SCBF 2012-06 **12 September 2015**

FINAL REPORT
INSTITUTIONAL STRENGTHENING TO SCALE UP FINANCIAL INTERMEDIATION AND FINANCIAL INCLUSION

Apoyo Integral Guatemala

1. Development relevance

Economic and poverty context:[i] Guatemala has a population of 15.8 million, 53.9% of whom live in rural areas, and 40% of whom are poor; 18% live in extreme poverty. Income inequality is pronounced, with 10% of the wealthiest receiving 50% of revenues. In 2014, the economy grew by 4.1%, with inflation at 3%. The country has good foreign reserves and low debt, and in recent years has upheld solid macroeconomic practices. Nonetheless, these have been insufficient to reduce poverty, increase employment and improve living conditions. Additional difficulties result from governance challenges, corruption, and the lack of the rule of law, insecurity, and deficient social services in health, education, and infrastructure, all of which predominantly affect the low-income segment.

Population and economic indicators	
Population *(Dec 2014)*	15.81 million
GDP *(in USD) (2013)*	53.8 billion
Inflation *(March 2015)*	2.43%
Trade balance *(% of GDP) (2014)*	58.6%
Foreign direct investment (net) *(% of GDP) (2014)*	2.59%
Net ODA & official aid received *(% of GDP) (2012)*	0.6%
Workers' remittances *(% of GDP) (2014)*	10.59%
Economic Freedom Index *(Rank among 178 countries) (2014)*	83
Poverty indicators	
GDP per capita (current USD) *(December 2013)*	2,341
Gini index *(0= equality 100= inequality) (2011)*	52.4
Multidimensional poverty index *(1=poor 0=not poor) (2011)*	0.54
International, national and rural poverty headcount rate *(at USD 1.25/day) (2011)*	53.70%

Financial sector context:[ii] Guatemala has improved in terms of financial inclusion, going from a rate of 22.3% in 2011 to 40.8% in 2014. Many remain unbanked, however. The majority of the population works in the informal sector of the economy, which accounts for over 85% of employment and 40% of GDP. It is estimated that this informal sector comprises 1.8 million economic entities, including the self-employed, microenterprises and small and medium enterprises (MSMEs), with 58% of these economic units occupying space in the homes of the entrepreneurs themselves. Over 40% of those working for these entities are poor. The demand for financing from these entities exceeds USD 1.645 billion. Only 8% is currently covered by banks. Of 18 banks, six serve the microfinance sector. This sector faces three major issues: a) growing client over-indebtedness (while there are large unbanked segments, there is concentration in the same segment); b) fragmented credit information; and c) money-lenders applying unfair practices. The urgency of these issues has attracted political, regulatory and legislative attention, with discussions involving the Superintendency of Banks, the Bank of Guatemala and the Ministry of Economy. A law governing the sector has been drafted – the *Ley de Instituciones de Microfinanzas* – but it has stalled in the legislative branch of government.

Partner financial institution: AIG is a greenfield operation belonging to Apoyo Integral Inversiones (AII), a holding company successfully running Apoyo Integral Salvador. AIG aims to transfer the expertise and experience of AII in Central America into the Guatemalan market. AIG has been operating since 2011, with the mission to offer financial products and services that respond to the needs of MSMEs, following an individual lending methodology. In its four years of operation, AIG has established itself as a recognised player and has entered the markets of Escuintla, Jutiapa, Antigua, Santa Lucia and Chiquimulilla. AIG saw operational and financial progress during 2013-2014. The MFI opened three new branches, increased its portfolio and client base and demonstrated its ability to be profitable. During 2013 and most of 2014, AIG kept portfolio at risk low, but the effects of the decline in economic activity, increase in organised crime and some difficult credit cases required additional provisions and compromised the bottom line by the end of 2014. Additionally, in January 2015, there was a change of CEO when the incumbent resigned after

Partner financial institution *(data in USD 000s)*	2011	2012	2013	2014	March 2015
Total assets	622	1,515	2,450	3,025	3,001
Gross loan portfolio	425	1,153	2,178	2,849	2,796
Total female staff	--	--	1	1	1
Total branches	1	3	3	4	5
Loan officers	2	11	11	14	15
Total workforce	5	19	26	33	37
Ref. exchange rate (GTQ)	7.81	7.90	7.84	7.62	7.67

18 months. A new CEO was hired, but the transition brought to light a number of cases of malpractice, including a fraud case in one of the newest branches. This affected financial indicators. A stabilisation plan was developed which is currently being implemented by the new administration. The institution is being monitored closely by Apoyo Integral holding and the AIG Board.

