

# NEWSLETTER PPP

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## CONSULTANTS FOR MICROFINANCE & MICROENTERPRISE



PERFECT POINT PARTNERS S.R.L.  
Consultants for Microfinance and Microenterprise

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### WELCOME

Dear reader, I am glad to share with you the third issue of our newsletter. This time, I invite you to read about our analysis of Microfinance in Bolivia. The sector goes through a parallel process of consolidation of the number of participants and growth of the overall market. We also see "downscaling" of some commercial banks to SME banking. We also present a paying behaviour analysis of the MFIs clients and listen to the comments of two experts and pioneers of the microfinance industry in Bolivia, Reynaldo Marconi, General Manager of FINRURAL, and Julio César Herbas, National Marketing Manager of Bancosol.

We show you the first experiences of our Integrated Training Program (PFI) in Bolivia, we carried out courses for 270 small entrepreneurs in the cities of La Paz, Cochabamba, Santa Cruz and El Alto. The comments by the participants about the benefits of the courses for their businesses and for their work life in general are very helpful for us.

Also, we set out some important aspects to take into consideration in the Productivity and Risk Management for MFIs, based on our last consulting experiences in Central America (Nicaragua), Caribbean (Haiti) and Africa (Ghana, Nigeria).

Also, I invite you to review our latest news. We will also present us at the XI Inter-American Forum on Microenterprise (FOROMIC) to be held from 8 – 10 October in Asuncion - Paraguay. Please visit us at our stand in the Exhibition Center.

Fabiana Pastor  
General Manager  
Perfect Point Partners SRL



FONKOZE Staff – Port au Prince Haiti

## PAYMENT BEHAVIOUR IN BOLIVIAN MFIs

To put the analysis about the payment behaviour in Bolivian MFIs in the right context, it is necessary to up front explain some characteristics of Bolivian financial system. It is necessary to categorize the several types of institutions into two big groups: those who are regulated by the Bolivian Banking Supervision and those who are not. The regulated institutions are Commercial Banks, Microfinance Banks, Mutual Loan and Saving Associations, Open Credit Unions and Private Financial Funds (PFFs)<sup>1</sup>

### INTERVIEW TO JULIO CESAR HERBAS NATIONAL MARKETING MANAGER BANCOSOL

- 1. What is the factor by which the microfinance industry gets the lowest delinquency rate of the national financial system?**  
**R.** The explanation is easily identified. Microfinance institutions in Bolivia owe their success in the portfolio management to the use of three strategic variables: 1. The credit technology used, allows to have a deep knowledge of the consumer behavior in the target market with direct and permanent follow up. 2. The highly trained Human Resources, very motivated who identifies itself with the market niche and the institutional goals, 3. The existence of control systems and filter (Internal Credit Bureau) that are building a strong repayment culture in the country.
- 2. Why are so high provision rates on the Portfolio in arrears? Provision for portfolio/Portfolio in arrears**  
**R.** The institutions make provisions on possible negative contingencies that the economic, legal, social or political environment could create. The institutions solvency is the highest goal to achieve. Is one of the few ways to ensure the continuity even, in negative economy cycles. It corresponds to the strategic decision of the Board Director to maintain high levels of solvency, sacrificing profitability.
- 3. What is your opinion about yours clients management (microenterprises)?**  
**S.** In the country, the customers as well as microfinance institutions have matured. The microfinance management is characterized by being efficient and responding quickly to the market opportunities.
- 4. What are the topics on which they need most training support?**  
**R.** From our perspective the clients should be trained in: Financial Management, Marketing and Sales, Efficient Production Techniques, Use of Technology.

The institutions not regulated by the Bolivian Banking Supervision are: Development Financial Institutions IFDs (financial NGOs) and Closed Credit Unions. Both include several institutions dedicated to provide microfinance services and the unregulated entities especially reach segments of the population in rural areas with microcredit and other services (for example, business development, microleasing, microinsurance).

Because of the significant development and growth of the microfinance sector in Bolivia since the 1990s there is also a large number of organizations who support the sector, such as international cooperation agencies, private companies, state programs, second tier banks and associations. ASOFIN<sup>2</sup> (for regulated entities) and FINRURAL (includes non-regulated) are two of those associations of significant importance.

