

# Strengthening Middle Management & Product Development in Honduras

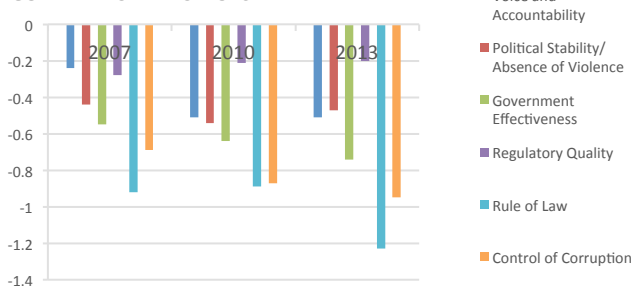
Banco Popular S.A.

## 1. Development relevance

**Economic, social and poverty context:** From January to November 2014 the Honduran economy has grown by 2,7%, slightly more than during the same period in 2013. The main sectors supporting this growth were the financial and communications sectors, followed by agriculture, livestock, fishery and industry. The construction sector, that was important in previous years, dropped by 9,1%, which affected employment. Inflation in 2014 was at 6,1% increasing by almost 1% compared to 2013. Remittances from the diaspora are an important part of the GDP (18,2%).

After the political crisis of 2009, Honduras has reached political stability. A democratically elected government with Juan Orlando Hernández as president started in January 2014. One of the main social challenges of the country is the high level of insecurity caused by the “Maras” (criminal organizations) that represent a danger not only to citizens, but also to micro and small enterprises, which are affected by the extortion that these groups exercise (see figure).

GOVERNANCE INDICATORS

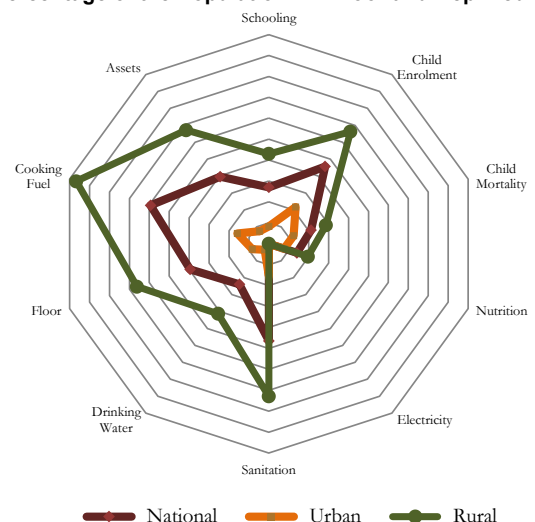


Honduras has 8,26 million inhabitants with a GDP per capita of USD 2'180 per year. 53% of the population live in rural areas and 57% of the economically active population is self-employed. 60% of the population is still living in poverty (with clear differences between rural and urban poverty, see figure), followed by the middle class (30%) and the upper class (10%).

**Financial Sector:** From January to November 2014, the financial sector showed good performance and grew by 7,5%. This is mainly due to the increase of income from financial intermediation due to allocation of loans and the reduction of the interest rate for deposits. As of November 2014, the total assets of banks and other financial institutions were at USD 18 billion, of which approximately 2,3% were held by non-banking financial institutions (i.e. private financial development organizations (OPDF), “Financieras” and Savings and

Population and Economic Indicators	
Population (2014)	8,26 MM
GDP growth (2013)	2,6%
Inflation (2014)	6,1%
Trade balance (% of GDP) (2014)	- 20,7%
Foreign Direct Investment (net) (% of GDP) (2014)	4,4%
Net ODA & official aid received (% of GDP) (2014)	3,1%
Workers' remittances (% of GDP) (2014)	18,2%
Economic Freedom Index (Rank among 185 countries) (2013)	116
Poverty Indicators	
GDP per capita (current USD) (2014)	2'180
Gini Index (0= equality 100= inequality) (2014)	57,4
Multidimensional Poverty Index (1=poor 0=not poor) (2014)	0,072
International (at 1,25 USD/day), national (2013) and rural poverty headcount ratio (2014)	16,5%; 64,5%; 68,5%

Percentage of the Population MPI Poor and Deprived



Credit Associations). Loan portfolio reached 58% of the total assets; for non-banking financial institutions it was 66%. Financial institutions reported a total of USD 10 billion in deposits and their average return on equity was 12% and 13%, respectively.

**Partner Financial Institution:** Banco Popular S.A. is a regulated financial institution with total equity of USD 23 million. Its shareholders are Accion Investment in Microfinance, IFC, FMO, BIO and the BCIE, who bought 99,32% of the shares of Banco Popular Covelos S.A. (former Foundation Covelos) and capitalized the new bank. Through its network of 25 branches in 11 of 18 departments, Banco Popular S.A. offers loans for working capital as well as



for fixed assets, savings, deposits, current accounts, remittances, payment of services and micro insurance to its clients.

