



EUROPEAN
MICROFINANCE WEEK 2018
PLATFORM

NETWORKING WITH THE SOUTH

Do clients still matter? Contrasts and evolution

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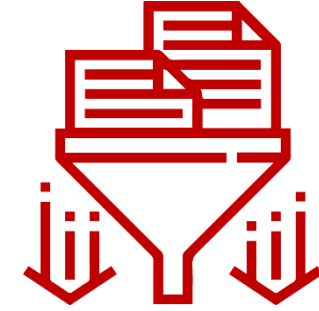
Content



Scope of Study



Approach



Results



Conclusions

I. Scope of Study

Sponsor: Calmeadow

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Region: Latin America & the Caribbean

- Central America: El Salvador, Guatemala, Honduras and Nicaragua
- South America: Bolivia, Colombia, Ecuador and Peru
- Caribbean: Dominican Republic

Methodology

- Questionnaire: 40 MFIs
- Various documents: 40 MFIs
- 11 MFIs visited in 3 countries: Bolivia, Colombia & Peru



I. Scope of Study

MFI types

Non-Regulated

- NGOs
- Private Companies

Regulated

- Banks
- Private finance companies
- Credit unions/Savings & loans
- Government Owned

Team

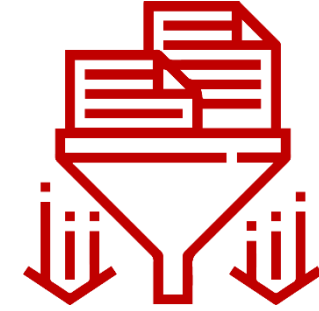
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II. Approach

Objectives

- What types of organization **serve better their clients**
Typology of organizations? **Characteristics**?
- Which ones **get closer to them**?
Methods for achieving proximity; **The “traditional” microfinance approach?** **Contrasts** across types, **evolution** over time



Measuring

- Depth of outreach
- Variety of services
- Credit technology
- Transactional features
- Distribution Channels
- Customer Protection

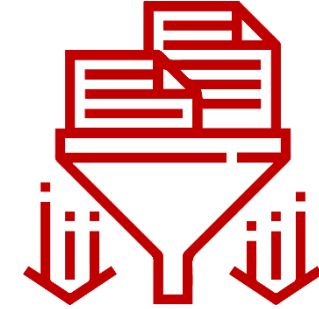
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Depth of Outreach

Women

- High share of loans to women
 - 70% of MFIs with >40%
- Throughout all MFI types
- Changes over time

Small farmers

- 1/3 of MFIs with agricultural lending
 - ★ Stable share of agricultural portfolio
- Challenge: Appropriate credit technology



Depth of outreach

- **Clients in poverty**
 - 70% of MFIs measuring client poverty
 - Sophisticated analysis of social performance
 - ★ Volatility of poverty
 - ★ Non-comparable metrics and methods
 - ★ Clients of MFIs: household-firms with legitimate demands of credit

Challenges: → migrants; indigenous populations, displaced and demobilized



Services


- **Credit**

- **Practically all offer this service**
- Individual lending prevails
- Limited leasing & factoring
- Group credit key for certain niches



Lower income/Vulnerable

- **Savings**

- 44% of MFIs with deposit mobilization
- Several regulated MFIs without deposits (Nicaragua & Bolivia)
- ★ Inactive accounts or with few transactions
 is this Financial inclusion?

Services

III. Results



- **Insurance**
 - 84% of MFIs with some type of insurance
 - Loan insurance (in case of death); funeral expenses
- **Other services:** remittances, transfer of funds, utility payments
- **Non-financial services**
 - Health/Education (Pro Mujer, CRECER)
 - Training & T.A.
 - ★ Going back to basics → Value added, competitiveness.....



Credit technology

- **Training period for new credit officers**
 - Few MFIs with > 1 month of training
 - ★ Key role of credit officer
- **Proportion of credit employees (vs total employees)**
 - Few MFIs with > 50%
- **Client retention**
 - Important level of retention in 1/3 of MFIs (> 80%)
 - Dominance of regulated MFIs



Credit technology

- **Office hours**
 - Adapting to the clients' needs. up to 7 p.m., weekends
- **Loan evaluation process**
 - Credit bureau: 92%
 - Decentralized analysis: 85%
 - Credit factory: 39%
 - Credit scoring: 35%
- **Disbursements into accounts: 35%**



Loan Conditions

- **Without Collateral (co-signer excluded)**
 - Highly extended
 - 2/3 of MFIs: 80% *without collateral* → Access by target clientele
- **Maximum interest rates**
 - Maximum nominal rate: 24% - 136%
 - Average weighted rate: 13% - 49%
 - Differentiated ceilings for microcredit → (Ecuador)
 - **Lower for regulated MFIs** → Economies of scale & scope
 - Comparisons across countries: → Limited by inflation rates and market structure differences



Loan Conditions

○ Maturity

- **Longer terms: 3 – 7 years**
 - Impacted by housing finance
 - Regulatory repression (portfolio quotas in Bolivia)
- **Average weighted term: 0.8 – 6.7 years**
 - Concentrated around less than 3 years



Delivery channels

○ Office structure

- Branches prevail
- Non-financial correspondents & “service windows” gaining traction

○ Cards

- Credit: 3 MFIs
- Debit: 8 MFIs



Channels

○ Digital finance

- Still limited
- Even at large MFIs in mature markets
- Informative, basic transactions (transfer of funds) or not transactional at all.

○ Mobile apps, emerging

- Concentrated on top-up of prepaid mobile phones



Financial client protection

- Policy for **transparency of effective interest rate** (total cost)
 - Extended practice
 - Does not have any: 1 MFI

- Policy for dealing with **customer complaints**
 - Extended practice
 - Do not have any: 2 MFIs

Content



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IV. Conclusions



- **No material difference based on Legal Structure**
- **No commercialization-induced** (or regulation-induced) **mission drift**
- Prejudices against regulated MFIs are not verified - ***Fake news!!*** (repressive regulation can, on the other hand, hurt)

IV. Conclusions



- Different approaches** for “getting closer” to the client
- Larger MFIs** tend to have **broader shoulders** that allow them lower the costs of their services
- Enabling Environment matters!** (warning: **regulatory repression** hurts)

IV. Conclusions



- **Digital finance**, scarce.
- **Debit and credit cards** with limited presence
- **Non-financial correspondents**, implemented by many MFIs (small & large; mixed opinions)
- **Savings**, offered by a growing number of MFIs
- **Insurance** a wide-spread service
- Most MFIs with policies for **client protection**

IV. Conclusions



○ **Secret of success** regarding client relationship:

- Coherence: Target population and corporate culture
- Scale: economies, diversification, organizational challenges (human resources)
- Regulation: wider range of services, customer protection, trust
- Flexibility, innovation to adjust to changing times without sacrificing mission
- Resilience, to survive shocks and assist clients during difficult times

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