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DO CLIENTS STILL MATTER?

CONTRASTS AND EVOLUTION

By Rodolfo Quirós, Claudio González-Vega, and Pedro Fardella.

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INVESTING IN PEOPLE

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CONTENT

ACRONYMS

API	Application programming interface
ASFI	Autoridad de Supervisión del Sistema Financiero
ATM	Automated teller machine
BBVAMF	BBVA Microfinance Foundation
CGAP	Consultative Group to Assist the Poorest
CONFIE	Corporación de Fomento a Iniciativas Económicas
EDPYME	Entidades de desarrollo para la Pequeña y Microempresa
ECLOF	Ecumenical Church Loan Fund
FIE	Fomento a Iniciativas Económicas
FINTECH	Financial technology
FFP	Fondo financiero privado
GDP	Gross domestic product
GIZ	German technical cooperation agency[1]
ID	Identification document
ICTs	Information and communication technologies
IFD	Institución financiera de desarrollo
IOM	International Organization for Migration
IPO	Initial public offering
IMI	Internationale Micro Investitionen AG
MFI	Microfinance institution
MIV	Microfinance investment vehicle
MSME	Micro, small, and medium enterprises
NGO	Nongovernmental organization
POS	Points of sale
PPI	Progress out of Poverty Index
PRODEM	Fundación de Promoción de la Microempresa
PWA	Progressive web app
SAS	Sociedad por acciones simplificada
SFC	Superintendencia Financiera de Colombia
SME	Small and medium enterprises
WCC	World Council of Churches
WOCCU	World Council of Credit Unions
WWB	Women's World Banking

1 Former GTZ, GIZ since January 1, 2011

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Since its inception more than forty years ago, microfinance has been able to achieve the financial inclusion of millions of people by bringing down the barriers that impeded traditional commercial financial institutions from catering to clients at the bottom of the pyramid. The sector has since surpassed even the most ambitious milestones its early proponents visualized, far exceeding the original goal of 100 million clients, achieving sustainable large-scale efficiencies, and successfully cracking global capital markets.

Microfinance institutions have been able to achieve this largely by developing what at that time were new credit technologies/methodologies. Most of the different methodologies that emerged (such as village banking, group lending, and individual credit) were based on the creation of long-term relationships with clients.

However, through the years, microfinance institutions (MFIs) have had to adjust to changing circumstances, including the changing needs of their clienteles, increased competition, and new technologies as well as legislation requiring modifications to the enabling environment. In some instances, this has resulted in the “transformation” of MFIs into prudentially regulated non-bank intermediaries and modifications in their ownership structures and funding sources. MFIs have also had to navigate macroeconomic shocks and other systemic events.

Given all these changes, some feared that the transformative process would result in MFIs losing their focus on the bottom of the pyramid, and that it would impair the MFI-client relationship and move MFIs away from the original mission of addressing the poor’s increasing need for financial services.

This paper, funded by Calmeadow, is intended as a tool to spark further discussion and to serve as a reference point with respect to this decades-old discussion of potential mission drift of microfinance as the result of commercialization. The research summarized here addresses these issues and answer questions such as: Do corporate structures have any impact on how the client is serviced or on the MFI-client relationship? Does transforming into regulated commercial entities mean that MFIs will drift away from their mission?

There is no one simple answer. However, it became clear to the researchers that, despite all the changes and resulting challenges that the microfinance industry has undergone, the fears of mission drift from commercialization have, for the most part, not materialized. On the contrary, the data set offers many examples of regulated MFIs adhering to their mission. Further, most of the institutions that were part of this study, regardless of their corporate structure, remain committed to their target market segment.

While little or no commercialization-induced mission drift has been found, there is evidence from the data regarding increased regulation-induced mission drift. Specifically, interest-rate ceilings and other “repressive regulation”—while, in theory aiming to help the client—has in practice actually hurt the poor. Those most hurt have been clients that the legislation presumably sought to protect. In fact, interest-rate caps and other repressive regulation seem to have been recently responsible, more than any other cause, for MFIs stopping service to the poorest among their clienteles.

With respect to the future of MFIs’ long-term relationships with their clients (the “soft touch”), considering the advent of dramatic innovations in information, communications, and data management technologies, the research points to the fact that the most successful microfinance institutions seem to be those that balance physical and digital contact with the client with reasonable cost. Yet, in the Latin American context, only a few MFIs are actively doing digital finance, leaving great room to adopt new technologies. If properly introduced, such technologies would undoubtedly help MFIs become more efficient and effective in fulfilling the needs of their clients.

Calmeadow supports innovative ideas and research in the field of microfinance, ideas that promote greater efficiency and outreach through the commercial provision of financial services to low-income borrowers and microentrepreneurs. It continues to focus on the bottlenecks and frontiers of this rapidly changing sector with the goal of promoting appropriate and efficient financial services for low-income individuals and their businesses. We hope that this paper will improve the general understanding of microfinance and the advance of financial inclusion. Finally, we thank the authors of the paper as well as all of the MFIs that participated in and supported this research.

Georgina Vázquez
Calmeadow

Photo: Gioconda

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This research was funded by Calmeadow, a registered Canadian charity with operations out of San José, Costa Rica. Calmeadow seeks to enable the self-employed poor in developing countries to strengthen their enterprises and improved their standards of living and those of their families. From its humble beginnings as a family charity, Calmeadow's work has had a far-reaching effect on the impact finance industry and especially the global microfinance industry. The foundation has advocated and participated in several landmark microfinance events in recent years.

EXECUTIVE SUMMARY

In just four decades, microfinance in Latin America has achieved much and gone through multiple transformations. From the onset, microfinance focused on a clientele who had been neglected by private commercial banks and state development banks and excluded from access to institutional financial services. The outcome of varied combinations of a few key innovations, the central discovery of microfinance has been the power of the client relationship as the source of a structure of incentives that encourages very high rates of loan repayment, even in the absence of traditional collateral, and encourages both parties in the contract to invest in broadening and continuing the relationship in the long term.

Establishing relationships based on personal, face-to-face contact is expensive. While the cost reductions resulting from learning and from the accumulation of private knowledge about each other have made such investments sustainable, these costs have become increasingly challenging as a result of market-segment saturation, intense competition, and regulations that are not always conducive. Nevertheless, despite major changes, including their transformation into prudentially regulated non-bank intermediaries and eventually into banks, modifications in their ownership structures and funding sources, macroeconomic shocks and other systemic events, and the return of financial repression, the Latin American MFIs that account for the largest share of MFI clientele remain mostly committed to their target market segment. The fears that commercialization would cause mission drift to have for the most part, not materialized; among those institutions that have recently abandoned the poorest among their clienteles, repressive regulation seems to be responsible more than any other cause.

MFIs have flexibly adjusted their financial technologies to the changing circumstances, including the greater maturity of their clienteles and client protection, both that were required by legislation and induced by markets. The particular ways this has happened, and the specific movers of these processes have been too diverse to allow easy generalizations, but the central outcomes in terms of increasing product variety (multiple types of credit, deposit facilities, payments tools, transfers and remittances, and insurance, among others) and improving product conditions (loan size, interest rates, terms to maturity) are repeated within and across countries. Considering specific cases in more detail yields rich stories of continued focus on the client.

Even with the advent of dramatic innovations in information, communications, and data-management technologies, the most successful MFIs seem to be those that have managed to balance physical and digital contact with the client and reasonable costs. This document combs through the information in an effort corroborate this hypothesis.

Through a questionnaire, the authors of this report collected data more than forty microfinance organizations in nine countries (Bolivia, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Peru, and the Dominican Republic). We conducted in-depth interviews in three of those countries, in eleven organizations.

The contrasts in the performance of a diverse set of microfinance organizations operating under distinct institutional settings have made it possible to reach several central conclusions.

· A first conclusion highlights the diversity of approaches. Indeed, a broad range of different strategies have created and sustained strong relationships with the clients, including charging lower interest rates on loans, reducing the sources of transaction costs for clients, offering a wider variety of financial products and combinations of transaction attributes, supplying non-financial services, and adopting client protection practices. Diversity has been a blessing, as it has encouraged creativity and learning from a collection of competing experiments. In turn, the complexity of these diverse approaches and the heterogeneity of the clienteles have made it almost impossible to rank MFIs according to their success in achieving client centricity.

· Prejudices about mission drift and the performance of regulated MFIs have not been confirmed. On the contrary, the data set offers many examples of regulated MFIs adhering to their mission, sustaining the outreach of their target clienteles, supplying more varied and less costly services, and developing strong relationships with them.

· Regulation matters. It allows the economies of scale that come from larger size and the economies of scope that come from offering a broader set of services. Lower costs of funds and more effective portfolio diversification add further economies. This is mostly reflected in lower loan interest rates, and clients of all sizes benefit from these effects, in particular those with smaller transactions.

· Although little or no commercialization-induced mission drift has been found, there is evidence from the data and from expert opinion about increasing regulation-induced mission drift. Repressive regulation hurts the poor the most.

· Digital finance is gradually gaining attention, but adoption is still quite slow, even at the largest organizations, where the main use of mobile and web-based applications is for recharging prepaid mobile-phone services and for informative purposes. Promising increases in productivity were reported by organizations using tablets in the field. Better connectivity, the speed of the demographic transition, and the ability to make internal adjustments will constrain the digitalization of microfinance.

· Correspondent agent networks are being implemented by many MFIs, with mixed approaches (own agents versus third-party payment booths) and satisfaction levels regarding transactions limited basically to loan repayments and deposit movements.
· Additional services complement credit transactions, but progress in some cases is slow. Debit and credit cards have a very limited presence: fewer than ten MFIs in the sample offer a debit card. A growing number of MFIs offer deposit facilities and savings products, although in some countries MFIs that became regulated several years ago have not yet received authorization to mobilize deposits. Insurance is now a component of the product portfolio of most MFIs, even non-regulated organizations.

Almost all MFIs have developed policies for client protection, managing complaints by financial clients and assuring the transparency of information.

· Developing a typology of MFIs according to their methods for achieving proximity and implementing client centricity is virtually impossible. The set of characteristics that explain a close relationship with the clients is too large, diverse, and contingent. This makes it unfeasible to classify MFIs with very diverse strategies under a single category.

Where, then, lies the secret to success? The conclusions of this study attempt to provide some answers. We hope that we provide here a sufficiently rich portrait of the industry in Latin America for readers to explore their own hypotheses.

DO CLIENTS STILL MATTER?

Rodolfo Quirós, Claudio González-Vega, and Pedro Fardella[2]

I. INTRODUCTION

Many years have elapsed since the first microfinance institutions (MFIs) were established, with the aim of supplying financial services to poor segments of the population excluded from access to traditional financial institutions. Most MFIs began their operations as nonprofit organizations, frequently as development projects that included a set of interventions, including credit. Soon thereafter, these nongovernmental organizations (NGOs) began to innovate and develop their own credit methodologies. In time, they became more sophisticated and some were incorporated into the regulated financial sector.

The first initiatives demonstrated that reaching the poor, in addition to furthering an important social goal, was also an attractive financial business. They also demonstrated that, no matter how important the social objective was, self-sustainability was essential for success.

As a result, microfinance soon caught the attention of local and international commercial and impact investors, which began to direct resources to the industry in search of the attractive returns that it had yielded in its early years. Microfinance gradually became recognized as an industry with a double-bottom-line objective: outreach and sustainability. From this point on, the landscape of microfinance began to change. The industry no longer included only institutions with a strong social mission, but also participants with a purely commercial objective.

Some of the newcomers included private commercial banks that were "downscaling" (either directly or indirectly, through other entities created or purchased for that matter), while other non-bank for-profit organizations emerged in time. Some sectors have disapproved of the absence of an explicit social mission in some cases, arguing that such organizations' practices tend to take advantage of their clients and may worsen their situations.

Some active MFI NGOs today continue to refuse to transform into regulated financial institutions, for fear of experiencing "mission drift." They argue that they can avoid the risk of mission drift by remaining NGOs. However, these NGOs are not considering that precisely because of their social mission, they should be providing, in addition to loans, other financial services that are as important or even more so for the target populations, such as deposit facilities for savings. Such services can only be provided by regulated intermediaries; to provide them is to push the frontier of financial inclusion in regions and for populations where other commercial financial organizations are not interested or able to reach.

The main objective of this study has been to understand if actual differences exist between the range and quality of the services provided to target clienteles by these different classes of institutions. In particular, the study set out to analyze if being a nonprofit organization with just a social mission translates into better services for clients, stronger client relationships, and broader outreach, resulting in larger numbers of poor clients, and, conversely, if being a profitable, regulated MFI results in a lower quality of client service and weaker relationships. To understand these contrasts and their evolution over time, the study examines how client relationships are created and sustained. The multiplicity of MFIs contacted offers a rich array of characteristics that expand the boundaries of the analysis outside the limited context of a regulated-versus-unregulated discussion.

2 Rodolfo Quirós is a freelance consultant and a researcher at Academia de Centroamérica in Costa Rica. Claudio Gonzalez-Vega is Professor Emeritus at The Ohio State University. He has been a Trustee of the BBVA Microfinance Foundation, since 2007, and he was Chairman of the Board of Trustees from April 2016 to December 2018.

Due to austere budget constraints, the study is intended to be exhaustive or to arrive at statistically significant results. It is, rather, a mostly qualitative analysis, consistent with the data collected from a wide set of MFIs in different institutional settings. Thus, although the scope of the study originally asked for a set of seven countries, to seek explanations in a broader set of environments the number was increased to nine:

1. Bolivia
2. Colombia
3. Ecuador
4. El Salvador
5. Guatemala
6. Honduras
7. Nicaragua
8. Peru
9. Dominican Republic

These countries were selected to include a combination of mature microfinance markets (Bolivia, Colombia, Peru, and Ecuador) and microfinance efforts in less developed financial centers (El Salvador, Guatemala, Honduras, and Dominican Republic).

Further, the initial list of twenty-seven MFIs was eventually increased to forty-one (see Annex 2 for a complete list of the organizations included, per country). The enlarged set of microfinance organizations allowed the research team more room for comparisons within and across countries.

The following are examples of the diversity of characteristics sought:

1. Large and small MFIs
2. Regulated and non-regulated
3. Urban and rural
4. NGOs, non-bank intermediaries, banks, cooperatives, private finance companies, municipal cajas
5. Individual and group lending
6. Diverse shareholder composition
7. Agricultural and non-agricultural bias

These and many other characteristics, including regulatory and institutional settings, create a dynamic matrix in which the components are combined in different ways, which influence how the different MFIs create and sustain relationships with their clients.

The methodology used for data collection was a mix of instruments, which made it possible to gather abundant information for the whole set of MFIs in the "sample" as well as more in-depth information for a smaller set of organizations. These tools include:

- A questionnaire
- A review of statistical data
- Financial statements
- Direct interviews

The questionnaire included more than forty questions, addressing topics such as credit services, savings deposits, insurance, other financial services and products, the structure of the MFI, financial client protection, ownership, financial statements, and measurement of poverty (see the instrument in Annex 3). A financial-inclusion approach was adopted, prompting us to inquire about:

1. Depth of outreach (clienteles of special interest)
2. Variety of services
3. Credit technology
4. Transaction features
5. Channels (physical and digital)
6. Customer protection

Some of these topics were examined in a more detailed manner through the field visits implemented in eleven MFIs in Bolivia, Colombia, and Peru (see list of organizations in Annex 2).

The rest of the document is organized into five chapters. Chapter II explains how MFIs' relationships with their clients have evolved over time. Chapter III summarizes the interesting characteristics observed in several of the MFIs visited, with a special emphasis on one per country (Banco FIE in Bolivia, Bancamía in Colombia, and Caja Arequipa in Peru). Chapter IV contains findings, grouped under the financial-inclusion topics listed above. Conclusions are presented in chapter V.

II. THE EVOLVING ROLE OF THE CLIENT RELATIONSHIP

As recently as three decades ago there was a broad consensus among bankers and policymakers that a self-sustaining institutional provider of credit and other financial services for the household-cum-microfirms of the poor was a self-evident impossibility. Yet the microfinance revolution evolved from a few modest, donor-intensive NGO initiatives willing to grant small, short-term loans to alleviate poverty into a diverse financial market sector, with a growing number of profitable, self-sufficient, commercially viable, prudentially regulated actors that gradually became capable of delivering a broad range of financial services to assist clients in pursuing their objectives, including escaping poverty.

Numerous barriers, particularly hard to overcome for the poor, make the production of financial services costly. These barriers lead to a technological challenge: how to produce these services at a reasonable cost. Indeed, if the problem is technical, then the solution must be technological: to find new ways to overcome the obstacles. The magic of microfinance as an innovation—in contrast to traditional banking technologies—is in offering new ways of producing financial services for the poor, in a more cost-efficient and sustainable manner and in ways better adapted to their circumstances. Moreover, the transformation of microfinance over time has been a multifaceted process of innovation.

Gathering and interpreting information about the loan applicant's risk profile (screening), designing incentive-compatible contracts that discourage moral hazard, monitoring the borrower's behavior, and enforcing contracts are costly activities, and mistakes lead to losses from default. Distance (geographic, ethnic, cultural, or social) can become an insurmountable barrier, while covariant outcomes threaten the lender with systemic risks. Different lending technologies attempt to address these obstacles in various ways. Each assigns different transaction costs to lenders and borrowers.

Typically, in traditional banking technology, lenders set up branches in urban and periurban locations and ask potential clients to go there to process applications, disburse funds, and make repayments. To resolve the challenge of distance, the banks invite applicants to "come" to them. The challenge of information is addressed by requiring audited financial statements, tax returns, feasibility studies, and investment plans, while parametric scores are used for consumption credit.

