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## **ANED, Bolivia**

**March, 2006**

# **GIRAFE-S**

## **AMAP/USAID**

**Social Performance Evaluation**

**Appendix to the GIRAFE rating report – Evaluation and rating methodology under testing. No rating assigned.**

### **Mission**

“To contribute to the economic and social development of individuals or organizations, through the provision of fair, adapted and appropriate financial services.”

### **Vision**

“Be the leading, locally-based, socially-responsible, innovative MFI for rural financial services, geared towards the economic and social development of the country.”

### **Institutional goal**

“Improve access to adapted sources of funding and other associated financial services for small scale rural producers or microentrepreneurs, in order to help them increase their productivity and income.”

### **Description of the Evaluation**

ANED’s strong social vision, derived from its institutional mandate and additionally fostered by several requirements of its funders, is evident in ANED’s admirable achievement in reaching unattended rural borrowers. At yearend 2005, 61% of outstanding loans were for agricultural activities, a high percentage by Bolivian standards. Weaknesses in internal processes however, impeded the MFI from reaching its full potential in terms of social performance.

Management has articulated a clear statement of organizational mission, vision, and values. It has effectively communicated these at all levels of the organization, including the Board, senior management, field management, and field staff. Social goals are clearly one of the most important of the institution’s strategic goals. Consequently, management has recently taken important steps to affirm and operationalize ANED’s social mission through revised and improved internal processes allowing the MFI to reach both social and financial goals.

However, there are currently no established channels or procedures for communicating or reinforcing the social mission. Weak internal processes make it difficult to measure and monitor the institution’s social performance. The recruitment process, training of new hires, follow-up trainings and institutional communication channels do not ensure the transmission of social values. Moreover, the incentive system does not foster social performance. Lastly, the achievement of social goals is not monitored, although the ANED could easily implement this thanks to the detailed information collected from the field.

### **Conclusions**

- Weak yet improving general outreach.
- Good performance in the outreach indicators related to cost scope and depth of outreach as well as outreach for the community.
- Weaker performance in terms of breadth, length and worth of outreach.

## ■ Internal Processes

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### **Mission Statement and Management Leadership**

Management has articulated a clear statement of organizational mission, vision, and values, and it has effectively communicated these at all levels of the organization. There exists universal support for the social mission at all levels of the organization including the Board, senior management, field management, and field staff. Management commitment to social mission is evident in ANED's admirable achievement in reaching rural borrowers. At year-end 2005, 61% of outstanding loans were for agricultural activities, a high percentage for Bolivian standards. ANED appears to reach a significant number of rural borrowers not served by other Bolivian MFIs.

ANED however did not yet manage to combine its strong social mission with firm financial sustainability nor did it put in place channels or procedures communicating and reinforcing the social mission.

In order to strengthen its financial and operational structure (a priority clearly identified in the five-year strategic plan) while continuing to serve its target areas and clientele, ANED plans to reduce its dependency on funds dedicated to remote rural areas and to introduce more traditional loan technologies for small scale traders. Such technology with its higher rotation, higher interest rates and presence in urban or peri-urban areas, can help reduce credit risk, increase the portfolio yield and ease liquidity management. Given the current lack of mechanisms designed to monitor the portfolio composition, this change in ANED's strategy implies a risk of mission drift that will have to be carefully controlled by the management.

### **Strategic planning**

Management recently completed a strategic plan in which it reaffirmed its social mission, vision, and values as well as strategic objectives. These were further clarified by the introduction of a Balanced Scorecard exercise which, if implemented appropriately, will be instrumental in the follow-up of the completion of the strategic goals.

Management team, Board members, field managers, and others are engaged in follow-up work to refine the strategic objectives, establish appropriate indicators and plan their implementation in frequent meetings assessing actual and planned social performances.

ANED has undergone numerous institutional changes that signal an improved implementation of the social mission.