Since 1999 the entities that are associated to ASOFIN, show a sustained growth in their loan portfolio, exceeding 969 million dollars. In the first two months of this year (2008), there was an increase of more than 47.5 million dollars in disbursed loans. The number of

<sup>1</sup> The Private Financial Funds (PFFs) are microcredit NGOs that were transformed to formal company; this is the case of the well-known institution PRODEM.

<sup>2</sup> Established in 1999, its acronym means "Association of Financial Entities Specialist in Microfinance". It is a private non-for profit association. It is the main institution representing regulated microfinance sector in Bolivia. The partner entities are: BANCOSOL, AGRO CAPITAL, LOS ANDES PROCREDIT BANK, ECOFUTURO, FASSIL, FIE, FORTALEZA and PRODEM.

credit clients has also increased this year, reaching in February 2008 to 391,040 (39.1% of total clients of the Bolivian financial system). Also, by February 29, 2008, the recorded delinquencies rate is 1.18%, and provision coverage on the portfolio in arrears of 335%.<sup>3</sup>

**INTERVIEW TO REYNALDO MARONI, GENERAL MANAGER FINRURAL**

**1. What is the factor by which the microfinance industry gets the lowest delinquency rate of the national financial system?**

**R.** The main factor is the client payment behavior resulting from the intensive use of appropriate lending technologies. They are two institutions that have a high importance in the sector (Crecer and Pro Mujer), where the behavior levels of the portfolio is exemplary. The rates can still be better; however other entities that work with a more rural approach (agricultural sector) have been subject to higher delinquency rates.

**2. Why are so high provision rates on the Portfolio in arrears? Provision for portfolio/Portfolio in arrears**

**R.** Generically this coverage level has been a goal in the self-regulation system framework, so that the covering rates will be sufficiently reasonable to demonstrate the soundness of the sector. Generally the provisioning rates reflect a strategic decision taken by the institutions to support appropriately the portfolio at risk. In the case of some particular entities it is important to know the specific environment in which they operate.

**3. Can you tell us more about the business with microenterprises by your associates?**

**R.** We need to differentiate between three different markets which our associates cover: a) the microenterprise sector with presence in mid-sized cities. Here we work with micro-entrepreneurs which are of better quality and have better resources. b) in the productive sector we see a lack of sufficient business and companies. We do not see this as the responsibility of micro-finance institutions to fill this gap but see that rather with the public and private sector in general c) Village Banking is mainly serving female borrowers. They receive a privileged treatment because the goal is to empower the women. Areas which need to be further developed are the the professional -, leadership, and negotiation skills. In this area we see great success of our work also because we are serving more than 200,000 clients of this category in Bolivia.

**4. What are the topics on which they need most training support?**

**R.** Emphasis should be put on productivity improvements of the assisted clients, because we can see that the levels of productivity (mainly of the agricultural small farmers) comparatively to neighboring countries show low ratios. Therefore agricultural production skills shall receive higher focus than the management trainings. The management itself has to analyze its competitiveness on a global level with other market participants in productive sectors like coffee, quinoa, etc. Productivity improvements make our products more competitive.

In data, published at the same date, the institutions, associated with of FINRURAL<sup>4</sup>, show a decrease in the delinquency behavior from 2006 to 2007, from 4.9% to 3.2%. The provision coverage on the portfolio in arrears was 134%.<sup>5</sup> The Mutual Loan and Saving Associations have the highest delinquencies rate in the Bolivian Financial System (8.26%). On the other hand the lowest delinquency rate is in ASOFIN entities (1.07%). The highest provision coverage is in ASOFIN (335%), the lowest is with banks (130%). It is important to emphasize the fact that microfinance institutions are achieving encouraging results in their target markets.

Most microfinance institutions have favorable financial results, with a positive trend in improving profitability and efficiency rates. However, in some subsectors, there continue to be problems of loans arrears payment. We interviewed one of the experts at the national level and he shares with us his point of view about this topic (see box above).