The relationships are impersonal; hard information is required for every single transaction. Incentives to repay emerge from collateral, typically a mortgage on real estate or the pledge of some tangible asset (liens). Contracts are enforced through judicial foreclosure. When the clients live and work far away; when they speak different languages or do not trust formal institutions; when they are informal and keep no accounting records; when they are too poor to own assets eligible as collateral; or when they take out loans too small to be worth judicial enforcement, a traditional banking approach is inappropriate technology.

In contrast, due to innovations introduced by microfinance technologies, loan officers overcome distance by visiting applicants at their businesses, farms, or homes, by speaking their language, and by being familiar with social and cultural norms. Instead of inviting applicants to "come," they promise to "go." This is a fundamental paradigm change that places the client at the center and transfers transaction costs from borrowers to lenders, enhancing efficiency. In turn, in individual-credit technologies, information is gathered in situ, through screening processes that recognize the indivisible unity of the household or firm and are implemented by experienced loan officers who can assess potential borrowers' tangible and intangible characteristics, such as honesty, reputation, creativity, and hard work. The credit decision relies on soft information and the accumulation of personalized knowledge over time. An implicit contract emerges through direct contact between clients and loan officers. In group credit technologies, some tasks are delegated to the client's peers (village bank members), whose diligence is secured with appropriate incentives such as joint liability.

Usually, incentives to repay loans result from threats of the loss of some asset in case of default. In a traditional banking technology, the borrower's tangible assets are at risk: land and house in the case of mortgages; vehicles, cattle, or equipment in the case of liens. In microfinance, it is mostly the borrower's intangible assets at risk. Some goods may be taken as nontraditional collateral because of their value in use rather than their market value: there are no secondary markets for used refrigerators, half-broken television sets, or dining tables. Reputations are at stake, particularly in group credit technologies, with the threat of loss of access to other market transactions and the erosion of one's social capital when the borrower's reputation is stained by delinquency in loan repayment.

The most important innovation of microfinance has been the extended use of the client relationship (in particular, the present value of the expected stream of future services) as an incentive to repay. A microfinance contract implies a direct, face-to-face relationship between the two parties, which is mutually valuable. This relationship creates rights and obligations for both and generates the structure of incentives that determines their behavior. Borrowers repay in the expectation of improved future service, while the institution must credibly promise to be there when the borrower returns for additional services (in other words, it has to be sustainable to be able to deliver on the implicit promise). Thus, while the borrower's obligation is to repay as agreed, the right and expectation are to be rewarded for punctual behavior with improvements in the vector of terms and conditions of the relationship with the lender. In turn, the lending institution has the right to collect on the loan (to protect the equity that will determine its future ability to pursue its mission and serve other clients), while its responsibility is to protect its capacity to deliver the expected future services by remaining sustainable and thus credible and to encourage the client loyalty that develops over time. Borrowers discovered much value in these contracts and invested in the creation of long-term relationships, while lenders discovered that loan delinquency among those clienteles was so low that reasonably priced loans could generate sufficient net revenues to cover lending costs and make their institutional efforts sustainable.

Microfinance has thus been relationship banking for the poor. It has allowed greater individualized knowledge and direct contact with the client, thus reducing risks of default, making it possible to grant ever larger loan sizes at longer terms to maturity and creating opportunities for the sale of other financial services through a gradual progression of a relationship. Coordination, an appropriate incentive structure for loan officers, and costly internal-control structures are required. Lower costs are associated with the consumer-credit technologies of retail stores and other lending to salaried workers based on the stability of their employment, which belong to the "hard information" class of approaches. In saturated markets, competition triggers more attractive terms and conditions, which may lead clients to become overindebted, as incentives to repay erode and insufficient information about the clients is shared across lenders.

Progress in information, communications, and data-management technologies (ICTs) is changing the competitive advantages of different market actors. Automated platforms, electronic payments, mobile banking, and data-mining methods may lead to more frequent transactions but also to less personal contact, while accounting for sharper operational cost reductions in the case of hard rather than soft technologies. When MFIs selectively adopting cost-reducing ICTs, they should make sure that they do not destroy relationships and counter the challenge with additional innovations in lending procedures, more systematic learning. They must continue to use their advantages of proximity, more intimate knowledge of clients, and the strength of relationships. Even in the age of digital connectivity, the survival of microfinance will depend in part on the sustained value of client relationships.

The value of client relationships is multidimensional and conditional on several circumstances. A microfinance relationship is valuable to the extent to which it facilitates taking advantage of unexploited productive opportunities. This value depends on the nature and marginal profitability of these opportunities. It is also valuable if it reinforces available tools for consumption smoothing and risk coping. This precautionary role of microfinance can, in turn, increase the client's willingness to innovate, adopt new technologies, and invest. The relationship is also valuable if it is reliable, and its reliability is mostly determined by the sustainability of the institution. Finally, the value of client relationships depends on the quality of the services provided (such as "being treated with respect"), the versatility of services, and the credibility of the contracts embedded in the relationship, which is conferred mostly by the image of robustness of the financial organization.

The vector of terms and conditions that shape the quality of a client relationship includes a long list of attributes. Among them, the size of the transaction matters a lot. When a loan is too small (given the client's ability to repay), as a percentage of loan size the borrower's transaction costs, which usually are mostly independent of loan size, would be too high. For the same reason, the lender's transaction costs will also be too high, leading it to charge to very high interest rates, if not to completely exclude the applicant from the loan portfolio. In turn, if the loan is too large, expected default will increase and, if unable to repay the loan, the client will lose the assets pledged as collateral and will be impoverished.

Finding the right size of loan is the essence of the art of lending. Moreover, when the loan is too small compared to the client's demand, the funds will be insufficient to pursue the desired productive activity, forcing the borrower to seek additional funds from other sources and incur further costs. Finally, loans that are too small can only trigger too small positive impacts, possibly negligible. In contrast, loans that are too large and cannot be repaid always trigger negative impacts.

The value of client relationships depends on the total cost of funds (interest payments plus non-interest transaction costs) for the borrowers as well as on the net return on deposits (interest earnings minus depositor transaction costs). These magnitudes also include the attached risks, like the risk of losing treasured assets, in the case of foreclosure of loan guarantees, or the risk of losing the amount deposited, in case of inflation or the institution's insolvency. Moreover, clients will be more willing to invest in the relationship if they expect that, as the relationship evolves, these prices and risks will decline. The value of client relationships also depends on how the products offered match the client's circumstances and demands. This includes terms to maturity that are compatible with the client's investments and amortization schemes that correspond to the client's cash flows. This value depends on the timely disbursement of the loan funds and on the convenience and safety of deposit facilities. It also depends on the variety of services offered and how easy it is for the client to benefit from economies of scope in dealing with a single financial-services provider.

Clients with different risk preferences and time-discount rates value these vectors of terms and conditions differently. A key dimension of the client relationship is for the institution to be able to "grow with its clients," offering changing loan sizes, as their businesses progress and providing a wider range of products, as the maturation of those businesses may require. The institution should also be able to "change with the times," adopting new information, data management, and communication technologies and adjusting to demographic changes.

The emergence of microfinance in Latin America in the 1980s resulted from pilot project initiatives that created new knowledge about the credit process, engaged in learning, and developed and validated several variants of village banking, solidarity-group credit (and the joint liability that accompanied this technology), and individual microloans. The value of client relationships played a key role in these experiments. Their NGO origin and comparatively modest size facilitated personalized relationships, while their exceptional portfolio performance reflected the strength of these relationships. The eventual transformation of MFIs into prudentially regulated entities induced both positive and negative effects on the value of client relationships. An important determinant of the net effect has been the extent to which the regulatory framework has been repressive or conducive to innovation and stability. Thus, depending on the prudential regulators' understanding of the different risk profiles, more flexible or more rigid prudential norms have been introduced for microfinance. The more rigid norms have reduced the freedom of these institutions to meet clients' informality with services that match their specific requirements.

Regulation allowed MFIs to increase their scale by attracting new sources of funds and thereby lower their operational costs. Most importantly, it allowed MFIs to mobilize deposits from the public and in other ways expand the variety of their services. The best outcomes were achieved in countries where there was a joint learning process between the regulator and the MFI and where financial repression was avoided (particularly interest-rate ceilings). Further, prudential regulation, institutional strengthening, a more professional management, and market access to funds led to innovations in ownership. Both impact investors and private shareholders were added to the ownership structures, leading to the commercialization of microfinance.

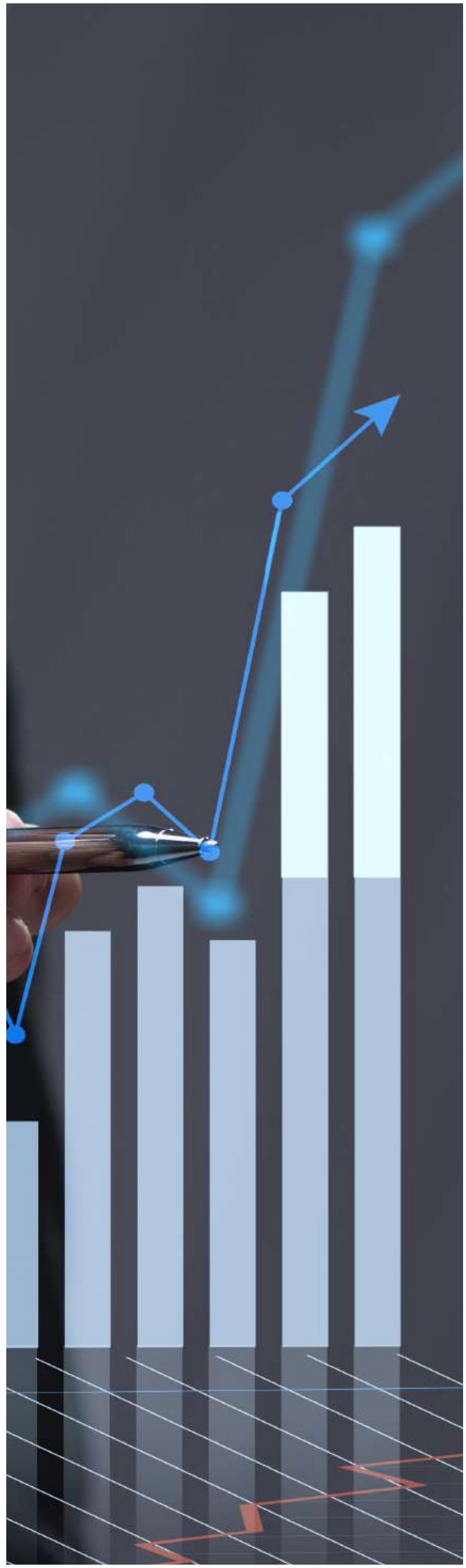
This, too, had both positive and negative consequences on client relationships. Profits became not just a mechanism to protect the sustainability of the institution and a tool for further expansion, but also an incentive for new types of shareholders and managers with diverse objective functions and different degrees of commitment to the institution´s mission. Some feared "mission drift," a name for MFIs abandoning their original small and poor clients and migrate to portfolios dominated by (still small but) larger clients. This is a threat, particularly for MFIs that are less focused on cultivating long-term client relationships and more focused on generating quick profits. More patient investors have avoided mission drift while accompanying their clients in their evolution and growth. Several have gained economies of scale from adding other clienteles to their portfolios and sharing the gains from these economies in the form of lower interest rates for their traditional clienteles. In contrast, village banks and other organizations that serve only very small clients continue to charge very high interest rates.

Finally, the return of financial repression has been destroying client relationships in several countries. Paradoxically, the reintroduction of interest-rate ceilings, portfolio quotas, financial-transaction taxes, and other distorting or constraining regulations have particularly hurt the smallest and poorest borrowers.

By reducing the freedom of financial intermediaries, particularly the freedom to generate enough revenues to cover their costs, these regulatory institutions have chosen to limit their losses by concentrating all their efforts in the least costly clienteles, especially those that generate larger transactions. As a result, several original microfinance clienteles have been excluded from access because the regulated prices do not make it sustainable to continue relationships with them. Subsidized interest rates have been accompanied by more than proportional increases in non-interest transaction costs, making the total cost of credit higher than before the regulations.

All of this has lowered the value of client relationships for the poor. Some clients have been entirely excluded from microfinance portfolios, while others no longer find services that match their requirements. Many have been forced to return to informal moneylenders as their source of funding. The numbers and proportion of small and poor borrowers have declined, while the institutions have attempted to survive the repressive regulation by moving their services to supply less-disadvantaged clienteles.

The mission drift revealed by recent data has been induced more by regulation than by commercialization.



III. CASE STUDIES IN BOLIVIA, COLOMBIA, AND PERU

To gain more in-depth knowledge about client relationships, the authors of this study visited eleven MFIs in three different countries: Bolivia, Colombia, and Peru.

These cases reveal a variety of ways in which MFIs "get close" to their clients: expanding into rural areas; transforming into a regulated financial intermediary (which allows them to offer a wider variety of services at lower costs); supplying comprehensive packages (with financial and non-financial services); operating in locations where, at least initially, not all MFIs had been willing to go; facilitating bonding with their clients through shared religious beliefs. In the process, their operations have become more complex, demanding sophisticated management techniques, processes, information systems, and personnel profiles, while financial regulation, in some countries, has negatively affected the quality of the services offered.

In one case—that of Banco FIE in Bolivia—a more detailed description is provided to illustrate the evolution of its client relationships over time as well as the impact of several shocks on the value of these relationships. Key relevant features about the rest of the MFIs visited are reported, as well, in particular for Bancamía in Colombia and Caja Arequipa in Peru, to highlight how they have attempted to strengthen the quality of their value proposition to the target clientele. The diverse initiatives reported show how MFIs continue to focus on client centricity.

1. BancoFie

In a very illuminating fashion, the historical trajectory of the Banco para el Fomento a Iniciativas Económicas S.A. (Banco FIE) has reflected the diverse stages of the outstanding and dynamic evolution of Bolivian microfinance.[3] This history reveals the challenges that the institution has met, at each of those moments, to protect the role of the client relationship. It also shows how, from the end of 2013, the implementation of a new regulatory framework with several repressive edges, gradually came to represent the greatest challenge that the institution (as well as the Bolivian microfinance system) has ever faced in its efforts to preserve the focus of its operations toward its original clientele: microenterprises managed by poor, self-employed households.

FIE was created in late 1985 as an NGO. From the beginning, it prioritized relationships with its clients. This inclination represented a deep conviction on the part of the five founding women, led by Pilar Ramirez, about the importance to success of cultivating clients' mutual respect and trust.

Right at the start of the credit operations, this inclination was made clear, in particular, by the adoption of individual credit technology. This choice, which reflected the founders' vision, quickly became a competitive advantage. With individual loans, the founders sought to "demonstrate that this clientele was like that of any other financial institution and that it did not need special credit methodologies, for individuals who could not pledge tangible collateral." This was an ethical stance as well as a remarkable intuition about the nature of this segment of the market, and it would eventually be amply rewarded.

This display of trust in clients cast an image of respect and acknowledgment of their dignity by the institution. Clients responded with strong demand, which fed FIE's rapid portfolio growth, and the punctual and impeccable fulfillment of their credit obligations. In addition, FIE provided its clients with a short training program, prior to disbursement, about accounting, costs, and marketing, which contributed to their loyalty.

Even today, older staff members remember the names of the 200 clients they reached at the beginning of the individual credit program. This proximity and the direct knowledge of the clients allowed the institution to learn lessons and improve the lending technology in a very flexible way. Many women who did not have identification documents (ID) obtained them after receiving loans.

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3 Prepared by using several institutional documents. We are grateful, in particular, for conversations with Ximena Behoteguy, Chair of the Board of Banco FIE; Noelia Romao, General Manager of CONFIE; José Luis Pérez; and Claudia Escobar.

FIE received US$500,000 of funding from the Small Projects Division of the Inter-American Development Bank (IADB), despite its very limited experience, and developed a methodology unprecedented in Bolivia. It did so on the basis of its close knowledge of its clientele and was driven by a strong commitment to supply services adapted to the economic activities of poor, informally employed clients who were struggling to survive after Bolivia adopted structural-adjustment measures to stop hyperinflation. The deep social crisis was reflected by high formal unemployment rates in the mid-1980s.

(PRODEM), created in 1986 to operate with solidary (joint-liability) credit groups. In 1992 PRODEM gave birth, from its urban portfolio, to the first commercial bank specializing in microfinance, BancoSol. PRODEM also continued its own operations, mainly in rural areas. The NGO Procrédito was also created in 1992, with support from the German group IPC, and adopted the individual credit technology.

In this context, FIE competed by charging lower interest rates, about one-third the rates charged by the competition (which is typical of individual credit institutions, in contrast to those of group credit or village banking). It also competed with the expansion of its service channels, thanks to the investment of 80 percent of its profits in the network. The first branch opened in La Paz, followed by another in El Alto, to take advantage of the greater concentration of clientele in these cities. Soon after came twelve additional branches. The operation was characterized by austerity, with manual records and controls.

In its early days, the credit program funded the productive activities of household microenterprises. By 1989, one of the main lessons FIE had learned was to recognize the importance of commercial activities, particularly for poor women. With this insight, FIE began to channel funding to both production and trade. This implicit recognition of the fungibility of money and of the livelihood strategies of poor households was the result of FIE's strong interest in understanding its clients' circumstances and of feedback from the loan officers, who learned from their proximity to clients.

The successful Bolivian experience with microfinance led the prudential authorities to the creation of a specialized non-bank charter: the fondos financieros privados (FFPs).

This change allowed microfinance NGOs to invest in a shareholding corporate structure (sociedad anónima) for the management of their financial intermediation activities under prudential supervision. In 1995, the NGO Procrédito was the first one to be transformed into a regulated entity; it became Caja Los Andes FFP.[4] In August 1997 FIE received authorization to incorporate an FFP, which began operations in March 1998. A small group of individuals created the sociedad anónima, in addition to the NGO as the main shareholder. With the resulting profits, the NGO continued to offer training programs.

