

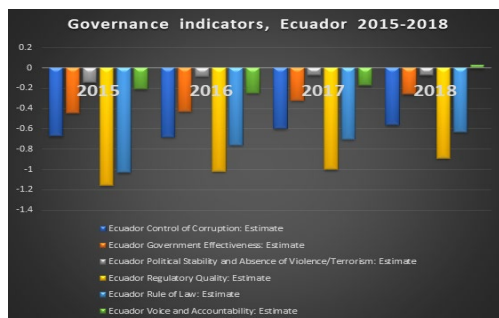
Building capacity to strengthen access to housing microfinance in Ecuador – Banco Solidario

1. DEVELOPMENT RELEVANCE

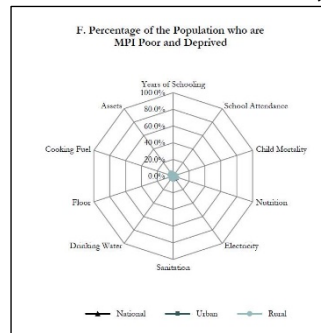
Ecuador has the 8th largest economy in Latin America, but the economy has been driven by the country’s oil resources. To promote increased stability, Ecuador has launched a radical transformation of the economy. In March 2019, Ecuadorean microfinance institutions (MFIs) entered into an agreement with the Ecuador government for a 3-year “Prosperity Plan”, which would inject USD 10B in support for the economy, between 2018 and 2021. On October 1, 2019, the president announced a set of economic measures as part of a deal with the International Monetary Fund (IMF). The measures included termination of fuel subsidies, removal of some import tariffs and cuts in public workers’ remuneration. The measures provoked a series of demonstrations and riots from unions opposing the government’s approach. Protests ceased after a compromise agreement, which launched a broader dialogue on tackling the public debt.

Table 11: Population and Economic indicators	
Population in million (2019) ²	17.3M
GDP growth (2018) ³	1.4%
Inflation (2018) ⁴	-0.224%
Trade balance (% of GDP) (2018) ⁵	-0.227%
Foreign direct investment (net) (% of GDP) (2018) ⁶	1.299%
Net ODA received (% of GNI) (2017) ⁷	0.199%
Remittances received (% of GDP) (2018) ⁸	2.804%
Economic Freedom Index ⁹ (Rank among 186 countries) (2019) ¹⁰	170
Poverty indicators	
GDP per capita (USD) (2018) ¹¹	6,344.9
Gini Index (0= equality 100= inequality) (2017) ¹²	44.7
International poverty rate (2017; at 1.90 USD/day) ¹³	3.2%
National poverty rate (2018) ¹⁴	23.2%
National rural poverty headcount rate (2014) ¹⁵	35.3%
Multidimensional Poverty Index	0.013

Governance indicators chart¹⁶, (Ecuador, 2018)¹⁷



Multidimensional Chart¹⁸, (Ecuador, 2018)¹⁹



Financial sector

As of September 2019, the private Ecuadorian financial system (without non-governmental organizations - NGOs) holds a total of USD 56B of assets, USD 49B of liabilities and USD 6B of patrimony. In 2018-19, the gross portfolio of the financial system registered an annual growth of 11%. The Ecuador Superintendent of Banks supervises 24 banks, 4 mutual banks and 151 cooperatives. The microloan portfolio is USD 5.6b; banks represent 74% of this sector, followed by cooperatives (24%). There is limited participation from other types of financial institutions (2%).²⁰

Summary of Ecuador’s performance²¹

Ecuador does not have a financial inclusion strategy, an official working committee, nor organisations in the private and social sectors advocating for a national focus on financial inclusion. Non-banking financial

² INEC, Ecuador, Proyección de Población por Años en Edades Simples, 2010-2020. <https://www.ecuadorencifras.gob.ec/proyecciones-poblacionales/>

³ World Bank, Ecuador GDP growth: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

⁴ World Bank, Ecuador Inflation. *Inflation*: <http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>

⁵ World Bank, Ecuador Trade balance: <https://data.worldbank.org/indicator/NE.RSB.GNFS.ZS?end=2018&locations=EC&start=2010>

⁶ World Bank, Ecuador Foreign direct investment (net): <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2018&locations=EC&start=2010>

⁷ World Bank, Ecuador Net ODA received: <https://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS?end=2017&locations=EC&start=2013>

⁸ World Bank, Ecuador Remittances received: <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?end=2018&locations=EC&start=2010>

⁹ Heritage.org, Ecuador Economic Freedom Index: <https://www.heritage.org/index/explore?view=by-region-country-year>

¹⁰ World Bank, Ecuador GDP per capita: <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2018&locations=EC&start=2010>

¹¹ World Bank, Ecuador Gini Index: <https://data.worldbank.org/indicator/SI.POV.GINI?end=2017&locations=EC&start=2010>

