



# **Best Practices for National and Regional Microfinance Networks - The Experience of Latin America and the Caribbean -**

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## **I. INTRODUCTION**

In the past decade, microfinance networks have played a very important role in the development of the industry, contributing both to the stability and to the consolidation of the microenterprise sector. National and regional microfinance networks provide a variety of services such as: i) representation of the sector; ii) dissemination of information; iii) development and monitoring of benchmark indicators in the microfinance industry; iii) advocacy regarding the regulatory framework and public policies; iv) training; v) use of credit reference bureaus; vi) second tier funds for microfinance institution financiers; and vii) new product development.

The majority of microfinance networks have been formed and strengthened autonomously, developing their own guidelines, regulating themselves and managing performance standards. The role of the networks is interesting as they have provided the basis for stronger collaboration among organizations, enabling exchange and flow of knowledge and developing their position on specific issues related to the most recent advances and innovations contributing to the development of the microfinance industry. Although there has been significant advancement, the Networks have also even faced interesting challenges. For example, in various cases, they have offered services to their members which, in more advanced financial markets, are provided by specialized institutions (auditing firms, information services, training institutes, credit bureaus, etc.).

## **II. FRAMEWORK COOPERATION AGREEMENT AMONG MICROFINANCE NETWORKS OF LATIN AMERICA AND THE CARIBBEAN**

On October 6, 2005, in Santa Cruz de la Sierra, Bolivia, in the framework of the VIII Inter-American Microenterprise Forum of the Inter-American Development Bank, 23 national microfinance networks signed the Framework

Cooperation Agreement among microfinance networks of Latin America and the Caribbean.

This cooperation initiative had its roots in the Regional Microcredit Summit for Latin America and the Caribbean which was held in April 2005 in Santiago, Chile where 25 representatives from the major microfinance networks and institutions of the region came together for the purpose of establishing linkages for cooperation and exchange among networks. At the gathering, a Development and Follow-up Committee was established to draft the Framework Cooperation Agreement.

With the signing of the agreement, the national networks seek to establish a link for cooperation and collaboration among the microfinance networks of Latin America and the Caribbean on issue areas of common interest, and to establish mechanisms for the coordination of activities in order to strengthen the development of microfinance throughout the continent.

Through the agreement, the national networks have established various areas for cooperation including:

- a) Public policies and regulatory frameworks
- b) Strategic planning and financial programming
- c) Information, data bases and documentation
- d) Dissemination of publications and experiences
- e) Generation and development of credit risk databases and credit information bureaus
- f) Systems for the generation of financial information
- g) Development of new products and services, and the application of innovative technologies
- h) Methodologies for the evaluation of impact and measurement of social performance of microfinance

- i) Development of products and services with a gender and environmental perspective
- j) Formation of human resources
- k) Governance of the microfinance networks
- l) Legal and institutional structure and representation within the microfinance networks
- m) Strategies for operational and financial sustainability
- n) Other areas of common interest

### **III. COVERAGE BY THE MICROFINANCE NETWORKS OF LATIN AMERICA AND THE CARIBBEAN**

In order to provide follow-up on the agreements reached in the Framework Cooperation Agreement among the Microfinance Networks of Latin America and the Caribbean, a Committee for Evaluation and Follow-up on the Agreement has been created. One of the first actions by this Committee was to consolidate the basic information on the microfinance networks that are signatories to the Framework Agreement. Taking advantage of the IADB IX Inter-American Microenterprise Forum, the results of this research were presented at the meeting of Signatory Microfinance Networks in Quito, Ecuador in September 2006.

The first data from this information collection effort reveal a total of 3,631,552 clients served by 365 microfinance institutions affiliated with 24 microfinance networks. Of these clients, 64% are women, with a loan portfolio of 2.016 billion dollars, 45% of which is placed in rural loans. All of this great effort is due to the participation of the 22,924 employees of the microfinance organizations that are members of the national and regional networks.

## Coverage of Microfinance Networks of Latin America and the Caribbean

Key Indicators	Total	Average
Number of Clients	3,631,552	213,621
Number of MFI Members	365	21
Loan Portfolio (Millions of U.S. Dollars)	2,016.5	118.6
% of Women Clients	64%	86%

Source: Results of Data Collection from Central and Latin American Networks. Committee for Follow-up and Implementation of Activities of the Framework Cooperation Agreement. Networks Meeting. Quito, Ecuador. September 2006.