This transformation had an important positive impact on FIE's relationships with clients. The new charter allowed it to mobilize deposits from the public—a critical step toward broadening its menu of services, made evident by the strong demand for deposit facilities. At the same time, with the transformation, FIE increased its credibility and reputation, which allowed it to access other funding sources in addition to deposits. Thanks to the resulting financial intermediation, FIE was able to further lower the interest rates it charged on loans.

All of these circumstances led to the rapid growth of its clientele, both for deposits and for loans, in addition to accelerating its geographic expansion. At the time of the transformation, FIE already had a portfolio of US$12 million, 24,000 clients, and a presence in five of the country's seven departments. From this, growth accelerated. By mid-2018, Banco FIE had 155 branches and 360 service points.

A strong exogenous recessive shock hit Bolivia in 1999, followed by a sharp contraction of the financial system. This adverse event coincided with the collapse of financial companies that had attempted, with an FFP charter, to implement a consumer-lending technology based on parametric scoring in Bolivia. Their failure generated strong negative externalities for the microfinance FFPs.

Given the inherent impossibility of joint-liability credit groups to self-insure against systemic shocks, the lending technologies of BancoSol and PRODEM collapsed during the crisis, and these institutions had to embark on a painful transition toward individual credit technologies.

4 For a review of early transformations and lessons learned in the Bolivian microfinance industry and elsewhere, see Silva, Khaled, and Beshay, 2018.

In strong contrast, the market share (including banks and all other intermediaries in the system) of the institutions with experience in individual microcredit, FIE and Caja Los Andes, sharply increased. These institutions were better positioned to adjust credit contracts individually on the basis of their intimate knowledge of their clients.[5] This benefited both the institution, with lower default rates than the rest, and the clients, who did not see the progress of their credit relationships interrupted.

The momentum resulting from the growth of the FIE FFP led the NGO FIE, in 2001, to cross borders. Knowing about the widespread presence of Bolivian migrants in some informal sectors in Argentina, they created FIE Gran Poder S.A., an institution that has kept its leadership in that country. Despite its relevance, however, the new institution distracted resources and pressured the (financial and managerial) capabilities of FIE. For this reason, among several others, the NGO FIE looked for new strategic partners (Blue Orchard Private Equity Fund S.C.A., today Bamboo Finance, and then Vincent Burgi and the funds of Petterlaar Effectnbewaarbedrijf N.V.).

In June 2008, this group of shareholders incorporated in Madrid the Corporación de Fomento a Iniciativas Económicas S.L. (CONFIE) as an investment holding corporation which acquired a shareholding position in the two institutions developed by the NGO. The initial vision was to make investments in several Latin American institutions, but the requirements of the growth, strengthening, and consolidation of the two original investments, particularly after the organizational and regulatory changes in Bolivia, advised CONFIE to focus on the latter country.

With a significant impact on the relationship with the clients, also in 2008 FIE adopted the promotion of food security as a component of its mission and it expanded the network of rural branches. To this effect, it developed an agricultural credit technology that allowed it to become the second-largest bank in agricultural funding and the bank with the largest micro-agricultural portfolio in Bolivia.

With this agricultural credit technology and emphasis on value chains (in particular oleaginous crops and livestock chains), the institution has funded small peasant producers in the three zones of the country: the plains, the valleys, and the highland.

These loans are accompanied by market access and technical assistance to small producers, offered by the NGO FIE. This is why FIE was chosen for a strategic partnership with Rabobank: for knowledge transfer agronomy, risk, product design, and agricultural portfolio management. All of this has led to the development of a green portfolio and to greater awareness about the environmental impact of FIE's activities.

After a year of negotiations and intense internal preparation, in 2010 the FFP transformed into Banco FIE. Currently, the ownership structure consists of the CONFIE holding (in which the NGO is a majority shareholder) with 54 percent of the equity, Oikocredit (16 percent), Developing World Markets (10 percent), and six small individual shareholders (20 percent). This shareholding structure has attempted to keep the institution's essence and preserve its values.

With the enactment of new banking legislation (Financial Services Law) toward the end of 2013, Banco FIE had to choose between becoming a SME bank (focused on small and medium enterprises and with lower regulatory requirements) or a multiple (universal) bank. It decided to adopt the latter legal status. The transformation into a bank in 2010, its implementation of the new law and regulations, and its decision to become a multiple bank have had numerous implications for client relationships. Given the speed of the changes and the short time elapsed, it is difficult to separate the implications of each. Nevertheless, we highlight some dimensions of the transformation below.

On the one hand, its transformation into a multiple bank has allowed the institution to offer a broad range of financial services, way beyond credit and deposit facilities, including payments for utilities and other services as well as electronic banking. FIE had to quickly grow its service points and diversify its channels to reach a scale that would justify larger operating expenses and lower transaction costs for clients. This has contributed to an increase in the breadth and quality of its outreach.

The more complex management of its operations has required different skills, and the founders have retired. In general, it has become necessary to reinvest in human capital, both bank staff and clientele. Today clients are more demanding: they have been empowered (even by legislation) with explicit rights and know them well, and they demand access in real time and through alternative channels (ATMs, credit and debit cards, mobile phones).

The information system that had been developed in-house was no longer sufficiently supple to respond to client demand, fulfill internal-control requirements, and generate the many reports demanded by the prudential authority. Solving this required a huge (and costly) technological leap. The clients have benefited from the variety of new services offered (including digital services) as well as the further reduction of transaction costs.

The resulting operational costs and pressures from both competition and the prudential authority have made it necessary to incorporate new clienteles. One is small and medium enterprises, in many cases the outcome of the successful natural growth of existing clients. Earlier, FIE had been dealing with them via microcredit technology. Changes in the market and new regulation (which compels clients to register as formal enterprises, to possess audited financial statements, and to pay taxes) have forced FIE to develop a new credit technology tailored to the new circumstances. Today, these small and medium clients represent 10 percent of FIE's portfolio.

FIE also decided to incorporate a select group of corporate clients, chosen for their dominant presence in value chains of interest to the institution (dairy and soy, among others), and with this became the banker for the whole value chain. The fifty exclusive corporation clients that deposit their funds with the bank represent 80 percent of the funds mobilized by the bank; the activity they generate sustains the business. Thanks to this, FIE has not needed to seek credit in the market. All of this contributes to additional reductions in interest rates, which benefit all clients, while the institution grants discounts of one or two points to the best clients' interest rates.

On the other hand, the excessive regulation introduced by the new Ley de Servicios Financieros, independently of some good intentions, has seriously hurt FIE's relationships with poor clients. First, the binding portfolio shares to be devoted to productive loans and credit for social housing (homes with a value of less than US$150,000, accessible to the new Bolivian middle class) have led to a reduction in the portfolio for trading and services, activities in which poor households specialize, particularly women. Many of the clients with these jobs have been forced to migrate to pawnshops and daily loan operators, where they pay very high interest rates.

5 Gonzalez-Vega and Villafani-Ibarnegaray, 2011.

This is a paradox, given the interest-rate ceilings introduced by the legislation. Most of those hurt by this mandate have been microcredit clients: the lower rates demand greater efficiency at the bank, which is achieved by abandoning the smallest clients and focusing only on larger enterprises. In general, FIE and other Bolivian banks no longer grant loans lower than US$5,000, which has led to the financial exclusion of the poorest.

Guided by its mission, however, FIE has initiated special efforts to recover its former microcredit clients by introducing comprehensive, high-quality financial solutions with special emphasis on younger clients. Among its popular programs has been the cajita de ahorro (savings box), directed at inducing children to save. It also offers a financial education program, for which 55 percent of the participants have been women, 73 percent young people, and 12 percent rural. In client surveys, 87 percent have indicated satisfaction with these services.

TABLE 1

FIE. General Information, Dec. 2017			
Years operating	33	Credit clients	211,292
Employees	3212	Loan portfolio-US$	1,457,436,414
Credit officers	1033	Average loan size-US$	6,898
Women credit clients-%	49.04	Savings clients	1,062,798
Rural credit portfolio-%	24.98	Total deposits-US$	527,579,555
Financial income/average loan portfolio-%	89.9	Equity-US$	138,313,552
Branches	84	ROE-%	10.7
ATM (own and third parties)	139	ROA-%	0.82

Source: FIE

The exclusion induced by the legislation has been worsened by excessive regulatory requirements. Currently, FIE allocates sixty officials specifically to address the prudential authority's requirements (most of which are unjustified). The smallest MFIs (instituciones financieras de desarrollo, IFD, or development financial institutions) do not possess a large enough scale to bear these regulatory costs; thus, many of the clients excluded from FIE have not been able to migrate to these other entities.

In summary, Banco FIE, in its origin as an NGO, adopted a stance of close proximity to its clientele and privileged its client relationship. Along its historical trajectory, despite institutional transformations and exogenous shocks (macroeconomic and regulatory), it has been quite successful in keeping its focus on the client, thanks in good measure to the presence of shareholders and officials who have emphasized this approach. This predisposition has been recently harmed, however, by repressive regulation. Paradoxically, those most hurt have been those clients the legislation presumably sought to protect. From this history, one may perceive how regulation can facilitate better relationships with clients (as with the FFP) or repress them. When the latter is the case, the poor suffer the most.

2. Bancamía

The genesis and evolution of Bancamía, in Colombia, resemble the mix that characterizes many successful MFIs: founded by a set of intelligent professionals from different fields, usually with nonfinancial backgrounds but with lots of contagious enthusiasm; steady growth up to a certain stage; then taking one or another particular approach to stay competitive in more mature markets and cope with the complexity and internal-control challenges that come with a much larger scale.

The roots of Bancamía go back to the 1980s, with the creation, in Bogotá and Medellín, of two microfinance NGOs: the Corporación Mundial de la Mujer Colombia and the Corporación Mundial de la Mujer Medellín. Both were associated with Women's World Banking (WWB), an international microfinance network that had an important share of its membership—five MFIs—in Colombia's main cities: Bogotá, Bucaramanga, Cali, Medellín, and Popayán. All became outstanding financial organizations with a strong focus on client relationships, growing fast in their original regions of influence without competing in the others' territory. As their growth potential increased, however, they continued expanding even in the cities where their sister MFIs were based.

By 2006, these organizations needed to strengthen, formalize, and enlarge their scope of services.[6] There were talks of mergers, without any successful outcome. Finally, in 2008, Bancamía S.A. was created as a result of a merger of Corporación Mundial de la Mujer Colombia and Corporación Mundial de la Mujer Medellín and the addition of a strategic shareholder, the BBVA Microfinance Foundation (BBVAMF), with 51 percent participation. The new entity transformed into a bank, in which the original NGOs became shareholders. In 2010 the International Finance Corporation (IFC) of the World Bank acquired preferential shares and became a shareholder (until 2017, when the option became due and these shares were purchased by the three original shareholders). The institution has benefited from the FMBBVA's banking expertise combined with the local knowledge of the NGO shareholders.

At the same time, the Banca de las Oportunidades, a government initiative established in 2006 to promote financial inclusion,[7] was exerting pressure on the banking sector to downscale. Other WWB members, including the Fundación WWB Colombia, based on Cali, and the Fundación Mundo Mujer, based on Popayan, were advancing toward regulation. There already was one regulated microfinance operation: a private finance company, Finamérica.

The timing was crucial from a competitive point of view. Bancamía became the first microfinance bank in Colombia, with 170,000 clients, a loan portfolio of 336,000 million pesos (US$157 million), seventy branches in thirty-one cities, and a share of rural credit in its portfolio of 2 percent.[8] Ten years later, as shown in table 2, Bancamía had reached 330,358 active credit clients, with a credit portfolio of 1,232 million pesos (US$412 million).[9] Rural loans account for 44 percent of the total credit portfolio, an impressive figure considering the 2 percent proportion a decade earlier, including 28 percent of agricultural lending. This is an important achievement in terms of both financial inclusion and credit risk management, since the operation has expanded to regions where the commercial bank efforts of downscaling have not reached, and the over indebtedness present in the largest cities has, fortunately, not yet emerged.[10]

Colombia is a country of "capital cities" (i.e., capitals of departments or states), where financial operators are concentrated (Bogotá, Medellín, Cali, Bucaramanga, Armenia, Pereira, and Barranquilla). Outside these cities, there are an estimated 14 million clients and a diverse set of non-bank financial operators, but no commercial bank presence.

TABLE 2

Bancamia. General Information. Dec. 2017			
Years operating	10	Credit clients	330,358
Employees	3,434	Loan portfolio-US$	412,761,602
Credit officers	1,682	Average loan size-US$	1,249
Rural credit portfolio-%	44.4	Savings clients	880,653
Financial income/average loan portfolio-%	37.40	Savings-only clients	581,014
Branches	199	Equity-US$	123,331,590
Non-financial correspondents	10,214	ROE-%	6.03
Total employees	3,434	ROA-%	1.53

Source: Bancamia

As a regulated financial institution, Bancamía has widened the variety of services it offers, particularly with regard to deposit mobilization, which now accounts for more than 880,000 clients, of which over 500,000 are deposit-only clients. Moreover, almost all depositors hold demand deposits—96 percent—and, of these, 55 percent are women. On the other hand, 36 percent of their depositors being rural is very revealing from a financial-inclusion perspective.

Bancamía's estimates that 84 percent of its credit clients are in or vulnerable to poverty, according to the FMBBVA definition (which is three times the country's poverty line). In particular, 24 percent of the clients are in poverty but not extreme poverty, with an average per capita monthly surplus of US$60, nearly US$2 per day, while 9 percent are in extreme poverty (with an average monthly surplus of US$26, less than US$1 per day).

6 See, for example, Corporación Mundial de la Mujer Colombia, http://www.cmmcolombia.org/quienes-somos/.

7 Banca de las Oportunidades promotes access to credit and other financial services, particularly for micro and medium-size enterprises and entrepreneurs: http://bancadelasoportunidades.gov.co/index.php/en/who-we-are?current=/home.

8 Fundación de Microfinanzas BBVA, 2019.

9 The quadrupling of the loan portfolio in pesos, is somewhat obscured when expressed in US dollars, as a result of a large depreciation of the Colombian peso.

10 The commercial banks' downscaling efforts have melted in several cases, and the banks now show a decreasing trend in their loan portfolios or have moved out of microfinance (e.g., Bancolombia and Colpatria).

The remaining 51 percent are vulnerable to but not in poverty, with an average per capita surplus of US$132 per month. After four credit transactions, 57 percent of Bancamía's clients leave their initial poverty condition but another 14 percent fall into poverty, for a net gain of 43 percent in poverty alleviation.

For Bancamía, the future lies in:

a. Rural presence. The institution has a well-defined rural strategy, with 200 branches that allow the MFI to operate in 951 municipalities, out of a total of 1,101 countrywide. It has developed 44 percent of its portfolio as rural outreach. Further, the recent Peace Agreement opens a great opportunity to reach many more regions where operations had not been possible before. Bancamía has entered into an agreement with USAID to aggressively expand its operations among displaced and demobilized populations.

b. Digital finance. Internet banking and electronic wallets have a lot of potential. While some MFIs are already providing these digital services, Bancamía is barely beginning, with just a few users. Constraints to growth include a lack of connectivity in distant rural areas and low numbers of prepaid mobile phones. Of the million clients that the bank had in 2018, just 70,000 had access to mobile banking for consultation, transferring funds between accounts in Bancamía, and recharging mobile phone accounts (the most frequently used function).

c. Mobility. Bancamía (and the FMBBVA as a whole) emphasize the "mobility" of their "productive development executives." This initiative aims for the loan officers to perform all credit evaluation and other contract decisions in the field and for clients to handle the majority of services possible—not only credit—in the presence of these commercial officers, who carry tablets that are synchronized from the field, or at the branch. The potential is great: so far, only 30 to 40 percent of the tablet's functionalities are in use, yet officers are already sustaining personal contact with the client while reducing by 50 percent the time of response to clients (clearly an officer with a tablet can do more than one without).

d. Deposit mobilization. Bancamía is committed to promoting and generating higher savings rates; it does not want to have only a payments ecosystem). The institution is convinced that MFIs' target population saves and demands deposit facilities. There is a sense of immediacy about savings in the target population, they say, though they have yet to solve the problem of the cost of saving, namely the transaction costs associated with the distance to a physical branch. ATMs and mobile applications may solve this problem. The MFI does not have its own network of ATMs, but it has access to a third-party system of 1,300 for the whole country.

e. Non-financial correspondents. Bancamía is clearly betting on expanding its network of correspondent agents, as shown by the strong increase in its own network: from 40 in 2017 to 160 in May 2018, with low rotation. The bank's clients also have access to the Baloto system, with more than 10,000 booths countrywide.

Bancamía's strategy is, therefore, increasing financial inclusion in different ways: offering financial services to rural and agricultural populations, promoting deposit mobilization, further reducing transaction costs, deploying varied types of offices closer to the client, and speeding up service with faster applications. In this process, it is increasingly relying on digital finance solutions.

3. caja arequipa

The origins of this Peruvian MFI are historic, as they are closely linked to the success story of the individual credit technology in the global microfinance industry. The Caja Municipal de Arequipa was named after the city where it was founded, the second most populous in the country. It was created in 1985, and it began operations the following year, as a nonprofit organization under the license of Caja Municipal de Ahorro y Crédito, a municipal savings and loans entity. Since then, the provincial municipality of Arequipa has been its only shareholder.

Photo: Gioconda

The technical support for institutional organization and credit technology was funded by the German cooperation agency (GIZ[11],), through a project implemented by the Sparkassen-Finanzgruppe under the leadership of Claus-Peter Zeitinger. The consultants brought the experience of the German savings banks to Peru; between 1984 and 1996, they assisted in creating thirteen cajas municipales—Arequipa was the first —and establishing the federation of Peruvian cajas.[12]

The German banks also replicated the Sparkassen's tripartite collegiate management (finance, credit, and administration), among which the general management of Caja Arequipa alternated. Full municipal ownership of the caja introduced a major political risk in the institution. Thus, the collegiate management was designed to protect the caja against political interference, among other reasons.

