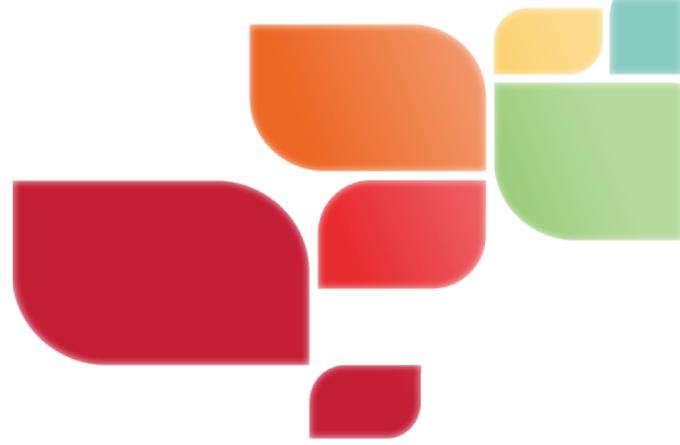


CASE STUDY

2017



PILARH OPDF

LA MICROFINANCIERA RURAL DE HONDURAS.

Rural inclusive finance Project in the Lenca Corridor Honduras



Case study of the pilot project “Rural inclusive finance Project in the Lenca Corridor Honduras” carried out by the Local Projects and Initiatives for Self-Development of Honduras - Private organization of Financial Development (PILARH OPDF), an institution affiliated to the Honduran network of microfinance institutions REDMICROH, within the framework of the regional project program of the Central American and Caribbean Network of Microfinance (REDCAMIF) and ADA Luxembourg, aiming at the promotion of financial inclusion by means of innovation in the financial product implementation.



1. INTRODUCTION

ADA Luxembourg (www.ada-microfinance.org) in alliance with the Central American and Caribbean Network of Microfinance (REDCAMIF), developed a five year project to accelerate financial inclusion in the Central American region and the Dominican Republic through three specific work areas: i) Professionalization of the industry, II) Sustainability of the national networks and the development of services, and the; III) Development of inclusive and innovating financial products, incorporating the implementation of innovative financial products in the areas of rural finances and progressive social housing in 33 affiliated Microfinance Institutions, distributed evenly among the 7 countries.

In the case of Rural Finance, the ADA - REDCAMIF alliance allowed for the development of four financial products for the rural sector additionally offering “positive externalities for the environment”. The products that were developed are: i) Line of credit for environmental productivity; II) Financing for renewable energies; III) Rural financial leasing and; IV) Financing for rural enterprising women. In the case of progressive social housing it was sought to expand financial services addressing the improvement in the quality of life of families. This VSB program has identified seven products that have the peculiarity of being progressive in the sense that they offer investment options starting from basic repair activities, improvements and construction, up to more complex schemes of house construction. The identified products are: I) Progressive improvement of houses; II) Whole improvement of houses; III) Purchase of land and legalization; IV) House construction; V) House purchasing; VI) Credit for the introduction of communitarian services in rural areas and; VII) Programed savings for housing.

2. INITIAL CONTEXT

Local Projects and Initiatives for Self-Development of Honduras - Private organization of Financial Development (PILARH OPDF), regulated under the law by the National Banking and Insurance Commission of Honduras (CNBS), is an institution dedicated to offering financial services to medium and low-income population of Honduras, mostly in the countryside. PILARH OPDF operates in a region where most of the banks, financial firms, OPDF, and Savings and Loan Cooperatives offer financial products with their own features of pricing, payment schedules, requirements and purposes. In the rural areas where PILARH OPDF operates there is demand for the financing for farming production and the reinforcement of value chains.

At the time when PILARH OPDF's pilot project was being implemented it obtained important achievements such as a 30% growth in its portfolio and 15% in terms of clients. The performance shown by its financial indicators vouched for the increase

of funders (Microcredit, Triple Jump, LMDF and Cordaid) which leveraged the organization with 3 million dollars. At the same time, the Institution implemented tools for the management of risk and the improvement of credit processes. The increased funding allowed for the diversification of its product and service offering to business sectors such as Farming and Renewable Energies, to entrepreneurs and to an extension of “Credit for Women”.

The implementation of the financial inclusion project allowed PILARH OPDF to identify an opportunity to expand its product portfolio and to improve the ones already in existence, by offering to its clients better financing terms and attractive products, through the financing of productive investments in the departments of Lempira and Intibucá. PILARH OPDF made the decision to implement the Microarriendo Financiero (Financial Micro Leasing) product, based on the needs of their clients to modernize their production systems with updated and environmentally-friendly equipment, and to add value to their production systems.

