GEO

Guyana Economic Opportunities

Institute of Private Enterprise Development (IPED) Observational Visit to Bolivia

Summary and Observations

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Table of Contents

A. Objective

From May 6 to May 10, 2001, I led a study tour for the Institute of Private Enterprise Development (IPED). We visited several leading microfinance institutions in Bolivia to allow IPED staff to meet counterparts in other institutions and compare the problems and successes, experiences, and lessons learned of successful institutions serving small and micro entrepreneurs.

Presented below is an overview of the trip, including a profile of persons on the tour, persons met and meetings held. Subsequent to that is a summary of the key issues discussed, lessons learned and problems/solutions identified by the participants based on what they learned on the tour. Finally, I recommend possible follow-up activities or assistance that GEO might provide to IPED based on the results of the tour.

B. Trip Overview

Seven persons from IPED participated in the observational tour: the general manager (Ms. Brijmohan), a member of the board of directors (Mr. Samaroo), and five credit officers. We arrived in La Paz on Sunday, May 6, and spent the day acclimatizing to the altitude. In the afternoon I held a meeting to give the participants an overview of the program, the Bolivian microfinance industry, and information about the specific institutions with which we were going to meet. I also asked the participants to speak about their professional and personal expectations for the trip. The participants shared that they were very interested in learning about the following:

- managing delinquency
- credit methodologies
- cash flow analysis (following up on a recent GEO-sponsored training held at IPED)
- increasing loan volume
- decentralization

Personally, the credit officers expressed keen interest in observing another culture and language and many indicated that they wanted to take back pictures, memories and souvenirs for their friends and family.

Unfortunately, the general manager, Manjula Brijmohan, was ill for a large part of the trip. She was unable to attend some meetings such as the one held Sunday afternoon and a subsequent Tuesday afternoon session. Fortunately, she was feeling better by Wednesday and was able to attend both important meetings as well as our wrap-up session on Wednesday night.

On Monday, May 7, we began the first of our three day visits with microfinance institutions.

B1. BancoSol

Our first meeting was held with BancoSol, a world renown bank serving microentrepreneurs. We spent the morning listening to presentations about the general overview and structure of BancoSol as well as the position of BancoSol in the market place. In the afternoon we observed presentations about BancoSol's target population, credit methodology, product development, and service delivery.

The following day, Tuesday, May 8, we listened to presentations in the morning regarding BancoSol's incentive scheme for credit officers, the structure of the management information system, and the way in which branches work with the principal office. The discussions were lively and very informative. In the afternoon we took a field trip to visit a branch office and client. This was an excellent afternoon, as it gave the credit officers ample time to review the client social-economic screening template, ask questions of a branch manager, observe transactions at the branch, and meet a client.

B2. FUNDA-PRO

On Wednesday, May 9, we met with Mr. Enrique Blanco, the finance manager of the Foundation for Production (FUNDA-PRO). Mr. Blanco gave an excellent presentation about the Bolivian microfinance industry and FUNDA-PRO's role as a credit wholesaler and non-financial service retailer. He detailed FUNDA-PRO's services, cost structure and strategy for continued growth. IPED's general manager and the representative of the board of directors were very interested in this presentation because they are exploring ways in which to legally and figuratively restructure IPED. The presentation lasted for more than two hours and a lively question and answer period followed.

B3. FIE

Our third and final meeting was held on Wednesday, May 9, with the President of FIE, Ms. Pilar Ramirez. Ms. Ramirez gave a detailed presentation about the challenges FIE faced transitioning from an informal financial intermediary to a private financial fund, a Bolivian financial institution regulated by the Superintendency of Banks. Despite the enthusiasm of Ms. Brijmohan and Mr. Samaroo to become licensed as a “formal” institution, Ms. Ramirez cautioned IPED's leadership to think very seriously about making a transition from an NGO to a regulated entity. Ms. Ramirez shared her opinion that an institution should only go through the transition process if it needs to capture savings from the public; if this is not a necessity for the institution, then it should think twice before pushing ahead to be regulated, because with regulation comes a loss of autonomy, flexibility and freedom of choice.

C. Key Issues and Lessons Learned

Several general themes emerged through the presentations and the subsequent question and answer periods. These themes emphasized the implementation of best-practice theory and included the following:

- Bolivia's more successful microfinance institutions are regulated, financial intermediaries. These microfinance institutions (MFIs) have a very private-sector orientation, are driven by profits, and are focused only on financial products and services. Bolivian Private Financial Funds (known as FFPs; FFPs are former NGOs that have transformed into formal financial institutions under a special Bolivian law) and banks strive to provide long-term financial services to their clients. This sometimes comes at the sacrifice of their original mission statements, which emphasized social development and poverty alleviation more than financial sustainability.
- Banks and FFPs are flexible and can adapt to change.
- Successful banks and MFIs do not rely on soft-funding by donors.
- Banks and FFPs retain clients and control delinquency through constant on-site client follow-up and incentives for credit officers.

These themes are particularly interesting and relevant because they draw attention to key areas in which IPED's operations and structure fail to incorporate best practices. For example, in discussions with the general manager, IPED very much considers itself a development institution with a mission to alleviate poverty. However, this outlook generally contradicts modern best practices, which emphasizes the need to think of microfinance more as a banking service and less as a development tool and social transfer mechanism.

At the wrap-up session, the participants themselves offered some keen observations about what they learned during their tour. Specifically, they noted the following:

- Cash flow/risk analysis is critical to determine a client's capacity to repay. IPED's current manner of analyzing cash flow is deficient and can be improved by incorporating some of the techniques learned in Bolivia. Specifically, IPED should try to base the loan size on the client's capacity to repay instead of a pre-set "step" in a system: one size does not fit all.
- The best way to control delinquency is to spend more time with the clients. Spending time with clients is critical to build trust and head off potentially bad loans.
- Transparent/measurable incentive schemes would go a long way to motivate IPED credit officers to spend more time with the clients analyzing risk and recovering delinquent loans. The present scheme at IPED is not financially attractive enough to really encourage credit officers to go the extra mile in controlling delinquency.
- In order to spend more time "in the field," IPED's credit officers must have a far lesser administrative burden than they do at present. IPED staff were particularly fond of BancoSol's branch-based platform approach, wherein each branches' credit officers rotate in staffing a one-person customer service desk while spending the rest of their time with clients (as opposed to dedicating significant amount of time to data entry).
- Products should be developed to meet clients needs; IPED's management should spend more time talking to the clients to find out what types of products are really in demand rather than supplying what they think the clients need.
- Successful banks and FFPs have discipline, vision and structure that is clearly stated in action plans and vision statements.

D. Recommendations for Follow-up

As a follow-up to the Bolivia observational tour, I would recommend that GEO concentrate its efforts in supporting IPED at the managerial level instead of the operational level. Specifically, I would suggest engaging in activities which will help IPED's general management and board of directors develop a strategic plan for the next three to five years and responsibly debate the pros and cons of transitioning into a development bank. This could be done through one of two ways. First, GEO could hire a consultant(s) to work with IPED on developing a strategic plan and identifying future interventions to help it realize its objectives; and/or (2) taking other observational tours to meet with the senior management/board of directors of other similar institutions facing the same strategic challenges. More precise operational support can/should be introduced after IPED has defined its mission and set its strategy for achieving its objectives.