The Sparkassen system's lending technology of small individual loans was also introduced in Caja Arequipa, adapted to the Peruvian environment. In doing so, Caja gave birth to one of the most successful credit technologies in the microfinance industry worldwide, driven by Zeitinger's IPC (a consulting firm that provided technical advice on best practices in microfinance technology, and the precursor of today's ProCredit group).[13]

Many well-known microfinance programs started in Asia and in Latin America in the 1970s and early 1980s, implementing group lending technologies (such as village banks and solidarity groups with joint liability): for example, Grameen in Bangladesh, Accion's BancoSol in Bolivia, or FINCA's operations in Bolivia and Costa Rica. Unlike today, group lending was the norm and not the exception in what was then called the microcredit industry. Caja Arequipa's small individual loans were thus a pioneering effort.

The first loan product introduced was a jewelry chattel-mortgage loan. This was followed by different credit products, including individual loans without collateral based on the clients' cash flow. Caja Arequipa later engaged in savings mobilization and many other services, and today it offers a broad range of products.

Photo: Gioconda

11 Named GTZ at the time)

12 Finanzgruppe, 2019.

13 IPC still operates as a consulting firm, providing advice to financial and educational organizations in the area of MSME financing (see www.ipcgmbh.com). In addition, an investment arm was created (Internationale Micro Investitionen AG, or IMI, later renamed the ProCredit Group), a holding that owns around twenty banks in Eastern Europe, Latin America, and Africa (www.procredit-holding.com).

In 2010, Caja Arequipa issued negotiable certificates of deposit, a landmark for cajas municipales in the Peruvian market. In 2017, through a public offer, it issued corporate bonds with a four-year term to maturity, under the supervision of the Superintendencia de Mercado de Valores (Superintendency of Securities).

In its thirty-two years of operation, Caja Arequipa has become one of the leading MFIs in Peru, as measured by its loan portfolio, number of clients and, in general, overall market positioning (see Table 3). It is well regarded internationally as a sound and successful organization that meets its social objective and mission.

TABLE 3

Caja Arequipa. General Information, June 2018

Years operating	32	Credit clients	352,845
Employees	3,779	Loan portfolio-US$	1,288,249,173
Credit officers	1,969	Average loan size-US$	3,651
Rural credit portfolio-%	28.0	Savings clients	821,262
Financial income/average loan portfolio-%	21.4	Total deposits-US$	352,125,752
Branches	131	Equity-US$	190,143,610
ATM (own and third parties)	620	ROE-%	17.2
Non-financial correspondents	10,065	ROA-%	2.1

Source: Caja Arequipa

In recent years, Caja Arequipa's impressively high growth potential has allowed it to advance to first place in the municipal microfinance ranking of Peru, after a long period of lagging behind cajas Piura and Trujillo, which had been alternating in the top two positions for many years.

This successful performance has been the combined result of several strategies. On the one hand, it implemented an aggressive plan to increase its points of sale (POS) network. As shown in table 3, it operates 131 branches and over 10,000 non-financial correspondents. The latter are a combination of around a hundred Caja Arequipa agents and agents of the Kasnet network, a private firm that provides the service to different institutions, competitors, and other financial and non-financial organizations.

Correspondent agents make it possible to avoid the hassle of going to a branch, which can be time-consuming. As with the agents of other financial organizations, however, these points of service offer a limited number of transactions: they basically operate as booths for paying loan installments or for making withdrawals from savings accounts. In the case of agentes Caja Arequipa, clients can also pay for other services. Arequipa has over 600 ATMs, 156 of which are its own; the rest belong to a third-party network.

A client centricity approach has been retained over the years. Focus groups with clients, organized for this document, have highlighted Arequipa's proximity, its transparency, and the quality of its overall customer service. Additional features of Caja Arequipa that are highly valued by its clients are its zero-fee policy and commitment to respecting the advertised number of days for loan disbursement.

Briefly, Caja Arequipa's client centricity strategy has been focused on physical proximity, which reduces transaction costs for the clients, and on a value proposition that offers attractive conditions and characteristics, especially for credit products.

Photo: Yannel

Photo: Gioconda

4. DIVERSE PATHS TOWARD CLIENT CENTRICITY

There are different ways in which microfinance organizations adapt to the needs of excluded market segments: operating in rural areas, financing certain economic activities, providing non-financial services of different natures, facilitating the implementation of value-chain finance, or developing financial education programs. Several MFIs are briefly described below, along with their strategies to maintain close relationships with their clients. Differences and similarities in the creation and preservation of client relationships are also described.

a.

CRECER is a nonprofit association created in Bolivia in 1985 by Freedom from Hunger.[14] In 1990, the founder gave it a Bolivian identity as Crédito con Educación Rural, named in recognition of the importance of both credit and training for improving the lives and empowerment of its target clientele: poor rural women in the highlands. Village banking technology was the only approach CRECER used during its first nineteen years of operations.

After transforming into a financial NGO in 1999, the organization rapidly expanded a branch network throughout the whole country. In 2009, CRECER began to offer insurance services and individual loans in an effort to respond to the needs of its most advanced clients and prevent their desertion. With the largest portfolio among the instituciones financieras de desarrollo and with over 190,000 clients, by 2017 it was third in terms of breadth of outreach among all types of financial institutions in Bolivia, after BancoSol and Banco FIE, if the state-owned Banco Unión is excluded. It has earned several awards and recognitions as one of the best village banking programs in the world.

Sustaining the client relationship has been CRECER's chief concern, and it pays close attention to forming social capital (in the village banks) and to the human capital of its mostly female clientele. The greatest challenge in introducing individual loans in addition to village banking has been training human resources, at all levels, in the new technology and educating clients in the differences between the two technologies.

In turn, to achieve measurable results, its originally comprehensive training programs increasingly focus on preventing cervical cancer (the leading cause of death for women in Bolivia). The program, in addition to public campaigns and alliances with other organizations, persuaded 35 percent of its clients to take regular checkups in 2017, making it the Bolivian organization with the highest rate of success, including the government (the nationwide figure was only 24 percent).

Overall, CRECER has maintained its original mission by continuing to build social and human capital, focusing on women borrowers through group lending, providing non-financial (health) services, and supporting the growth of part of its clientele with larger individual loans.

b.

Contactar is a nonprofit civil association of mixed participation in Colombia. It was established in 1991 as a technical assistance supplier, and four years later it began to offer credit services in urban areas. By 2000, it expanded its operations to the rural sector. Its current ownership is threefold: an environmental-protection group, a craftwork firm, and a non-microfinance financial organization. Several years ago, Contactar began to replace the group that had led the administration through most of its evolution with executives with a banking profile, including experience in regulated microfinance organizations.

Contactar is based on Pasto, near the border with Ecuador. As of December 2017, it had 90,000 clients, a loan portfolio of US$87 million, an average loan size of slightly over US$1,000, and minimum amounts of around US$200. More than 80 percent of its portfolio is rural credit and 56 percent is agricultural lending. Female borrowers account for 40 percent of clients, and individual lending is the predominant credit technology (98 percent). The MFI relies on the traditional methodology for credit analysis: credit committees and decentralized loan application analysis.

14 Based in the United States, this NFO is known for combating hunger through self-help programs (www.freedomfromhunger.org).

Photo: Yannel

Contactar is committed to expanding its rural and agricultural portfolio while emphasizing efficiency and growth. As it highlights, not all financial organizations are willing or capable to disburse microloans in distant mountain regions to dispersed clients. Further, as part of its social performance objectives, it offers extensive training and technical-assistance programs on sustainable agriculture and financial education.

c. ECLOF | Colombia

The Ecumenical Church Loan Fund (ECLOF) Colombia is a non-regulated MFI established in 1986. It is a member of ECLOF International, a church-related network that promotes social justice and human dignity through microfinance.[15] Unlike other microfinance programs, the ECLOF network has avoided the image of an assistance-based program by giving religion a subtler presence.[16] In Colombia, ECLOF began to operate as a nonprofit corporation, and in 2007 it changed to a limited responsibility firm. In 2010, it changed again to its current status of sociedad por acciones simplificada (SAS, simplified shareholder company), a type of incorporated firm that allows for a single shareholder and simplifies the process of capital contributions

This microfinance organization had, at the end of 2017, a US$2.8 million loan portfolio, with 2,385 clients and an average loan size of US$1,157. Its credit methodology is fully based on individual lending and, from 2013 to 2017, increased the rural and agricultural share of its portfolio to 40 percent and 29 percent, respectively, as of December 2017. During this period, female borrowers reduced their participation from 57 percent to 51 percent, probably reflecting a mostly male agricultural sector.

Over the years, ECLOF's mission has remained focused on providing credit and non-financial services, but it has been adjusted in the last five years to include rural lending, as part of a strategy to avoid highly competed and overindebted urban markets. Further, training and technical assistance have gained a more relevant role: 80 percent of ECLOF Colombia's profits are now invested in these programs, for both clients and non-clients. It has developed eight different training modules, with an initial emphasis on financial education.

d. Banco PYME Ecofuturo

A Bolivian microfinance organization, Ecofuturo received its banking license in 2014. Its origins go back to 1999, when the Fundación para Alternativas de Desarrollo (FADES), an unregulated MFI, led a group of three other NGOs to create Ecofuturo FFP, a non-bank regulated charter. At the time, FADES had an important outreach, with sixty-one branches and a rural and agricultural credit technology that was praised by studies.

As of early 2018, Ecofuturo had eighty-one branches (46 percent in rural areas), a US$421 million loan portfolio, and 53,487 credit clients (33 percent female). It relies exclusively on individual credit technology, with the traditional decentralized credit analysis and credit-bureau consultation for all loan applications. It does not use or plan to use a credit factory or score. Ecofuturo does offer debit and credit cards as well as online services and mobile applications. Deposit mobilization amounted to US$408 million (379,647 clients), financing 96 percent of its lending operations. It offers three types of insurance (life, accident, and health), with over 21,000 active policies.

FADES ended its activities and transferred its portfolio to Ecofuturo in 2008, which has since focused on developing new technologies for facilitating financial and health organizations to expand their outreach to faraway communities. This is reflected in the bank's priorities, particularly its objective of enhancing services through mobile channels instead of the traditional physical or branch channels. It is focused on segmenting its clientele not by the usual parameters of sex, region, or age but through a matrix or micro-segmentation, identifying the appropriate channels for smaller market niches—a kind of mass customization facilitated by new technologies, mobile banking in particular.

15 Its parent ground, the Ecumenical Church Loan Fund (ECLOF) was established in 1946 and operates in Africa, Asia, and Latin America through thirteen MFIs (www.eclof.org). It is related to World Council of Churches (WCC), a worldwide inter-church organization founded in 1948, and to Oikocredit, a microfinance investment vehicle (MIV) (www.oikocredit.coop).

16 ECLOF even changed the group's logo (a cross over the waters), which WCC and Oikocredit still use.

In short, Banco Ecofuturo's value proposition is based on taking advantage of new technologies for improving the depth of its outreach, adapting its services to each specific clientele. It is aware of the challenges it faces and the need to enhance financial education to confront cultural apprehension in some segments about using mobile technology for financial transactions.

e. Mundo Mujer
El Banco de la Comunidad

Banco Mundo Mujer is a Colombian organization that has been operating as a bank since early 2015. It was originally created in 1985 as Fundación Mundo Mujer by Women's World Banking (WWB), a "global nonprofit devoted to giving more low-income women access to the financial tools and resources they require to build security and prosperity."[17]. It is based on the northern city of Popayán and has a national outreach, including offices in most of the largest cities, with the exception of Medellín. The NGO Fundación Mundo Mujer and its two subsidiaries are the main shareholders, with 90 percent participation.

The bank has 172 offices and 52 non-financial agents of its own, as well as agreements with Bancolombia, to use its correspondent agents, and 21 private firms, to use their thousands of payment booths (seven at a national level and the rest with regional outreach) to collect regular payments. Its lending portfolio was over US$500 million in early 2018, with 561,000 borrowers (58 percent female and 12 percent in rural areas), an average loan size of less than US$900, and a minimum loan size of US$280. Almost all of its lending operations (98.9 percent) have no real collateral; productivity per credit officer amounts to 248 clients. Total deposits (US$332 million and 634,000 clients) accounted for 67 percent of the loan portfolio. It offers two types of life insurance, one for all borrowers and another for their families, with a total of 1,235,206 active policies.

Banco Mundo Mujer acknowledges the difficult transition to prudential regulation status after operating for twenty-eight years as an NGO. It took five years of preparation to cope with becoming regulated with a microfinance (not microcredit) objective. It wanted to take advantage of the new status from the first day by offering a variety of products, without neglecting the quality of service or the corresponding risk management.

Further, the bank wanted to enhance its quick, high-quality service through easy access to its products. This came first with multiple payment facilities and later with applications that allow clients to view product information. At the time of our field visit, Banco Mundo Mujer was working on both, enhancing the apps in order to conduct transactions and developing an innovative digital banking tool. It has also been working on tools for facilitating credit analysis efficiency, through routing and other mobile phone applications.

To summarize, Banco Mundo Mujer's client centricity is based on taking advantage of its bank charter to offer a multiplicity of services—not only credit—and lowering transaction costs for borrowers through agile disbursement and lending amounts that better satisfy demand (ideally in one place). The clients we interviewed confirm this agility in credit analysis and disbursement, especially for smaller loan sizes, and the increase in maximum loan size, a request they had expressed for years that was finally granted after Mundo Mujer became a bank.

f. RAÍZ
Te entiende. Te cumple.

This Peruvian MFI was established in 1999 as Entidad de Desarrollo para la Pequeña y Microempresa (EDPYME), a non-bank charter that allows to deposit mobilization. In 2016 it merged with Caja Rural de Ahorro y Crédito (CRAC) Chavín, a small rural credit union in the Ancash department north of Lima with more than fifty years of history. Both financial organizations now constitute CRAC Raíz, with over fifty offices in twelve out of twenty-four departments.

The new MFI is basically owned by the original Raíz group (97 percent of equity), with individual shareholders holding the remaining 3 percent. As of early 2018 it had a total loan portfolio of over US$240 million and 94,506 credit clients, most located in urban areas (97 percent). The overall average loan size is US$2,560; micro and small enterprises average US$1,442 and US$7,962, respectively. Productivity was 185 clients per loan officer; female clients represented 45 percent of total clients. Micro and small enterprises account for 62 percent of the total credit portfolio, while consumption credit has a 21 percent share and medium enterprises 11 percent. Further, total deposits were US$131 million, financing 55 percent of the lending portfolio.

17 WWB operates through forty-nine organizations in thirty-nine countries (www.womensworldbanking.org).

Sometime down the road, Raíz adjusted its mission to be more comprehensive, shifting from providing microfinance services to offering timely financial services and adapted to clients' needs. Raíz, much like Ecofuturo in Bolivia, highlights the need for discrimination among more delimited market niches and adapt the products and the value offering clients' changing preferences. Its officers state that the clientele has changed: clients are now entrepreneurs, not the poor. Additionally, they highlight that the information barrier has disappeared or decreased considerably, as many clients are now in different databases. This makes physical contact with the client less important: by the time the credit officer reaches the micro-enterprise, Raíz already knows much of what it is needs to know.

Raíz bets on intensive information use in order to offer its clients, borrowers in particular, quick service at the latter's location, thus combining the minimalist approach that characterized microfinance's early days with modern technologies.

g. Diaconia
Institucion Financiera de Desarrollo

Diaconía is a twenty-eight-year-old microfinance foundation in Bolivia, created by the Norwegian Mission Alliance (Misjonsalliansen), a Christian NGO.[18] Diaconía began its lending operation in 1991 in La Paz and quickly expanded to nearby El Alto, a city with a higher working-class concentration, where it is currently based. In 2016 it received a license to operate as an IFD, the same non-bank charter as CRECER (see above in this section); both are regulated by the Autoridad de Supervisión del Sistema Financiero (ASFI, Financial System Supervision Authority). The IFD status allows for deposit mobilization, though no organizations under this charter have yet received authorization to do so.


Photo: Yannel

Diaconía began with individual credit technology and in 2002 introduced group lending. Now 31 percent of the portfolio is under the village-banking methodology. The MFI operates nationally, with sixty-one branches in eight out of nine departments, but it is highly concentrated in La Paz (75 percent of its credit portfolio) and in urban areas (69 percent). Almost 60 percent of its loans are below US$10,000; as of early 2018, the total lending portfolio was US$152 million, with 67,745 clients (38 percent women).

The organization is openly Christian and some clients call it the "brothers' bank" or say that Diaconia gives them "blessed money"; once a week it holds devotional services in all offices, which not changed with regulatory status.[19] Although being Christian is not a requirement to work there or receive a loan, the organization does appreciate that their collaborators and clients share their Christian values and admits that this works in their favor in terms of portfolio risk. On the other hand, it emphasizes financial education, particularly for group lending; regulation, however, has forced it to shift toward written materials instead of initial sessions at the periodic meetings of the village banks. The village bank clients we interviewed expressed their desire to receive a second (simultaneous) loan through group or individual credit methodology, but regulations impede this for someone already with a group loan, even if it is in two different financial organizations and regardless of payment capability.[20] An additional issue is client retention in certain branches; this has been successfully confronted with environmentally oriented lending projects.

Diaconia's approach is based on its religious beliefs. This has strengthened the rapport between the organization and its collaborators and between it and its clients. Regulation, however, has posed challenges as a result of non-prudential threats to the survival of the village banking methodology and as a consequence of higher requirements for back-office personnel, which has forced the MFI to hire experienced staff instead of training Christian candidates.

18 See https://www.misjonsalliansen.no.

19 Interviewees shared the anecdote of ASFI officers participating in the devotionals.

20 Regulations have also forced Diaconía to formalize the "internal accounts" of group borrowers, a key feature of village banking that represents an alternative source of financing (emergency loans). Both regulations could diminish the relevance of group lending in the MFI's portfolio.