Previous to implementing PILARH OPDF's Financial Micro leasing product, no other financial institution in the country had any similar experience with it, which had some implications in its authorization by the National Banking and Insurance Commission (CNBS) even if the regulation of the national financial system already contained the norms and requirements for its implementation.

PILARH OPDF was motivated by several factors to implement Microarriendo with an environmental approach, the most important being I) To offer its current clients a financial product allowing them to acquire equipment and machinery to improve their production systems, and profitability, without compromising its assets already installed; II) To acquire environmentally-friendly equipment and machinery; III) To become a leading institution by offering innovating products in a market with high demand of financing from a low income population that is, at the same time, saturated in urban niches.





3. DESCRIPTION OF THE PROJECT IMPLEMENTATION WITHIN THE MFI

The Project of inclusive rural Finances in the Lenca Corridor of Honduras, carried out by PILARH-OPDF, consisted of the implementation of the Microarriendo Financiero Product pilot in the La Esperanza agencies in the Intibucá Department, as well as in those of Lepaera and Gracias in the Department of Lempira.

The Project Pilot 's implementation strategy started with the appointment of a technician, from the personnel, to be in charge of the project coordination as well as with the identification of the branches with the best potential for the pilot. Credit advisors were also picked from those branches because of their knowledge of the micro leasing product and their ability to differentiate it from normal loans. The training of the pilot personnel was carried out in the main office as well as in the pilot branches; a strategy of exchanges was put in place between clients who already had the product, with potential clients wanting to know more about the financing scheme, and about the equipment itself and the real benefits of the financial product. In addition, the local fairs organized by PILARH OPDF jointly with the suppliers of equipment and machinery had an unexpected but positive effect, because it allowed the clients to get acquainted, on the spot, with the equipment, its operation, applicability and terms of financing.

On the other hand, the proactive participation of the General Manager was key, particularly for the allocation of physical and material resources, the technical team and the necessary time. There was additionally the eager involvement of management in different areas: business, risk, finance, operations and internal control which helped in the support of the implementation of activities for the promotion, marketing and sale of the product as well as other processes. PILARH OPDF was aware that it was betting on an innovating product, not previously ran by the financial sector as such, which entailed significant changes in the adaptation and implementation process of the product. The former implied modifications in the marketing process, choosing of target clients, among other aspects that resulted in a positive experience for the handling of differentiated financial products.

Four alliances were signed with suppliers offering environmentally-friendly machinery and equipment adjusted to the productive and investment needs of the type of clients PILARH OPDF serves. The suppliers played a role of technical support, training and follow up providers for the management of the equipment being acquired, impacting both personnel and clients.

An exchange of client experiences was included in the pilot: On the one hand the clients observing the live operation of the equipment together with the suppliers and PILARH OPDF's technicians was something that generated greater confidence, interest and allowed them to share their queries about the wares to be acquired; on the other hand, the visits to client farms which

already had installed the equipment, so as to witness its operation, benefits and use. These initiatives were good for the reduction of client uncertainties in their decision of whether to invest in the acquisition of the goods under a financial leasing contract.

The product had impact not only on the lives of clients who acquired it, but on the community as an accelerating factor for the local economy, by being able to count on machinery and equipment services adding value to its production. A clear example of this is the lease of a pulping machine and a coffee dryer: the client, aside from increasing his/her productivity, from adding more value to his/her product and from reducing the time and cost involved in its processing, additionally offers pulping of drying services to the small farms in the community, at a lower cost, greater speed and accessibility; plus, the reduction in environmental impact on the community.



PILARH OPDF's image was much improved in the communities where the project was carried out and it had an effect on the financial entities, strategic allies, the competition and present and potential clients, as a result of offering a novel and accessible product for the target population. Plus, the opportunity to generate business with a non-traditional financial product, as a response to the investment needs of the small and medium producers in PILARH-OPDF's area of influence.

The selection criteria for the potential clients was based on their having enough economic capacity, and functioning productive units, plus a market such that he/she can use his/her equipment to serve neighbors of his/her community; another important aspect pertaining to the operating features of Microarriendo is that in the area where the client who is to lease the equipment is located, must include an alternate client (a secondary market) in case of a last minute rejection of the equipment by the client.

Alliances were established with five suppliers of production equipment and machinery. PILARH OPDF's next goal is the extension of the number of micro leases in the rural productive sector and to use its experience in the small industry sector.