"Social Responsibility" was introduced as a core duty of the Development Manager. The Credit Department was transformed into the Operations Department, indicating a broader scope of responsibility including savings, insurance or other financial services, in addition to efforts to reinforce the equity base,

Nonetheless, institutional reforms in key internal processes related to social mission fulfilment (communication and leadership, hiring and training, incentive systems, and monitoring systems) are slow in coming and their eventual completion in certain cases is not assured within the time frame of the strategic plan. Of particular concern is that number and scope of necessary reforms will overwhelm management's ability to implement all of them.

### **Hiring and Training**

The social mission is effectively communicated to new hires. New hires are explicitly told early on and clearly understand that ANED's primary mission is to serve rural areas and rural-based enterprises. A majority of credit officers are drawn from an agriculture background and/or education. They are thus naturally supportive of ANED's social mission. In some cases, it provides a primary motivation for working at ANED. New hires are given a three-month probationary period during which time they must demonstrate their technical skills and their organizational fit. New hires who do not demonstrate an adequate fit (including, presumably, with social mission) are not retained.

There is however, very little emphasis on the social mission during the induction or training process. The initial training is essentially focused on technical and operational aspects. The development of a pilot on-line training module for new hires and existing staff, represents an important improvement over current practice but its efficiency is yet to be evaluated.

There are limited opportunities for interaction among field managers and field staff outside of their respective regions, limiting opportunities to reinforce social mission via peer interaction and peer pressure. The few regional meetings that have been held have tended to focus on technical and operational issues with little to no discussion on social mission, an exception being a strategic planning meeting in October 2005 attended by senior management, Board members, and field managers. Furthermore, field staff and regional managers do not receive statistics about the performance of other regions or branches, which could contribute to a larger shared vision of the institution.

### **Incentive systems**

The incentive system focuses solely on portfolio quality and revenues and does not include incentives to encourage

behavior consistent with social vision. Given the changes that are meant to be introduced in the portfolio composition, an incentive system that would include social factors is essential to avoid a mission drift. Changes to the current systems would by any means be needed to correct certain flaws that reduce its efficiency:

- The incentives are regional and are not combined with individual bonus which creates weak individual behavioral incentives and possibly encourages free-riding;
- The incentives are paid with delays of up to four months;
- The bonus (a fixed yearly amount of 80 USD) is not sufficient to motivate good performance.

### Monitoring systems

ANED collects a substantial amount of financial and social data, but does not use it to monitor compliance with its social mission. Potentially useful information in the MIS for monitoring social mission includes areas served, types of clients reached, use of loans, and loan repayment status.

The loan application form captures a substantial amount of social information on clients, including information on family composition, access to basic services, housing quality, household assets, business assets, livestock ownership, land ownership and cultivation, household income, and household expenditures. This information, however, is not entered into the MIS nor is it used in any other manner to monitor compliance with social mission.

Regional and branch offices cannot create reports from the MIS that would allow them to monitor their compliance with the social mission. Such reports are only available at head office.

ANED does not conduct research to monitor market variables relevant to social mission fulfillment, such as client satisfaction, client desertion, client perceptions, client needs and wants, or types of clients reached. To date, ANED only supported market research carried out by outside entities, such as studies by FINRURAL on client loyalty, client desertion, and non-payment. These punctual studies, are informative but cannot replace on-going internal research or studies that would allow ANED to efficiently monitor if it is reaching its target market and offering the services and products that clients need in a satisfactory manner.

## ▪ Outreach

### Breadth of Outreach

Breadth of Outreach	Dec.05
Number of borrowers	12,380
Clients with non-enterprise loans as a percentage of borrowers	8.1%

Voluntary savers as a percentage of borrowers	0.0%
Clients with other financial services as a percentage of borrowers)	8.5%
Clients with non-financial services as a percentage of borrowers	0.0%

ANED is among the bottom tier of the larger microfinance NGOs in Bolivia: it has 12,380 active borrowers and an outstanding loan portfolio of 12.8 M USD as of December 2005. ANED has also achieved considerable geographic breadth with 42 field offices throughout the country, with several of them located near rural populations underserved by other Bolivian MFIs. Nonetheless, its number of clients is still considerably lower than the number of clients of other MFIs in Bolivia, such as Private Financial Funds (PFF). This is relevant given that after 28 years of operations, ANED is the oldest MFI in the country.