IV. FINDINGS

The answers of more than forty MFIs to the questionnaire reveal a number of interesting facts that offer various degrees of support for the conclusions reported in the next chapter. These facts show the extent to which the MFIs in the sample have achieved client centricity on the basis of their original missions, and the extent to which they have remained faithful to their missions given inevitable adjustments to changing circumstances over several decades. These facts are described in this chapter.

1. Depth of outreach

The depth of outreach measures the value to society from the financial inclusion of clienteles that deserve special social or political attention, such as women, peasants, households living under the poverty line, migrants, indigenous populations, the elderly, the young, and those displaced by armed conflicts or natural disasters.[21] What matters is the MFI's success in reaching any of these clienteles in pursuit of its own mission and through developing financial technologies appropriate for the target clientele rather than in compliance with a state mandate or as a condition from a particular source of financing. There are, indeed, many lessons to learn from the failure of directed credit programs.[22]

a. Women clients. Microfinance has evinced concern about gender inequality and women's empowerment since its early days. While some MFIs (particularly in the village banking group) focus almost entirely on women, over time many have relaxed this focus and have gradually reached out to men, particularly true as the MFIs have moved from urban to rural areas and have begun to lend to men engaged in agriculture. Moreover, loans to men are typically larger than loans to women, so the female share among the clientele is higher than their share in the portfolio.

Furthermore, because prudential regulation and commercialization have allowed MFIs to offer a wider range of services, the potential clienteles have also diversified (including along gender lines). Also, MFIs deploying an individual lending technology, which focuses on the whole household as the unit of analysis, show a lower proportion of women among their clients than those using group credit technologies.

Interestingly, worldwide attention to women's issues in recent years has induced some MFIs to reconsider their gender strategies and get involved in efforts to reduce legal barriers to women's ownership of assets and access to digital connectivity and finance.

TABLE 4

Women participation. Top 10, Dec. 2017 (%)

MFI	2017
Pro Mujer Nicaragua	90
Fundeser	76
ECLOF Dominicana	75
Espoir	68
Adopem	67
Crecer	64
Coopaspire	61
FAMA	60
Banco Mundo Mujer	58
Génesis	57

Source: Calmeadow

As a result of these complex trends, some portfolio concentration in the hands of female clients still prevails, particularly among NGOs. This is somewhat counterintuitive, as lending to low-income women might be considered riskier (and still is, among many banks), since frequently women are not the owners of household assets or have limited decision power over them. The actual experience of microfinance has shown, however, that poor women are reliable borrowers who account for very low default rates, even lower than those corresponding to men. Among the reasons for this disparity, it is likely that women prefer smaller projects with lower rates of return but safer outcomes, while men are less risk-averse and are likely to experience fewer losses of social capital in case of default.

Of the whole study sample, 70 percent of the organizations' portfolios consist of at least 40 percent loans to women. Some MFIs still fully or predominantly specialize in providing financial services to women, such as Pro Mujer Nicaragua (see table 4 above and table 8 in Annex 4), where loans to women account for 90 percent of its portfolio, and ECLOF Dominicana (76 percent). Moreover, the loan portfolios of some financial organizations that do not have an explicit policy of financing mainly women reveal important female participation, and the trends are increasing. Such is the case of Fundeser in Nicaragua, which between 2013 and 2017 went from 67 percent to 76 percent of loans to women, and D-Miro in Ecuador, where this share evolved from 45 percent to 52 percent. For many of the MFIs with a strong focus on women, this share has remained above 60 percent and has been fairly stable.

b. Agricultural credit.

Farmers are exposed to exogenous risks such as weather and pests and suffer from high transaction costs for both parties in the contract. Thus, lending to them has not always been a priority for financial organizations, MFIs included. An additional challenge is the need to develop a credit technology adjusted to small farmers. However, there are countries where the microfinance industry has traditionally had a strong agricultural bias, as is the case of Nicaragua.

21 González-Vega, 2000.

22 Adams, González-Vega, and Von Pischke, 1987.

In the sample, 60 percent of the organizations studied have some proportion of agricultural lending in their portfolios, and 30 percent have more than one-fifth of their loan portfolio going to agricultural financing. An outlier in the sample is Contactar in Colombia, with a 56 percent share of agricultural lending.

Other institutions with large proportions of their portfolio in agriculture are ODEF in Honduras (37 percent), FDL in Nicaragua (35 percent), and IDEPRO in Bolivia, which has focused on value chains (34 percent). In recent years, FDL and Fundeser in Nicaragua and ODEF in Honduras stand out for their sustained growth in agricultural lending, which has been faster than their loan portfolio growth.

Other MFIs that have experienced rising shares of their agricultural portfolio are Bancamía in Colombia (from 14 percent in 2014 to 21 percent in 2017) and Financiera Confianza in Peru (from 14 percent in 2014 to 19 percent in 2017, despite the adverse impact of El Niño), both part of the BBVAMF group. The large numbers of total clients in both cases means that these institutions are reaching very large numbers of small farmers. Several other MFIs, notably Sembrar Sartawi IFD in Bolivia, have become leaders in agricultural lending innovations.[23]

c. Clients in poverty. One of the objectives of microfinance organizations has been to provide services to segments of the population typically excluded from access to traditional financial intermediaries, such as low-income populations or households living under the poverty line. Many of them have legitimate credit demands (based on their productive opportunities) and are indeed potential clients for the lending services offered by MFIs. For others, however, credit is not the solution; they require special assistance, such as transfer payments from the state, but could also benefit from deposit facilities, payments instruments, insurance, and other services from MFIs.

Different methodologies are used to measure clients' poverty condition, so comparing results is impossible. For all the MFIs participating in the study, 53 have implemented some measurement of the poverty condition of their clients. Of these, the majority (64 percent) are regulated intermediaries and half of them are "old regulated.[24]" Client poverty measurement is thus more frequent among regulated organizations.

The most frequently used methodology by all types of organizations, regulated and non-regulated, is the Progress out of Poverty Index, or PPI.[25] This index, based on correlating poverty with a few indicators, quantifies the share of clients who live below the poverty line, assesses outreach of the MFI among the poor and poorest, and tracks poverty levels over time. Few MFIs directly measure household income and compare it to the national minimum wage or the national poverty line.

Finally, at least one financial intermediary (ODEF, Honduras) mentioned using the SPI4 methodology of Cerise, a social assessment tool that examines six different dimensions of the organization's performance.[26]

Particularly noticeable has been the effort of the institutions in the BBVAMF group which includes Banco ADOPEM in Dominican Republic, Bancamía in Colombia, and Financiera Confianza in Peru, among the institutions in this study, and three other MFIs in Chile and Panama. Using a common methodology that compares the household firm's per capita surpluses to the national poverty line in each of five countries, these organizations have been following the entire population of their clients over the past seven years. The methodology differentiates households in extreme poverty (9 percent of the 2 million clients in the institutions of the group, with an average monthly per capita surplus of US$51), in poverty but not extreme (19 percent, with an average per capita surplus of US$81), and in vulnerability, defined as being below three times the country's poverty line (52 percent, with an average per capita surplus of US$171). As a result, over 80 percent of their clients have been at least vulnerable.

23 Sivila Peñaranda and González-Vega, 2016.

24 "Old regulated" are financial institutions that became regulated before the most recent law regulating financial NGOs went into effect in 2016.

25 The Progress out of Poverty Index methodology was developed by Mark Schreiner for the Grameen Foundation.

26 Zeller, Lapenu, and Greeley, 2013. See http://www.cerise-spi4.org/faqen.

Further, each client was followed to identify changes in their poverty condition over time. By 2017, after three transactions, 58 percent of the originally poor clients had generated surpluses above the poverty line, but 21 percent had fallen into poverty, with a net gain of 37 percent in poverty alleviation. After five transactions, those numbers are 67percent out of poverty and 18 percent falling into poverty, with a net gain of poverty alleviation of 49 percent. These results are for households that sustain their client relationship, as they do not account for attrition, and the foundation does not claim any attribution of the results to its services. The methodology simply follows the poverty status and other features of the clients over time.

Other types of populations served by MFIs in the study are migrants (Banco ADOPEM in Dominican Republic) and indigenous and "displaced populations" (Bancamía in Colombia). The latter includes all those affected by the armed conflict, who had to flee from their villages and are now returning due to the recent peace agreement. Working with migrants is a great challenge, given their mobility, which is usually confronted with smaller loans through group lending technology. This is the case of ADOPEM and Amanecer (not part of this study), both working with Haitian migrants in the Dominican Republic.
Also not in the study group, Fundación Mujer in Costa Rica works with Venezuelan migrants through an alliance with the International Organization for Migration (IOM). Much may also be learned from FIE Gran Poder in Argentina, an MFI whose clientele has an important share of Bolivian migrants. The MFIs visited also has programs targeted at younger clients, particularly focused on savings services.

2. Scope of outreach
Another dimension of the quality of the relationship is the scope of outreach, or the variety of the financial services offered. As mentioned in chapter II, the microcredit industry has evolved from a single product ("microcredit") to offering a wide range of financial services ("microfinance"), such as loans, deposits, insurance, remittances, other types of transfer payments, and, for some MFIs, even non-financial services. The study collected information regarding some of those services, which is summarized below.

a. Credit. From the original short-term credit supply, the industry has indeed evolved to offer much longer terms to maturity, in some cases as long as those offered by traditional universal banking (several decades). They finance almost all activities, from working capital to investment to consumption to housing (particularly progressive construction, but in some MFIs also home purchase and construction).[27] Agriculture is in some cases the exception, as explained above. Consumption credit is present in several MFIs, but with an explicit ceiling, since it is considered a riskier activity given its "non-productive" nature; however, consumption loans represent a way of competing against credit—and now loans—offered by stores and merchants. They are a complement in the value offer to the typical self-employed microfinance clients. Lending to salaried workers has proven to represent a very different type of credit risk, which requires a different lending technology.

With regards to the type of credit technology, there are a few organizations in the study that are specialized in either village banking (i.e., CRECER in Bolivia and Pro Mujer in Nicaragua), or solidary (joint-liability) groups (Compartamos in Peru).

Individual lending prevails, but many MFIs have a very small portion of their portfolio in group credit. In some cases, the MFIs resort to village banking technology in order to reach specific market niches with particular characteristics, such as Haitian migrants in the Dominican Republic (Banco ADOPEM).

The questionnaire also asked about leasing and factoring, but just a few microfinance organizations offered these products. In the case of leasing, some examples are Fundenuse (Nicaragua), Credicampo (El Salvador), ADEMI (Dominican Republic), Espoir (Ecuador) and Raíz (Peru). Raíz and ADEMI also offer factoring services.

b. Savings. As the number of organizations operating under prudential regulation has increased, deposit facilities are now more visible (44 percent of the MFIs in the study offer them), but this is a slowly growing trend.

26 Zeller, Lapenu, and Greeley, 2013. See http://www.cerise-spi4.org/faqen.

27 Progressive housing refers to the process of financing at the house level a series of construction procedures (e.g., repairs, improvements, expansions) in stages, which allows the MFI to finance low-income borrowers who are creditworthy for the individual projects but would not be if all the activities were undertaken at once.

28 Rozas and Erice, 2014.

In Bolivia, a large group of financial NGOs have become regulated in recent years, under the new charter of institución financiera de desarrollo (development finance institution), but the regulation does not yet allow for deposit mobilization. In Nicaragua, the largest NGOs are now regulated as private finance companies (FAMA, FINCA, Fundeser, and FDL), but all of them, including FAMA (with many years operating as a supervised organization), do not yet mobilize deposits. A contrasting experience is revealed by Banco Mundo Mujer in Colombia, which preferred to apply for regulation when it was ready to offer savings services. It is fair to add that internal circumstances, as well as regulatory constraints, have a strong influence on the speed with which those services become part of a regulated MFI's product portfolio.

It must be pointed out that, despite the importance of deposit facilities for lowering the cost of financing the MFI's lending activities, just having a large number of savings accounts is not a sign of successful performance from a financial inclusion perspective. A large share of those accounts may be inactive (opened to disburse a loan and were never used again), or the level of transactions may be limited (for example, two transactions per month, one by the employer depositing a salary and another for full withdrawal).[28]

c. Insurance. The majority of the MFIs examined (84 percent) offered some kind of insurance. In almost all cases, there is loan insurance in case of death, the cost of which is explicitly or implicitly charged to the client. Insurance for funeral expenses, which is sometimes linked to life insurance, has also become quite popular.

d. Non-financial services. Most of the older MFIs, if not all, began as development projects. In other words, they originated as NGOs offering low-income clients a series of services, including technical assistance, training, construction of rural public infrastructure (such as wells and roads), and, most of the time, also credit. Credit was not the main activity and sometimes it was a late arrival, but in all cases, it soon became the one with the fastest growth and the most (or only) profitable one. As time went by, specialization was emphasized, so the MFIs became organizations supplying only financial services, eliminating non-financial products or establishing alliances with third parties to continue offering them.

Interestingly, several of the NGOs in the study reveal a return to their origins, reintroducing technical assistance and training programs in their product portfolios. For some, the rationale is that these services tend to reduce clients' credit risk.
Contactar, for example, operates an important training program for agricultural clients in Colombia, while ECLOF, also in Colombia, sees in its training programs the means to provide a value proposition different from those of its competitors in rural areas. Alternatively, ODEF (Honduras), FIE (Bolivia), and Banco ADOPEM (Dominican Republic) have delegated these training activities to their NGO, which is the original organization that gave birth to the MFI and which, after prudential regulation, became one of the main shareholders of the incorporated intermediary created to specialize in the supply of financial services. Finally, Pro Mujer Nicaragua and CRECER in Bolivia stand out with their health programs for female clients, providing services their clients would not otherwise receive.

3. Credit technology

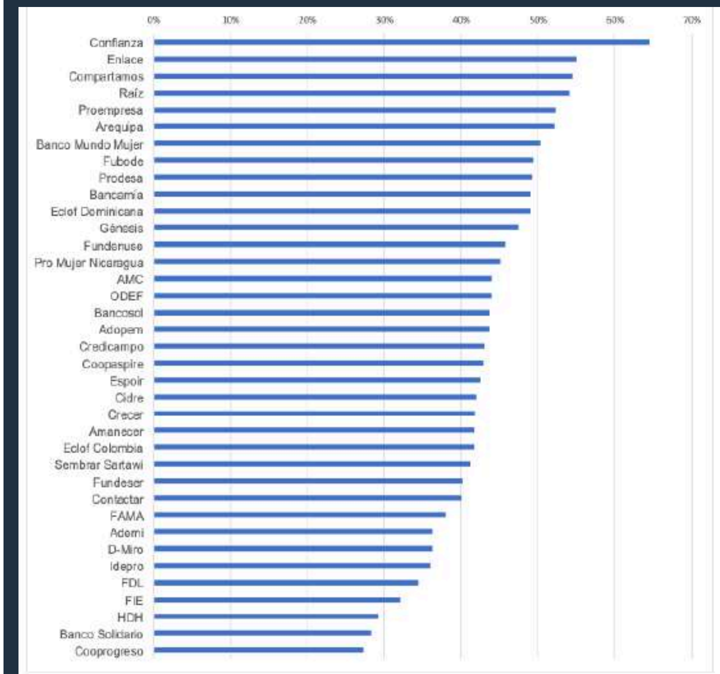
Conditions and characteristics of financial services should be examined as a whole, as part of a credit technology that must align with the financial organization's institutional design and corporate culture. We now describe several features of the technologies used by the MFIs in the study.

a. Proportion of credit staff.

Ideally, MFIs should have a share of credit staff above 50 percent of their total staff. In other words, the majority of the employees should be in commercial and not back-office occupations, for back-office efficiency but especially as a proxy for quality or closeness of contact with the clients. Just a few of the MFIs in the study show a proportion of credit officers versus total employees higher than 50 percent. Five of them are in Peru, all regulated institutions (Financiera Confianza, with the highest share, and then Compartamos, Raíz, Caja Arequipa, and Proempresa). Two are in Colombia: Banco Mundo Mujer (recently regulated) and Enlace (NGO), followed closely by Bancamía. Three MFIs with the lowest proportions, between 25 percent and 36 percent, are all located in Ecuador.

28 Rozas and Erice, 2014.

SHARE OF CREDIT EMPLOYEES (%)



b. Initial training. Credit officers play a key role in the credit process of MFIs, way beyond the responsibilities of their counterparts in any other type of financial intermediary. Their training, for example, enables them to prepare clients' financial statements from scratch and determine their ability to repay. Simultaneously, they develop capabilities to predict a client's willingness to repay based on character references and even intangible information.

Thus, the quality of credit officers' initial training is a fundamental piece of the credit technology and the quality of client interaction. Using the number of days in training as a proxy for quality, the questionnaire asked about that information. There are few MFIs devoting a month or more to training.

TABLE 5

Training of new credit officers. Top 10, May 2018

MFI	Days of training
Idepro	207
Confianza	113
D-Miro	90
Arequipa	90
Proempresa	90
Ademi	90
AMC	90
Espoir	68
ECLOF Colombia	60
Fundeser	45

Source: Calmeadow

Specifically, only six organizations reported more than two months of initial training: one in Bolivia (IDEPRO), two in Peru (Caja Arequipa and Proempresa), two in Ecuador (D-Miro and Espoir), and one in the Dominican Republic (ADEMI).
Further, only four MFIs reported a training period of more than one month but less than two months: one in Colombia (Contactar), two in Nicaragua (Fundeser and Fundenuse), and one in Dominican Republic (Banco ADOPEM). Typically, the best training programs last at least two months.

c. Client retention. At a minimum, an indicator of the quality of the relationship is the clients' loyalty, which can be measured by a client retention ratio. The study's data reveal that over one-third of all financial organizations in the sample reported a retention ratio above 80 percent of their clientele within a year. The seven financial intermediaries with the highest retention (from 98 percent to 90 percent) reveal a mix of characteristics, such as different countries of operation, regulation status, and credit technologies. They are Fubode (Bolivia), Proempresa (Peru), FDL (Nicaragua), Hermandad (Honduras), Confiar (Colombia), ECLOF (Colombia), and Prodesa (Nicaragua).