<sup>3</sup> <http://www.asofinbolivia.com/>

<sup>4</sup> The Association of Financial Institutions for Rural Development, "FINRURAL", is a civil nonprofit association, formed on September 28, 1993. The entities that are partners of FINRURAL are: ANED, FADES, IDEPRO, FONDECO, PRO MUJER, CIDRE, CRECER, DIACONIA, FUNBODEM, FUBODE, FONCRESOL, IMPRO, SARTAWI, EMPRENDER and AMIGO

<sup>5</sup> <http://www.finrural-bo.org/>

We conclude that MFIs continue having lower delinquency rates in comparison to traditional banking as well as higher levels of delinquency provision. However there seems a potential of improving the portfolio quality, to train customers better on productivity issues, corporate governance, financial and sales strategies among others. In Perfect Point Partners SRL, we share that point of view and have started to offer seminars and comprehensive training in four cities of Bolivia. In the next section, we will show you the first results.

## COURSES FOR SMALL ENTREPRENEURS - PFI



The Integrated Training Program (PFI – Programa de Formación Integral) is a joint initiative of three companies with focus on offering support and training in the development sector: Perfect Point Partners srl. (Experienced consultants offering solutions for microfinance institutions), Project Horizonte Ushpa-Ushpa (a non-for profit village development program), Educative CIOGSE (a consulting company focused on providing services in the educational sector). Together, they develop services based on and around the training program of provided by ACCION international: "Dialogo de Gestiones". [www.pfi-bolivia.com](http://www.pfi-bolivia.com)

The programs mission is to promote the development of companies and initiatives in the sector of micro and small enterprises through products and services. This includes offering of business solutions, improving skills and providing integral training, designed for the specific needs of the different attended sectors. Only by understanding the circumstances of those enterprises, we can ensure a successful development and an improvement of the quality of life.

The offered services are mainly based on proving management capacity, education, training, and business development. These are provided through:

1. Seminars developed by "Dialogo de Gestiones- DG" (ACCION International)
2. Technology and knowledge transfer,
3. Development projects



PFI Training for Nacional Bank BNB Bolivia, La Paz and El Alto

Our target groups are development projects, micro entrepreneurs, educational projects, microfinance institutions, but also individuals including groups like disabled people, unemployed, young people.

The DG training program has 46 modules, and depending on the target group we can combine with the individual modules to a particular set of trainings. We have developed such packages for groups like female micro entrepreneurs and young borrowers. Based the methodology applied by DG, the participants learn to develop skills that allow to SEE, ANALYSE, TRANSFORMATE and EVALUATE the criteria, strategies and tools that need to improve their business management and enhance the personal, social, community and environmental development, among others.

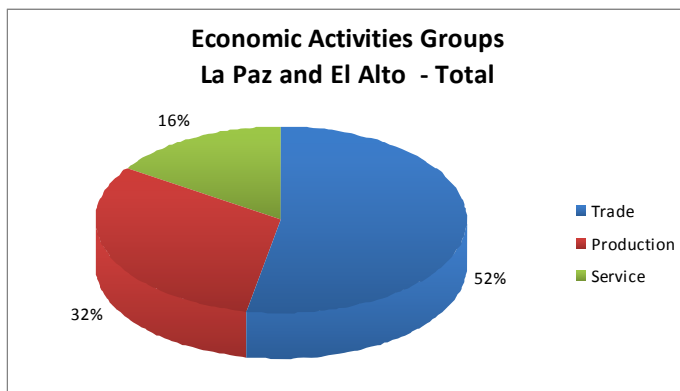
In our first project, 270 entrepreneur clients of the National Bank of Bolivia (BNB) from the cities of La Paz, El Alto, Cochabamba and Santa Cruz benefited from the courses. The theme was: "Sales Strategies for Success Business". In the next box, some of the participants impressions about the course are summarized.

**OUTSTANDING IMPRESSIONS OF THE PARTICIPANTS**

The following are the participant's impressions, responding to the evaluation sheet and the question: How I felt?

- I felt comfortable and free to expose my ideas and to clarify my doubts.
- Very pleasure because it was a dynamic course. The interrelation with other people makes the course more dynamic and fruitful, extracting experiences of each participant.
- Very comfortable and the course pretty fruitful because I met many entrepreneurial people with whom I can collaborate in the future.
- Comfortable, completely happy because the environment with people that I shared was pleasant, my suggestion is that they have to continue offering these trainings.
- I felt very comfortable sharing my experiences and learning of other experiences of my colleagues. In the future it would help a lot to me and my company.
- Very well, it was an ideal environment and almost all the participants have the same interest: "to grow."
- Very pleased to meet other entrepreneurs who wanted to share their experiences.
- Comfortable in a heterogeneous family of activities, but homogeneous on ideals and expectations, and finding great affinity with the possibility of building alliances.
- I felt very well, the course was very dynamic, the teacher knows a lot about the topic and makes you feel good, the course is not boring. Thanks to the Bank that cares about us, its clients, and thanks to the "teacher" to pass on his wisdom, God bless him.
- Very happy and pleased to learn to identify my business weaknesses to the competition and the competition to my business.
- I felt very happy for the guidance and explanations that they gave me to improve my business. I want to congratulate to the Bank by doing these courses.
- Satisfied with the explanations and the used method is very good. Congratulations.

