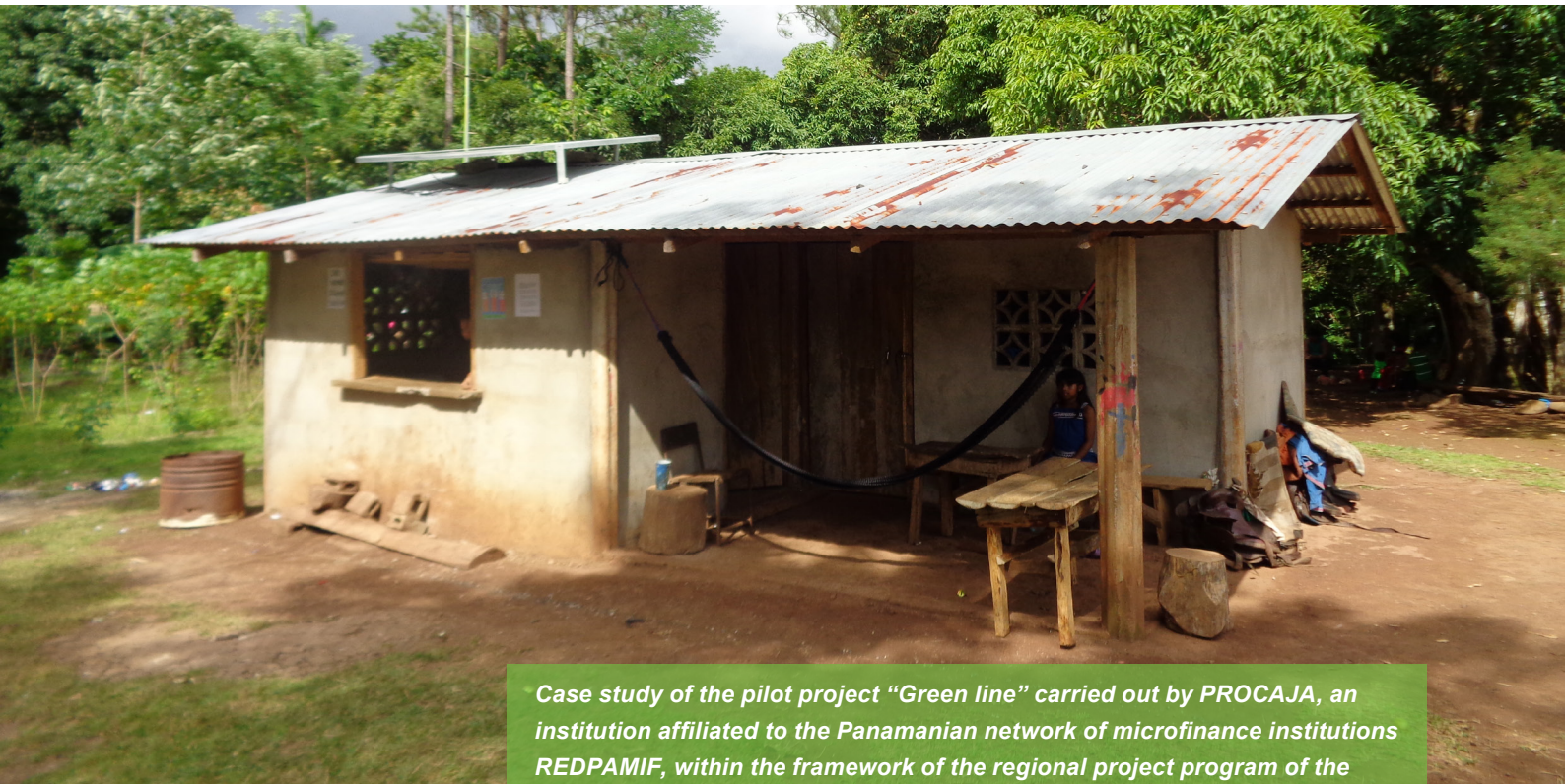


CASE STUDY

2017



PROCAJA Green line



Case study of the pilot project “Green line” carried out by PROCAJA, an institution affiliated to the Panamanian network of microfinance institutions REDPAMIF, within the framework of the regional project program of the Central American and Caribbean Network of Microfinance (REDCAMIF) and ADA Luxembourg, aiming at the promotion of financial inclusion by means of innovation in the financial product implementation.