¹² World Bank, Ecuador International poverty rate: <https://data.worldbank.org/indicator/SI.POV.DDAY?end=2017&locations=EC&start=2010>

¹³ World Bank, Ecuador National poverty rate: <https://data.worldbank.org/indicator/SI.POV.NAHC?end=2018&locations=EC&start=2010>

¹⁴ World Bank, Ecuador National poverty rate: <https://data.worldbank.org/indicator/SI.POV.RUHC?end=2015&locations=EC&start=2010>

¹⁵ Data from database: Worldwide Governance Indicators <https://databank.worldbank.org/reports.aspx?source=Worldwide-Governance-Indicators#>

¹⁶ Data from database: Worldwide Governance Indicators <https://databank.worldbank.org/reports.aspx?source=Worldwide-Governance-Indicators#>

¹⁷ https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2019/10/EIU_Microscope_2019.pdf

¹⁸ https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2019/10/EIU_Microscope_2019.pdf

¹⁹ https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2019/10/EIU_Microscope_2019.pdf

²⁰ https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2019/10/EIU_Microscope_2019.pdf

²¹ https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2019/10/EIU_Microscope_2019.pdf

institutions serve low-income populations, but a moratorium on creating new savings and loan cooperatives has been in place since 2015 due to concerns about solvency of some institutions. In June 2019, the Central Bank announced joint efforts with the World Bank on a year-long technical assistance programme to create and implement a national financial inclusion strategy. For example, new regulations that will allow banks to

Category	Score	Rank	Average score
Overall score	53	=26	52
1 Government and policy support	45	34	54
2 Stability and integrity	58	=36	65
3 Products and outlets	60	=22	57
4 Consumer protection	72	=19	60
5 Infrastructure	67	=17	59

Ecuador: strengths			Ecuador: areas for improvement		
Indicator	Rank	Indicator	Rank		
3.1 Accounts at financial institutions and e-money	=1	3.4 Inclusive insurance	=25		
2.3 Customer due diligence	=1	3.3 Emerging services	=31		
3.2 Credit portfolios for middle- and low-income customers	=1	2.4 Supervisory capacity	49		

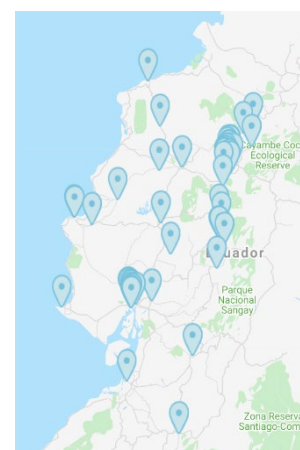
offer mobile wallets are expected in 2020.

Housing

Ecuador has the 4th largest housing deficit in Latin America. More than 1.7M houses are considered inadequate (unsafe conditions, inadequate construction materials, lack of basic sanitary services, overcrowding, etc.). The government funding programmes for housing do not address access for the low-income population. Ecuador's financial regulation establishes an interest rate cap for all mortgage housing products at 11%, with requirements and guarantees that exclude the low-income families. Because of the limitations around mortgage products, MFIs, cooperatives and NGOs, who typically serve low-income households, design their housing finance products for incremental construction. The construction industry declined last year due to slowdown in the issuance of housing loans and an increase in unemployment. The government took a key step in January 2020 by enabling banks to place credit in housing credits and mortgages at a rate of 4.99% and with a 5% entry. A social bond of USD 400M was issued to form a trust, which will allow financial institutions to place loans for some 24,000 homes in this segment¹⁷; however, only traditional banks can participate.

Partner financial institution/s

The partner financial institution for this project is Banco Solidario (BSE). Launched in 1996, it provides financial solutions to low-income micro-entrepreneurs and workers. BSE is a customer-focused bank with 12% of market share. A third of its clients earn less than 1.5 times the minimum wage. The institution holds one of the lowest averages for loan sizes in Ecuador's financial system with 84% of loans below the Gross Domestic Product (GDP) per capita. BSE was the first specialized MFI in Latin America created with 100% private capital. It currently operates with a stable and diversified ownership structure. Its mission is to contribute to the country's development by providing affordable financial services that improve the quality of life for micro-entrepreneurs in Ecuador. BSE's vision is to become the leader in financial and social inclusion for the population. BSE operates via 55 branches in 14 provinces and has 477,497 clients (54.4% women; 18% rural). The Gross Loan Portfolio (GLP) reaches USD 680M, with a portfolio at risk over 30 days (PAR30) at 2.79% - one of the best in the sector. Microloans represent 47% of the GLP.