Apoyo Integral Guatemala

figures in GTQ

	Year + 2		Year + 3		Year + 4		
	2012		2013		2014		Mar 15
	Budget	Real	Budget	Real	Budget	Real	Real
Operating revenue	2,529,032	2,623,426	4,896,420	5,456,274	7,231,513	7,595,712	1,997,245
Annual profit/loss	-1,216,764.47	-1,057,857.00	-57,429.63	160,752.00	1,491,141.20	339.925	-526,382.00
Equity capital	4,449,904	4,572,170	5,592,474	4,769,573.00	11,083,615	9,127,378	8,600,996
Total assets	11947.634	11,971,019	15,822,566	19,205,645	25,772,572	23,050,593	23,020,138
Gross loan portfolio	8,995,456	9,107,576	13,493,184	17,076,674	17,541,139	21,706,535	21,442,040
Portfolio yield	39%	42%	39%	42%	39%	39	39%
Number of personnel	19	19	25	26	30	33	37
Operational self-sufficiency (YTD)	70%	71%	101%	107%	148%	106	80%
Financial expense	438,856	502,467	1,239,817	1,026,800	951,633	1,176,430	1,086,147
Impairment losses on loans	478,775	447,598	551,444		493,114	846,880	
Operating expenses	2,677,605	3,205,244	3,075,060	4,060,494	3,457,695	5,987,054	1,416,938
# Outreach credit	1,250	1,718	2,500	2,593	3,850	1,839	1629
Outstanding loan/borrower (USD)	1,139	947		1,214		1,666	1,842
Women borrowers (%)	65%	71%		72%		68%	67%
PAR 30 days	5.00%	3%	5.00%	5%	5.00%	6%	9%
Exchange rate	7.9	7.9		7.84		7.62	7.67

2. Intervention approach

Capacity-building needs: The SCBF grant was comprehensive. It aimed to help AIG build an organisation with strong, client-centred lending principles able to provide innovative products, in a market with poor microcredit practices and a limited financial offering. The grant also aimed to strengthen the capabilities of the management and staff, and to help implement procedures and systems that permitted efficiency gains and additional controls.

Number of staff trained	Business unit *(CEO, branch managers, loan officers)*	Payment collection	Management and administration *(management, counter staff, department directors, administrative assistants)*	Total
Diagnostics & strategic planning	4		7	11
Human resources:				
Onboarding	17	1	15	33
Tools & processes	1		7	8
Financial management	1		4	5
New product development	17	1	4	22
Risk	19	4	15	38
Systems	4		7	11
Processes	9	1	10	20
Institutional strengthening:				
Financial & credit analysis	17	1	7	25
Lending methodology	19	4	15	38
Lending process	19	4	15	38
Lending policy	19	4	15	38
Sales & collection	19	4	4	27

Intervention approach: The intervention encompassed the following areas:

- **Institutional diagnostics and development of a strategic plan,** 2014-2016. Implementation was interrupted by the disruption caused by the fraud and change of CEO in early 2015.
- **Human resources:** During the intervention, AIG changed its CEO. Consulting demonstrated that the administration was not fully delivering on its operational and financial goals. This brought about the restructuring led today by the new administration. A new HR manager was hired and trained during the process. An HR development plan with a revised incentive scheme was also introduced.

- **Financial administration:** A new manual for the finance division was produced. However, it did not meet the expectations of the Board and required adjustments. The manual will be implemented when the new CFO is hired. However, the major barrier to implementing the consulting recommendations has been the lack of people with the necessary skills in the financial division.
- **Product development:** Market studies resulted in manuals and briefs for two new products, the *Línea de Crédito* and *Seguro 4x1* (an insurance product). A pilot with 34 clients was conducted to test the new products. The results were satisfactory. Nonetheless, the roll-out of these products required changes to the management information system (MIS), which only took place in March 2015. To date the new products have not been rolled out.
- **Risk management:** A thorough diagnosis resulted in a manual on risk management – *Manual del Sistema de Gestión Integral de Riesgos* – and training for senior staff members.
- **Processes:** Manuals on strategic management, IT processes and communications were developed.
- **Commercial operations:** Tools were tested in the field. A workshop on the credit application process was held. Adjustments were made to the lending policy, lending methodology and process, incentive structure and the daily agendas for the loan officers and branch managers.
- **IT:** A consultant conducted a gap analysis and then recommended adopting either Bantotal (the Apoyo Integral Holding MIS) or another system. Consulting only began in January 2015 with a significant delay.