### Depth of Outreach

Depth of Outreach	Dec.05
Average loan size as a percentage of GNI per capita	12.6%
Percentage of loans less than \$400	35.9%
Percentage of female clients	38.5%
Percentage of rural clients	61.0%
Percentage of enterprise loan clients selected with direct poverty targeting tools	0.0%

The average loan size at ANED at year-end 2005 was \$1,039 compared to an average loan size of approximately \$1,400 for clients who took out their first loan during 2005<sup>1</sup>. This average loan represents 150% of the Bolivian GDP<sup>2</sup>; this relatively high percentage is explained by the type of agricultural products, which usually require higher amounts with longer reimbursement terms, although they are not necessarily demanded by clients with more resources. Of loans outstanding at the end of 2005, 36% were less than \$400.<sup>3</sup>

ANED explicitly targets rural areas and rural borrowers. The percentage of rural loans in the overall loan portfolio is approximately 61.0%, which is very high by Bolivian standards. ANED locates its field offices in the main cities of Bolivian departments, from where it can reach both, rural and also urban and suburban clients, who represent the 39% remaining. In contrast, ANED does not explicitly

<sup>1</sup> The discrepancy between the two figures is likely accounted for by the fact that ANED provides a relatively large percentage of long-term loans (in excess of one year), many of which had been substantially paid off by year-end 2005.

<sup>2</sup> PIB Per capita is estimated in 960 USD. <http://www.doingbusiness.org/ExploreEconomies/Default.aspx?economyid=25>

<sup>3</sup> The \$400 threshold is the cut-off point established by the US Congress to indicate a loan to a very poor person in Latin America.

target female borrowers. The share of females among ANED clients totalled 38.5% at year-end 2005. Nonetheless, this percentage requires to be analysed cautiously: usually ANED's loans are demanded to finance family business where men sign the contract, but the whole family benefits from the loan. Other times, the loan is signed by a specific member of the family, simply because the other ones already have other loans and are shown in the credit bureau.

ANED does not use any explicit targeting tool to reach rural and/or poor borrowers. It does, however, use the indirect targeting tool of geographical targeting. It consciously locates its field offices in or near rural areas, which facilitates working with rural and agricultural borrowers. It also promotes its services through disbursements to producer associations, where some of its members have already worked with ANED.

### Length of Outreach

Length of Outreach	Dic.05
Financial self-sufficiency	69.0%
Operational self-sufficiency	93.2%
Return on assets (ROA)	(1.0%)
Portfolio at risk < 30 days	4.5%
Operating expense ratio	13.9%

ANED has yet to generate a positive return (as of Dec.05 ROA and ROE were -1.1% and -14.6%, respectively). This results from a very low portfolio yield due to low interest rates on loans (see "Cost of Outreach") and a poor portfolio quality. ANED suffers from high levels of portfolio at risk (PAR>30 is 9.1% as of Dec.05). In contrast, ANED has succeeded reaching very low operational costs (13.9% as of Dec.05).

The high portfolio at risk requires a large share of LO's time to track down borrowers in arrears and try to recoup the loan. This translates into slower portfolio growth, lower profits, and reduced levels of overall customer service. ANED's long-term sustainability is to a degree dependent on its ability to get control of and move past the arrears problem.

In spite of financial performance difficulties, with 28 years of sustained operation, ANED is one of the longest operating MFIs in Bolivia, which stands out as a significant accomplishment, given the dynamism of the Bolivian market. Thanks to its clear commitment to serve rural areas, ANED has managed to generate the funds it needs to continue operations.