## Coverage of Microfinance Networks of Latin America and the Caribbean

The general table shows the number of clients that benefit from the microfinance institutions that are members of the national microfinance networks. The number of clients is a reflection of the many diverse factors that impact the work of the microfinance institutions in each country, such as geographic size and the development of local markets, the level of development and depth of the financial markets, diversification of services, and the adequacy of the regulatory framework and public policies.

Microfinance Networks		
National Networks		
Networks	Clients	Country
PRODESARROLLO	1,154,000	Mexico
EMPRENDER	541,139	Colombia
RFR	450,458	Ecuador
COPEME	327,651	Peru
ASOMIF	298,774	Nicaragua
FINRURAL	233,507	Bolivia
REDMICROH	165,879	Honduras
REDIMIF	151,201	Guatemala
PROMUC	102,828	Peru
ASOMI	57,025	El Salvador
REDCOM	20,000	Costa Rica
ALPIMED	16,825	El Salvador
RADIM	13,819	Argentina
REDPAMIF	10,483	Panama
<b>TOTAL</b>	<b>3,631,552</b>	

Regional Networks	
Networks	Clients
KATALISIS	169,879
FOLADE	180,000
REDCAMIF	705,000

Source: Results of Data Collection from Central and Latin American Networks. Committee for Follow up and Implementation of Activities of the Framework Cooperation Agreement. Networks Meeting. Quito, Ecuador. September 2006.

The regional microfinance networks are also included in the tables. These have been formed to develop programs for technical enhancement, provision of

funds, policy advocacy, product innovation, standardization of information systems and transparency, training, and other services. The largest regional networks are: the Central American Microfinance Network (REDCAMIF), the Latin American Development Fund (FOLADE) and KATALYSIS.

### **Services of Microfinance Networks of Latin America and the Caribbean**

Microfinance networks in Latin America have developed a broad spectrum of services; the extent of these services depends upon the relative size of the network in each country or sub-region where they operate. The table below shows that the two major services offered by the networks to their members are training (63%) and technical assistance or consultancies (56%). It should be mentioned that these services generally address innovative issues for microfinance institutions, including new products and financial services; training of personnel on financial, institutional, operational or other issues; the promotion of new information systems within the institutions, etc.

Next on the list of major services are performance monitoring systems; communication and products for information on the sector; and representation and advocacy; these services are offered by 38%. The issues of representation and advocacy are very important and were, in many cases, the major reasons for the creation of the microfinance networks, particularly for advocacy on the regulatory frameworks and public policies that are favorable for the sector.

These are followed by other issues, although their lower percentages do not indicate that they are less important services for the members. These include scholarships and internships (25%), which are very important for the exchange of experiences.

### Services Offered to Member Microfinance Institutions

Service	Percentage of Networks Offering the Service
Training (Seminars, Courses and Workshops)	63%
Technical Assistance / Consultancies	56%
Performance Monitoring Systems	38%
Communication and Products for Information on the Sector	38%
Representation and Advocacy	38%
Scholarship Funds and Internships	25%
Access to Credit Bureaus	19%
Second Tier	19%
Institutional Strengthening	19%
Research	19%
Evaluation of Impact	6%
Technology Development	6%
Facilitation of Access to Funds	6%
Development of Products	6%

*Source: Results of Data Collection from Central and Latin American Networks. Committee for Follow-up and Implementation of Activities of the Framework Cooperation Agreement. Networks Meeting. Quito, Ecuador. September 2006.*

### **Institutional Scope of Microfinance Networks of Latin America and the Caribbean**

The total number of employees in the microfinance networks, according to the data collection results, is 22,924, with an average of 1,433, in a total of 2,325 offices.

These figures depend greatly on the level of development and size of the microfinance networks, the level of diversification of services, the institutional management and the perception of microfinance by the industry in each country. For example, the networks that have more than ten employees have achieved a good level of diversification of their activities, including the creation of well-structured training units which function autonomously or as parallel service companies.