3. Results achieved and not achieved

3.1. Client level

As the focus was on institutional strengthening, and the fraud and change in CEO caused delays, it is not possible to report on results at client level.

Outreach	2011	2012	2013	2014	March 2015
Number of borrowers	364	1,228	1,770	1,674	1,629
% female	65.63	70.93	72.3	68.2	67.2
Average loan balance per borrower *(in USD)*	1,168	947	1,214	1,666	1,842

Key performance indicators	2012	2011	2013	2014
Portfolio at risk (PAR)	**3.2**	**4.8**	**5.6**	**9.2**
Cost per client	**44**	**30**	**23**	**24**
ROA	-13	1	2	-2.56
ROE	-31	3.3	4.7	-7.29
Financial self-sufficiency	68	103	102	74
Solvency: capital adequacy	62	33	47	43

3.2. Partner financial institution level

The consulting projects developed policies, manuals and best practices, some of which were implemented. The institutional diagnostics aspect allowed the action needed to turn around a number of operational and financial issues to be identified. Challenges exist in particular in recruiting and retaining qualified individuals, predominantly in the region of Escuintla, where the headquarters are located, and where the crime rate and turnover are high and qualified human capital is low. Apoyo Integral Holding has devoted significant resources to strengthening the financial administration unit in particular, and to ensuring that it functions adequately and that the technical assistance (TA) products are absorbed. Nonetheless, the supervisory role has been more demanding than expected for the holding company and the Apoyo Integral Salvador team. The institution has not yet rolled out its new products.

Various outcomes of the intervention will be implemented only over the next few months, and thus their impact on the organisation cannot be measured at present. The effective use and deployment of the products will depend on the senior management. The Board and shareholders have committed to overseeing the implementation of the TA products (manuals and recommendations).

Status	Milestones
Achieved	Presentation of a thorough diagnosis and action plan.
Achieved	Strategic plan drawn up (through consultation) and validated, including Guatemala context diagnosis, revision, staff validation.
Achieved	HR diagnosis, recommendations and action plan report.
Achieved	HR manual presented and approved by the Board of Directors (BOD).
Achieved	HR consultant presented a progress report on HR action to the BOD.

Achieved	HR progress report.
Achieved	FM presented training and reporting proposal to the BOD.
Achieved	Financial management training for 3 branch managers, 1 supervisor and the director general and 1 manager.
Achieved	AIG produced an annual financial report using the tools acquired (pricing, product, branches).
Achieved	Risk manual and risk management system report presented to the BOD.
Achieved	Risk consultants drafted the RFP (request for proposal) to contract out the risk management tool.
Not achieved	Risk management system was to be purchased and sample reports produced and sent for BOD approval.
Achieved	MIS expert was hired.
Not achieved	TOR for software vendor.
Not achieved	MIS purchased.
Not achieved	MIS installed and running.
Not achieved	MIS manual developed and presented to BOD for approval.
Achieved	Strategy designed for two new products, including roll-out.
Achieved	Small business loan product designed, product manual issued, pilot conducted (3 months): first at HQ, then in branch offices; senior loan officer in each branch trained.
Not developed	Housing product designed, product manual issued, pilot conducted (3 months); first at HQ, then in branch offices; senior loan officer in each branch trained.
Not achieved	New products rolled out and monitoring schedule drawn up.
Achieved	Senior consultant presented a monthly progress report to BOD.

4. Recommendations for other similar interventions

- ✓ It is recommended that the scope of the technical assistance (TA) be narrowly defined. TA projects that are too broad are challenging to administer. Select one or two goals, and establish a performance-based mechanism that takes the project to the next phase after milestones have been achieved.
- ✓ Ensure a well-functioning TA supervision mechanism under the leadership of the Board. Nominate and empower a project director at senior management level, who is under the supervision of the CEO and reports regularly to the Board.

[i] National Institute of Statistics (INE) and Banco de Guatemala.
[ii] Banco de Guatemala, IDB study (2012); Central American Integration Bank, "La Micro, Pequeña y Mediana Empresa de Centro América" (2014); Edgar Búcaro (2014)