

## Breakout 13: Risk Management: Information Technology

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### *“Market-Based Credit Policies for Increased Access to Rural Finance in the Philippines”*

#### **Author**

Ma. Piedad S. Geron, Credit Policy Improvement Project (CPIP)

#### **Summary and Key Findings**

This case study discusses the processes of implementing and evaluating market based credit policies in the Philippines as a substitute to subsidized credit. Critical credit policy measures adopted by the government, along with key provisions, are aimed at developing viable and sustainable rural and micro finance markets. Donor recommendations include: collaboration among different donors and government institutions on policy directions; technical studies to assess the rural credit policy environment; transparency with financial monitoring and evaluation and regulatory services adapted for rural financial operational environment.

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### *“Rural Lending in Sierra Norte-Ecuador”*

#### **Author**

Susana Barton (ACCION)

#### **Summary and Key Findings**

This case study examines the design, development and implementation of a rural lending project geared to allow the Banco Solidario in Ecuador to increase the scope, depth and coverage of its loan portfolio to the microenterprise sector and the work of Fundacion Alternative to work with lower income profile segment of the market. Challenges to rural lending programs include: lack of experience in agricultural loan management; misaligned incentives program; operational concerns with loan disbursement in the “field”; and ignorance of cultural differences between urban and rural clients.

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### *“How M-CRIL Supports the Provision of Financial Services to Low Income Clients in Asia”*

#### **Authors**

Tanmay Chetan, Sanjay Sinha, and Arshed Khan (all from M-CRIL)

#### **Summary and Key Findings**

M-CRIL’s mission is to enable flow of loan funds to MFIs and banking institutions, working primarily with low income clients in Asia. Their organization and methodology is compared to formal sector ratings from an institutional, client, and urban-rural basis. Suggested systems and processes required for outreach to low income families include: reduction in market distortions caused by donor intervention; and effective dissemination of industry information, standards for disclosure and accountability and internal quality control.

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**Breakout #13**  
Risk Management: Information Technology

Moderator: John Caan (DAI)

Case Studies: Market Based Credit Policies for Increased Access to Rural Finance  
Presented by: Piedad Geron (CPIP-Philippines)

Rural Lending in Sierra Norte-Ecuador  
Susana Barton (ACCION)

How M-CRIL Supports the Provision of Financial Services to Low Income Clients  
Tanmay Chetan (M-CRIL-India)

*Session Notes (taken by Arthur Queenan).*

**John Caan** introduced the presenters – questions will follow each presentation.

**Piedad Geron** (Credit Policy Improvement Policy - Philippines):

Background: the Philippines continue to move from a subsidized regime to private enterprise. Many past programs involved subsidized interest rates managed by gov't non-financial institutions; about half of these programs are related to agriculture.

The National Credit Council is newly created and USAID has been tasked to support it; policies have been developed to minimize the government's intervention.

The CPIP has the mission to: (1) ensure the government owns the policy reform; (2) issue policy notes; (3) conduct regional workshops; and (4) create working groups.

CPIP has also been intricately involved in advising the government to adopt policy reforms including the idea of transferring credit programs Government Financial Institutions (GFI). It has been far more difficult to change laws as opposed to modify executive orders.

Lessons for Donors: Donors should focus on establishing the regulatory environment.

**Questions:**

1. DAI – what has the emphasis of the CPIP programs been?

Answer – the governments push to privatization.

2. Has there been an effort to get the government out of the credit business all together?

Answer – Perhaps in the future, but for now the GFIs remain intricately involved.

**Susana Barton Geron (ACCION – Ecuador):**

Background: Banco Solidario was created in 1995 and currently has 550 employees, a \$6M rural portfolio, and 5,000 clients. In 2000, Banco Solidario and Fundacion Alternativa (also non-profit) began a rural lending initiative that was sponsored by the Belgian Technical Cooperation, with ACCION providing program and technical support.

Initially, ACCION borrowed the approach from other programs and found that they needed to be modified to fit the situation in Ecuador. The first phase involved analysis of the products to be offered. The question sought to be answered was, “What do we truly want to implement in the rural areas. The second phase was design and development.

One hurdle was modifying the technology to accept the different repayment frequency of a typical rural loan which has a longer repayment cycle than the usual monthly payback.

Ultimately ACCION developed four products for the market: three were based on the village banking model and one was designed for a single loan recipient.

ACCION is in the process of cleaning up and recreating their database with the goal of beginning to implement a credit rating scheme.

Another challenge has been how to provide incentive and train loan officers for rural lending.

**Questions:**

1. Why did ACCION go into Sierra Norte?

Answer – Oliver was involved in this decision that was based on market research concerning the rural marketplace.

2. Are there Savings Programs in Ecuador?

Answer - “There are in the oven.” (They are being researched.)

3. How much income diversification is there for loan recipients?

Answer – Recipients must have 2 sources of income.

4. Is remittance part of ACCIONs design?

Answer – ACCION does advise clients to use remittance for savings.

**Tanmay Chetan (M-CRIL - India):**

**Background:** Microfinance portfolios in India have begun to shift from being almost exclusively donor-funded to significantly debt-financed. As commercial banks begin to get involved, the market need has arisen for information about the borrower's cash flow, viability and sustainability. The commercial banks have tried to develop this credit analysis function internally but have realized they need a more sophisticated risk analysis. Microfinance still represents a small component of money lent and therefore it makes financial sense to outsource credit analysis.

As first, DOWAR financed everything. Then, EDA Rural Systems (Development Consultancy) began to link commercial and micro credit markets together.

M-CRIL is private and functions without grants. Now, M-CRIL has 10 employees with more than \$30M in cumulative lending recommendations.

The rating criteria is:	Government & Strategy	13%
	Mgmt / Resource indicator	36%
	Financial Reform / Risk	51%

Industry Data has proven difficult to obtain and verify.

M-CRIL produces reports concerning credit worthiness. M-CRIL is currently working in Indonesia to create credit-ratings for a village banking structured program.

M-CRIL's credit ratings are still from programs that are 40% donor funded.

Lessons for Donors: Donors should work on capacity building.

**Questions:**

1. Do you have clients not using commonly accepted accounting practices?

Answer – Yes, and this has proved messy.

2. Are you working with clients who have been audited?

Answer – No.

3. Are you doing credit storing?

Answer – We are doing credit rating of institutions.

4. What percent of revenue is from MFIs?

Answer – Lenders are paying for the ratings.

5. Is there a conflict of interest in providing ratings?

Answer – Only if we went back and provided consulting post-rating, which we do not.

### **Final Questions / Wrap up of Session #13**

1. Standardized accounting is vital in the Philippines because donors are paying you. M-CRIL in India is doing the dirty work by deciphering the accounting of its clients.
2. Auditor's results can vary, what do you do? M-CRIL does not rely on external auditors.
3. Is computerization an issue? M-CRIL – yes, still manual reporting performed in India.
4. ACCION – Ecuador has not had organizations proficient at collecting data on client preferences and we need more information on client thinking / behavior.
5. Where is ACCION working in the Americas? El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Trinidad & Tobago.