### **Coordination and Pursuit Meeting**



After the Cooperation Agreement Subscription among Microfinance networks of Latin America and the Caribbean, in Bolivia, October 2005, the delegates from these Networks have been in close touch, so they have been strengthening the cooperation links between the Microfinance Networks. Taking advantage of international Microfinance meetings, Networks meetings have been held. Some of them are:

- II Foro Internacional de Bancos Comunes, en Morelia Michoacán, México, Julio 2006.
- III Conferencia Centroamericana de Microfinanzas, en Tegucigalpa, Honduras, Agosto 2006.
- IX Foro Interamericano de la Microempresa del BID, Quito, Ecuador, Septiembre 2006.

Taking advantage of the Global Microcredit Summit 2006, in Halifax, Canada, coordination and follow-up meetings will be held in November 2006.

## **IV. DESCRIPTION OF THE NETWORKS**

### **4.1. CENTRAL AMERICAN MICROFINANCE NETWORK – REDCAMIF**

The micro and small enterprise sector in Central America is comprised of approximately three million people who work for themselves, generating jobs for more than nine million people that represent close to 70% of the Economically Active Population (EAP) of the region. In addition, it is estimated that small businesses and microenterprise contribute 25% of the Gross Domestic Product (GDP) of the region. The level of access to financing by these businesses is very low, with only 5% of the banking portfolio balances in the region placed with this sector of the economy. Only 10% of the businesspeople of Central America are served.

This vacuum in the offering of urban and rural financial services is being filled by an extensive network of microfinance institutions organized as civil non-profit associations, foundations, private financial development organizations, cooperatives, credit unions, microfinance institutions and other entities. These entities have achieved very significant levels of participation in the microfinance market.

The evolution of the microfinance industry in the region demands that the institutions seek a high degree of efficiency and quality in their delivery of services. This can only be achieved with certain levels of credit technology and business culture, spearheaded by appropriate information systems and good human resources capacity.

With a desire to create suitable agencies capable of facing the challenges of fostering microfinance in the region, the representatives of the Central American microfinance networks decided to establish the Central American Network of Microfinance Institutions (REDCAMIF). The national networks are: the Network of Microfinance Institutions of Guatemala (REDIMIF); the Association of Microfinance Organizations (ASOMI of El Salvador); the National Network of Microfinance Institutions of Honduras (REDMICROH); the Nicaraguan Association of Microfinance Institutions (ASOMIF) and the Costa Rican Network of Organizations for Microenterprise (REDCOM).

REDCAMIF was founded on September 27, 2002 in Guatemala City, Guatemala, with the participation of REDIMIF, ASOMI, REDMICROH and ASOMIF. Later, on November 22 of that same year, REDCOM was incorporated as a member. The board of directors of REDCAMIF is elected for a period of two years, beginning with its legal establishment.

### **Institutional Profile of REDCAMIF**

Mission: Consolidate the microfinance industry in Central America through representation of the sector and the facilitation of strategic alliances,

contributing to poverty reduction in the impact area and fostering the institutional development of the associated networks and clients of their programs.

Vision: The Network is a representative organization of national networks, a leader in the Central American context with worldwide recognition, solidly constituted, implementing standards of efficiency and contributing to poverty reduction through the application of ethical values.

Strategic Objectives: a) Positioning and Institutionality of Microfinance; b) Advocacy on Political Policies and Regulatory Frameworks; c) Technological Development and Institutional Strengthening and d) Impact on Clients.

Operations: In order to operate in the most effective and participatory fashion, the statutes and provisions of the Board of Directors of REDCAMIF establish the following bodies and operating mechanisms: i) General Assembly which is formed by the participation of two representatives from the national network of each country; ii) Board of Directors which meets regularly and as needed, with at least three meetings per year to discuss and decide upon the Strategic Plans of REDCAMIF; iii) Executive Administration which includes the functions of preparing and proposing the Strategic Plan, the Annual Operating Plans, the Investment Plans and the Annual Operating Budgets to the Board of Directors, along with their respective regular evaluations; coordinating and directing the activities of the association; implementing and demanding compliance with the agreements of the Board of Directors and the General Assembly; collecting and managing the funds and equity of the association; and other duties; iv) Executive Technical Committee is comprised of the Executive Directors of the national networks for the purpose of linking the operational activities of REDCAMIF and implementing the directives of the Board of Directors in each country.