The Bolivian National Bank (BNB) has set the goal of improving the management capacity of one of the most important business segments of the country: small and medium enterprises (SME). In that way, they begun to develop training courses whose objectives are to improve the management skills of SME entrepreneurs. Roberto Zenteno, BNB SME Department Manager said that if his customers improve their management skills, their businesses management will be more efficiently. "The benefit is mutual: they accelerate their growth and we finance them".



As we note in the chart, most of the participants belong to trade sector in the Bolivian economy, with a stake of 52% of the total attendances.

The next group are entrepreneurs who engage in productive activity (32%). Finally, there are the participants from the service sector. In a forthcoming edition of our newsletter, we will show the results of the second phase of this project.

## RISK MANAGEMENT AND PRODUCTIVITY:

The microfinance evolution in Latin America and the Caribbean shows many different aspects among the different countries, for both the pioneers and the newer players. For example in well-developed markets which have a high a level of competence the needs and necessities of micro finance institutions are related to maintaining a healthy portfolio on an ongoing basis, ensure reasonable efficiency rates, development of new financial services for existing clients, reducing the interest rate, perfection of technology, and especially integrated risk reduction initiatives.



From left to right: Disburse activity in Fonkoze (Solidarity Group); Customer interview in FUNDESER - Nicaragua

On the other hand, there are areas where microfinance institutions still work in markets without or with little competition. Many of those can be found in rural or remote areas. Their goals are developing growth strategies, achieve sustainability, improving productivity, introduction of new products, focus, improvement of delinquency levels, and staff training.

From our experience we know that microfinance institutions of both categories can improve the way they do business once they measure its and disclose their level of efficiency. **Efficient management** in microfinance institutions is a key factor for their growth and sustainability, regardless of their size, social mission or attended market. One of the major bottlenecks remains the lack of qualified personnel. This shall be a focus area for supporting institutions and international agencies.

All MFIs with which we work over the past were able to improve aspects of their operations in one or more of the following areas:

- Prevention, measuring, and management of risk at an integrated level (Credit risk, Operations risk, Market risk, Liquidity risk).
- Improvement of efficiency regarding direct as well as indirect cost.
- Standardization and automation of financial services.
- Decentralization.
- Improved internal controls.
- Staff training and motivation.
- Social responsibility (service quality, cost reduction, improved living standards)

The philosophy which we try to teach our clients, especially those which serve the poorer less developed parts of the population in their regions is the following. With regards

to financial services, the best social impact in the long run, can only be achieved if they are integrated into and competing with the overall financial system. In other words: respecting market rules and competition, efficiency, productivity improvement, consolidation, target oriented product design and generating added value services.

## NEWS:

- Perfect Point Partners and his Integral Training Program (PFI) will present its products and services at the **XI Forum Microfinance and Microenterprise (FOMIN/BID) in Asuncion - Paraguay** (October 8<sup>th</sup> – 10<sup>th</sup>) – Please visit our Stand No 28 in the Exhibition Centre.
- In September 2008, PPP began the consulting project with IMF MIKRA - Bosnia and PARTNER in October 2008, the services will be: developing a product costing system, institutional diagnosis, risk analysis and efficiency improvements.
- PPP started two projects in Risk Management in Africa with Grameen Foundation.
- Fabiana Pastor conducts a course on "Productivity Management", 3-5 September 2008 at the Center for Financial Initiative Support (AFIN), La Paz, Bolivia. References: [www.microfinanzasbolivia.com](http://www.microfinanzasbolivia.com).
- Christian Ruehmer will present a Risk Seminar in Shanghai Institute for Banking and Finance on 25-36 October 2008

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