

Leveraging non-banking correspondents to bring financial services to unbanked businesses in Ecuador



CLIENT

CREDIFE Desarrollo Microempresarial, a subsidiary of Ecuadorian Banco Pichincha C.A. operating since 1999, provides financial services to small and micro entrepreneurs at the base of the pyramid (BOP), enabling them to access the country's formal financial system. CREDIFE's 617 loan officers are located in 126 offices of Banco Pichincha throughout the country.



IDB SUPPORT

The Inter-American Development Bank's Opportunities for the Majority (OMJ) and the Structured Corporate Finance Department granted Banco Pichincha a loan of up to US\$40 million in order to expand access to credit to BOP small and micro entrepreneurs through CREDIFE and develop a network of nonbank correspondents. The loan will be complemented by a US\$20 million loan from the China Co-financing Fund for Latin America and the Caribbean and other international commercial lenders (up to an additional US\$20 million).



THE CHALLENGE

Microenterprises and small businesses account for more than 90 percent of companies and jobs in Ecuador, yet these entrepreneurs have little access to credit or financial services. Only about 12 percent of formal credit is extended to these small firms. Financial exclusion is particularly acute in poor rural and marginal urban areas, where there are a limited number of bank branches and few people even have savings accounts. In terms of credit, the problem for borrowers is the lack of a credit history and verifiable information on the operational and financial management of their firms, which makes it difficult for traditional financial institutions to measure delinquency risk. For the banks, evaluating loans to these small enterprises involves numerous low-value and sometimes geographically dispersed operations, so they end up either ignoring the market altogether, raising interest rates, or requiring risk collateral that most microenterprises do not have. Unable to access formal credit, the small businesses resort to informal sources of financing at often usurious rates.



THE SOLUTION

Strengthening alternative commercial channels can improve access to credit and financial services for micro and small business owners at the base of the pyramid. To reduce operating costs in low-income areas where access to financial services is difficult, CREDIFE uses an individual microfinance credit technology that enables loan officers to establish close working relationships with business owners through regular visits, uses specialized credit rating systems, and grants sequential and staggered loans. CREDIFE also provides services through *!Pichincha Mi Vecino!*, a network of 9,324 nonbank correspondents ranging from corner stores to gas stations, where clients can make deposits or withdrawals, pay for utilities and other services, and collect government vouchers—all without having to leave their businesses unattended or incur transportation costs. This project will add 2,200 new nonbank correspondents in difficult-to-reach areas and extend 16,000 long-term microloans for the purchase of production-related assets such as commercial vehicles and tools and equipment.



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INNOVATION MAKES THE DIFFERENCE

CREDIFE has set up a well-thought-out process that tackles many of the market failures that prevent low-income entrepreneurs from accessing affordable credit and growing their businesses. Through its network of non-banking correspondents, *iPichincha Mi Vecino!* is an effective, low-cost platform to penetrate markets in hard-to-reach rural and urban areas of Ecuador. In fact, 65 percent of the current correspondents were originally CREDIFE's clients. This close and incremental working relationship, along with CREDIFE's unique credit methodology, combine to reduce the costs of many procedures, facilitate savings, payments, and transfers, and encourage a broader financial culture for those who historically have been excluded from the formal banking system.

OMJ 2014 Portfolio



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