their loans and in using increased income from entrepreneurial activity to either meet the family's basic needs (such as food, clothing, shelter, health and education) or reinvest in their business to increase capital.

This project will establish a branch of PRODESS that will service communities located at the north sector of Santiago, and centred at the Huamachuco ADP. The project will ensure that the micro-credit needs of micro-entrepreneurs in the area are serviced and will also strengthen local capabilities for operational and financial sustainability, ensuring the community's long-term capacity to manage the process after the project is completed in 2007.

## Development Objectives

The principal objective of the project is to establish a sustainable micro-credit program, to provide poor families access to financial services, partly owned and controlled by the women in the community of Renca. The principal indicator for this objective will be the achievement of operational self-sufficiency, and the source of verification will be obtained through the management information system.

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## Major Project Outputs and Activities

For the current project year, the major outputs and activities are:

- 1. to provide credit services:** A mixture of community banking and individual micro-credits will be provided to existing clients, while the project aims to recruit 200 new clients . The project also aims to extend another 400 new loans to existing or former clients for individual banking.
- 2. to provide business development services:** The Community Banks methodology aims to strengthen entrepreneurial skills, business development and extend training and technical assistance to our customers. New groups will be trained to enhance their skills in promotion, marketing, sales and business opportunities, adapted to the scale of their small enterprises. This will enable them to negotiate, analyse, advertise and create strategies for better results for their businesses.
- 3. project management:** A special Community Bank Coordinator has been hired and is responsible for the implementation and follow-up of this program. A new credit officer will be hired and trained for the Temuco Area. The general manager of PRODESS has final responsibility for the success of this initiative

## Project Beneficiaries

The direct beneficiaries for this project are primarily poor families that have a woman as the head of the household within the ADP areas of metropolitan Santiago, which include Renca, La Pintana, Cerro Navia and Huamachuco communities. However, the project also will benefit staff and members of PRODESS and World Vision Chile, local NGOs, local partner organizations, community organizations, and local governmental departments and governmental organizations. At the national level, the project will also benefit the whole country, as unemployment levels are expected to decrease, profitability for the poor is expected to increase, business activity is expected to increase, and the incidence of poverty at the national level is expected to decrease.

## Funding

The Project is being funded by the ANCP (AusAID and Non Government Organisation Cooperation Program). With ANCP Schemes, AusAID will fund up to 75% of the project's direct costs provided the Non Government Organisation (World Vision Australia in this case) funds the balance.

Please note that should funds received exceed the matching amount World Vision is required to raise to meet this project's budget, the excess will be used in another, similar ANCP project.