1. INTRODUCTION

ADA Luxembourg (www.ada-microfinance.org) in alliance with the Central American and Caribbean Network of Microfinance (REDCAMIF), developed a five year project to accelerate financial inclusion in the Central American region and the Dominican Republic through three specific work areas: i) Professionalization of the industry, II) Sustainability of the national networks and the development of services, and the; III) Development of inclusive and innovating financial products, incorporating the implementation of innovative financial products in the areas of rural finances and progressive social housing in 33 affiliated Microfinance Institutions, distributed evenly among the 7 countries.

In the case of Rural Finance, the ADA - REDCAMIF alliance allowed for the development of four financial products for the rural sector additionally offering "positive externalities for the environment". The products that were developed are: i) Line of credit for environmental productivity; II) Financing for renewable energies; III) Rural financial leasing and; IV) Financing for rural enterprising women. In the case of progressive social housing it was sought to expand financial services addressing the improvement in the quality of life of families. This VSB program has identified seven products that have the peculiarity of being progressive in the sense that they offer investment options starting from basic repair activities, improvements and construction, up to more complex schemes of house construction. The identified products are: I) Progressive improvement of houses; II) Whole improvement of houses; III) Purchase of land and legalization; IV) House construction; V) House purchasing; VI) Credit for the introduction of communitarian services in rural areas and; VII) Programed savings for housing.

2. INITIAL CONTEXT

In Panama, after a detailed analysis of the economic activities in the provinces, excluding that of Panama itself, it was confirmed that most of the country develops economic activities based on the use of natural resources such as agriculture, tourism, handicraft, agribusiness or environmental services; in the whole, rural activities.

Like other countries of the Central American Isthmus, the rural producers face similar problems: lack of access to markets, services, technologies, information, financing, adequate technical support and service infrastructure, among others typical of the rural world.

A critical element continues to be the unfair access to financing under reasonable conditions for enterprising women, owners of micro and small businesses that, for various reasons, cannot ac-

cess suitable financing for the development of their businesses.

As to microfinance, the rural sector is little developed and in the case of the rural areas the situation is more critical, even if commercial banks are entering the rural microfinance sector, the supply of microfinancial services is scant and the size of the portfolio and its reach are modest in comparison to the portfolio volume of sectors traditionally served by banks.

It was in this context that PROCAJA as a development institution focusing on the financing for micro and small rural enterprises in Panama, prioritized its support to the farming production of provincial populations traditionally excluded from the mainstream financial sector of Panama.

Throughout the project the institution sought to:

- boost inclusive finance by means of an innovating product.
- offer its associates access to loans, in higher amounts, without requiring that many guarantees to back them up.

The project that was introduced, responded to the investment needs of rural families in order to increase the income and profitability of their business in the central provinces of Panama.



3. DESCRIPTION OF THE PROJECT IMPLEMENTATION WITHIN THE MFI

After PROCAJA was selected to participate in the program, during the last semester of 2014, the current and potential market for the organization was analyzed by means of an “adaptation study” that identified the financial products of the program with the most potential to adapt to the conditions and needs of the market.

On the basis of the results of this study, plus the experience of PROCAJA’s personnel and the support of the staff of REDCAMIF and REDPAMIF, the project for the development of the pilot was called “PROCAJA Linea Verde (Green Line)» and the financial microleasing was chosen.

The development of the pilot contemplated the implementation of a product of REDCAMIF’s in the 11 branches of the organization, located in rural areas of the central provinces of Panama (Coclé, Herrera, Santos and Veraguas), where it was expected to directly benefit 20 owners of microenterprises and indirectly impact 60 people.

The financial microleasing product is to be understood as an alternative to traditional financing schemes by means of loans; it seeks to benefit the owners of micro and small enterprises who are not previously required to offer a real guarantee, by financing the modernization and/or the acquisition of assets contributing to increase in the productivity and/or efficiency of their businesses.