### COVERAGE OF REDCAMIF

NETWORKS	MFI MEMBERS	CLIENTS	PORTFOLIO (Millions of Dollars)	% OF WOMEN	% OF RURAL PORTFOLIO
REDIMIF - GUATEMALA	20	151,201	87.6	57%	67%
ASOMI - EL SALVADOR	10	57,025	58.2	71%	63%
REDMICROH - HONDURAS	25	165,879	55	72%	30%
ASOMIF - NICARAGUA	21	298,774	149.2	62%	47%
REDCOM - COSTA RICA	22	20,000	40	34%	52%
<b>TOTAL</b>	<b>98</b>	<b>692,879</b>	<b>390.0</b>	<b>68%</b>	<b>52%</b>
Source: Estimates from National Networks, 2005					

#### **4.2. RURAL FINANCIAL NETWORK – RFR**

Within the constant development of microfinance in Latin America, the specialization of microfinance institutions (MFIs) is particularly striking due to the degree of competitiveness in the industry, whether because of the growth of the MFIs, the emergence of new stakeholders or the incursion of private banking into microfinance programs. Consequently, there is an increase in the loan portfolio and the number of clients served.

The maturity of the industry leads to the identification of common problems and needs by the MFIs, and the subsequent pursuit of alliances and arenas for discussion, resulting in processes to create networks, societies and associations.

The microfinance portfolio at the country level has noticeably increased, totaling close to 270 million dollars for the 43 institutions regulated by the Superintendency of Banks. It is estimated that non-regulated institutions (savings and credit unions and non-governmental organizations) hold a portfolio totaling approximately 100 million dollars.

The Rural Financial Network (RFR) is a civil, non-profit corporation founded on June 16, 2000. The RFR began with the initiative of a group of 19 institutions that met periodically between 1998 and 1999 to discuss the problem of

financing for rural and marginal urban sectors in what was called the “Alternative Financial System Group”.

The RFR is comprised of a variety of institutions with diverse legal forms, united by the objective of combating poverty through alternative financing of rural and marginal urban sectors. Thus, the members of the RFR include private banks, financial societies, savings and credit unions and non-governmental organizations.

**Mission:** The RFR is comprised of organizations working to facilitate and enhance access to financial services for rural and marginal urban sectors, seeking to strengthen them, representing their interests, promoting the creation of suitable government policies and fostering the social and economic development of the country in a sustainable fashion.

**Vision:** We are a creative and innovative organization, recognized by society, which represents and integrates diverse institutions directed at facilitating and enhancing access to sustainable financial services by the rural and marginal urban population, as a contribution to the improvement of the quality of life of Ecuadorians with justice and equity.

### **Strategic Objectives**

- Continually seek the strengthening and integration of the members of the network.
- Ensure sustainability and foster culture and innovation in all activities of the RFR.
- Position ourselves as a benchmark for microfinance in Ecuador.
- Participate proactively to promote suitable government policies on microfinance.
- Foster the expansion of coverage and the development of microfinance services.

### **4.3. CONSORTIUM OF PRIVATE ORGANIZATIONS FOR THE PROMOTION OF THE DEVELOPMENT OF MICRO AND SMALL ENTERPRISE – COPEME**

COPEME is a consortium that joins together 55 private institutions, mainly NGOs, which work to promote and develop micro and small enterprise by implementing programs to generate jobs and income, microfinance programs, and business development services with strategies to overcome poverty and promote inclusive development in Peru.

Its vision is to be a consortium of private development organizations, a benchmark leader in policies, programs and projects for the integral development of micro and small enterprise (MSE), as a sustainable decentralized national organization with quality technology and services.

Its mission is: Contribute to national development, promoting the economic and social sustainability of micro and small enterprise and local economies.

COPEME defines itself as a second tier agency that, in addition to representing its members and developing joint proposals for advocacy on policies to promote SME, develops capacity and skills among its members and in other likeminded institutions in order to offer quality services, achieve sustainability and have a significant impact.

The objectives of the Consortium are:

Influence public policies regarding the development of MSEs and local economies.

Consolidate and increase the domestic offerings of financial and business development services for MSEs.

Consolidate COPEME as a national decentralized network with the capacity to manage and direct projects, programs and services in the regional and national context.