### Scope of Outreach

Scope of Outreach	Dic.05
Number of distinct enterprise loan products	5

Number of distinct other loan products	1
Number of other financial services	2
Type of savings offered	?
Percentage of clients with three or more products or services	<2%

ANED offers a wide variety of enterprise loans and other non-traditional financial products. In total, it offers seven distinct types of financial products, including five types of enterprise loans (individual, solidarity, group, associations and village bankings), one non enterprise loan product (housing loans, which represents 8.1% of total outstanding portfolio) and two non-traditional financial products (leasing y microwarrants). It has also recently entered into an agreement with FIE to mobilize savings from its clients and the rural areas. In spite of this wide variety of products, the percentage of clients with two or more products or services is still low.

ANED has cultivated an innovation culture where it comes to product offerings, driven both by funding mandates (specific donations to develop new products) and social mission. However, the impact of these projects is still limited due to the lack of funding and some deficiencies in procedures, resulting in the slow development of such initiatives.

- ANED is known world-wide for its leasing product (8.5% of its total outstanding portfolio), which has been financially supported by the IADB. In its leasing service, ANED purchases the equipment or machinery and subsequently leases it to the client. At the end of the lease, the client may purchase the equipment or machinery for a set residual value.
- ANED also offers microwarrants to farmers (50 clients as of Dec.05). It allows farmers to withhold their products from the market and sell it at a later date at a higher price while providing them with the resources to begin the crop cycle in the interim. Once the farmer sells last season's harvest at the higher market price, he uses the proceeds to pay off the loan.

Unlike many other MFIs, loan terms offered by ANED are flexible with regard to size, length, interest rate, grace period, payment frequency, and guarantee, making loans useful for a variety business and non-business purposes. For example, ANED offers housing loans for home repairs and renovations (there are 988 housing active borrowers and an outstanding portfolio of 1 M USD as of Dec.05).

ANED is trying to create alliances with other NGOs to offer non financial products to its clients. For example, in El Alto branch, ANED works with the NGO PROPEDE,

which offers trainings and recommends ANED's services. ANED also plans to develop trainings related to community participation, leadership and alphabetization.

### Cost of Outreach

Cost of Outreach	Dic.05
Real yield on average gross loan portfolio	12.2%
Nominal yield on average gross portfolio relative to prime commercial lending rate in home country	133.0%
Weighted average number of days to approve and disburse loans after completion of loan application	Two weeks
Percentage of loan clients providing non-traditional collateral	64.0%
Percentage of enterprise loan clients whom loan officers visit for regular financial transactions	¿?

In 2005, ANED earned a 16.0% nominal yield and an adjusted 12.2% real yield in real terms<sup>4</sup>. This portfolio yield is only 33% higher than the prime lending rate in Bolivia of 12.0%. Both the nominal and real portfolio yields are low by comparison to other MFIs operating in Bolivia<sup>5</sup> and elsewhere reflecting a relatively low effective interest rate charged on loans. This is in part due to funding mandates (donors make low interest rates a condition for funding) and in part due to payment capacity of its target rural clients. Within the general range of interest rates established by funding mandates or organizational policy, Regional Managers have discretion how much interest to charge based on the competition, perceived risk, collateral, and ability to pay.

Low monetary costs at ANED are offset by relatively high transactions costs.

- ANED takes on average two weeks or more to evaluate, approve, and disburse loans.
- Approximately 20% of loan transactions are concluded at the client's place of business or at a location convenient to the borrower.
- Just under two-thirds of ANED clients benefit from a form of "non-traditional" collateral, including group guarantees, movable property and equipment, and third-party guarantees.

### Worth of Outreach

Worth of Outreach	Dic.05
Write-off ratio	5.3%
Client retention rate	64.0%
Share of two-year clients still with the program	25%
Share of portfolio growth attributable to existing clients over most recently completed fiscal year	30.0%
Type of market research conducted	NA

<sup>4</sup> Because the ANED loan portfolio is primarily in US dollars, the real yield was derived by adjusting the nominal yield for the 2005 US inflation rate. The formula for deriving the real portfolio yield is equal to (nominal portfolio yield – inflation rate) / (1 + inflation rate).

<sup>5</sup> Latin America overall benchmark for portfolio yield is 26.5% and 28.6% for non profit MFIs, as of Dec.04 according to the MBB.