The design of the product in the MFI, led to a broad process including:

- **the MFI’s induction for the development of the product:** it included the provision of a Microleasing manual created by ADA/REDCAMIF, that was the foundation for the development of training programs, plus an EXCEL tool that was also provided, which was later adapted for PROCAJA;

- **the mapping of suppliers and technologies to be promoted, the visits to these suppliers and the selection of equipment and suppliers:** the first stage of the mapping technology sought the identification of the main technology demands, according to the credit officials’ experience, for which a tool was designed to facilitate the extraction of information. Those technologies being prioritized were related to access to water, grinders, four-wheel drive vehicles, freezers, solar panels and milking equipment;

With this information a visit to the suppliers was undertaken, using a tool provided by REDCAMIF for the identification and selection of suppliers and technologies to be promoted through Financial Microleasing.

- **the adaptation of the product:** the process involved the development of new procedures, some of which came from the Microleasing manual designed by ADA/REDCAMIF, the introduction of accounting processes (suspense accounts), the adaptation of the EXCEL tool provided by ADA/REDCAMIF and the training of credit officials, back office personnel, and of both higher and lower management levels. In addition, there were consultations to the entity regulating leasing in Panama, that is to say the Ministry of Commerce and Industry (MICI); nevertheless, the regulation does not limit, nor regulates the MFI, as it is an NGO.

The promotion of the product was developed using the traditional approach of PROCAJA’s (radio, magazines, flyers, promotional material, the use of loudspeaker promotion in regional fairs) plus equipment demos in the branches so as to take the technologies to be financed closer to the clients.

In what loans (20 altogether) and portfolio value (\$48,000) are concerned, the set goals were reached in a period of 13 months. Various technologies and 4 suppliers were identified. The technology that was financed through this product was a freezer/fridge operating with solar panels, since it was the one having received the expected demand with the financial product.

4. MAIN CHANGES IN THE MFI SINCE THE PROJECT IMPLEMENTATION

At MFI level

- it developed an innovating product that is now included in its current product portfolio;
- the personnel were trained for the management of the microleasing product;
- new knowledge acquired in the accounting and information system fields;
- the generation of alliances for the promotion of technologies, the technical support and the product.
- the product facilitated the fulfillment of portfolio goals in some branches.

At client level

- ease of investment in fixed assets, without the need for collateral guarantees.
- improvement of business profitability in the shops having installed technologies (freezers with solar panels) that were financed through Microleasing; the income generation increased by becoming the main points of purchase in their communities
- they can count on assets that generate income, savings and are more sustainable in time.
- better quality of life for community members. Given that the provision of cold products in the community, allows for an increase in protein intake for the area’s inhabitants.



5. FACTORS CONTRIBUTING TO THE SUCCESSFUL IMPLEMENTATION OF THE PROJECT

The main factors contributing to the implementation of the project were:

- commitment of the General Management and key employees to make the product happen. This was in my opinion one, if not the most important success factor in the implementation of the microleasing product.
- having found equipment suppliers that were aligned with PROCAJA's purpose. I think that even though they took their time in the drafting of the agreement as well as in choosing providers, it was also key to the success of the pilot.
- the accurate identification and selection of the geographic areas and the target client to develop the product.
- counting on rural qualified personnel: this facilitated the follow up process for the selection of potential clients, as well as the relationship with suppliers and the selection and review of the equipment that was to be offered under financial micro lease.

6. OBSTACLES ENCOUNTERED DURING THE IMPLEMENTATION OF THE PROJECT

The main difficulties that were overcome during the development of the project are:

- the season chosen to start the granting of loans was not the best, demand wise, for some products (agricultural products).
- delay in the delivery of the tools for the integration of the new products.
- limited supply of known brands on the part of some suppliers; or very expensive according to the perception of the client when comparing with other suppliers.

7. ROLE OF THE NATIONAL NETWORK AND REDCAMIF

REDPAMIF and REDCAMIF contributed significantly to the successful outcome of the project. PROCAJA received from them:

- support for the drafting of the project;
- training for the implementation of the product;
- continuous monitoring of the project's progress;
- support in the field, whenever necessary, to achieve the established goals;
- tools for the selection of technologies and the operation of the Microleasing product;
- timely management of funding.