The Peruvian microfinance system is comprised of a diversity of intermediaries; some are defined as “companies” as in the case of banks, and others are defined as “entities” such as municipal savings and loan banks, rural community banks, micro and small enterprise development companies, and savings and credit unions among the entities regulated by the Superintendency of Banks and Insurance (SBS), and NGOs with credit programs among the non-regulated entities.

## **V. ASSESSMENT OF MICROFINANCE NETWORKS IN SIGNIFICANT AREAS**

Like example of which to make institutional and organizational of the Networks of Microfinanzas in Latin America present the examples institutional of three networks of Microfinanzas: Central American microfinance network (REDCAMIF), Rural Financial Network (RFR) and the Consortium of Private Organizations for the Promotion of the Development of Micro and Small Enterprise (COPEME), focused specially in four areas: i) Regulatory framework and Public Policies; ii) Services Offered to Membership and Self-Regulation; iii) Strategies for Sustainability and Impact and; iv) Strategic Alliances.

### **5.1. Regulatory Framework and Public Policies**

#### **RFR**

The RFR has hosted events on “The Role of the Government in the Proper Development of Microfinance in Ecuador”, obtaining the participation of

representatives from the public sector, the private sector and international cooperation.

The objective of these events has been to illustrate, for the public sector, proper intervention through public policies, especially regarding the regulation of interest rates and the development of regulatory frameworks.

Likewise, relationships have been maintained with ministries, the Superintendency of Banks, government projects and Congressional representatives in order to be alert to possible threats to the sector.

In order to have a proactive attitude, a political advocacy plan is under development as an ongoing stance of the RFR to sensitive issues. The development of proposals and approaches is planned, rather than waiting for the government to make proposals that are often not directed at real needs.

### **REDCAMIF**

The strategies and activities of REDCAMIF to foster a favorable environment for the development of microfinance have been focused on advocacy regarding: i) regulatory frameworks; ii) legal and fiscal frameworks; iii) public policies and iv) the role of the government in the development of financial systems.

The regulatory frameworks in Central America are at various levels in their development and application of norms. However, in all of the countries, there is a tendency toward configuring legislation on this issue that does not achieve the proper conditions to foster microfinance. The most significant aspects are the constraints imposed on the mobilization of savings in the microfinance institutions that are constituted as non-governmental organizations, the lack of access to second tier funds by non-regulated microfinance institutions, the constraints on the active operations of microfinance entities (endorsements,



leasing, collection, factoring, etc.), ceilings on interest rates, and banking privileges related to fiscal issues.

In the pursuit of regulatory frameworks that are favorable for microfinance institutions, REDCAMIF is implementing a strategy to standardize guidelines and key legislative aspects in the region, to work toward the inclusion of regulatory principals appropriate for legislation on this issue.

## **COPEME**

The diversity of interventions by the members of COPEME has made it a privileged space for exchanging, evaluating and validating experiences. It has become a rich laboratory for proposals and a mandatory point of reference for political policies to promote SMEs, jobs and microfinance.

The most significant expression of its impact has been its participation and contributions to the new Law for the Promotion and Formalization of SMEs and its representation of private SME promotion organizations before the National Council on Micro and Small Enterprise (CODEMYPE).

In the context of microfinance, it has contributed to forging a national system, strengthening the efficiency and sustainability of a diverse group of operators, achieving expansion of the offering of quality products that truly contribute to the growth of MSEs. Likewise, it has supported the role of the government as promoter and regulator of private initiatives in microfinance as a means of ensuring the responsibility and sustainability of the system.

In addition, the Law for Promotion and Formalization of MSEs grants recognition to non-regulated entities, so that NGOs with loan programs may access public resources provided that they are subject to the private self-regulation system promoted by COPEME.

## **5.2. Services Offered to Membership and Self-Regulation**

### **RFR**

The RFR has developed several services for its members including outstanding training and self-regulation services.

The training is based on market research that RFR conducted with its members and other institutions in order to identify the major areas of interest and need. The existing offerings were also evaluated, including the degree to which they respond to the needs. In addition, regular input is sought from members through evaluations of the courses conducted and information is obtained from other RFR units in order to define and develop future topics for training.