Banco Solidario has 55 branches across Ecuador

Housing microfinance (HMF) is of special interest to Banco Solidario to support low-income households in improving their housing. More than 30% of their annual loan placements is focused on financial inclusion with financial education as a key component of their services. Despite the constraints of the national regulatory environment, BSE decided to increase its HMF portfolio and incorporate new innovative tools to support its housing clients. The HMF products total USD 22M (4% of their portfolio), with a PAR30 at 2.92%. The average loan size is US\$3,500, with a term up to 26 months. In addition, BSE was the first bank in Ecuador to fully comply with the "SMART Campaign". As of Dec 2018, it has a financial rating of AA+, according to Class International Rating, and a social ranking of A by the Microfinanzas Rating agency.

2. INTERVENTION APPROACH

The institutional evaluation conducted by Habitat's Terwilliger Center for Innovation in Shelter,²² revealed opportunities for improving uptake of the HMF products. Previous efforts from BSE demonstrated very low growth in the HMF portfolio. One



Credit Officers manual data collections and analysis in the past.

²² TCIS: Terwilliger Centre for Innovation and Shelter - Habitat's unity for market development projects <https://www.habitat.org/impact/our-work/terwilliger-center-innovation-in-shelter>

limitation identified was the manual collection of information and processing, as well as evident resistance from the sales team. The main reason was the lack of basic construction knowledge: improvement types, measurement units, construction materials, budget estimations. Follow up post-disbursement was almost non-existent, which limited development of strong client relationships and continuity of housing improvement through the BSE loans. Prior to the Swiss Capacity Building Facility's (SCBF) intervention, the high cost of HMF product delivery also limited the inclusiveness of the products.

SCBF supported BSE in strengthening its HMF loan delivery through development and implementation of a mobile app, which significantly improves facilitation of the loan placements, introduction of a financial literacy training program for clients, and revision of the HMF product delivery process. These activities support scaling-up the product reach, and ultimately increases the number of low-income clients enabled to improve their housing conditions. The following activities were implemented:



Activities	Achievement
1. Development of a mobile app to facilitate the HMF delivery by Credit Officers.	We developed a mobile application for implementation in the field and trained 100 credit officers in the use of the software. For training and long-term continuity, we have also developed a training manual. An offline app is available too for BSE clientele in remote rural areas with no connectivity (this was not in the original plan but was deemed crucial for stronger outreach)
2. Design a marketing and partnership strategy.	We supported design of a marketing strategy to promote HMF products among clientele and BSE staff using financial literacy materials: 5 e-learning modules and 5 videos are available for the clients. We trained 113 credit officers on use of the e-modules. BSE decided to redesign an institutional partnership strategy with suppliers.
3. Adjustment of the HMF Product	The Terwilliger Center analyzed the HMF loan process and identified potential solutions to be incorporated in the delivery process (APP architecture).

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

The housing microfinance product from BSE is now offered to all clients **via the new software**. Used by the credit officers in the field (with online and offline versions), the app enables the following:

- rapid collection and filing of information on-site,
- provision of basic technical construction assistance and
- assistance with an incremental plan for improving the housing conditions.

Use of the application has strengthened BSE's image and trust among clients, who appreciate that BSE has improved the HMF product delivery process and experience delivery with modern technology. This is aligned with BSE's customer-focused strategic vision. The tool has reduced the time required for collection of information and verification at the branch office, resulting in faster disbursement of funds to clients. Additionally, automation within the credit analysis process reduces human error. Very few cases are returned by the credit bureau for second verification. The revision time of calculations derived from manual **processing of each loan was reduced by 50%**! Since the app also records the full improvement plan, it will allow BSE to design strategies for promoting subsequent HMF loans that support gradual improvements towards realization of clients' full home improvement goals.

This Banco Solidario client from Quito has improved his mud house through a housing microfinance loan. He is a micro-entrepreneur and produces handmade wood boxes for local agriculture producers. In the past, his house was structurally weak and unstable with no privacy. Now, he has one room separated from his shop.



Level of financial institution partnership

SBCF supported the technical assistance intervention provided by the Terwilliger Center to BSE, initiated in February 2018 and concluding in December 2019. Some delays happened due to technical adjustments in the development and implementation of the app, as well as the socio-political unrest in Ecuador in October 2019. The total project costs reached US\$143,542.38, in which SCBF contributed 60%, BSE 30% (own costs) and Habitat funding 10% (from the Hilti Foundation).

OSS	120.1%
ROA	2.24
ROE	13.38
PAR 30	2.79%
PAR 30 (Other assets, where HMF product is registered)	2.92%
Average standing loan amount	US\$1,963
Borrowers per officer	695

After the intervention, BSE is promoting the growth of its housing portfolio through important strategic commercial adjustments such as an institutional strategy, increasing the investment in housing microloans to comprise 8% of the total microloans. As a complement to the strategy, an incentive system was implemented to encourage the sales force to reach BSE's housing goals. The project leveraged funding of US\$3M from the MicroBuild Fund. Currently, the capital is mobilized through their own funding.