8. RECOMMENDATIONS FOR OTHER ACTORS WISHING TO REPLICATE THIS SUCCESS STORY

- To undertake a detailed review of norms regulating the financial leasing in the country; this will allow to generate a good estimate of the time it should take for the financial product to reach the production stage.

- The use of the selected technologies must provide an economic or social benefit to the client, this plus the support from the supplier are the main elements guaranteeing that the product will not be returned to the MFI.

- The alliance with suppliers works as a mechanism of promotion of the product, and the proactivity of the supplier in selling it can pave the way to finding new clients for the financial institution.

- Some clients are reluctant to work with certain suppliers because of their perceptions (they think that products are expensive, do not know the brands or are not used to the way they operate). In this sense it is very important to organize fairs together with the providers so as to disseminate the advantages of the technology, the conditions of guarantee and maintenance offered by the suppliers; also, to increase the number of suppliers in the areas close to each branch.

- Through this product, the acquisition of energy efficient equipment, or green technologies, can be financed.

- To train, reinforce and follow up the credit advisers or sales personnel, about how to sell the product is essential given that resistance to change is an element to be fought against on a daily basis.

Thank you to those who participated in this case study:



Since 1994, ADA has been working hard to develop the provision of microfinance to populations excluded from the conventional banking circuits. Its action is designed to reinforce both the autonomy and capacities of microfinance institutions (MFIs), professional associations and networks. ADA also assists governments in their efforts to support and structure the microfinance sector at the regional and national level.

With this aim in mind, ADA can propose and develop specific and innovative microfinance products which have a positive impact on the life of thousands of people, to organise education and training for microfinance professionals working in, and on behalf of, the South, as well as provide advice and support to MFIs in their search for funding. Furthermore, ADA has taken the decision to be involved in research with a view to anticipating the future needs of the world of microfinance and to gauge the social impact of its actions. Its flexible approach enables it to adapt each project according to the needs of our partners and the realities in the field.

ADA enjoys the High Patronage of HRH the Grand Duchess of Luxembourg.



REDCAMIF is a private, non-profit, apolitical, non-religious entity composed of associations and institutions specialized in microfinance in the Central American and Caribbean Isthmus. As a network, REDCAMIF seeks to strengthen the microfinance industry in the region through union representation, institutional strengthening, network sustainability and the generation of strategic alliances, with qualified and ethically committed human resources, in order to contribute, through its programmes, to improving the quality of life of low-income families.

REDCAMIF brings together the national networks of seven countries (Guatemala, Honduras, Dominican Republic, El Salvador, Nicaragua, Costa Rica and Panama) which, at the end of 2017, had 141 MFIs serving more than 1.8 million micro-entrepreneurs, 59% of them women.



The «Red Panameña de Microfinanzas - REDPAMIF» was officially established on September 6, 2006 as a non-profit organization (NGO), and is made up of 6 financial institutions, with the perspective of promoting the country towards a society of solidarity, and with the vision of being the representative network of microfinance in Panama, fundamentally in the principles of transparency, efficiency, innovation and equity.

REDPAMIF, with an unlimited number of members, is a private, non-profit, non-religious and non-political entity made up of associations and institutions that offer financial services that meet and resolve the needs of entrepreneurs in the micro, small and medium enterprise sector, dedicated to promoting the development of associated institutions by any legal means and in accordance with the law.



PROCAJA is a private company with legal personality that allows it to intermediate financial resources to the rural population, transforming their quality of life. Since 1996, PROCAJA has been developing a new microfinance experience in Panama, offering its loan services to the poorest people in the rural sector, which until now had not been taken into account by the traditional banking sector.

PROCAJA is made up of more than four thousand members and is governed by an Assembly of Delegates, who elect a Board of Directors and a Surveillance Board, which are responsible for overseeing the duties and rights of the members of the Organization, the management is made up of professionals committed to service philosophy and close to the rural population.