The Training Unit undertakes activities in the following areas: i) Events are organized according to the demands of members and other institutions; ii) Short courses, lasting from one to five days, are offered on specific issues of current and common interest; iii) A course is offered for specialization in microfinance, based on the experience of the Microfinance Training Program that was conducted in Boulder, Colorado, inviting Spanish-speaking professors from that course; iv) The annual Ecuadorian Forum on Microfinance is held, and v) Ongoing training programs are organized with academic recognition provided through alliances with universities and training centers.

Self-regulation is directed at savings and credit unions that are not under the control of the Superintendency of Banks and for NGOs.

Its mission is to increase the credibility of the non-regulated financial sector, seeking a fair and transparent financial market which not only minimizes risk, but also generates a scenario that fosters an enhancement of the internal capacity of the institutions (efficiency, efficacy and effectiveness), facilitating

access to resources, implementing strategic actions, and diversifying financial services in rural and marginal urban areas.

The objectives of the self-regulation system are:

- a) Raise awareness among the non-regulated MFIs that the success of their activities and, therefore of their competitive positioning, depends in good measure on how their efficiency, efficacy and ethics are judged;
- b) Maintain and foster a healthy and balanced development of the microfinance sector, attaining stability and solvency by applying the norms of financial prudence;
- c) Promote diversification of financial services in areas that are not served by the formal financial sector;
- d) Achieve an association that respects diversity and heterogeneity and that fosters interaction and cooperation among the member entities;
- e) Develop agencies for advocacy and proposals within the microfinance sector;
- f) Promote mechanisms for analysis, linkages and negotiations with the monitoring organizations and government agencies.

### **REDCAMIF**

REDCAMIF, as a regional network of the microfinance networks in each of the Central American countries, defines its service strategy for its members by taking into consideration the following criteria: i) Take advantage of regional economies of scale in the services; ii) Avoid competition with its own member

networks; iii) Facilitate the generation of value added in exchanges and services; iv) Promote contributions to the costs of services by the users.

The major services offered by REDCAMIF to its members are:

- Representation of the sector.
- Common information systems and databases.
- Application for financial and technical resources.
- Publications of current basic information (*Microfinanzas Magazine*, newsletters, minutes, web portals for each national network).
- Publicity and institutional outreach for its members.
- Workshops to exchange experiences about specific aspects (rural financial services, microfinance and gender, benchmarking, and rating, among others).
- Seminars for training human resources.
- Advocacy on regulatory and legal frameworks (through efforts of the national networks).
- Support and exchange of experiences in public policy advocacy.
- Central American Microfinance Conference (biannual) as a space for learning, updating and making business contacts.
- Specialized training in administration and evaluation of microfinance networks.
- Lateral learning activities among microfinance networks.
- Scholarships and internships among networks and leading microfinance organizations.
- Promotion of technical tools for financial services.
- Support for transparency and self-evaluation by the institutions.

The determination of the demand for services is structured by the demands from the national networks through an ongoing mechanism for consultation with the Board of Directors, the Executive Technical Committee and the working commissions of REDCAMIF. This consultation is further extended

annually during the process to structure the Annual Operating Plans and on a quarterly basis in the scheduling and implementation of activities.

In order to maintain a balance in service to the membership, REDCAMIF, because it is a network of national networks, has established an equitable allocation of services among member networks and, in addition, a Fund for the Strengthening of Networks and Technological Innovation which enables each network to have financial resources available to address their specific and particular needs, based on projects under implementation that each network presents to REDCAMIF.

### **COPEME**

Seven years ago, COPEME, with the support of the United States Agency for International Development (USAID) created the “Microfinance Initiative” Program in order to develop and target services for efficiency, sustainability and impact of the interventions by microfinance institutions in the country.

The MFIs offer seven services:

The SINFONED: The Information System of NGOs and Micro and Small Enterprise Development Companies is a large database that collects all the financial and portfolio information of the non-regulated and regulated institutions nationally.

These reports are useful as instruments for monitoring, measuring results and making decisions, as each entity is able to know, on a regular basis, what their financial position is relative to the other MFIs and to properly address the requirements of public and private organizations and assistance agencies that transfer funds to them.

Credit Bureau: COPEME established an agreement with the largest credit bureau in the country, INFOCORP; through this, the non-regulated MFIs may access their services at preferential rates in exchange for information regarding clients with past due loans. This agreement will provide feedback for the entire system and will create a healthy credit culture in the MSE segment.