TABLE 6

Client retention.
MFIs with rates 80% and above

MFI	Rate (%)
1. Fubode	98
2. Proempresa	97
3. FDL	97
4. Hermandad de Honduras	96
5. Confiar	93
6. Eclof Colombia	90
7. Prodesa	90
8. Idepro	88
9. Banco Solidario	87
10. Sembrar Sartawi	84
11. AMC	83
12. Contactar	82
13. Banco Mundo Mujer	82
14. Pro Mujer Nicaragua	80
15. ODEF	80

Source: Calmeadow

International data from the previous decade reveal an average retention rate of 77 percent, with regulated MFIs showing a better performance than their non-regulated counterparts. Figures for the sample in this study also show the same result. However, several MFIs achieved the regulated category in recent years.

d. Office hours. The traditional office hours of Monday through Friday, 8:00 a.m. to 5:00 p.m., are no longer the pattern in many microfinance organizations, which adapt to their clients' hours. For example, in Peru it is usual for MFIs to remain open until 7:00 p.m. In some countries, many MFIs are now open on Saturdays, particularly (but not exclusively) at the branch level. A few of the organizations examined are also open on Sundays for a limited number of branches or payment booths, usually located inside a shopping mall or supermarket. In these cases, it is common to find extended hours even during weekdays.

e. Loan evaluation. The study examined five characteristics of the loan evaluation process, a mix of traditional and non-traditional practices, as shown below.

· Credit-bureau consultation	92 percent	Traditional technology
· Decentralized credit analysis	85 percent	
· Credit factory	39 percent	Role of the loan officer minimized
· Credit scoring	35 percent	
· Disbursement in a savings account	35 percent	Potential for financial inclusion

The first two approaches—credit-bureau consultation and decentralized analysis of loan applications—are part of the best practices of the microfinance credit technology. A positive report from a credit bureau rewards those clients with a good repayment record, while a decentralized analysis speeds up loan disbursement and thus improves the quality of the service (timeliness). Among the MFIs in the sample, over 85 percent use both credit-analysis tools but, interestingly, some organizations do not use them at all or employ them only partially.

The next two approaches—credit factory and credit scoring—have been implemented in approximately one-third of the MFIs in the study, at times partially. For example, one organization in Bolivia that uses the credit factory has "service windows," with a minimum staff, and credit analysis is handled in a larger branch or regional office. In the MFIs that employ credit scoring, it is used to complement the analysis of the credit committee. This is not a trivial issue, as the role of credit officers and their capacity for collecting and interpreting tangible and intangible data is a key feature of the microfinance revolution.

Finally, loan disbursement in a savings account is characteristic of only one-third of the MFIs, as there are an important number of organizations—in both Bolivia and Nicaragua—that became regulated in recent years but are still not authorized to mobilize deposits.

NGOs cannot offer savings accounts and usually do not disburse their loans to other financial organizations' accounts. The exception to this practice is Pro Mujer Nicaragua, which does disburse to savings accounts. Nonetheless, this characteristic offers an ample opportunity for increasing financial inclusion because it allows clients to have an account for diverse purposes and MFIs to gather deposit and withdrawal transaction data. This data can used to gain an idea of the income and expense flows of potential clients for other financial services.

4. Loan conditions and characteristics

The total cost of funds for the borrowers is one of six variables that determine the value of outreach, which, in turn, describes how successful a microfinance organization is in delivering credit services to its clients. In some cases, there has been a sharp long-term decline in the total cost of funds for borrowers, as is the case with Bolivian microfinance organizations.[29] Below is a description of some loan conditions for the MFIs in the study.

a. Interest rates. Interest rates may vary as a function of the MFI's cost structure, market competition, and inflation rates. Even when correcting for inflation, comparisons across countries are not easy. The study collected information on current rates in 2018 and the results show major contrasts across organizations, countries and, in some cases, large differences between regulated and non-regulated MFIs.

The maximum nominal annual interest rate charged on loans ranges across countries between 24 percent and 136 percent per year, while the maximum weighted average interest rate ranges between 13 percent and 49 percent. In both Nicaragua and Ecuador, NGOs charge a higher maximum nominal rate and a higher weighted average rate than prudentially regulated organizations. In Bolivia, the IFDs' rates are much higher than those charged by the prudentially regulated MFIs that mobilize deposits.

29 Gonzalez-Vega and Villafani-Ibarnegaray, 2011.

For the weighted average, there are four organizations with rates above 40 percent per year, of which three are NGOs (in El Salvador, Nicaragua, and Colombia) and one is a regulated MFI (in Peru). Also, for the weighted average, four MFIs charge interest rates below 20 percent per year: three in Bolivia (Banco FIE, BancoSol, and IDEPRO) and one in Ecuador (Cooprogreso). This is an interesting result that highlights the extent of innovation and competition of the Bolivian microfinance market, even before repressive regulation was recently reintroduced. This is true also when the MFIs implement group lending technologies, which result in higher operational costs (as a proportion of average loan sizes, which are smaller than for individual lending). This is observed for the case of CRECER in Bolivia, with a weighted average interest rate of 24 percent per year—not the lowest in the country but much lower than for MFIs in the sample that employ group lending technologies in other countries.

b. Mortgages. Not requesting tangible collateral (in particular, mortgages) is a widely extended characteristic. Over two-thirds of the MFIs in the study lent at least 80 percent of their portfolio without collateral, which is typical of microcredit markets and allows low-income populations to gain access to credit with only a guarantor or chattel mortgage. This result is observed for both regulated and non-regulated financial organizations.

c. Loan term to maturity. Maximum loan terms vary between three years (D-Miro and ECLOF Colombia) and thirty years (FIE), with all Bolivian MFIs as outliers (with terms much longer than for most of the organizations in the study). A similar result is observed for the weighted average loan term: it ranges between seven months (Enlace, El Salvador) and 6.7 years (FIE, Bolivia). Of the five MFIs with the longest average terms to maturity, three are in Bolivia (FIE, IDEPRO, and Sembrar Sartawi), one in Nicaragua (Prodesa), and one in Ecuador (Cooprogreso). A longer loan term is usually considered a positive sign, since it may reflect the MFI's willingness to finance, for example, investments (not only working capital), longer maturity projects, or housing loans. However, sometimes it is also a sign of irresponsible practices, since the liquidity gaps are negative for longer term brackets.

TABLE 7

Maximum loan terms, Top 15, May 2018 (months)

MFI	Term (years)
FIE	30
Raíz	21
Confianza	20
Bancosol	20
Arequipa	15
Credicampo	15
Proempresa	11
Hermandad de Honduras	10
Banco Solidario	10
Génesis	10
Idepro	10
Adopem	10
Sembrar Sartawi	10
Cooprogreso	10
Cidre	10

Source: Calmeadow

While the average loan term is concentrated around less than three years for the whole sample, for the Bolivian MFIs it is above the three-year term.

The strong presence of Bolivian MFIs at the upper end is not a market outcome but a consequence of repressive financial policies implemented by ASFI, the prudential regulator, which mandates a high portfolio quota for low-income housing loans. Further, most MFIs in the study (77 percent) report minimum loan terms to maturity between one and six months, thus highlighting their willingness to adapt to the clients' needs and to compete with informal sources of credit.

The differences among each type of POS stem from how they operate and the services they offer, where they are located, their office hours, their cost, the clients' density around them, and their flexibility for users. For most MFIs in the study, the main or only types of channel are agencies and branches.[34]

However, the use of non-financial correspondents is growing, either through the MFI's own set of small commercial locations or through specialized payments firms, which usually have a large number of locations nationwide that provide payments service to different organizations, both financial and non-financial. Caja Arequipa in Peru, for example, has 130 branches, 100 of its own non-financial correspondents ("Agentes Caja Arequipa") and 9,965 payment booths of a private network. In turn, Financiera Confianza operates more than a hundred full branches, sixty-four tambos (reduced-size offices adjusted to local circumstances), and thirty-six shared offices. It is the only MFI in Peru that has a presence in all of the country's municipalities.

Also, within the BBVAMF group, Bancamía in Colombia operates over 200 branches and works with a network of 3,548 non-financial correspondents.

In Central America, Génesis Empresarial (Guatemala) has a leading role with eighty-four branches, fifteen other offices, and 1,366 cajas de desarrollo (development credit organizations), which are an open correspondent agent network shared with other financial and non-financial firms. In Nicaragua, FDL operates through 42 branches, 148 non-financial correspondents and 168 third-party remittances booths.

In the Dominican Republic, Banco ADOPEM used to have small branches and sales booths, but decided to concentrate on physical interaction with clients through its seventy-four branches.

The study thus reveals a mix of efforts to increase physical interaction with the clients. While some base their strategy on an even larger share of non-financial correspondents (particularly the larger, regulated organizations in mature microfinance markets), other financial intermediaries consider such correspondents, useful mechanisms for decongestion of branches, though costly and with a limited array of transactions.

5. Delivery channels

Financial markets worldwide have been disrupted by the arrival of fintechs.[30] In response, traditional financial organizations have adopted innovative technologies while, simultaneously, facing the competition from new business models developed by some fintechs. Typical channels for promoting and delivering financial services (such as branches), have been losing ground, as the Spanish case clearly reveals.[31]

In this regard, leading financial organizations are applying digital solutions to product design through a client-centric approach focused on solving specific client problems. Moreover, instead of isolated analyses on how to improve individual services, their objective has been to cluster services and develop ideas around client experiences rather than services. Thus, channel strategies are focused on enabling capabilities instead of just distribution and products, moving away from the credit-cum-accounts approach.[32]

However, these intentions are far from fully permeating the financial industry, where the mobile phone, ATMs, and branch-level customer service still prevail over digital solutions and the main digital processes are just transferring money between accounts and providing information.[33] The Latin American microfinance sector, as will be described below, is at a similar stage of the transition.

a. POS structure. The traditional office structure of MFIs is changing. From the typical branch or agency platform, physical interactions with clients have been evolving toward the use of third-party channels. Thus, points of service may now include:

- Agencies
- Branches
- Mobile agencies
- Windows
- Regional offices
- Non-financial correspondents

30 Fintechs are "high-growth organisations combining innovative business models and technology to enable, enhance and disrupt FS," as defined by Ernst & Young, 2016.

31 Deposit-taking organizations in Spain (banks and credit unions) experienced a 32 percent decline in the number of branches between 2008 and 2015, for several reasons, including the recession and the global financial crisis (Maudos, 2017). However, economic recovery has not had an impact in the opposite direction, probably reflecting new trends for accessing financial services.

32 FinTech Insider, 2018.

33 Financial Brand, 2018.

34 In some MFIs a branch is the same as an agency, while for others, the set of services is similar, but one is much larger than the other.

b. Credit and debit cards. These services are almost nonexistent at the MFI level. Only three organizations in the sample issue credit cards: ADEMI in Dominican Republic, AMC in El Salvador, and BancoSol in Bolivia. BancoSol and ADEMI are the only two organizations in the study that offer both credit and debit cards. Eight MFIs offer debit cards. The other six are: Bancamía and Banco Mundo Mujer in Colombia, Banco Solidario in Ecuador, Caja Arequipa and Financiera Confianza in Peru, and Coopaspire in the Dominican Republic. Mid-size microfinance organizations are interested in providing their savings clients the added value of a debit card but have kept from doing so, either because of the rural nature of most of their clientele (and thus lack of infrastructure for using cards), or because their analyses reveal fewer than 8,000 to 10,000 clients who would actively use these cards, making their introduction unprofitable for the MFI.

c. Digital finance. The use of computers, laptops, and mobile phones to connect individuals and businesses to a digitized transaction platform or a national payment substructure[35] is still on the "things to do" list for most MFIs, despite their effect on reducing transaction costs for the financial organization and its clients. There are MFIs in the sample (e.g., BancoSol in Bolivia and Genesis in Guatemala) that have advanced in this direction or are piloting applications for mobile phones. Web pages are mainly for informative purposes rather than for conducting transactions, and several MFIs have simulators for credit and savings transactions. Nonetheless, larger operators stated plans to take more advantage of digital finance in the near future, perhaps even using developments that combine the benefits of web pages and phone apps, such as progressive web apps (PWAs, websites that look like phone apps and are updated automatically) and application programming interfaces (APIs).[36]

This scenario is not too far from what is observed in financial markets worldwide, where, according to a recent study, customer services are still mainly conducted through phone and branch channels, rather than through digital solutions.[37] The latter reduced the distance between the service provider and the client and is especially important at reducing transaction costs for both parties. The cost structure and cultural barriers at higher age brackets, however, are still keeping smaller MFIs from moving faster in this direction.

8. Client protection

The study inquired about financial customer protection in two directions:

- Policies for transparency about total cost and effective interest rate.

- Policies for dealing with client complaints.

Almost all MFIs in the study (88 percent) have some kind of policy for both topics; only three did not have any procedures in those areas.

Many MFIs have information in their webpages regarding both, and there are national regulations that mandate them to do so. One of the most complete webpages is that of Raíz (Peru), which contains many quite visible pieces of information regarding:

- Contracts, for credit and savings products
- Complaints procedures
- Complaints form
- Complaints statistics
- Related financial regulation
- Definitions and formulas
- Related announcements

Dealing with clients' complaints does not seem to have a relevant role in Latin American financial markets, as is revealed by the low number of complaints received annually, either at the financial organizations' level or through the regulatory boards. Thus, clients are not really taking advantage of the procedures established by the regulatory boards, either because they consider these measures ineffective or because the guidelines are not customer friendly. This last issue is not a trivial one at the microfinance level, as the Honduran case highlights. In this country, regulations require that financial clients not only sign but also write their own complaint, keeping many potential complaints from being delivered. Making forms available through webpages facilitates access by a portion of the clients, but the form has to be printed, and relatively few have a printer at home or easy access to one.

7. Financial regulation

The expression that "a banker sleeps with one eye open" is ever so true regarding financial repression. The microfinance industry and the financial sector in general must remain vigilant to politicians' (more than regulators') renewed attempts to interfere with their operations.

35 For the scope of digital finance, see Majumder, 2016; Lyman and Lauer, 2015.

36 For the advantages and challenges of using APIs, see Nursigadoo, 2018.

37 Marous, 2018a.

Photo: Yannel

A few of the nine countries represented in the study (see Annex 2) show an institutional regulatory setting where financial supervision policies clearly move away from prudential principles and fall into the turf of financial repression; although these have been overcome in many countries, they are still rampant in a few.
The lightest case is perhaps that of Colombia, where the most evident sign of a distorting intervention is what is popularly known as the tasa de usura (usury rate), a threshold (in practice a ceiling) that determines what financial operators charge as "ordinary" or "usual" interest rates. The usury rates are certified on a monthly basis by the regulator (Superintendencia Financiera de Colombia, SFC) based on four-week averages and influenced by the central bank's reference rate. Usury rates are differentiated by type of loan. In September 2018, the certified rates were:

• Consumption and ordinary credit	29.72 percent
• Microcredit	55.22 percent
• Small amount consumption credit	56.33 percent[38]

There is, thus, favorable treatment for microcredit expressed in both the 25.5 percentage-point difference from the usury rate of "ordinary" credit and the absolute level of the certified microcredit rate (55.22 percent), which regulated microfinance operators consider high enough to cover costs, as the published interest rates reveal, all 10 to 12 percentage points below the threshold.[39] There is a fee ceiling for smaller loans, established as a percentage of the loan size, but for smaller organizations that provide training or technical assistance at the field level, the income supplied by final clients' fees is a good support to the profitability of the MFI.

There is nevertheless a policy dialogue between the microfinance industry and regulatory authorities, as prudential regulation has become extremely costly and sometimes too rigorously applies metrics designed for large banks.

38 El Tiempo, 2018.

A contrasting case is that of Bolivia, where several policies recently implemented by the regulatory board are clear cases of financial repression, as explained in chapter II. Some examples are:

- portfolio quotas mandated on production and low-income housing credit as a share of the total loan portfolio;
- interest-rate ceilings at extremely low nominal levels; and
- mandatory descriptions of particular credit technologies.

Some consequences of these measures have already been described: extremely long terms to maturity and/or interest rates fixed in nominal terms posing a major credit risk and the abandonment of the poorest borrowers by all types of MFIs, given the very low interest rate charged on loans.

One less noticeable consequence is signaled by an officer of a Bolivian MFI, who explains that it now takes longer to process credits due to additional non-prudential requirements from the authorities and other reductions in the quality of the client relationship traceable to excessive intervention by the authorities. Not surprisingly, Bolivia, which was some[40] years ago ranked as the country with the best environment for microfinance, is now ranked eighteenth by the most recent Microfinance Barometer[41].

39 Another type of non-regulatory intervention in the Colombian microfinance industry is the activity of two state organizations, Bancoldex and Banca de las Oportunidades. Although both are commended for their influence on the industry's expansion, there are conflicting views regarding the latter's role.

40 http://www.convergences.org/wp-content/uploads/2018/09/BMF_2018_EN_VFINALE-1.pdf

41 The Microfinance Barometer is an annual publication that aims to showcase global trends in the sector while raising awareness of high impact microfinance initiatives and promoting best practices

V. CONCLUSIONS

To address comparisons across various types of MFIs of the strength and nature of client relationships and the evolution of these relationships over time in different environments, the study team collected information directly from those responsible in over forty MFIs in nine different countries (with a response rate of about 80 percent to a detailed questionnaire). The authors also completed in-depth interviews in person for eleven of these organizations, in Bolivia, Colombia and Peru.