4. MAIN CHANGES IN THE MFI SINCE THE PROJECT IMPLEMENTATION

The pilot allowed PILARH-OPDF to have access to an implementation methodology for new financial products, allowing it to expand in a planned and systematic way the experience to other clients with diverse productive systems and businesses such as small industry and commerce. The pilot experience has produced the necessary confidence and practical knowledge; the next phase is to extend the market niches with different types of equipment and machinery.

PILARH OPDF established an initial premium of 10% of the total value of the equipment in the financial conditions, as a way to guarantee that the transaction would effectively take place and as a way to gauge the commitment and responsibility of the client for the fulfillment of his/her obligations. In addition, a 10% of the financed amount was set up as purchase option (last installment) seeking that the client performs the maintenance according to the technical recommendations of the manufacturer and that, at the end of the lease, he/she keeps the good.

The strategic alliances transcended a contractual relationship between companies; PILARH OPDF conceived the alliances only with commercial suppliers having a development mission as well. This consolidated the processes of training, technical support, and occasional counseling; for clients as well as for the personnel to acquire the knowledge and to generate skills for selling and counseling in relation to equipment and machinery. These alliances included a close coordination relationship with local actors such as municipalities, NGOs, private entities, among others, to consolidate the relation with the clients; Because of the product features, the selection of target clients is very different, since it is an upgrade of the rural client PILARH OPDF finances.

5. FACTORS CONTRIBUTING TO THE SUCCESSFUL IMPLEMENTATION OF THE PROJECT

There were several factors working together for the success of the pilot, among them: The support of the Corporate Government and the commitment of the general management which had a proactive participation in the implementation process.

The Experience and knowledge about the farming productive processes on the part of management and the team in charge of the implementation of the pilot reduced the uncertainty levels in the selection and follow up of clients and in the use of equipment and machinery, thus allowing for the appropriate selection of suppliers and their offerings.



Achieving CNBS' authorization after an intense lobbying process set a landmark in the development finance industry in Honduras, and particularly in the case of PILARH OPDF, placing it at the forefront of innovation and financial inclusion in rural areas.

Having access to a REDMICROH technician offering support for the planning, budgeting and operational execution processes; the meetings of the follow up committee where decisions ensuring the sound development of the project were taken; the counseling and the support in the execution of tasks such as training, marketing planning, the search of suppliers and the development of policies;

REDCAMIF's counseling about the structuring of the project, its training about the theory of micro leasing gave greater fluidity to the implementation and allowed to sort out the stumbling blocks.

6. OBSTACLES ENCOUNTERED DURING THE IMPLEMENTATION OF THE PROJECT

The obstacles that had to be sorted out in the implementation of the project, were:

- the initial difficulty of the field personnel with its learning curve for the assimilation of the management of this product, the acceptance of change given that the product features are different from a normal loan;
- the initial marketing process towards clients, given its novel features, thus generating skepticism and doubts about the way an unusual financing would operate and be managed.

Another factor in the beginning was the availability of sufficient equipment and machinery inventory in the country. The unexpected demand for the financial product with this type of equipment exceeded the regular inventory of the supplier company and this was compounded by the extra time needed to import the goods (up to four months), thus causing some clients to desist from leasing the equipment.

Even if in the end the results were positive, the time spent lobbying the CNBS for the approval of the product somehow diminished the outcome in terms of clients, portfolio and type of equipment. Much had to do with the lack of previous experience of the Commission as well as that of the financial industry with the development of the product; areas such as the arrears and the capital adequacy were especially reviewed by the CNBS. At the same time the absence of similar concrete experiences in the region translated in the increase in the slope of the learning curve and the use of trial and error methods at all levels in PILARH OPDF.

7. ROLE OF THE NATIONAL NETWORK AND REDCAMIF

REDMICROH and REDCAMIF were important actors in the success of the project; having access to a technical team in REDMICROH, responsible for the formulation of the project, the support in the development of the action and the budget plans, the follow up and support, and the field support for the achievement of goals whenever it was required, its support of the training processes; it also contributed by offering the tools and the timely management of funding thus avoiding any delays in the project activities; the review of the implementation of the project in the Follow up Committee, allowing timely decision making so that the project would run its normal and successful course: the reports, the redefinition of activities, the administrative and technical guidance in its follow up; the support in the search of alternative suppliers; the support in the different stages of the development of the project.

REDCAMIF with its team guiding in the different stages of the project execution, in the provision of tools adapted to the micro leasing product, the facilitation of the training program for the use of the tools, of the timely decision making for the re-orientation of some activities that had not been identified in the original document but that, during the execution of the project, were deemed as necessary. For all of these considerations the REDCAMIF team helping that operated in the networks, offered a key contribution to the project's success.