Training: This is concentrated on specific topics linked to management and should translate into the strengthening of the MFIs. For example, the following types of issues are developed with the NGOs: accounting, account planning, financial management, credit technology, risk administration and management information systems as demanded and established by the Superintendency. These topics are developed through workshop courses lasting two or three days.

Audits – Assessments: This is the analysis component to provide *in situ* evaluation of the information systems used, the characteristics of the financial and credit management, the mechanisms for administering risks, administration and organization, accounting systems, the organizational and property structure, credit technology; everything that any audit would address in a regulated institution in accord with the current procedures established by the SBS. The analytical component for *extra situ* evaluation is the information system that enables monitoring of the indicators of the institution.

Intensive Training: This is the phase following the audit. The main objective is to offer specific training on issues of: financial accounting and the application of the Superintendency's account plan, recordkeeping and quality of information, budget management, information systems, improvement in credit technologies, strengthening of internal control units and risk management, improvement in manuals and regulations, among others. The first phase of the course generally lasts 30 days and the second phase may last up to two weeks.

Loan – Accounting Software: With the participation of some NGO partners with credit programs, software has been developed as established by the Superintendency. The software undertakes and adapts the processes of the NGOs through a process of training and education. The explanation of how this works is forthcoming.

The Legal Framework: Attempts have been made for more than six years to develop a process to strengthen the non-regulated entities, establishing criteria and parameters to ensure compliance with standards similar to those of the regulated MFIs, without neglecting the characteristics of their target groups and adapting their credit methodology.

The Model for Private Supervision of Non-Regulated Microfinance Institutions  
NGOs are not subject to the regulations of the national regulatory body of the financial system, the Superintendency of Banks and Insurance (SBS). This is a disadvantage for the NGOs compared with the rest of the MFIs; first, because not being recognized as a financial intermediary activity makes them ineligible for exemption from the General Sales Tax (19%) placed on any service, resulting in more costly credit. Secondly, because they are not regulated entities, they cannot access government funds for microfinance.

These disadvantages led the NGOs to seek a closer relationship with the regulatory body, adopting practices similar to those demanded of regulated MFIs. A system for self-regulation or private supervision should be the instrument for this closer relationship.

**Other services for MFIs include:**

Andean Microfinance Courses: event held every two years with international experts, providing in-depth examination of essential issues for microfinance institutions including costs, credit risk, measurement of impact, labor relations, governance, etc.

Investment Fund Business Roundtable for microfinance institutions: event that endeavors to facilitate a closer relationship with public and private funds in the international context that are interested in investing in microfinance with Peruvian MFIs.

TechnoFair: event to provide a current perspective on technological advances for microfinance in the world and to bring the technology providers to the national MFIs.

Coordination and support for the Community Bank Roundtable of Peru: providing arenas for exchanging experiences, discussing, evaluating and developing perspectives on this credit modality.

Support for rural finance operators with innovative projects through the Finance and Research Fund for Rural Development (FINDER): promotion and extension of the savings experience planned in the rural areas, and administration, monitoring and follow-up of resources allocated to Rural Banks in alternative crop areas.

Services for the strengthening of MFIs that are local counterparts of international cooperation agencies.

### **5.3. Strategies for Sustainability and Impact**

#### **RFR**

The RFR endeavors to achieve sustainability in all its activities and thus has defined the following strategies:

The monthly economic contributions of the members serve to cover central operating costs (Executive Administration and Financial Administrative Unit).



Each unit manages its annual budget, its income from charging for services offered and partial financing from projects. The projects provide initial support for the establishment of the unit and development of products and are based on financing that decreases over time, obliging each unit to fulfill the sustainability objectives.

The RFR seeks to generate its own working capital to support its activities in the event that an international organization or project decides to not continue providing support.

The RFR measures its impact through the application of a satisfaction survey of its members in order to evaluate its performance and decide upon future issues of interest.

In addition, information monitoring is conducted to evaluate the financial performance of its members and the development and advancement of the market.

There are plans for the use of a methodology to measure the social impact of RFR member institutions.