Although the MFIs included in the study were not chosen as a statistically representative sample of the industry, they do fairly portray the diversity of institutions that deliver financial services in Latin America. Moreover, the study team is less interested in the performance of individual institutions (except when particular ones clearly illustrate a given piece of the argument) than in what trends emerge for groups of similar institutions and the range of variation across institutions.

The data gathered thus makes it possible to deduce some contrasts regarding the client centricity performance of a varied set of financial organizations and identify changes in this performance over time. The diversity of MFIs, with respect to their client centricity approach, exceeds the regulated-versus-NGO dichotomy. Our main conclusions arising from this analysis are presented below.

1. Each MFI has its own approach for getting close to the client. This conclusion highlights the wide diversity of approaches observed. Even similar MFIs use diverse elements of their proximity to clients to differentiate their products and become more competitive. The reasons for this multiplicity of approaches are complex. A multitude of factors influence the quality of client relationships, and these determinants are related to each other through complex trade-offs —in particular between dimensions of quality and levels of cost. However, heterogeneous clients reveal diverse preferences for multiple attributes of financial transactions. The best relationships thus actually result from the best matching of service features with particular clients' demands. In a heterogeneous world, many potentially valuable different matches are possible; there is no "silver bullet" for developing and sustaining better relationships with the clients or improving the quality of the services offered to them.

Indeed, the MFIs in the study have followed different paths successfully, reflecting their values, capabilities, stocks of knowledge, and methodology in diverse regulatory environments. The outcomes have ranged from reasonable to excellent matches with different types of clients but, given their complexity and diversity, it is almost impossible to rank them.

Not only there is no unique solution to the challenge of financial inclusion of previously excluded clienteles, there is no unique index or metric that would make comparison possible. It is feasible, however, to describe the approaches followed by different types of institutions to identify efforts that have worked or not and observe some of the results.

Key dimensions of these strategies have included: (i) lowering the interest rates charged on loans or attempting to reduce the transaction costs incurred by clients; (ii) offering a wider variety of financial products or diverse combinations of the attributes of these products; and (iii) supplying non-financial services, such as training, technical assistance or even health facilities. In the latter case, a return to the origins of microfinance seems to be gaining support through the combination of financial and non-financial services. This is in sharp contrast with the old development projects, which delivered a set of interventions, with credit being just one and not necessarily the most important among many other non-financial services.

The gains from specialization and the requirements of prudential regulation have nevertheless led the industry in the opposite direction, so nowadays the benefits of focusing mainly on delivering financial services is not questioned. The more recently enlarged value proposition, however, considers the positive impact of some non-financial services on client loyalty, the greater probability of a positive welfare impact of the intervention, or the effect of these services (for example, technical assistance) at the level of credit risk.

That is, technical assistance is no longer a tool for directing credit, as in the old development banks, but an instrument to manage the risk in the portfolio to the extent to which implementation of the advice reduces borrowers' risks and, thereby, the risk of default. While these diverse ways for getting close to the client were observed across all types of MFIs, the complementing supply of non-financial services has been particularly present in the smaller MFIs, mostly those not regulated.

What is more interesting, however, is the extent to which this approach has been adopted by much larger, regulated entities such as Bancamía in Colombia and Financiera Confianza in Peru. In the end, the diversity of approaches has resulted in greater creativity and innovation and has generated positive externalities for the industry at large.

2. Larger MFIs' financial capabilities tend to allow lower costs of services. Scale matters. A larger size is usually a source of economies of scale, while a broader range of services is a source of economies of scope (i.e., larger availability of services as well as lower costs that may be transferred to the clients, fully or partially). Operations over a wider space facilitate the portfolio diversification that lowers risk and risk-reducing costs. While some diseconomies of scale (in internal control and coordination of activities across the space) may emerge, the larger MFIs in the study have been successful in turning these economies into lower operating costs.

They have taken advantage of the lower costs in at least two ways. First, they have lowered their interest rates on loans more than their smaller competitors, creating a competitive advantage in retaining client relationships. In fewer cases, they have used these economies to increase the interest rates paid on deposits. Second, they have taken advantage of lower costs to generate higher profits and invested these profits in expanding their geographic network of POS or in the research and development that leads to improved products and the design of new services, thus creating incentives for continued client relationships. Some smaller MFIs allocate an important share of their profits to providing non-financial services.

The effects of a larger scale were observed from comparing MFIs of very diverse sizes in several countries, through both lower interest rates (reflecting lower operating costs) and the wider range of services offered. Moreover, larger MFIs appear to have been more successful in accessing capital markets in favorable terms. The study has thus revealed that, just as different MFIs seek to get close to their clients via different paths, they also choose different mechanisms to share their profits with their clients in pursuit of their missions.

3. Prejudices against regulated MFIs are not verified. It is frequently argued in some quarters that financial NGOs are the only ones that adhere to their original mission of reaching low-income clients, while banks and other prudentially regulated financial intermediaries have adopted a completely profit-oriented, commercialized approach, targeting larger and better-off clients. This shift has been described as "mission drift."

The evidence collected for this study does not substantiate this line of reasoning; on the contrary, it offers many examples that reveal better performance, from the perspective of the quality of client relationships, by the regulated MFIs than by financial NGOs. This superiority is reflected in both lower interest rates and a wider variety of financial services offered, as well as in more transparency and customer protection efforts on the part of the regulated MFIs.

These higher-quality, lower-cost financial services are delivered by regulated intermediaries without significant increases in average loan sizes, even if (for those cases when it has been possible to observe this) loan size averages may increase through the incorporation into the portfolio of a comparatively small number of larger and more diverse clients, without reducing the absolute numbers of the target clientele being reached. Moreover, in several cases, the increase in loan size has reflected the natural evolution of existing clients' businesses. MFIs with strong client relationships accompany their clients through the evolution of their enterprises.

Moreover, there are large and regulated organizations in developed microfinance markets that have added SMEs to their target clientele as separate segments and assigned an important share of their portfolio to them. This strategy of enlarging and diversifying the clientele (for example, by adding farmers or SMEs to the portfolio) has frequently led to reductions in interest rates, which are enjoyed by all clients, large and small. Some experts in the sector refer to this strategy in terms of some (larger) clients "subsidizing" other (smaller) clients. Strictly speaking, this is not a subsidy. Rather, it is the outcome of cost reductions resulting from the economies of scale associated with indivisible MFI investments (such as information systems) and from the impact on expected losses from default and, thereby, on interest rates of the resulting more efficient portfolio diversification.

4. Regulation matters! Becoming regulated is no panacea for small microfinance NGOs. The costs of regulation are not easily met, even for mid-size organizations; it requires substantial resources, both in human talent and funding, to take care of the incessant adjustments of processes, policies, and regulations; to comply on time and with the expected meticulousness, with the reporting required; and to dilute the fixed costs implied.

Regulation authorizes, however, the supply of services that non-regulated MFIs cannot offer—especially deposit mobilization—and benefit the MFIs' clients (in particular depositors) from the soundness that results from being supervised by a regulatory board. For example, clients of recently regulated IFDs in Bolivia that are not yet mobilizing deposits mentioned their interest on eventually saving with them. There is also the cost of funding for the MFI decline, which allows a more competitive interest rate. This was clear for MFIs in the sample, at least in Bolivia, Ecuador and Nicaragua.

5. No commercialization-induced mission drift was found, only increasing regulation-induced mission drift. In the strictest sense, mission drift occurs when the MFI no longer serves certain clienteles, in particular the smallest and poorest of its original clients. In a weaker version, mission drift happens when the absolute number of clients from the original target group declines. The study did not find any evidence of either strict or weaker mission drift due to regulation or commercialization. On the contrary, the larger, older, now regulated MFIs have continued to serve their original clientele, even when they have added new classes of clients to their portfolio of services.

Large and regulated MFIs in Peru, for example, devote a significant share of their portfolios to finance small and medium enterprises of sizes that surpass the regulator's definition of microfinance. Yet these microfinance organizations keep serving the microenterprise market niche simultaneously, showing that being present in different markets niches is not only possible but allows for larger volumes of portfolio and income, serving the purpose of lowering the cost of services for all clients.

In contrast, in countries where repressive regulation has been re-enacted, instances of strict mission drift are being observed. This is indeed the case in Bolivia and Ecuador, where interest-rate ceilings have made it unattractive to reach clients with small transactions or in remote locations. In Ecuador, somewhat higher (but still severely binding) rate ceilings for the microenterprise portfolio than for commercial loans have led to an "accordion folding back" effect. The smallest loans in the microfinance category have disappeared (as they would be terribly unprofitable at the ceiling rate), pushing the average microloan size upward. However, some of the smaller loans in the commercial category have shrunk, pushed downward to make it possible for the banks to charge the higher rates applicable to microcredit.

Similarly, in Bolivia, the recent financial regulation has introduced extremely binding interest-rate ceilings on loans to "productive" and "social housing" loans, accompanied by minimum portfolio quotas for these categories of loans. The consequence has been the rapid abandonment of the smallest clients by all regulated financial intermediaries and the return of these clients to the clutches of the informal moneylenders.

Paradoxically, therefore, there is little if any evidence of commercially induced mission drift, while legislation presumably adopted to protect poorer clients is causing major instances of regulation-induced mission drift.

42 The authors are aware of a few cases when some MFIs, not included in the study sample, explicitly decided to modify their mission and shift their operations to a different target clientele. Banco Los Andes Procredit in Bolivia, for example, decided not to lend to microentrepreneurs and concentrate its credit operations in small and medium enterprises. Achieving its original goal and mitigating the increasing political risk were among the main reasons for this shift. The bank was sold to Banco Mercantil, a large commercial bank, in 2016. At the time of the sale, Banco Los Andes Procredit had 23,000 SME borrowers, 300,000 depositors, assets of US$775 million, and an equity close to US$85 million. The IPC group similarly sold banks in other countries. This case is one of a few exceptions, not the rule.

6. Digital finance is still scarce. Throughout the sample of MFIs in the study, the use of digital finance has been slowly gaining attention, but adoption is still quite limited and gradual, even in the largest organizations. Interesting applications have been developed, for example for electronic wallets and for collecting data at the field level through tablets, which makes it possible to manage an important portion of the credit process in the presence of the client.

Some MFIs are succeeding in reducing the time spent in completing a transaction, adding other services to their offer in a single visit, and reducing transaction costs for clients. The main use of mobile and web-based applications is not yet for the client to undertake financial transactions digitally, however, but for recharging prepaid mobile-phone services and for information purposes, respectively.

Many institutions have been eager to learn about the potential for digital applications, but adoption will be constrained by limited connectivity and by the speed of the demographic transition from older clients with little financial education and lack of trust in formal institutions to younger clients who have already acquired a lot of digital literacy. Tools for micro-segmentation partially confront this issue, as Banco Ecofuturo in Bolivia and Raíz in Peru are attempting to do. Moreover, they acknowledge greater constraints regarding their capacity to persuade staff and adjust processes to new technologies.

A key issue is the extent to which the use of new ICTs will strengthen or weaken the client relationships at the root of the microfinance revolution. The winners will be those institutions that achieve an optimum combination of digital and personal interaction with their clients and thereby strengthen the relationship.

7. Many MFIs are being implementing correspondent agents, with mixed expectations and perspectives. Many MFIs in the study, large and small, regulated and non-regulated, have diversified their delivery channels through the use of non-financial correspondents. For many this is a key component of a modern strategy for financial services delivery, while others acknowledge the advantage of correspondent agents for being physically closer to the client, with lower operational costs for the MFI than creating a branch or a service window (third-party networks of payment booths, in particular).

To the extent to which the correspondent's proximity to clients reduces their transaction costs, developing an extensive network of correspondents strengthens client relationships. The transactions now undertaken with the correspondents are, however, limited to loan repayments and deposit transactions.

8. Limited presence of debit and credit cards. Fewer than ten MFIs in the sample offer debit cards to their clients, and even fewer issue credit cards. Given current costs, mid-size organizations (with around 50,000 clients), even those with an important urban presence, do not have the critical volume of potential frequent card users, to make it profitable to offer them. Debit and credit cards are useful for reducing transaction costs while using savings or credit services. The characteristics of clients in most microfinance markets and the environments in which they live or work limit a faster expansion, however.

9. A growing number of MFIs offer savings facilities. Over time, more and more microfinance organizations have become regulated and authorized to mobilize deposits. This has represented an important increase in the number of products offered, thus increasing financial inclusion. Because it is a service that clients value highly, there is large demand when the product features (such as safety and convenience) are appropriately designed. Deposit mobilization has further lowered the costs of funds for the MFI, with all the accompanying advantages. In Nicaragua and Bolivia, however, there are MFIs that became regulated several years ago and have not yet received authorization to offer savings products.

10. Insurance has become a regular service. The portfolios of products of the MFIs, even those of non-regulated organizations, in almost all cases include at least one insurance product: usually debt insurance in case of death, which covers the loan balance and, in some MFIs, includes an additional amount for the beneficiaries. With increasing frequency, these financial organizations also offer so-called self-issued insurance, for funeral expenses in particular. Once again, adding these products represents an important tool for financial inclusion; death insurance and insurance for funeral expenses improve the well-being of the clients and their families, who seldom have access to such services and lack precautionary savings for these circumstances.

11. All MFIs have some policy for client protection. Except for one organization in the sample, all had developed a client protection policy to cover both complaints and transparency of information; this is true across all types of MFIs.

The study team did not collect additional information to understand the efficacy of those policies, but experience shows that it is probably quite limited. The total number of complaints is low and, for the typical clients of a microfinance organization, it is not easy to put in writing their protest. On the other hand, displaying the total cost of a loan or the effective interest rate does assure some of the transparency sought. Some experts believe, however, that additional financial education is required for this information to be of value and be used in clients' decision-making processes.

12. Developing a typology of MFIs according to the methods for achieving proximity and implementing client centricity is virtually impossible. One of the expectations of this study was that it was possible to develop a typology of financial organizations according to their approaches for creating and sustaining strong client relationships. Once the study was implemented, however, it became clear that it is impossible to do so. The set of characteristics that explain a close relationship with clients is too large, diverse, and contingent, making it unfeasible to classify organizations with very diverse strategies under one particular category. Further, what works for one organization in the present may not be appropriate in the future, and what represents a high quality of service in one country or institutional setting may not be as good in another.

So where does the secret of the MFIs' success in creating and sustaining strong client relationships lie? A number of determinants stand out. Becoming prudentially regulated intermediaries allows MFIs to offer a wider set of services, operate with a lower cost of funds, and gain the trust of their clients, particularly depositors. A facilitating, not repressive, regulation and supervision framework is required to avoid unexpected harmful effects. Some financial education may be needed for clients to fully take advantage of the broader menu of services, but there is disagreement about what type of education, when, and how much is needed. A larger scale is the source of numerous economies (and some potential diseconomies), but it is difficult to reach a sufficiently large scale without transforming into a regulated institution.

Microfinance was the child of innovation, and innovation is the creation of new knowledge, from learning (by doing), experimenting, and developing the institutional ability to gather relevant information, organize it, and use it in decisions at a reasonable cost. Success in microfinance springs from competitive advantages in knowledge management. This requires investments in human capital and an organizational culture that promotes flexibility (to be able to adjust to evolving circumstances, without sacrificing the mission) and rewards creative behavior. For this, owners are required who value the mission and a governance structure that provides compatible incentives for all participants. Further, success requires sustainability—and survival requires the right combination of robustness and resilience. In order to make the promises of client relationships credible, the institution must be able to overcome systemic shocks and be prepared to assist its clients effectively during crises.

The central ingredients are thus a mission based on shared values, innovation that generates appropriate financial technologies, and an organizational culture that implements those values and promotes learning, human-capital formation, and skilled knowledge management. The ultimate secret for the success of client-centric MFIs is the strict coherence of these elements. For each MFI, its own particular way of producing its financial transactions, recruiting and retaining its staff, and organizing its processes and decisions must reflect absolute congruence. Only when such a coherence is present can an institution aspire to excellence.