8. RECOMMENDATIONS FOR OTHER ACTORS WISHING TO REPLICATE THIS SUCCESS STORY

Among the most important recommendations, that can be suggested to other institutions, wishing to implement the product:

- the Institution must have experience in the kind of productive activities to be financed; it must be willing to reinforce its personnel and technological structure and have the resources for the provision of innovating products and services;
- the project must be supported by the corporate government, meaning by that: The Board of Directors and General Management;
- implementing a special training program for the personnel who will be involved in the development and management of the project and following it up. It is advisable that the training program include internships, or exchange of experiences, with institutions already having developed the product;
- to develop a training program for the clients including: terms and conditions of the financial product, its benefits, and demonstrations about the way the equipment works, plus the appropriate maintenance for optimal use and other related subjects contributing to the increase in loyalty of the client towards the product; it is advisable that this training process be developed together with the involved parties;
- due to its being a targeted product, not a mass one, it is important to choose the branch office having the greatest client potential (i.e. having the right economic potential and willing to invest to increase their income), to know the productive activity to be financed, also choosing the team having the strongest institutional commitment and experience with the identified economic activities. In the case of PILARH OPDF its experience in the financing of the coffee and vegetables insured the successful implementation and development of the product;
- the idea of starting with a pilot makes it easy to correct and to make adjustments before expanding it to more branch offices, geographic areas or economic activities. At the same time, you must be realistic with the goals in terms of number of clients, portfolio to be disbursed and type of activities and equipment to be financed; special attention must be paid to the availability of the equipment at local and country level;

- to make sure that enough sources of financing are available, allowing the acquisition of equipment in due time;
- to have access to software with a special module allowing for the timely monitoring of the product and all its variables;
- to develop a marketing plan specifically for the product, including demonstration fairs, exchange of experiences or internships with clients who already operate with the equipment or machinery;
- the areas where the project is to be developed must offer the client acquiring the product, the opportunity to simultaneously offer and to sell the services the leased equipment provides; plus the existence in the same area of potential clients to lease the equipment to, in case the original client recants (i.e. existence of a local secondary market);
- there must be full awareness about the requirements of the regulating entity, the need to comply with certain norms and indicators in the case of regulated entities;
- you must be very selective choosing equipment and machinery suppliers. After all, it is the MFI customers turn to request information; or to blame it in case of equipment malfunction; so, the alliance agreements should be very clear and specific and include, if at all possible, a loyalty clause.





Thank you to those who participated in this case study:



Since 1994, ADA has been working hard to develop the provision of microfinance to populations excluded from the conventional banking circuits. Its action is designed to reinforce both the autonomy and capacities of microfinance institutions (MFIs), professional associations and networks. ADA also assists governments in their efforts to support and structure the microfinance sector at the regional and national level.

With this aim in mind, ADA can propose and develop specific and innovative microfinance products which have a positive impact on the life of thousands of people, to organise education and training for microfinance professionals working in, and on behalf of, the South, as well as provide advice and support to MFIs in their search for funding. Furthermore, ADA has taken the decision to be involved in research with a view to anticipating the future needs of the world of microfinance and to gauge the social impact of its actions. Its flexible approach enables it to adapt each project according to the needs of our partners and the realities in the field.

ADA enjoys the High Patronage of HRH the Grand Duchess of Luxembourg.



REDCAMIF is a private, non-profit, apolitical, non-religious entity composed of associations and institutions specialized in microfinance in the Central American and Caribbean Isthmus. As a network, REDCAMIF seeks to strengthen the microfinance industry in the region through union representation, institutional strengthening, network sustainability and the generation of strategic alliances, with qualified and ethically committed human resources, in order to contribute, through its programmes, to improving the quality of life of low-income families.

REDCAMIF brings together the national networks of seven countries (Guatemala, Honduras, Dominican Republic, El Salvador, Nicaragua, Costa Rica and Panama) which, at the end of 2017, had 141 MFIs serving more than 1.8 million micro-entrepreneurs, 59% of them women.



The Microfinance Network of Honduras, REDMICROH, is a non-profit civil association, whose main objective is to represent its members, coordinating and channeling the efforts and resources of the Associated Institutions to promote common benefit projects related to microfinance.



PILARH OPDF is a Private Financial Development Organization, specialized in the provision of financial services, obtaining its legal status as OPDF on October 22, 2007. It promotes the economic development of the Western region by financing various productive activities for agricultural and non-agricultural microentrepreneurs who, due to their geographical location, do not have access to formal banking.

It especially serves micro-family agricultural enterprises, most of which are selfemployment and transformation or service enterprises.