Partner Financial Institution (in USD)		
	2011	2014
Total assets	57'421'095	56'564'624
Gross loan portfolio	44'824'365	44'931'409
Total deposits value	16'878'480	20'954'720
Total staff/ women	392/ 169	372/ 159
Total offices	22	25

The bank targets micro, small and medium size enterprises with the purpose of generating employment, reducing poverty and contributing to the economic development of Honduran families. Banco Popular is the smallest bank in Honduras with a share of 0,35% of total assets in the banking sector. However, in the microfinance sector, it is the second largest institution (with a market share of 17%) and has total

assets worth USD 55 million, with 20'000 borrowers and 33'000 depositors. Banco Popular has shown growth in their gross loan portfolio and number of clients since 2010, and currently shows good potential for maintaining growth and improving performance. The bank is working to obtain the certification of Smart Campaign.

## 2. Intervention approach and additionality

The Bank identified the need to strengthen the capacity of middle management staff, to better manage the branches and regions and improve the quality of the loan portfolio by developing new products or adjusting existing ones in order to improve the allocation of loans that respond to clients' needs.. For this purpose, Banco Popular approached Frankfurt School to provide technical assistance in the following topics:

- **Strengthening of middle management** with the purpose of improving skills and thus streamline productivity in all areas: assessment of training needs to achieve the bank's strategic objectives and to improve the skills and technical knowledge required from the staff; structuring of an annual training plan; training of 97 collaborators who received a total of 164 hours.

Agency	I	II	III	IV	V	VI	VII	VIII
	Integral Management Agencies	Planning and Organization / Achievement Orientation	Leadership and Emotional Intelligence	Excellence in service, customer care and marketing	Negotiation	Monitoring and Supervision, motivation and Assertive Communication	Teamwork	training of trainers
Total Employees	48	52	59	59	64	60	49	15
Hours	20	16	24	24	8	20	12	40
Ladies	18	20	20	26	21	20	15	5
Gentlemen	30	32	39	33	43	40	34	10

- **Product development:** A market study and several workshops with the staff resulted in a new product, the "Credi-Ahorro" (see figure). It was tested in a three-month pilot in two agencies with a total of 30

clients. The target market is women between the ages of 35 and 50 years old. The product offers all customers the possibility of obtaining credit and creating a savings plan. This gives clients an incentive to save money and allows the bank to grow on the deposit side. Furthermore, it supports cross-selling activities. It provides more benefits to the clients than any other product offered:

- Reward for timely payment (credit and savings)
- The selected savings plan will provide a discount on the loan fee.
- When the loan is repaid, the client can have access to his/her savings (for incidentals or for a certain purpose).
- In each cycle of savings and credit the client can access different benefits, ranging from preferential interest rates to incentives such as discounts in different stores.

## FICHA DE PRODUCTO

PRODUCTOS	PROPUESTA CREDITO + AHORRO		
SEGMENTO DIRIGIDO	Crédito dirigido para microempresarios de todos los sectores		
DESTINO	Capital de Trabajo, Activo Fijo		
CONDICIONES DEL PRODUCTO			
NONTO DE AHORRO	El monto mínimo es el 5% de la cuota. Nunca el 5% puede ser menor a L 50.		
Monto Micro	Desde 6,000 L hasta 200,000 L (Nuevos)		
	Según ciclo: Primer ciclo		
Planes y Descuentos	Plan de ahorro	Tasa de Ahorro	Descuento %
	5% - 9.99%	4.5%	1%
	10% - 14.99%	4.5%	1.50%
	15% adelante	4.5%	2%
COMISIÓN	3,5% (Según política actual)		
PLAZO	CT: 24 meses y AF 36 (Según política actual)		
CUOTA	Fija		
GARANTÍA	Fiduciaria		

To launch the product at the national level, the Bank is waiting for the approval of the Supervisory Authority (*Comision Nacional de Bancos y Seguros CNBS*) in the second quarter of 2015.

- **Improvement of loan collection policies and procedures (November 2014):** A situational analyses and a strategic workshop with senior managers allowed the bank to develop strategies for the improvement of loan collection and an action plan. Training was carried out and staff implemented the new collection plan in all branches.