As of December 2019, Banco Solidario registered cumulative disbursements of 6,750 HMF loans, (1,794). Capital mobilization of US\$31.06M, (US\$3M from the MicroBuild Fund and \$27.06M from own funding).

Future opportunities identified for partnership between the Terwilliger Center and BSE include further improving the mobile app and incorporating additional financial education modules for both staff and clients. Banco Solidario is interested to build on the project and develop further innovations, most notably on solutions with environmental elements in focus.

Number of active borrowers	5,440
Thereof, number of active women borrowers	2,959
Thereof, number of active borrowers living in rural areas	979
Total number of loans disbursed	6,750
Total value of loans disbursed (in Local Currency or USD)	USD 31.06 M
Average loan size (in Local Currency or USD)	USD 3,500
Portfolio Quality (PAR 30)	2.92%
Total number of clients with payments due for over 30 days	n/a
Retention Rate	n/a
Number of clients trained in financial literacy and/or trained on SCBF-supported product	100 Loan Officers trained in the HMF Tool 113 Loan Officers trained in the Financial Literacy Tool 1,380 internal clients use Financial Literacy modules

Financial sector level

BSE has a leading position in the implementation of digital transformation and innovation in the financial sector in Ecuador. The cutting-edge technological development, funded under this project, supports BSE's in implementing a client-centric approach to products and services for micro-entrepreneurs and low-income families. At the sector level, this project demonstrates that the introduction of new technology can increase efficiency in loan disbursement and optimize the client experience, by saving time, reducing errors, and sharing basic technical guidance. These improvements enable increased scale and impact of the product.

BSE is a benchmark among financial institutions in Ecuador not only for their contribution to the financial inclusion of the unbanked population, but also for expanding their customer base to new market segments. It is expected that other stakeholders in the sector will invest into similar upgrades following BSE's lead.

As a side effect, design and architecture of the software has also developed the skills and knowledge of the Terwilliger Center, which enables a similar approach to be applied in other regions. There are already a few institutions (MFI partners) interested in incorporating some of the application modules. These institutions recognize the growing expertise of the Terwilliger Center in delivering these services as well as the software's benefits in time saved, human errors and increased service efficiency.

4. LESSONS LEARNED

- Overall, the implementation was effective and implemented as scheduled. The socio-political context caused some delays and loan placement slowdown in October and November 2019.
- The implementation of the financial education tool and materials were prepared during 2019.

- Three financial education modules were planned for implementation but delayed due to required technical adjustments. The first two were implemented across the whole organization as part of BSE's financial education program and reached an attendance of 97%.
- Resistance among the salesforce to incorporation of the new technical tool was challenging at the beginning of the project. However, BSE introduced a mentor program and launched an incentive scheme to facilitate and encourage the credit officers. This shall be taken into consideration for future projects and suggested from the beginning.

The following lessons learned were identified:

- A commercial strategy is fundamental to the scale-up of a housing microfinance product. Following adjustment of the commercial strategy in October 2019, growth of the housing microfinance portfolio is expected to be seen one year from now. Additionally, subsequent loans are expected to be evidenced because of the introduction of full improvement plans. BSE will be incorporating alliances with the construction sector independently and under its own format and focused on the microloan clients in general and not exclusive to HMF.
- To succeed in introducing new technological components, the institution must embrace these advancements within their strategy. If the institution is not fully convinced in the early stages of the project, or if this is outside of its strategic plans, it is very difficult to implement those components and it takes even more resources.
- The institution must be willing to invest during the process, if necessary. BSE invested approximately US\$30,000 in the purchase of hardware (smart phones) for the loan officers.
- Available resources and requirements must be clearly understood from the beginning to adequately estimate budget and develop a reasonable timeline. Optimal use of the technological tool required new smart phones devices for loan officers. This had not been considered and caused delays in the implementation. Having these available sooner would have enabled earlier and wider testing.
- The institution must fully understand that the benefits of a technological tool go beyond loan placement and contribute to client's retention through subsequent housing loans.
- Co-designing should start with simple models for quick adjustments. The financial education modules shared by the Terwilliger Center contained overly specific information which required significant time for adjustments. In the future, sharing modules with more generic content would make the implementation process more efficient while maintaining appropriate information for the clients.
- Introducing an incentive scheme can help reinforce the commitment of the sales force to promotion of the housing product (or the product in focus).
- When introducing new technologies, it is recommended to integrate onsite mentorship, in order to reduce resistance of new users.

Critical success factors were:

- Efficient BSE project leader with decision making authority
- The Terwilliger Center's diagnosis and technological development
- BSE's sense of urgency and prioritization in reaching poorer segments
- BSE's openness to adjust
- BSE's willingness to invest in the innovation