ANNEX 1
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ANNEX 2
MFIS IN THE STUDY BY COUNTRY

BOLIVIA

1. Banco Ecofuturo
2. Banco FIE
3. CIDRE
4. CRECER
5. Diaconía
6. FUBODE
7. IDEPRO
8. Sembrar Sartawi
9. BancoSol

COLOMBIA

10. Actuar Quindío
11. Fundación Amanecer
12. Bancamía
13. Banco Mundo Mujer
14. Confiar
15. Contactar
16. ECLOF Colombia

DOMINICAN REPUBLIC

17. Banco ADEMI
18. Banco ADOPEM
19. Coopaspire
20. ECLOF Dominicana

ECUADOR

21. Banco Solidario
22. Cooprogreso
23. Banco D-Miro
24. Espoir

EL SALVADOR

25. Enlace
26. AMC
27. Credicampo

GUATEMALA

28. Génesis Empresarial

HONDURAS

29. ODEF
30. Hermandad de Honduras

NICARAGUA

31. Financiera FAMA
32. Financiera FDL
33. Financiera Fundeser
34. Fundenuse
35. Pro Mujer
36. Prodesa

PERU

37. Caja Arequipa
38. Financiera Compartamos
39. Financiera Confianza
40. Financiera Proempresa
41. Raíz

ANNEX 3
QUESTIONNAIRE

Institution:	**Information prepared by:**	
Period Reported:	**2013-2017, as of December of each year (information to be attached)**	**Email:**
Credit	Outstanding balance and no. of clients of microfinance, ME, agriculture, housing, consumer, other, and total-**enclose**	
	Outstanding balance and no. of clients by sex, region urban/rural and technology (individual/group)- enclose	
	Lowest and highest interest rate	Min. % Max. %
	Weighted average interest rate of the total credit portfolio	%
	Minimum and maximum term (in months)	Min. Max.
	Weighted average term of the total credit portfolio	Months
	Amount of minimum and maximum loan by credit technology (individual and group)- **enclose**	
	Portion of clients with access to credit without any collateral	%
	Client retention rate	%
	Number of training days for new credit officers (include lessons, studying, and "shadowing" an older officer)	days
	What does the loan assessment analysis include? Credit Bureau:	Yes No
	Decentralized analysis (branch/agency):	Yes No
	Credit factory:	Yes No
	Credit scoring:	Yes No
	Are loans disbursed into saving accounts?	Yes No
	Do you provide online services?	Yes No
	Do you have apps for mobile phones?	Yes No
Savings	Outstanding balance and number of clients with savings accounts, term deposits, other and total- **enclose**	
	Number of clients by sex, by region urban/rural, and total- **enclose**	
Insurance	Do you provide?	Yes No No. of policies:
	Type of insurance (write as follows):	
Other services	Do you provide the following services/products? Leasing:	Yes No
	Factoring:	Yes No
	Credit cards:	Yes No
	Debit cards:	Yes No
Structure	Number of POS per branch/agency, booth/point of service, correspondent agents, ATMs, other, and total-**Dec. 2017, enclose**	
	Opening hours and days (M-F, M-S, all week)	Hor Opening hours Days
	Total employees:	
	Credit officers:	
	Front office staff (contact with clients):	
	Managers/directors:	
	Managers/board members coming from the bank Industry:	
Client Protection	Is there a transparency policy for disclosing actual cost for clients?	Yes No
	Is there a policy or procedure for complaints?	Yes No
Property	Capital structure: name of shareholders/holding company and portion of shares and seats on the BoD -**Dec. 2017, enclose**	
Financial Information	Audited financial statements, including notes - enclose	
Mission and Poverty	Current mission and mission five years ago - enclose	
	Do you do any kind of measurement of clients' level of poverty? If yes, indicate methodology:	% of poor people: %
Questions and delivery to:	**rquiros@academiaca.or.cr**	
Comments:		

TABLE 8

Women clients, Dec. 2013-2017 (%)

MFI	2013	2014	2015	2016	2017
Pro Mujer Nicaragua	na	na	na	na	90
Fundeser	na	67	71	74	76
ECLOF Dominicana	80	78	72	76	75
Espoir	70	67	68	68	68
Adopem	70	69	67	67	67
Crecer	69	66	65	63	64
Coopaspire	65	65	61	62	61
FAMA	65	64	63	61	60
Banco Mundo Mujer	na	na	60	58	58
Génesis	na	na	57	57	57
Fubode	57	55	57	55	55
Banco Solidario	55	54	53	54	54
FIE	52	51	51	50	52
D-Miro	45	48	50	51	52
ECLOF Colombia	57	59	53	51	51
Amanecer	53	52	52	51	51
Credicampo	44	47	47	49	49
AMC	51	50	51	51	49
Ademi	51	50	50	50	47
Raíz	47	47	46	45	47
Fundenuse	48	47	47	46	45
Proempresa	na	na	na	na	45
Contactar	45	45	45	45	45
Hermandad de Honduras	41	41	39	41	42
Bancosol	43	42	41	41	42
Prodesa	39	42	42	41	41
ODEF	44	42	41	42	41
Confianza	40	41	41	41	40
FDL	40	40	39	39	39
Cooprogreso	na	na	36	36	36
Idepro	34	33	31	31	32
Confiar	na	na	na	na	38

na Not available

Source: Calmeadow

TABLE 9

Training of new credit officers, May 2018

MFI	Days of training
Idepro	207
Confianza	113
D-Miro	90
Arequipa	90
Proempresa	90
Ademi	90
AMC	90
Espoir	68
ECLOF Colombia	60
Fundeser	45
Contactar	38
Adopem	36
Coopaspire	35
FAMA	31
Fundenuse	30
Bancosol	30
ECLOF Dominicana	30
Credicampo	29
FIE	28
Cooprogreso	25
Pro Mujer Nicaragua	25
ODEF	24
Génesis	23
Cidre	22
Hermandad de Honduras	20
Banco Mundo Mujer	19
Sembrar Sartawi	15
Crecer	15
Prodesa	15
Banco Solidario	14
Fubode	10
Compartamos	9
Amanecer	7
Ecofuturo	10

Source: Calmeadow

TABLE 10

Client retention, May 2018 (%)

MFI	Retention (%)
Enlace	98
Fubode	98
Proempresa	97
FDL	97
Hermandad de Honduras	96
Confiar	93
ECLOF Colombia	90
Prodesa	90
Idepro	88
Banco Solidario	87
Sembrar Sartawi	84
AMC	83
Contactar	82
Banco Mundo Mujer	82
Pro Mujer Nicaragua	80
ODEF	80
Adopem	77
Crecer	76
FAMA	76
FIE	75
Ademi	75
ECLOF Dominicana	73
Espoir	73
Amanecer	72
Fundeser	72
Compartamos	71
Fundenuse	70
Confianza	67
Cooprogreso	66
Génesis	65
Raíz	64
Cidre	61
Coopaspire	59
Arequipa	53
D-Miro	41
Bancamía	26
Credicampo	19
Bancosol	11

Source: Bancamía

TABLE 11

Loan terms, May 2018 (months)

MFI	Weighted average	Minimum	Maximum
FIE	80	1	361
Raíz	31	1	251
Confianza	15	1	245
Bancosol	36	3	244
Arequipa	21	1	180
Credicampo	39	6	180
Proempresa	12	1	132
Hermandad de Honduras	21	1	122
Banco Solidario	na	2	122
Génesis	26	1	120
Idepro	59	2	120
Adopem	22	2	120
Sembrar Sartawi	48	3	120
Cooprogreso	41	3	120
Cidre	36	24	120
Enlace	7	1	97
Prodesa	50	3	96
Coopaspire	22	3	84
ECLOF Dominicana	12	6	84
FAMA	31	3	78
Compartamos	11	1	72
FDL	32	2	72
Bancamía	32	2	70
Fubode	24	6	72
Fundeser	22	2	62
Ademi	17	12	72
Fundenuse	15	2	60
ODEF	18	2	60
Amanecer	30	2	60
Crecer	31	5	60
AMC	27	6	60
Banco Mundo Mujer	24	1	54
Contactar	24	9	60
Espoir	15	2	48
Pro Mujer Nicaragua	10	4	48
ECLOF Colombia	18	1	36
D-Miro	26	6	36
Ecofuturo	72	36	180
Confiar	na	6	60

na Not available

Source: Calmeadow

TABLE 12

Rural clients, Dec. 2013-2017 (%)

MFI	2013	2014	2015	2016	2017
Génesis	na	na	85	83	83
Contactar	82	83	83	82	82
FDL	71	73	75	78	78
Credicampo	71	77	79	82	78
Hermandad de Honduras	74	75	77	77	76
Fundeser	na	67	71	74	76
Espoir	73	74	74	75	75
AMC	54	56	61	64	65
ODEF	58	60	63	62	65
Cidre	57	59	59	57	58
Proempresa	na	na	na	na	58
Fubode	41	38	55	54	57
Fundenuse	49	49	49	52	55
Bancamía	na	43	45	24	44
Idepro	46	48	49	48	43
Prodesa	37	38	40	41	41
Adopem	36	37	40	39	40
Crecer	60	60	59	58	39
Coopaspire	38	43	44	31	39
Amanecer	17	19	22	27	38
ECLOF Colombia	30	46	53	43	38
Cooprogreso	na	na	29	29	29
Arequipa	na	27	27	27	28
Confianza	23	23	23	25	27
FIE	22	23	25	25	25
Ademi	20	20	20	20	20
ECLOF Dominicana	17	17	17	17	17
Bancosol	15	16	16	16	16
Banco Mundo Mujer	na	na	12	10	9
Banco Solidario	9	9	9	9	7
Raíz	11	7	7	9	7
Pro Mujer Nicaragua	na	na	na	na	5
Enlace	36	53	44	40	57

na Not available

Source: Calmeadow

TABLE 13

Measurement of poverty condition, May 2018

MFI	Yes	No
Idepro	1	
Confianza	1	
Banco Solidario	1	
Cidre	1	
Adopem	1	
Contactar	1	
Fubode	1	
FIE	1	
Espoir	1	
Pro Mujer Nicaragua	1	
Proempresa	1	
Credicampo	1	
ODEF	1	
Crecer	1	
Amanecer	1	
AMC	1	
Enlace	1	
Génesis	1	
Coopaspire	1	
Bancamía	1	
Banco Mundo Mujer		1
D-Miro		1
Fundenuse		1
Fundeser		1
FDL		1
Arequipa		1
Raíz		1
Ademi		1
Bancosol		1
Hermandad de Honduras		1
Prodesa		1
FAMA		1

Source: Calmeadow

TABLE 14

Interest rates, May 2018 (%)

MFI	Weighted average	Minimum	Maximum
Compartamos	45	15	136
Confianza	30	11	110
Raíz	28	7	99
FAMA	38	1	60
Fundeser	33	14	72
Credicampo	30	5	60
Arequipa	24	11	60
Adopem	38	1	49
Enlace	49	9	56
AMC	29	12	55
FDL	32	18	60
Génesis	34	18	60
Contactar	43	13	51
Bancamía	38	15	50
Coopaspire	29	14	48
Amanecer	38	13	42
Pro Mujer Nicaragua	45	24	51
Ademi	26	18	44
ECLOF Dominicana	37	16	42
FIE	13	4	29
Fubode	28	12	36
Banco Mundo Mujer	39	23	48
Bancosol	15	5	29
Fundenuse	31	25	48
Sembrar Sartawi	23	14	34
ODEF	na	22	42
Cooprogreso	18	9	29
Banco Solidario	na	9	27
Cidre	16	6	24
Idepro	19	12	26
ECLOF Colombia	30	29	43
Hermandad de Honduras	34	22	36
Prodesa	24	17	30
Crecer	24	12	24
Espoir	24	15	27
D-Miro	24	21	31
Ecofuturo	15	6	29

na Not available

Source: Calmeadow

TABLE 15

Policies for financial customer protection, May 2018

MFI	Transparency of total cost		Dealing with client compleaints	
	Yes	No	Yes	No
Contactar	1		1	
Banco Mundo Mujer	1		1	
Fubode	1		1	
Idepro	1		1	
Sembrar Sartawi	1		1	
FIE	1		1	
Cidre	1		1	
Ecofuturo	1		1	
Banco Solidario	1		1	
Cooprogreso	1		1	
D-Miro	1		1	
Fundenuse	1		1	
Fundeser	1		1	
Pro Mujer Nicaragua	1		1	
FDL	1		1	
Arequipa	1		1	
Raíz	1		1	
Compartamos	1		1	
Proempresa	1		1	
Ademi	1		1	
Adopem	1		1	
Crcecer	1		1	
Amanecer	1		1	
ODEF	1		1	
Bancosol	1		1	
ECLOF Colombia	1		1	
AMC	1		1	
Génesis	1		1	
Hermandad de Honduras	1		1	
Prodesa	1		1	
Confianza	1		1	
Bancamía	1		1	
FAMA	1		1	
Espoir	1			1
Enlace		1	1	
Coopaspire		1	1	
ECLOF Dominicana		1	1	
Credicampo		1		1

Source: Calmeadow

TABLE 16

Office hours, May 2018

MFI	Monday-Friday	Monday-Saturday	Monday-Sunday
Fubode	1		
Espoir	1		
Cooprogreso	1		
D-Miro	1		
Pro Mujer Nicaragua	1		
Crecer	1		
Amanecer	1		
Bancosol	1		
ECLOF Colombia	1		
Enlace	1		
Génesis	1		
Contactar		1	
Idepro		1	
FIE		1	
Fundenuse		1	
Fundeser		1	
FDL		1	
Arequipa		1	
Raíz		1	
Compartamos		1	
Proempresa		1	
Ademi		1	
Adopem		1	
Credicampo		1	
ODEF		1	
Confiar		1	
AMC		1	
Hermandad de Honduras		1	
Prodesa		1	
Coopaspire		1	
Confianza		1	
Bancamía		1	
FAMA		1	
ECLOF Dominicana		1	
Bando Mundo Mujer			1
Banco Solidario			1

Source: Calmeadow

TABLE 17

Insurance services, May 2018		
MFI	Yes	No
Contactar	x	
Banco Mundo Mujer	x	
Fubode	x	
Idepro	x	
Sembrar Sartawi	x	
FIE	x	
Cidre	x	
Ecofuturo	x	
Banco Solidario	x	
Espoir	x	
Cooprogreso	x	
D-Miro	x	
Fundenuse	x	
Pro Mujer Nicaragua	x	
FDL	x	
Arequipa	x	
Raíz	x	
Compartamos	x	
Proempresa	x	
Ademi	x	
Adopem	x	
Crecer	x	
Bancosol	x	
Confiar	x	
ECLOF Colombia	x	
AMC	x	
Génesis	x	
Coopaspire	x	
Confianza	x	
Bancamía	x	
FAMA	x	
ECLOF Dominicana	x	
Fundeser		x
Credicampo		x
ODEF		x
Amanecer		x
Enlace		x
Hermandad de Honduras		x
Prodesa		x

Source: Calmeadow

TABLE 18

Table 18
Total employees and credit officers, May 2018

MFI	Total employees (1)	Credit officers (2)	Share of credit officers (%) (1) / (2)
Banco Mundo Mujer	4501	2267	50
Arequipa	3779	1969	52
Compartamos	3630	1981	55
Bancamía	3434	1682	49
FIE	3212	1033	32
Bancosol	2984	1304	44
Confianza	2127	1373	65
Ademi	1426	517	36
Adopem	1418	619	44
Crecer	1286	538	42
Banco Solidario	1268	360	28
Génesis	1196	567	47
Ecofuturo	1171	317	27
Raíz	947	512	54
FDL	816	281	34
Contactar	809	324	40
Proempresa	784	410	52
FAMA	692	262	38
ODEF	427	188	44
Pro Mujer Nicaragua	419	189	45
Coopaspire	385	165	43
Sembrar Sartawi	371	153	41
Cooprogreso	370	101	27
Fundeser	369	148	40
Espoir	348	148	43
Cidre	324	136	42
D-Miro	320	116	36
Fubode	293	145	49
Enlace	291	160	55
Hermandad de Honduras	229	67	29
Idepro	219	79	36
Fundenuse	214	98	46
Credicampo	179	77	43
AMC	168	74	44
Prodesa	138	68	49
ECLOF Dominicana	137	67	49
Amanecer	127	53	42
ECLOF Colombia	24	10	42

Source: Calmeadow

TABLE 19

Loan portfolio without collateral, May 2018 (%)

MFI	Share
D-Miro	100
Crecer	100
Amanecer	100
ECLOF Colombia	100
Bancamía	100
Raíz	100
Contactar	100
Adopem	99
Proempresa	99
FDL	99
Confianza	99
Banco Mundo Mujer	99
Pro Mujer Nicaragua	98
Bancosol	98
Hermandad de Honduras	97
Fubode	96
Espoir	95
ECLOF Dominicana	95
Fundeser	93
AMC	89
Cidre	88
Cooprogreso	88
Banco Solidario	82
Coopaspire	80
Sembrar Sartawi	79
Génesis	64
Ecofuturo	56
ODEF	52
Fundenuse	40
Compartamos	28
FIE	22
Ademi	15
FAMA	12
Enlace	10
Credicampo	9
Idepro	7

Source: Calmeadow

TABLE 20

Features of loan evaluation process, May 2018 (%)

Feature	Yes	No	Total
Credit bureau consultation	97	3	100
Decentralized credit analysis	92	8	100
Credit factory	45	55	100
Credit scoring	43	57	100
Disbursement in a a savings account	43	57	100

Source: Calmeadow

TABLE 21

Online and phone apps, May 2018 (%)

	Yes	No	Total
Online services	21	79	100
Mobile apps	34	66	100

Source: Calmeadow

TABLE 22

Other credit services & products, May 2018 (%)

Service	Yes	No	Total
Leasing	18	82	100
Factoring	5	95	100
Credit cards	11	89	100
Debit cards	24	76	100

Source: Calmeadow

TABLE 23

ROA and ROE, December 2017 (percentages)

MFI	ROA	ROE	Taxes/profits
Ademi	2.6	15.1	28.6
Adopem	7.0	24.6	36.7
Amanecer	4.6	6.1	13.2
AMC	1.4	7.5	54.5
Arequipa	2.1	17.2	41.7
Banco Mundo Mujer	3.2	17.6	58.7
Bancamía	1.5	6.0	76.2
Banco Solidario	1.3	7.9	56.1
Bancosol	2.2	20.5	73.6
Cidre	0.6	6.0	55.4
Compartamos	1.8	9.7	32.5
Confianza	1.3	7.8	55.5
Confiar	0.9	5.0	34.8
Contactar	3.0	11.2	0.3
Coopaspire	3.2	14.0	9.1
Cooprogreso	0.3	2.6	35.8
Crecer	1.7	9.9	103.8
Credicampo	3.6	16.6	45.5
D-Miro	1.2	7.1	80.5
ECLOF Colombia	1.0	3.9	35.7
ECLOF Dominicana	12.2	22.3	0
Ecofuturo	0.8	11.6	110.8
Enlace	5.1	16.5	42.3
Espoir	(0.4)	(2.4)	(172.7)
FAMA	3.5	15.9	47.4
FDL	1.9	7.3	52.4
FIE	0.8	10.7	78.8
Fubode	1.5	7.6	52.2
Fundenuse	4.6	17.0	48.5
Fundeser	0.2	1.6	207.1
Génesis	5.7	13.5	43.9
Hermandad de Honduras	8.4	18.6	0
Idepro	(1.0)	(7.3)	(1.6)
ODEF	1.2	6.7	52.7
Pro Mujer Nicaragua	2.6	10.2	80.9
Prodesa	3.1	23.1	56.4
Proempresa	1.2	6.9	48.7
Raíz	0.1	0.5	222.2
Sembrar Sartawi	0.004	0.04	17.8

Source: Calmeadow

DO CLIENTS STILL MATTER?

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