## **REDCAMIF**

The sustainability strategy for REDCAMIF is based on a long term vision that combines income generated by the provision of services to its member networks, contributions to operating costs by the membership, and income generated through seeking external resources and grants for institutional strengthening and for the microfinance industry in general.

REDCAMIF's impact on the networks is focused on two areas: i) Internally through its contribution to the enhancement of the institutional capacity of its

members. REDCAMIF works directly through the national member networks and indirectly through the 92 MFIs in the region; ii) Externally through its capacity to contribute to an improvement in the legal and regulatory conditions, public policies, institutional outreach and strategic vision of microfinance in the region.

The financial sustainability of REDCAMIF is partially based on the following income structure:

- One-time membership fee.
- Annual contribution to operating costs.
- Income for overhead in applications for funds.
- Income from provision of services.
- Income from grant contributions.

### **COPEME**

COPEME's own resources consist of:

Overhead from projects: the percentage that correspond to those intangible aspects (experience, prestige, recognition, relationships, environment, etc.) that COPEME provides when it implements or administers projects, regardless of its commitments as a counterpart.

Services: projects implemented by COPEME, as a second tier entity, are directed at designing and offering services that reinforce institutional capacity; all services must be sustainable and their cost is covered by those that receive them, whether individuals or members. They may take advantage of the scholarship system, the institutional internship fund or counterpart funds from their projects to reduce costs, but in all cases payment is made for the service provided.

Membership: the annual or monthly dues paid by members to belong to the consortium; being current in their dues payment grants the member the right to elect and be elected, access services with differentiated fees and serves as an indicator of the member's interest and satisfaction.

The investment fund or endowment: is the total investment fund which began as a donation from the Ford Foundation, an efficiently-managed loan fund recovered in its entirety, and the consortium's own funds. This is an intangible fund and is administered by a committee that is independent of the management of COPEME, elected in the Members' Assembly. The interest generated by placement of the fund may be capitalized or used to finance the annual budget, to be decided by the Assembly. This income for the sustainability of COPEME is recent and the Administrative Committee is working to strengthen this to work in a more specialized fashion with investments in the MFIs.

#### **5.4. Strategic Alliances**

##### **RFR**

The first line of strategic allies of the RFR are the members, as they, in the various bodies (Assembly, Board of Directors and working committees), make decisions on and foster the development of each issue.

The RFR also has support from projects and cooperation organizations such as: Swisscontact-Swiss Development Cooperation, the Project to Strengthen Access to Microfinance and Economic Liberalization (SALTO) - USAID, HIVOS Foundation, the International Institute for Communication and Development (IICD), the Inter-American Development Bank and Belgian Technical Cooperation (BTC). The RFR participates in the meetings of international cooperation organizations that work in microfinance in the Ecuador and receives sponsorship from them for specific events.

The RFR is a member of the Rural Finance Forum of Latin America and the Caribbean (FORO-LAC), an agency that has facilitated valuable exchanges with other networks and discussion around policies for the development of rural finances.

The Small Enterprise Education and Promotion (SEEP) Network has provided support to RFR within a project to strengthen networks worldwide. This has contributed to better definition of the institutional development of the RFR and the future challenges that it will address.

### **REDCAMIF**

The basic criteria for expanding and strengthening the strategic alliance framework of the microfinance networks are: i) Generate representation and credibility among the basic stakeholders of the microfinance industry; ii) Create synergy to increase institutional, technological and human capacity; iii) Generate a broad consensus and positioning of the interests of the networks and their members to expand the capacity for advocacy among governments, international cooperation and clients.

An important aspect in the consolidation of REDCAMIF's alliances has been the formalization of cooperation agreements or frameworks with allied institutions and organizations. This mechanism makes it possible to further formalize those links with a joint strategic mission and the identification of specific short term actions.

Furthermore, the public signing of these agreements has the additional value of an impact on society, demonstrating the growth of an industry that generates consensus and creates proactive spaces.

In the short period of operation of REDCAMIF, it has achieved credibility, positioning, capacity for advocacy and institutional enhancement of the allied networks and institutions, in great measure due to the strategies of alliances employed by this network in the areas of finance, public policies, training of human resources and the rural sector. The Network will continue this strategy through the diversification of its allies, involvement in key international networks, extensive alliances with international cooperation and, in particular, through the network's proximity and advocacy before the governments of Central America.

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