ANED demonstrates a poor worth of outreach:

- ANED's write off ratio is high (5.3% in Dec.05);
- A low percentage of clients stays in the institution after two years with the program (25%);
- Only 30% of portfolio growth can be attributed to old clients;
- But in contrast, ANED's client retention rate is relatively high (64%).

ANED does not conduct market research on its own. It has, however, been the beneficiary of three major market studies carried out by FINRURAL on client loyalty, client desertion, and non-payments.

### Outreach to the Community

Outreach to the Community	Dic.05
<b>Human Resources</b>	
Female-male employee ratio among professional-level staff	22.0%
Percentage of employees that have left during two most recently completed fiscal	16.0%
Whether the MFI provides health insurance for full-time employees (in addition to national health coverage system)	Yes
Percentage of employees receiving at least two days of training during most recently completed fiscal year (does not include new hire training)	41.0%
<b>Social Corporate Responsibility</b>	
Whether the MFI has a written, formal internal CSR policy	No
Whether the MFI has a written, formal code of conduct governing actions towards employees and clients	Yes
Percentage of operating revenues reinvested back into the community during most recently completed fiscal year	0.021%
<b>Clients Protection</b>	
Whether the MFI provides clients formal access to management	Partial <sup>6</sup>
Whether the MFI discloses the effective interest rate on all loans	Yes
Whether the MFI provides credit life insurance for borrowers	No

### Human Resources

ANED has achieved moderate gender diversity in its hiring and promotion practices (only 20% of the members of the senior management team are women, 10% of regional managers, and 5% of loan officers. Overall, 21.7% of ANED's professional employees (not including administrative support staff) are women.

ANED offers an attractive social package to its staff, which includes a good health insurance, life insurance and a pension fund system. These elements contribute to increase staff motivation. Yet ANED experienced a relatively high staff turnover during 2005 of 16%, mainly

<sup>6</sup> Leasing Clients with photovoltaic panels can present their critics and suggestions in a toll free number; in Rurrenabaque, Sucre and Cochabamba, there are regional councils, in which clients contribute to products development; in Oruro, there is a suggestions box.

due to the numerous changes in the Finance Department, given some difficulties experienced by this area.

ANED is currently paying for 32% of the staff (all Regional Manager plus some experienced LO) to attend an outside diploma course in microfinance, co funded by the employee, ANED and an external subsidy. In addition to improvement to staff internal capacities, this Diploma adds important value to employees.

#### *Corporate Social Responsibility*

ANED does not have a formal corporate social responsibility (CSR) policy. ANED has done community investments for an amount of 500 USD during 2005. They mainly consist of financial support to different community development activities (environment protection campaign in Comarapa, community activities in Vallegrande, school activities in Santa Rosa del Sara-Yapacani, Entre Rios-Tarija, sports and civilian activities in Palos Blancos, Vallegrande, etc.)

ANED has a Reglamento Interno de Personal, which is a formal, written code of conduct describing the rights and responsibilities, prohibitions of the organization and employees. The Reglamento also includes internal processes and guidelines governing hygiene and physical security, social security, sexual harassment, free association, labor conflicts, dispute resolution, and dealing with employee malfeasance.

#### *Consumer Protection*

ANED practices full disclosure in terms of loan pricing. It has no formal policy, however, granting clients access to management to voice concerns and complaints. ANED does not offer credit-life insurance to clients leaving the families of clients unprotected, at least formally, in the event of the clients' death.

#### **Validity of Outreach Indicators**

Overall, information related to outreach indicators presented in this report is quite accurate:

- Outreach indicators relying on information taken from the MIS are judged to be very accurate: all of breath, depth, length of outreach indicators, and some indicators related to cost, scope and worth of outreach.
- Some indicators related to cost, breath and worth of outreach could not be extracted directly from the MIS. They were calculated instead through a careful analysis of MIS data. Its level of accuracy is also very high.
- Outreach indicators not taken from the MIS can be verified in internal documents or by the knowledge and experience of management and staff. These too are judged to be accurate. These are mainly outreach to the community indicators.