## 3. Results achieved

### 3.1. Client level

The new product CrediAhorro is well accepted by clients. It is innovative and at the same time easy to understand. According to a survey carried out during the pilot phase with 107 clients in Belen and 100 in Puerto Cortés, the product is attractive: 94% of the clients were satisfied with the product and its benefits and 100% of them will recommend the product to new clients. 84% of the clients consider it beneficial. More than 80% of the interviewed persons prefer the benefit regarding savings rather than regarding the credit. Old clients show more interest than new clients and, finally, clients will use the savings for future investments and, if needed, to repay a loan installment.

The photo shows a customer, María Dilma Lara Chicas, who obtained the new product. She stated: "What is important for us is that with this product we obtain a savings account without discounts or penalties. And the best is that it encourages us to save at the same time. Even better, we benefit additionally with a couple more Lempiras".

During the pilot phase a total of 80 loans-savings (Credi-Ahorro) were allocated,



making a total volume of USD 49'350 of disbursed loans and USD 1'460 of savings.

### 3.2. Partner financial institution/s level

**Strengthened middle management:** The intervention has generated positive changes in the leadership style of the middle managers. Changes are being reflected in behavior and in pursuing institutional goals, in making commitments commensurate with the institution's needs, which is having a positive impact on the institutional finance and labor climate. The communication between branch managers and their operational team has improved and conflict resolution is well managed. There is better control and monitoring of staff performance through weekly evaluations of work plans and there are positive indicators regarding the management of productivity, number of clients and levels of default.

**New product:** With the clients' acceptance of the new product "Credi-Ahorro", great responsibility will be on the sales officers for the launch at the national level. Therefore, all Banks' sales officers will go through an in-house training (prepared through the Training-of-Trainers) with the purpose of making the product successful. A close monitoring of the client after disbursing the loan is foreseen. This will allow the client to receive orientation about efficient ways of managing money, optimize the use of their sources and increase their savings capacity, especially if they notice the benefit of the discount offered by the product.

The bank foresees to reach a savings portfolio of USD 670'000 in one year. This is calculated on the basis of disbursements of microloans and the loan average, reaching 72% of the clients.

Key performance indicators	Dez 12	Dez 13	Dez 14
Outstanding number of microcredit clients	19'082	17'550	17'276
Outstanding value of microcredit portfolio (USD)	29'619'239	29'160'013	28'115'917
PAR>30 of microcredit portfolio	5,10%	6,65%	10,22%
Number of microcredit disbursements	20'128	17'885	17'551
Value of microcredit disbursements (USD)	36'912'885	34'798'278	32'022'331
Efficiency (Operating cost/ Annual average portfolio value)	22,46%	20,48%	19,27%

Outreach (overall)	2011	2014
Number of borrowers	17'743	18'832
% of female borrowers	64,5%	64,3%
Average loan balance per borrower (in USD)	2205,53	2352,39
Number of savings & deposit accounts	23'202	41'273
% of female depositors	68,3%	60,1%
Average deposit balance per depositor (in USD)	644,40	499,72
Rural clients	5'362	6'146

**Reduced arrears rate:** The improvement of policy and procedures and the active measures in the loan collection and recovering processes helped the collection area to obtain a reduction of the accumulated arrears in the months of November and December. Results will be reflected in the upcoming reports.

## 4. Lessons learnt and further challenges

- **Training:** The tailor-made training was crucial and allowed addressing the challenge to find staff with development potential and able to put into practice the new work approach and methodologies.
- **Loan collection:** Enhanced coordination between the business and the recovery areas has shown to be important and brought positive results in the institutional loan collection. This integration was done by creating committees of collecting actions that are more efficient and better structured. Additionally a table of negotiations was implemented and has helped achieve a reduction in arrears in complex cases.
- **Launch of new products:** The institution has learned that prior to the development of new products or projects, it is essential to conduct a study on the legal requirements for the introduction of financial products that must be approved by the supervisory authorities in order to avoid disappointments at the time the products are launched.

## **Strengthening Middle Management & Review Products and Segments offer in MSMEs**

### **Banco Popular S,A/Honduras**

In my role as Chief Executive Officer for this support, I hereby affirm that this final report has been formally approved according to SCBF policies & procedures and that final payment can be issued accordingly:

Diego Moncayo Miño  
Banco Popular, S.A  
February 17<sup>th</sup> 2015

On behalf of the Consultant, I hereby affirm that all information provided in this final report is correct and that **resources have been spent according to and within the budget and time approved by the SCBF.**

Norah Becerra Farfán  
Frankfurt School of Finance & Management gGmbH  
17.02.2015

Signature:

In my role as the SCBF Monitor for this support, I hereby affirm that this final report has been formally approved according to SCBF policies & procedures and that final payment can be issued accordingly:

First name / Name  
Organisation  
Date

Signature: