Micro Finance Network

Annual Meeting, Madrid 2023

Digital Transformation in the 2020s

Abstract

This document captures the discussions and outcomes of the MFN 2023 Annual Meeting held in Madrid in May 2023. The Steering Committee of the MFN has consistently aimed to preserve records of these annual meetings, recognizing their value as a historical account of the MFN members' external and international situations. Additionally, they serve as a platform for sharing insights, learnings, and trends that microfinance institutions (MFIs) have encountered over the past three decades. The meeting spanned two days, with distinct focuses on each day.

On the first day, the discussions centered on conducting a comprehensive PESTEL analysis, which considers Political, Economic, Social, Technological, Environmental, and Legal factors impacting MFIs. The meeting participants examined how each MFI responded to the challenging external environment they faced. Topics covered included: The impact of political crises and the rise of populist governments, the effects of interest rate caps on MFIs, the strength of the institutional framework in different regions, strategic and tactical responses adopted by MFIs in light of these challenges, and the positive outcomes of purpose-based policies implemented during the COVID-19 pandemic.

The second day of the meeting delved into the digital transformation journeys of each MFI. Key points discussed included: Diverse approaches and types of digital transformation efforts. The challenges encountered when digitizing loan processes in cash-based economies. The enduring importance and value of the human touch between MFIs and their customers. And a shared focus on digitalizing core processes, enhancing efficiency, and improving transaction and delivery channels.

Throughout the discussions, it became evident that MFIs have demonstrated innovation and agility, especially in response to a challenging environment. Trust among MFN members was highlighted as a crucial factor that enabled them to collectively address the challenges faced by MFIs over the past 30 years. Looking ahead, the participants reflected on the evolving landscape where millions have fallen into poverty, and a significant portion of the global population remains financially excluded. They expressed hope in exciting digital innovations that offer potential solutions for those excluded and contribute to the evolution of financial services. The participants collectively acknowledged that the work of MFN members is now more critical and urgent than ever before.

Attendees

Shameran	Abed	**BRAC**
Esteban	Altschul	**BancoSol**
Francisco	Arenas	**Consultant**
Pierre Marie	Boisson	**SOGESOL**
Iain	Brougham	**Accion**
Patricio	Díaz	**Compartamos Banco**
Bridget	Dougherty	**BRAC International**
Marcelo	Escobar	**BancoSol**
Hassan	Farid	**DBACD**
Youssef	Fawaz	**Al Majmoua**
Liza	Guzmán	**Accion**
Farmina	Hossain	**Buro**
Enrique	Majos	**Gentera**
Michael	Schlein	**Accion**
Ramón	Velarde	**ConCrédito**
Raul	Velarde	**Consultant**
Guillermo	Velasco	**Banco Mundo Mujer**
José Vicente	Velasco	**Banco Mundo Mujer**
Carolina	Velazco	**Gentera**

Introduction

The Annual Meeting of 2023 was a special one. After Madrid, in 2019, we were scheduled to meet in Turkey in 2020. However, we were all affected by the Covid 19 Pandemic lockdowns and had to cancel the annual meeting. We had, however, online sessions that helped us keep in touch, analyze, and discuss how each of our MFI´s dealt with that environmental shock and adapted to continue serving our customers. Finally, this 2023 we were able to get together in Madrid and have our annual meeting. It was inspirational and allowed all of us to assess the high value that this group brings.

The sessions started by welcoming back the participants and giving a warm welcome to new members, some from new organizations and others from long standing MFI members. After the personal introductions, Enrique Majos, our chairman made the following opening remarks:

> "Welcome to the 2023 Annual Meeting of the Microfinance Network. We are all very excited to be here. As you know, our last annual meeting was 4 years ago and it was in this same meeting room. Thank you for taking the time to travel and spend a couple of days with your MFN's colleagues and friends. We have here many old friends, and we are also welcoming some new friends. As we have always recognized, this is a very special group.
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> Let me provide some context for those that are here for the first time. As MFN members, we feel really proud and thankful to be part of this group. Three characteristics make this group unique:
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> First, this is not only a group of CEOs getting together. This is a group of practitioners and industry makers that have the ability and the capacity to lead and to manage some of the most relevant Microfinance Institutions around the globe. We are fortunate to have among us founders that have created the microfinance industry and have been operating this business for many years. The members of the MFN have the operational and strategic vision, all in one.
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> Second, we have diversity. We have members with cultures from around the globe. At the same time, we have common challenges, common values, and we believe in the same principles.
>
> And the third uniqueness of this group is that we have become friends. We truly have a high level of trust among us. This allows us to have honest conversations. It is not common to have a network with such an honest agenda. The agenda of the MFN has always been about making life better to our clients and talk about our common challenges to help each other to find solutions.
>
> Let me take a few more minutes to recall the history of Microfinance Network along the last 10 years.
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> In 2013-2014, with the help of Francisco Arenas and Raul Velarde, we conducted a diagnosis of the MFN, its origins, purpose, and value. At that time the Network had been working for 20 years and we were going through a "vocational crisis". The thinking at that time was: "Are we still relevant as a network?", "What is the purpose of the MFN today?". The network had been very relevant for 20 years at that point, because it helped their members and institutions to solidify their microfinance model. MFIs transitioned from NGO models to commercial models, from operating from non-regulated to regulated institutions. MFIs learned how to guarantee the sustainability of the programs and the long-term services for our clients. Most of the MFN institutions at that point [2013] had already achieved a more mature stage.
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> With that history in mind, the diagnosis in 2013 took us to the following conclusions: first, that we were a learning community of CEOs. Second, that we shared the same values and

principles. Third, that we had an outstanding and remarkable level of trust among us. As Raul said: “we all learn and we all teach, forever”.

Then it became clear that we wanted to be here for the next challenges that we were going to face. We saw that we needed to evolve our business models. We were starting to talk about digital transformation, new players and the fintech industry. We also recognized that strong and inspiring leadership was the key ingredient that had to put everything together. So those were the things that we still wanted to talk about every year in this group.

After that, we went to Alexandria in 2015. At that meeting Beth Ryan from Accion told us: “You [each practitioner participating] must do something! If you remain as you are now and you don't transform, if you don't evolve, then you are like the walking dead, you are zombies”. Those words and the image she showed on the screen of the room with a terrifying zombie, shuck everyone. We realized that we needed to do something. It was a wake-up call for everyone. We still struggled the following years understanding what that transformation really meant and how it had to be implemented.

After that, we had Daka (2016), London (2017), Amsterdam (2018), and Madrid (2019) where we had the 25 year MFN anniversary celebration. Shameran Abed was Chairman of the MFN at that time, and he invited a group of senior members and founders such as Leonor Melo, Pierre Marie Boisson, Beth Ryan, Carlos Labarthe, Youseff Fawaz, and Maria Otero. Maria ended her presentation with the following quote directed to all members: "Be proud and grateful, in the Microfinance Network you can come in but never leave".

Next Annual Meeting was supposed to take place in Istanbul (2020), however the pandemic hit and finally we are all here together again.

It's a real privilege be here with you, and let's make the best of our 2023 MFN Annual Meeting."

External Context Analysis

During the first day of the annual meeting each member described the context and the internal situation of their MFI. We heard firsthand their stories specially from the last 4 years. The sessions allowed the members to reconnect and empathize on the successes and challenges of the other members. We are providing the memory of those sessions in the second part of the report. In this section we identify common factors, trends, and conclusions of the sessions. The PESTEL categories help us understand and identify how the MFIs, adapt or change, to defend, maintain or improve their position in the market to fight for financial inclusion.

Political

- *Political crises and failed governments* in Lebanon, Haiti and Myanmar have had tremendous negative impacts on their MFIs. They are in intensive care and in survival mode due to heroic actions. The focus is on preserving the core capabilities that has taken the decades to build. However, they are struggling to find financing.
- *Populist governments are a threat to financial inclusion.* These governments tend to have a negative view of microfinance. In some regions left populists governments have taken over. In those countries the government generates policies that are against the MFIs. The exception is Mexico. The political trends on those countries follow policies and regulations that impact directly not only the performance of the MFI but also their strategies and at a more profound level they can impact their purpose.
- *Institutional framework strength*. Strength of institutional framework reduces uncertainty, limits political intervention, allows growth. In countries with a strong regulatory framework and institutional supervisory bodies, leftist governments are slowed down in the implementation of negative policies against the MFIs. In order to fend off those negative policies some MFI have been active in shaping or defending the external context either directly with government relations (i.e., Mexico, Bolivia) or as an industry (i.e., Bangladesh).

Economic

- *Internal MFIs policies during Covid had a strong impact on speed of recovery*. During Covid most countries went on lockdown slowing their economies and affecting the capacity to pay of many of the MFIs customers. Understanding the impact and driven by their purpose, MFIs responded by implementing policies to help their customers such as: not requiring payments for a period, restructuring loans, or allowing customers to withdraw from their savings accounts even if they had loan defaults. Those policies have paid off with increased customer loyalty, differentiation, and loan portfolio recovery. Competitors who wouldn´t or couldn´t implement those policies were hurt.
- *Financing for MFIs has become mainstream.* At earlier stages of microfinance development, funding was available from NGOs and DFIs. More recently that type of financing has been less available due to a shift from their support to other industries or because financial institutions might be more risk averse to the segment. Thus, Lebanon and Myanmar have a funding crisis (Haiti is a subsidiary of a larger bank). Other participants reported that their MFIs do not have a funding problem and that cost, and availability of funding is a function, as expected, of scale and financial strength of the institution.

Social

- *Covid* generated a slow-down in the economy in most of the MFI's countries. It was proportionate to the lockdown policies of each country. In some there was no lockdown and the economy and MFIs continued with their normal operating levels. Covid affected the health and the productive activities of many of its customers increasing their difficulties in paying their loans as described in the economic factors.
- However, behavioral changes, such as using digital tools, COVID was an accelerator and sharpened digital transformation focus.

Socio - technological

- *Covid* has had a profound impact on customers behaviors regarding digital technologies. These factors affect financial inclusion, and the ways MFI will approach them.
- *COVID lockdowns* accelerated digitalization trends. However, it affected how poorer people use technology. While the pandemic made more people use digital tools, it also showed that many poor people still don't have good access to technology or know how to use it, amplifying the digital divide. This lack of access posed a challenge, for example, on education of poorer students who lacked devices, access to the internet or a conducive home environment.
- *Informal economy and technology adoption*. Many in poorer segments of the population work in the informal economy. The pandemic accelerated the adoption of digital payment systems in some regions, pushing informal workers to adapt to digital financial tools. Addressing these disparities will require investment in digital infrastructure, digital literacy programs, and policies that ensure equitable access to technology and its benefits.
- *Increase in digital native customers*. MFIs have observed the significant entrance younger clients which are digital native and there is consensus on their positive effect on the adoption of digital technologies.

Technological

- *Challenges digitalizing the loan process*. MFIs market segment is still a cash-based economy. COVID helped to accelerate parts of the loan process. Cash in cash out still a challenge. Findex report show a trend of less cash used in micro finance driven mostly by digital wallets and digital payments. However, the big jump will be with a significant increase of peer-to-peer transactions.
- *Human touch*. All MFIs agree that there are still several years before the loan process can be 100% digital, and that the human touch is still important to gather information about the capacity and willingness to pay their loans.
- *Fintech trends*. Fintech revenues have grown to 250 bn dollars approximately and are expected to grow sixfold to $1.5trn by 2030 (according to a BCG report and QED investors). The report also suggests that the FinTech sector, which currently holds a 2% share of the $12.5trn in global financial services revenue, is estimated to grow up to 7% by 2030. However, MFIs reported that fintechs in microlending have not been particularly successful. Fintechs in particular and MFIs in general still face digitalization challenges in their micro lending practice: Cash in cash out is still a challenge, since in this segment there is not enough information to predict repayment behavior. Shameran suggested that an important initiative of the MFIs should be to drive cash out of the system.

Legal-regulatory

- *Interest rate caps*. Interest rate caps seem to be a trend in most of the countries of our MFIs, with a few exceptions (Mexico, and Brac´s MFIs in Africa). The caps seem prevalent because the micro finance model is vulnerable to populist governments.
- *Responses to interest rate caps*. MFIs have had two different levels of response as a function of how low those interest rate caps are. First, it has been a trigger or catalyzer to become more efficient organization, lower transactions costs, and implement digital solutions. Second, it has pressured MFIs to shift market segments and leaving behind clients that require smaller loan sizes. There was consensus that interest rate caps end up going against financial inclusion.

Political, Economic, Social, Environmental crises seem a normal state

- Crises and increased uncertainty are trends that pose opportunities and challenges for MFIs.
- MFIs that adapted possess resources, capabilities, and a coherent purpose. Financial strength and leeway, a responsive organization adept to learn and change, and doing right thing for their customers have developed an adaptation capability.
- Differences on this capability help explain decreased competition in general after COVID.
- It is a capability that will be required for the future

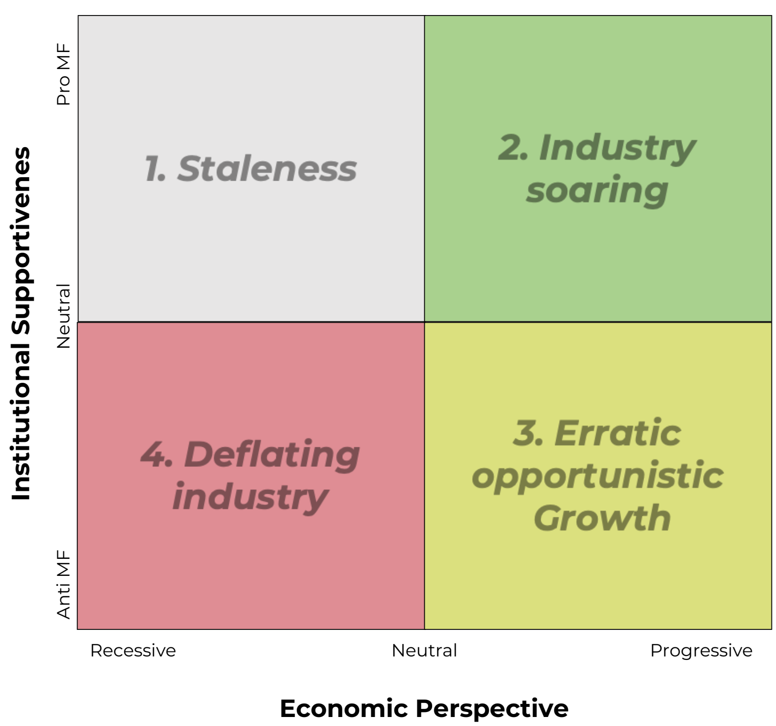
Institutional supportiveness and economic perspective explain the conditions of the MF industry

Since the annual meeting in Alexandria in 2015, the annual gathering has included a systematic analysis of the environment, for which we have utilized the PESTEL framework. Starting from the discussions in Amsterdam in 2018 and Madrid in 2019, a chart was proposed to map the condition of microfinance in different countries. This chart is based on a conceptual discovery: the condition of microfinance in various regions is predominantly explained by conditions related to the economic context and the institutional context:

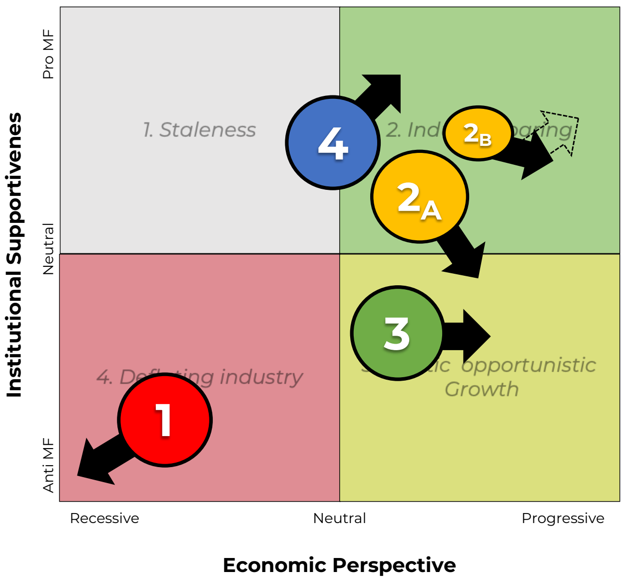
a) *Economic Perspective*: This pertains to the favorable or unfavorable economic context for financial inclusion (recessive or progressive). At the unfavorable extreme, there would be regions where economic conditions hinder or slow down the development of microfinance. At the opposite end, you would find regions where the economic situation promotes the growth and proliferation of financial solutions for the base of the pyramid. The economic perspective depends on two factors: the region's macroeconomic conditions and specific aspects of microfinance, such as migration, employment levels at the base of the pyramid, and the degree of informality in the economy, among others.

b) *Institutional Supportiveness*: This axis relates to the favorable or unfavorable regulatory and political factors for financial inclusion (anti MF or pro MF). At the lower end, you'll find regions with high uncertainty, where the weakness of the institutional framework and the volatility of political positions hinder the consolidation of MFIs directly or indirectly. At the upper end, you'll find regions where there is a state of institutional maturity in both the regulatory framework and supervisory bodies, as well as among the supporting actors for microfinance. As the name implies, Supportiveness depends on two factors: the strength of the regulatory framework and the political inclination of leaders and legislators towards microfinance.

These dimensions allow us to describe four archetypal states, as shown in the following image:



Based on the discussions from the first day of the annual meeting, we can chart the following patterns:



1. *Regions in Critical Condition*: This is a result of the extreme deterioration of economic conditions and the volatility in the authorities' opinions – which can even be antagonistic – regarding the role of MFIs. Members experiencing this context struggle to maintain their institutional commitment and preserve the capabilities built over their history. Moreover, the future appears highly uncertain. Lebanon, Haiti, and Myanmar fall into this pattern.

2. *Left-wing Populism in Latin America*: Latin American countries have witnessed the political victory of left-leaning populist leaders. This phenomenon has increased the level of uncertainty, and in some regions, there are significant doubts about the medium-term macroeconomic health. Microfinance has faced a less favorable environment, often manifested in interest rate controls, although the main protective factor is the prevailing institutional framework. Thus, this widespread pattern has different shades of risk and permissiveness regarding institutions serving the base of the pyramid, although no country is experiencing a pro-Financial Inclusion environment (2_A). Mexico is a particular case of this pattern (2_B): The political situation is the same as in other countries, but its economic situation and level of foreign direct investment maintain a positive trend. The general consensus is that the authorities have been cautious not to harm the macroeconomic situation and that, in the event of pro-development policies returning, the upside for the economy would be even greater.

3. *Post-Pandemic Recovery:* African countries represent a mosaic of conditions, although the prevailing pattern is a gradual recovery to the pre-COVID-19 state, primarily due to the resumption of economic activity. This same situation is observed in Bangladesh, where growth is experienced while authorities have maintained a position of increased control and scrutiny over MFIs.

4. A different case is *Egypt*, where a macroeconomic condition of significant growth is observed, along with a favorable context for microfinance. To such an extent that it experiences an intense competitive dynamic characterized by a high number of MFIs and a diverse range of financial products.

Digital Transformation is a broad and diverse concept

After our first day´s insights into the external context of microfinance, during the second day the discussion focused on the capabilities MFIs are building to leverage digitalization. The participants explored the different journeys four members have experienced: Concredito, Gentera, Bancosol and Accion.

This concept, digital transformation, revealed itself as a complex tapestry with each organization describing its unique journey from a strategic standpoint. While Concrédito views digital transformation as the driving force accelerating a new business model, Banco Sol sees it as one of the integral components in a broader institutional evolution. Gentera, on the other hand, has embarked on a strategic journey that initially centered on products and technology but has since evolved into hybrid models encompassing service, delivery, and focus. These differences encompass not only the conceptualization but also the scale and stage of transformation.

This leads us to the natural question of where these diverse transformation paths are ultimately heading. If the current objective is the financial inclusion and development of the base of the pyramid, can we confidently predict what the near future holds? Can microfinance institutions collectively envision the future state of their clients and market segments?'

A historical perspective on microfinance might shed some light. From its inception, the primary focus has been clear: to serve the economically disadvantaged, address financial exclusion, and catalyze development. The evolution of MFIs (Microfinance Institutions) can be explained by the barriers they've broken down to achieve this goal: first, the transition into regulated institutions to establish better connections with economic stakeholders; second, the transformation of the immediate environment to cultivate pro-microfinance ecosystems; third, expansion to leverage economies of scale; fourth, institutionalization for sustainability beyond initial leadership. Finally, the digital transformation serves as a means to comprehensively, efficiently, and nimbly serve the base of the pyramid.

The term "digital transformation" should be understood as an organizational process that, although it has reasonably differentiated stages (understanding emerging technologies and their relationship with the business model, defining a well-known and shared roadmap within the organization, building new technological and competitive capabilities, adapting organizational elements, evolving corporate leadership, and refocusing on the human person), is essentially contingent upon each organization. As became clear in the discussions on the first day, the represented MFIs are at different stages of this process, both due to specific contexts, the competitive dynamics of each region, as well as the requirements and strategic aspirations of each institution.

However, the challenges confronting the segment that gave rise to these institutions remain formidable, including the mounting impacts of climate change, social upheaval due to forced migration, emerging conflicts, global health risks, deteriorating institutional conditions in several regions, and the growth of organized crime. In the face of these challenges, the promises of increased access to education, employment, healthcare, and entrepreneurial opportunities offered by new digital economy players emerge as beacons of hope.

This group of leaders is now gazing towards an uncertain future, characterized by both lights and shadows. Defining and conceptualizing the socioeconomic base of the pyramid in this evolving landscape remains a complex endeavor. These ideas not only encapsulate the essence of the presentations but also provide insights into the concerns of the members for the upcoming meeting in Istanbul.

Memory of the Sessions

First Day Sessions

Lebanon – Al Majmoua

Lebanon has been one of permanent crisis for the last 4 years. One of the worst crises to hit any country in the last 100 years according to the World Bank. And it's, like, the perfect storm: First, there is no the government, operates under a semi-presidential system, the President has wide unilateral discretion, is not accountable to Parliament, yet it was elected by Parliament. Second, the banking system has collapsed, banks have shut down, frozen accounts, stopped lending and take over the savings accounts. Third, the economy is in free fall (World Bank data, GDP from 60 billion USD to 23 billion in the last few years), the government has defaulted on its debt. The economy has become dollarized. The exchange rate has been fixed to 1,500:1 and the real market rate is close to 100k:1. Debts in dollars can be paid legally at 1,500. Competition has shrunk, of the nine MFIs in Lebanon eight are still operating but at a minimum scale.

The impact has been devastating to Al Majmoua, it is in intensive care. It has come down from one hundred and five thousand clients, hundred million dollars in portfolio, and twenty-five million dollars in the Bank to, currently, seven thousand clients, less than five million in assets, and two million dollars in the Bank. Forty percent of its clients went from being working poor to living under extreme poverty. It is struggling to fundraise, the lenders--IFC, EIB, Symbiotics--are not willing to extend additional notes. New lenders want a restructuring plan before they invest. The organization´s staff has been reduced from 500 to 200, offices from 30 to 15. It is back at the level of 25 years ago. Wants to save its basic capabilities so that in a recovery it doesn´t take 20 years via subsidies. It has started a pilot program to lend in dollars.

Haiti – Sogesol

The country has been in a crisis. After crisis for the last 10 years. The earthquake. Was one of the most. Deadly events. Killing 235,000 people. In the first 35 seconds. It destroyed a large percentage of infrastructure, apartments and businesses. It is a country also highly vulnerable to hurricanes and floods. The president was assassinated in July 2021 by a group of mercenaries. Haiti has been left with no elected government officials and is spiraling towards anarchy. Violent gangs control much of the capital and fight to control other business districts. The economy has contracted four years in a row. The country is living from remittances, jobs are scarce, and is experiencing a cholera outbreak. It remains the poorest country in Latin America. Remittances have also created laziness. Most the import transactions are handled in the informal economy. Lack of safety has become a larger problem, the increase in the number of armed robberies, kidnappings, extorsions, drug trade, homicides, massacres and suicides are up.

Microfinance in Haiti has helped create 300k jobs, the local economies are working well. They generate 75% of the government taxes. 80k people work for the government. The government is dependent on remittances (the central bank keeps 20%), the banking sector makes money from remittances, and the private sectors lives from remittances. Migration is increasing (33,000 in 2021), those migrants will send more remittances. Control of the exchange rate is generating economic distortions that increase the gap between rich and poor.

However, the country is still functioning even with negative growth, because the real measure is remittances. In this context, Sogesol has been suffering from losses. In the past 2 years it has gone from 28k clients to 9k clients, lost half of its portfolio, from 40 million to 16 million. Most of the microfinance organizations are either subsidized or financed by large banks. In the case of Sogesol, it will be capitalized by the parent company. Therefore, the portfolio is financed by equity. Still, they are innovating, using technology, working at distance, and have the confidence that working courageously and they´ll survive. Sogesol will also need to deal with a change of leadership since Pierre Marie is retiring.

Bolivia – Bancosol

Macro environment

Bolivia has had a high GDP growth in the last seven years. One of the three highest rates of growth in South America. In 2022, the economy minister was nominated as the best in Latin America. However, Bolivia has important complications. It has had 15 years with a fixed exchange rate, when in the open market it has devaluated 40%. There is a high subsidy for fuels of $1.7 billion. This has been the power model of the government. Although there has been relative stability, since in 2019 Bolivia there had been complex political movements.

The policies of artificial control of the economy complicate the actions of the country. In the last 15 years the international reserves have gone down from 15,000 million in 2015 to 300 million (has lost 98% of its reserves) and it is now selling its gold reserves. Its foreign debt of 15B USD has been downgraded to the lowest category fueled not only by the depletion of reserves, but also by the lack of fiscal consolidation, the preference for unorthodox macro-economic policies and the absence of concrete prospects for large-scale support from official creditors. These factors, combined with the currency peg, make the country vulnerable to a confidence and currency crisis. Thus, the risk of government default on its foreign debt is very high.

This context generates specific effects for the MF industry. Bolivia has 12 million inhabitants with 7 million being economically active. The informal economy represents 85% of the economy, its contribution the GDP is not officially calculated, approximately 8B dollars that move the economy, 3B attributed to narcotraffic, but 5B are product of the informal very small businesses. With the fixed exchange rate and low inflation, the informal economy has been prosperous so far. The MF industry does not have many competitors, and there is no need or expectation of consolidation. It is a mature industry, and the players are highly resilient.

The micro entrepreneur has a high culture of paying his/her loans, therefore, the loan default rate is very low, one of the lowest in the continent. The consultations of the Risk Central of the finance supervisory authority has made the financial system to operate attached to the good practices of loan origination. That has made a solid financial system. However, a few weeks ago the third largest bank is in the process of intervention, it will require 5 or 6 banks to take the loans and savings responsibilities. The problem lies on the high tax rate the banks pay (50%) which in the past years has not allowed them to capitalize and do not have the equity coefficient to take that portfolio.

Opportunities for Bancosol

Bancosol has 350,000 loan customers and 800,000 savings customers, therefore, serves 20% of the economic active segment of the population. It maintains the leadership in the Bolivian MF sector The financial system is strong but digital transformation is incipient, there is a great opportunity to improve the ecosystem and better serve the customers and improve their experience. First, the base for the Fintechs is to radically improve the experience of the customer with a financial institution. The second is to get to the market where the traditional models haven´t had success. And the third is to lower the cost. In the competitive Bolivian market is crucial that Bancosol provides a better service and a differential experience for the customer. It has the opportunity to reach different markets incrementing productivity, as long as in the next months the macroeconomic context does not seriously deteriorate.

The government has placed caps to the active rates (11%) and floors to the passive rates (2%). The average weighted rate was 20%, with the new law it is now 14%. This has led Bancosol to adapt by pursuing efficiencies. However, the economics have pushed to increase average loan from 6,500 USD to 11,400 USD. The sector has left behind the clients of 1,000 dollars or less. Consequently, this law has gone against financial inclusion, although 98% of the loan portfolio is still classified as micro credit. Bancosol in 1992 started with micro credit, in the year 2000 started doing microfinance and now it is committed to financial inclusion: access, usage, and financial health. Marcelo believes that digital tool should help reach that lower segment that is being left behind, with better scoring models and reaching a younger generation. (The presentation in the second day of the annual meeting goes into detail on Bancosol´s strategy)

Colombia – Banco Mundo Mujer

Macro Environment

Last August (2022) Colombia elected a left-wing president. He is pursuing many changes, implementing policies contrary to those of the previous right-wing government. He would like to take control of all the financial system. In Colombia, to provide loans no authorization is needed. Authorization is required for savings, for taking money from people. It helps to be a bank because the deposits help finance the loan operations. The government has put pressure on the interest rates of the microfinance system. He has changed the rules how to set up the maximum loan interest rate for microcredit, believing that would provide people with more access to the financial system. Currently the maximum rate is 53%. However, access to a financial system is not just the interest rate, almost all our customers are in the informal market, they don't exist in the financial system, and there is no information or credit score from them. And that's why BMM has more than half of all employees are analysts, and they visit the customers and try to understand their businesses, and with that understanding they can give a recommendation to the organization about the convenience of the loan, the amount, and what will be the monthly payment they can afford.

The economy after COVID has been recovering, with rates of GDP growth of 7%. However, the government provided subsidies that help inflation grow. It is trying to control the price increases but at the same time is still providing subsidies. The expectation is that by the second semester of the year the inflation starts decreasing. Most of the economy in the country is in the informal market, this creates a huge challenge on the health side because informal workers cannot register for health services or in the future receive a pension. The financial system pays the highest tax rates in the country.

Narcotraffic has changed significantly in the last decade, because of the way they work, before they wanted to be identified. Now they are low profile. They have hired a lot of professionals and they have a really big network companies laundering money, But, really, It's a big challenge for the financial system. Many controls have been implemented to identify illegal money; cash deposits have been controlled. Any cash used is required to have a very detailed relation between what is the customers commercial activity is and what should be the amounts of appropriate deposits.

BMM adaptation and opportunities

BMM has its main offices in Popayán, a mid-size city in the Southwest of Colombia. BMM stated microfinance 38 years ago. The city had and earthquake before BMM started, and it represented an opportunity to help women restart their businesses or a way to have an income and improve the family conditions. So, the focus was to help women, and that is the origin of the bank name. And, eventually, men began asking for loans and the bank also got into loans for men. Currently, 57% of loan customers are women and 43% are men. The portfolio is around 500 million USD and 500k credit customers and 200k deposit customers and time deposits. 43% of the portfolio is funded by deposits and savings. BMM is the largest private MF bank with the largest portfolio. Only the government owned, Banco Agrario, is larger, with more than 50% of the total microcredit loans. BMM has 17% of the total microcredit in the country. Right now, BMM has around 5,000 employees, half of them are analysts, they are the people that go and visit and have contact with your customers. 57% of the employees are women and 43% are men.

Regarding their digital process, BMM has understood and believes that their main business, being microfinance, is to continue to have personal relationships with their customers. However, we are now becoming digital, and are in the process of analyzing technology to find out what can make us more efficient and at the same time keeping that personal relation with our customers. That means achieving a balance between continue opening branches and implementing technology. This topic has generated Vicente big discussions with the board of directors when he asked for a budget to open new branches. He wants to keep expanding and also being more efficient.

The current focus of digitalization at BMM is on implementing technology to make more efficient the loan process: First, going from paper to digital using tables and doing it directly online when they are visiting the customer in business, and second, to award the loan, making it easier to validate the identity of the customer. Another goal also is to reduce the time it takes to make the process faster to get the loan approved and ready to disburse. So we are trying to approve in 3 days after the analyst made the visit and the customer provided the information. The client needs the money and doesn´t care what type of loan it is, so timing is highly appreciated. Furthermore, other entities are trying to give nano loans because they don´t have a credit score, but being so small they don´t solve the customer´s needs to help them grow. Therefore, Vicente believes that, at this moment, fintechs are no competition.

Mexico – Compartamos Banco

Macro environment

In 2019, Mexico was entering a red wing administration with President Lopez Obrador. The uncertainty and fear about what left wing policies could do to the country despite have not materialized. The reality is that there are a structural factors that didn't let that happen.

First, there are still some strong institutions, like the Congress.

Second, there is still a strong central bank. Mexico has large international reserves (198B USD), there is a strong peso, and the government has been very diligent in how they're managing inflation. The rate is around 8%, and they have increased the rates accordingly.

Third, Mexico does not have large deficits, neither fiscal nor commercial. Exports to the US are still growing.

Fourth, the proximity between Mexico and the US. With the tensions between the US and China, some supply chains are moving to Mexico, the near-shoring effect. These results on increased foreign direct investment. These new companies come with large ticket investments. An additional benefit is that the Mexican economy has, consequently, diversified and is not dependent on oil anymore.

Fifth, the remittance flow from Mexicans is also very large. Simply March we received 5B US dollars, and in the las year it is close to 50B USD flowing from the US to Mexico. This large inflow helps the microfinance sector.

Sixth, Mexico has a very strong financial sector. We have 50 banks. Seven banks hold approximately 80 plus percent of the assets in Mexico. Compartamos is number 13. In consumer lending it is number 8. becoming relevant.

Finally, another source of cash flows to the country is the tourism. So, Mexico is no longer dependent on oil, but remittances, tourism, and the industry, which is working.

The current concern is who will replace Lopez Obrador. And, of course, someone from his party might win. And we might deal with 6 years of bad governments, but 12 years of bad governments could be harmful for the country.

On the regulatory landscape, the Lopez administration hasn't touched from much the financial sector. So, we haven't seen caps to interest rates, fees or special taxes for the banks. That has allowed the banking system to remain strong and profitable to capture potential benefits of the money inflows into the country.

The biggest concern in Mexico is safety. Of the 10 most violent cities in the world, Mexico has 5 of them. Certain states in Mexico have become very violent. Drug cartels are now controlling some of them. And they are well linked to the government. This trend has 20 years; however, it is now becoming more and more difficult to deal with. Because the strategy of this government has been not to attack directly. Cartels are becoming so strong that items in the agenda of the meeting between the President of the US and the President of Mexico were migration and the drug cartels.

Compartamos-Mexico responses to the environment

At the microfinance industry level, the pandemic hit Compartamos hard and for the first-time lost money in 2020 because of the decision not to fire any employees, not reduce benefits, and giving all of the customers two months of grace period. It was a very costly decision, but Compartamos believed it was necessary. And only companies with financial strength to absorb such decisions could do that. It was the only one that could and did make that decision. However, that has allowed us to have today, a very strong relationship with our employees (over 15,000 in Mexico) and, most importantly, with our cost customers. They rely on Compartamos for their financing and are renewing their loans with us. It is number on in Mexico and in Peru in net promotor score (NPS).

Compartamos has a 1.8B USD loan portfolio and 2.6 million customers and is still focused on women. Ninety percent of our customers are women. The average loan ticket is still less than 1,000 dollars, small tickets to women micro entrepreneurs, that's the core of what they do.

After COVID the competitive landscape weakened significantly, most of the competitors have reduced their growth and their funding has become challenging. Operational issues get worst for those who don't have adequate funding. This reality has provided a window of opportunity for Compartamos because customers that are not being attended by the competitors are the customers that they are targeting directly. That has allowed this MFI to grow at double digits in 2021, 2022 and is expected for 2023. Those opportunities have opened not only to organic growth but also to potential acquisitions, such as it was Concrédito.

There are more than 650 fintech names in Mexico. There are many players, but there's not much funding available. Therefore, the fintech landscape is concentrated with a few strongly capitalized names, however, the reality is that most of the fintech space has the same problems that has been discussed among the participants: How can they shift from a cash-based economy into the digital world? that is where fintech focused on credit are finding difficulties. A cultural shift from cash to digital payments is required and is still challenging in Mexico and also for Peru.

Compartamos has been very conservative in managing the bank. They are strongly capitalizing, currently they are at 40% and that has that has allowed them to tap the capital markets every year even in COVID times and maintain a good liquidity.

Regarding commercial efforts going forward, Compartamos´ challenge is how can we keep customers for longer periods as they diversify from credit into different products. We are entering into other products such as individual lending for a slightly more developed micro entrepreneur with tickets of 1,500 US dollars. And we are diversifying also into other categories such as savings, payments, insurance. We have the largest micro insurance operations in the region with over 40 million policies sold last year.

On the digital evolution and transformation front, the 1st stage was to have a more efficient lending operation. They have a smaller but more productive infrastructure not only in branches, but also for the productivity of the sales reps. The challenges they face (Enrique´s talk the next day goes into details) is to migrate the credit operation into the digital world. Mexico still a cash-based economy over 90% of the transactions in Mexico are done in cash. Even the efforts of the central bank and the financial systems to have payment platforms have been unsuccessful. And, of course, there are cultural factors, but the reality is that to do cash in cash out transactions you need an ecosystem. For that purpose, we have Yastas, which is our correspondent manager with over 6,000 outlets. But even though they see the pieces of the puzzle on the table, they are still struggling in how to put them together to have a comprehensive digital proposal for the consumer that is really beneficial for the day-to-day operation.

Peru – Compartamos Financiera

External context

Perú is a country that has been through civil conflict for the last couple of decades of the 20th century. Misgovernment and corruption have combined to leave rural Peruvians without rights, marginalized and forgotten by the political class of Lima. It has gone through a dizzying degradation of the rule of law and democratic principles. The government has squashed protests with violence, has intervened universities, violated procedural rights, and persecuted social organizations persecuted. Of the 25 regions, in 21 corruption is considered the main problem of the country, and in the remaining four poverty or crime. In Tumbes and Lambayeque, crime occupies the first place as the main problem of the country, and in Apurímac and Cajamarca, poverty.

The economy of Peru, during Covid, saw a GDP reduction of 12%. However, it has now recovered and had a 2% growth in 2022 and in 2023 is expected to be around 1.5%, due to the political situation which isn´t clear how it will be resolved, there is high uncertainty. Until confidence is restored in Peru foreign investment will be very low compared to what it used to be before the crisis.

The institutional framework of microfinance hasn´t been significantly affected. In 2020, Congress pushed and approved the Law to implement a cap to loan interest rates. The responsibility to set the interest rate caps was on the Central Bank. The Central Bank played a fundamental role and considered the effects it would have on financial inclusion, and they were key in setting interest rate caps that would not have that negative effect. The Banks Superintendency has been active and close to the banks that needed financial restructuring and then supervising that the agreements and measures were implemented accordingly. And also making sure that the financial health of the banking system is maintained. And more recently the Law that Protects Against the Consumers of Financial Services of Usury added additional controls. Finally, the country has a good credit bureau that supports the bank´s decisions on credit origination.

Compartamos-Peru focus

During Covid, the bank restructured loans and did not fire any employees, maintained salaries and benefits and restructured loans. Gentera our parent company supported us to recover from the significant related losses of 2020. The capitalization allow Compartamos Peru to recover having the necessary resources and liquidity. The loan portfolio deteriorated and is now on recovery but hasn´t stabilized and is now again profitable in 2022 and 2023. A big goal is to reach 1 million customers therefore the rate of growth required is high and the bank has that focus. The client satisfaction suffered but the index has increased from 40% to 70% more recently. Compartamos Peru has a loan portfolio of 1,000 M of which 60% is financed by client deposits. Therefore, it was very important to maintain financial strength and liquidity to support any withdrawals needed from our client and make sure there were no doubts from our depositors. That trust was maintained because they saw the high transparency on how their deposits were being managed and about the capitalization support from Gentera. The Covid experience taught the bank, and the team feels stronger and more prepared for the next challenges

Compartamos Peru had an outdated banking core and in 2019 started a project to change it. However, it got caught during Covid, and a big challenge was to continue with the implementation in 2020 and 2021 managing it via virtual meetings. The digital tools that the bank was developing required a much more robust and flexible banking core. This will help them continue working on digital transformation. An electronic wallet has been implemented not only for receiving or paying loans but also as a tool to conduct other operations such as paying services and making transfers with the goal of being in a digital world with more capabilities in terms of functionality.

Bangladesh – Buro

Macro environment

The economy of Bangladesh is doing much better, the GDP growth is around 7%. However. with the Ukraine war, inflation is very high. Even though the official figures place it at 9%, Farmina estimates it is closer to 25%. The level of foreign investment is very low. Consequently, the international reserves are low (around 30B USD). The last 15 years have been good for the current ruling party, however, there is uncertainty about next year's election. Within the government there isn´t strong support for the MFIs. The close relationship between Yunus and the government has a negative influence on the perception of the MFIS.

The regulation is still strong on interest rates caps, for lending (24%) and for borrowing (9%). However, there is a risk that the borrowing cap is removed which might put pressure on the margins of the MFIs. A concern for Buro is the intention of the regulator to force the MFIs to share the information of their clients with the government without an assurance of protecting the client privacy of that information. Additionally, there is an initiative by the government, resisted by the MFIs, to force the MFIs to run operations in the government´s new software system.

The smartphone industry in Bangladesh is very lucrative. MFIs and Banks are trying get into the market. With the recent development of mobile financial services, it has become very easy for MFIs and banks to collaborate and start small lending processes. For example, mobile B-Kash started a project with Citibank where they want to operate as an MFI and they can provide emergency loans of 20,000 takas (around $200 USD), disbursed instantly on a mobile phone. Apparently, it hasn´t succeed because the rate of recovery is not good. Bangladesh does not have a credit bureau.

Buro´s strategy

Buro has been operating for the last 20 years. Currently it has approximately 1,400 branches, 26.M clients and a 1.2 billion USD loan portfolio. It is the third largest MFI institution in Bangladesh. During Covid they had a high rate of loan defaults (down to 60%), but collections have recovered quickly thanks to the process being digitalized in 2020. They are back to 94% of recovery rate, the average for the last 23 years is now 99.3%.

During Covid, Buro grew savings from their clients significantly (60% growth to 400M currently). Clients prefer saving with Buro, the policy of separating savings from deposits has increase the trust in Buro. Even during Covid the clients have had access to their savings funds, even if they had defaulted on their loans, this confidence on Buro has become a differentiator with banks. During that period, Buro did not default on their loans to the banks, allowing them to maintain funding for its operations.

In a context where the reduction of the cap interest rate is a constant threat to the margins, pursuing efficiencies and reducing operational costs is one of the main challenges. With a staff of 10,000 the goal is to increase the volume of transactions. Currently the ratio of borrowers per loan officer is 350, the goal is to achieve 700 BPLO, increasing efficiency while maintaining touch with its clients. Buro has a strict monitoring schedule and loan officers visit every customer once a month. Most clients are now doing digital payments.

Bangladesh is densely populated therefore, Buro sees the opportunity to keep expanding operations, with the goal to increase coverage by reaching 2,500 branches in the next three years. To support operations the IT capex is high, tablets and accessories, computers, software, logistical support, CCTV cameras, etc. Buro is facing the internal challenge to have all management onboard with these investments, since some older managers still do not fully believe in digitalization.

Finally, with the growth of digital banking the market is seeing new entrants. The government is now requiring a Digital Banking License. This is an attractive opportunity for Buro and its pursuing that license. In addition, the overreach of the regulator requires Buro, alongside with other MFIs to keep in constant contact with the regulators to defend against industry damaging policies.

BRAC International

Bangladesh

Bangladesh is the largest market for Brac, things really picked up in 2022. Things were going quite well and stable until 2019. However, 2020 was difficult with the lockdown; then again in 2021Bangladesh got hit with the additional variants. When the first lockdown happened in March 2020, almost entirely our collection was still manual, even though they had a large-scale mobile money capability in the country (BKash). Thus, Covid forced us to move faster more our clients towards paying through mobile money channels. Therefore, in 2021, when the second round of lockdowns and further restrictions happened, Brac was in a much better shape. They found that many of their clients were actually much more used to paying their installments through mobile money. Consequently, the impact on 2021 was minor. In 2022, overall growth picked up and Brac reached pre Covid levels. 2023 started with approximately the same numbers of starting 2020 in terms of portfolio size, borrower numbers, portfolio at risk.

On the external environment, as Farmina described, there have been pressures from regulators to continue to reduce the interest rate cap. The sector has done a fairly good job of fighting it off. When the cap first came in 2010, 2011, it was set at 27%, over time it has reduced to 24%. The regulators have again been talking about further reduction in the cap, but the sector is banding together to fend off the regulators and the Finance Ministry. Brac is able to defend the margin due to some cost advantages: higher population density, borrowers per branch high (borrowers per loan officer 350-400), and labor costs are comparatively low compared to Africa which has a more disperse population). However, since funding rates are going up and inflation going up (Ukraine-Russia war), the pressure on margins will be high, and that's part of the argument with the regulators.

(Labor costs were shared among participants: Bangladesh 250-300 USD per month, 1,200 USD in Mexico; average ticket per borrower on the group lending 350-400; individual lending ticket 2,000 USD)

Shameran (on the challenges of the digital lending model for the MFIs)

"We've all been a little bit vindicated because in 2015, 2016, when all the talk was about digital loans, we said that it wasn´t going to happen as quickly as people thought it was going to happen. The days of traditional microfinance still have legs in them. My view is that we need to try to get cash out of this system as much as possible. It is a big pain point for everybody, it's costly and it's difficult. There are other issues, there's security. So even today, across all of our markets, right, if you look at Uganda, Tanzania, Bangladesh, Liberia, Sierra Leone, Myanmar, I mean, we still have loan officers or credit officers coming back from a collection point to a bank branch or to our branch with, like, wads of cash, right. We've got to figure out how to make that go away over the next few years. That's I think, what I would put most of my sort of focus and thing on, most of my investment. I'm less convinced that in the next three to five years we're going to move to digital loans or digitizing loan assessments. All of these things have been going on for a long time, but we're not seeing a lot of progress on sort of fully digital loan application, loan assessment, loan approvals and things.

I still think when it comes to sort of the lower end of microfinance, that human interaction, we will have frontline staff, loan officers going and visiting the borrower's home, looking at their cows and looking at sort of what they do, all of that I think still is very important in terms of asking them how many other loans they have, verifying some of that, finding out more about them from other loan officers. We will need this informal network of intelligence to make loan and disbursement decisions. All of these, I think, is still going to be there for a long time. So, what I would say is I don't think we're going to have fully digital banks or digital microfinance banks that take away fully human interaction. Maybe we will be there in 10-15 years, but I'm talking about next five years.

But where I think there's a lot of opportunity is to drive cash out of the system. So that's where I would put most of my efforts. And I don't know if that's consistent with what you're hearing from others, but at least for us that's where it is.

Enrique: I totally agree. Additional challenges: Risk assessment is not ready. Collection, it is something that fintechs haven't solved. Customer acquisition: Fintechs can acquire leads through digital marketing, that's not the same thing that acquiring actual customers and getting loan disbursed. When you divide the loans that you disburse by the cost of acquiring those borrowers through digital technologies, the cost is not that low. I think that social knowledge, mouth to mouth recommendation is still cheaper, at least for us it has.

Shameran: MFI acquisition costs aren't that high because you're not spending money on marketing. I mean you're in the community and people know you and people get referred to you and your own borrowers go out and talk about you and if you have a good sort of reputation in the market, you can get borrowers. It's not like that's such a huge cost that there's going to be a huge reduction in that cost in the first place. It might be useful, not so much from a cost reduction point of view, but more from an ease, like the ease of borrower acquisition and sort of onboarding. Some of that might be easier if you can digitize it. But yeah, I agree, it's not going to be so much from the cost point of view.

Shameran: I fully agree. Even with mobile money and even having a company ourselves, even today, most of our collections are still coming in cash. And almost all of our disbursements are happening in cash for exactly these reasons you've mentioned. So, when I say that this area needs work, it still needs a lot of work. But this is where I think we could get a lot of benefit if we could crack it in the next few years. Disbursements are a big pain. I mean, we can't disburse into the mobile phone because there's a 1.5% cash charge just to cash it out. So, the borrower will lose one and a half percent just to cash the money out. And then how many times do you have to go to an agent to cash out a big loan? Because there's limits on how much you can cash out per day. So, there's all of those issues, right?

BRAC – Africa

West Africa: We're in Liberia and Sierra Leone, two smaller countries, but we are the largest MFIs in both countries. We took some hit during 2000 and 2021, but they've recovered well, both of those entities, and they're growing. And we have a new entity that's about to start operations, and that's in Ghana, where we've been provisionally licensed and we're waiting for our full license, which we expect in June. So, we'll have three countries in West Africa.

East Africa: We have Uganda, Tanzania and Rwanda. Uganda had some of the longest lockdowns in East Africa, both in 2000 and 22,021. Tanzania, on the other hand, refused to accept that there was anything called COVID. And the president said that he doesn't believe in COVID, until he died from COVID which was ironic. There were no lockdowns in Tanzania in 2020 and 2021. So, we had two neighboring countries where obviously things were very different in Uganda, and neither country had very bad COVID, by the way. But because Uganda took a very sort of strict stringent, sort of had very strict COVID policies around movement and assembly and had these long lockdowns, we took quite a hit in Uganda and we're just recovering from that. So, 2022, we made like the slightest profit. But 2020, 2021, we had major losses. And in Tanzania, no impact. No impact of COVID because no lockdowns, nothing. So, this continued as if nothing, with no disruption. Rwanda, somewhere in between. They managed their COVID situation quite well. They had some lockdowns, but they sort of eased up as soon as they could. So, again, we took a hit in, but things have recovered and we're still quite new. In Rwanda, we only started operations in 2019 and COVID hit in 2020. So, it was very early days. We had not scaled, so it wasn't too bad.

Regulatory wise, obviously some markets are more difficult than others. Tanzania has been talking about an interest rate cap, but nothing has come on yet officially. So, we're bracing for something in Tanzania. They've just issued a new minimum wage order for MFIs in Tanzania, which significantly increases our costs. In Rwanda, we have to integrate with the regulator's system so that they can come in and pull data, but we're able to keep our own system. It's just a matter of integrating with their system. So, I don't know, some suggestions already. There are election years coming up both in Tanzania, Sierra Leone and Liberia. So, election years always make me nervous because there are a lot of populist policies that governments try to pass through during right before elections and I think we had that analysis recently, right, about sort of most of these caps come around election time, so that always makes me worried.

As for the economies of these countries, some are doing better than others. A lot of it depends on governance. Recently, Tanzania has been doing quite well. Rwanda obviously has been an African success story for a long time. Most of you who follow Africa, you'll know that President Kagami in Rwanda continues to be quite a strong dictator, but on the economic side, he's done very well. And also on some social indicators, Rwanda continues to do very well. Uganda, sort of, so the West African countries, those are difficult places. And then in Myanmar again, it was doing very well till the coup and the sanctions, and now the economy is really struggling.

BRAC – Asia

Myanmar: It has been giving us a lot of headaches is Myanmar. Because of COVID and a coup, things have gotten really difficult there. It was one of our best performing markets for a few years, but right now we're basically just trying to keep it alive. And the team on the ground have done a fantastic job of just keeping things going even under very difficult circumstances because the political and economic situation in Myanmar is pretty dire.

Inflationary pressures and the balance of payment issues with the cost of imports going up, cost of fuel going up, and things like that, putting a lot of pressures on a lot of fiscal pressures on governments. So, if that continues for a long time, I think a lot of our economies will suffer a lot. (Bridget) rising interest rates as well. And in Ghana, for example, defaulting on international debts and restructuring international debts is also having an impact.

Shri Lanka: We got out of Sri Lanka a few years ago, so we're not there. But Sri Lanka has gone through a very difficult period, totally overextended and over leveraged then, you know, obviously had a major dollar shortage. Can't pay debt, can't even buy sort of imports. So, yeah, they're in a bad situation even now, even with an IMF injection. And in the past, we were in Afghanistan, South

Sudan, Pakistan, and those are the three that are no longer there for one reason. There is no microfinance there anymore for us.

Egypt – DBACD

Macro context

Since the 2000s, the pace of structural reforms (including fiscal and monetary policies, taxation, privatization and new business legislation) helped Egypt move towards a more market-oriented economy and prompted increased foreign investment. The reforms and policies have strengthened macroeconomic annual growth results. As Egypt's economy healed, other prominent issues like unemployment and poverty began to decline significantly. The country benefits from political stability; its proximity to Europe, and increased exports. From an investor perspective, Egypt is stable and well-supported by external stakeholders.

Egypt´s GDP has grown significantly in the last 15 years (2022 404B USD). However, as with many other countries, the Russia-Ukraine war has unleashed a wave of inflation in Egypt. From 7.5% to more than 30%. Although the foreign exchange reserves have grown steadily in the last year to more 30B USD the war triggered and exodus of foreign investors from the treasury markets causing a significant devaluation of the Egyptian pound, from 16 to 30.9 Egyptian pounds per dollar.

In the regulatory front for the MFIs no interest rate control but we are influenced by "responsible finance" including transparency to the client, aspects that are now in the Law. The credit bureau works well, it is compulsory to register loans and analyzing it shows there is significant level of indebtedness of many clients.

The MF industry in Egypt has had important changes. The growth in the number of MF providers poses a supervisory challenge to the regulator. They are now supervising more than1,000 micro finance providers, between NGOs and companies. These MF providers vary in size and coverage: In small towns approximately 800 operate, whereas 100 at regional level, and 20 at a national levels. The NGOs are tiers (1,000), tear 1 there are 20 NGOs, tier 2 150, and the rest tier 3, those are small NGO.

Internal Challenges

It has been very tough in the last 3 years but surviving. There have been significant changes in the last few years, with many players entering the industry. Several legal changes have been introduced that affect digitalization. H has been working with the IFC, they partnered for the digital transformation project. H is growing but not at fast rate, the loan portfolio has now 200,000 clients.

Covid was a challenge at the beginning. There was not a complete lockdown in Egypt. Tourism and other areas of the economy were affected. When COVID hit in 2020, by law, H had to reschedule the loans for all customers for 3 months. Their loan portfolio suffered an increase in bad loans--from less than 1% to 2-3%--many customers paid on time, but others took a long time to repay. Currently, the loan portfolio is back to normal.

Digitalization. The fundamental challenge for digitalization in Egypt is still at an infrastructure level. There is no good service and internet availability in rural areas, and the service providers that have been subcontracted are overcharging the customer, consequently, internet connectivity is expensive for the clients. There are many platforms available for digital services, but prices are a challenge. In more detail, the loan process still faces roadblocks and market inefficiencies. In

Egypt, by law, MFIs cannot disperse or collect except through Epayment. That collection is very close to 100%, either through mobile or mobile application or through agent by payment companies. The problem is disbursement, H can disperse electronically, but then client needs to find a way to cash it out. If the client goes to the ATM, in rural areas, they have to travel for 1 hour to the nearest ATM. If you approve a larger amount, i.e., 20,000 Egyptian pounds, with the ATM withdrawal limit of 3000 per day, that would mean cashing out at least six times. When you talk to regulators or banks, they don't know these problems. There are also, H legal barriers, for example, many processes that are being digitized now still have to comply with the legal requirements to document them with physical paper copies.

Product portfolio. Hasn´t changed significantly, only some parameters. To deal with inflation, the loan product amount has been increased. H cannot provide a savings product or remittances and there are already dozens of new providers in the market. Only the banks can do savings.

Customers portfolio is still focused on group lending, but the requirements have been relaxed, now smaller groups are authorized, 3 or 2 members.

Infrastructure. H still has branches and doesn´t believe in branchless MFIs. For the larger loans we work with the banks to distribute funds. The challenge is for the small loans.

Competition. H is very conservative; however, many new competitors have entered the market and are applying bad loan practices: providing loans to customers that any loans from many companies, clients that end up with many loans from many players; loans larger than client capacity to pay; and incentives to loan officers related to amount of disbursement.

Fintechs. Many fintechs have entered the market. But the fintechs focused on lending are not practical. They are providing smaller loans, less than 100 USD. Their analysis process has many requirements that are cumbersome for the customer to meet, no ease of transaction. PoS have become a branch (a gas station, a grocery store,). Fintechs haven´t resolved many steps of the loan process.

Funding

Funding MFIs in failed states

Yousef made the case about the importance of preserving the capabilities of MFIs that are in distress in a failed government country. If are left to die, then recovering and serving that market when the conditions change will take longer than if there is an effort to maintain it. So, what are your thoughts about, know, doing kind of a parallel analysis with Myanmar, where you also seem to be at the verge of making those kinds of decisions?

Shameran. I think these are the markets where the international development community needs to keep MFIs around and serving poor clients (Youseff, Pierre Marie, Myanmar, Afghanistan). And I would say that those MFIs should have access to grant money and also to loan financing. One of my frustrations is with the development finance institutions (DFIs). I realize that they're lending to you, and they want their money back. But some of these countries are going through some really difficult situations and they're sometimes the hardest to get loans, even like a loan rescheduling. And I think during COVID many of us face this with our DFI lenders. But if you're a development finance institution and you're not financing organizations that are trying to lend in these very difficult places and giving them time to turn around and pay you back, then you shouldn't call yourself development finance institutions, just call yourself financial institutions because that's how you're behaving.

Funding in other countries

Funding issues are dependent on where the MFI is operating. Thus, the macroeconomic conditions of each country, as well as the investment and credit appetite of funders seem to be the main triggers for funding. Additionally, the relative size and institutional strength of the MFIs are determining factors. That is, the treatment of funders towards MFIs seems to have evolved to traditional investment decisions, with a decrease in the intention to support social impact.

Second Day Sessions

Concredito: *The entrepreneurial MF that turned into a fintech*

Gentera (Compartamos) invested and the acquired Concredito. Its business model consists of providing loans to women entrepreneurs who, in turn, lend money to individual clients. This model of indirect credit is carried out through a series of digital platforms, which are the operational heart of Concredito.

During the presentation, Ramón shared the accelerated evolution towards a digital operation, driven by the COVID quarantine. Concredito, maintaining the entrepreneurial spirit of its founders, had aggressively pursued the digitization of its transactions while maintaining an operational model capable of serving its associates both traditionally and digitally. By 2018, they achieved the goal of making 50% of the transactions digital. However, the hybrid service model raised an important question: should digitalization consist of achieving a technological version of the traditional model, or would it involve fundamentally different changes? Some of the symptoms of this questioning were observed in the low influx of branch visits, changes in workloads, and even the need to train and relocate employees to other positions when their original roles became unnecessary.

The quarantine accelerated the process of remote operations and allowed for an interesting experiment: the management decided to temporarily close the branches to map all the reasons for visits by end users, clients, and collaborators, in order to find alternative digital processes and capabilities to address them. The biggest discovery was that the branches were highly undervalued by customers, who preferred more efficient methods of service and problem-solving. That is how, in February 2021, the decision was made to permanently close all branches, resulting in 100% of transactions being conducted digitally.

In the atmosphere of openness and learning at the MFN annual meeting, Ramón proposed the following "mistakes" in Concredito's transformation, which can be read as powerful lessons:

1. Replicate physical processes in the digital realm.
2. Design the digital process without fully understanding the field operation.
3. Fail to align the interests of different departments and the board of directors.
4. Rely solely on one provider for various services and be late in cybersecurity processes.
5. Avoid partial releases towards the operation and technology; start small to scale big.
6. Isolate digitalization from the business operation; instead, integrate both areas.
7. Believe that everything will work out as planned without addressing potential issues.
8. Try to retain all customers during a disruptive process.
9. Ensure training, communication, and feedback flow both ways with customers, employees, and back office.
10. Avoid pushing processes too hard to speed them up, risking customer experience due to platform malfunctions.

One of the most interesting conclusions from Ramón's presentation lies in the extent to which the company maintains an entrepreneurial character. From the Board of Directors to support areas, one can observe the formulation of hypotheses, the systematic process of testing them, learning from the results, and consequent rapid execution. Even though this process seems obvious nowadays, executing it is highly dependent on an organizational climate that generates openness, excitement, ad motivation to change. As an external observer of this process describes it: "it´s amazing to see this team working and the energy of its members, for all of them it is all about --how yes, how it can be done or achieved--an entrepreneurial behavior that is frequently lost in more mature organizations in which a more conservative approach has permeated its organizational culture and which turns out attitudes of "no it can´t be done, it won´t work".

This modus operandi is also supported in Concredito by the adoption of methodologies (design thinking plus agile) that the MFN identified in London in 2017 for their transformation potential. These constant entrepreneurial capabilities and alignment were masterfully interwoven by embracing the potential of digitalization. Thus, a company founded as a physical alternative model has become a true microfinance Fintech. It is also noteworthy that Gentera has fostered and protected this spirit, focusing on cultivating the group's mystique.

Gentera

Gentera´s presentation had the purpose of sharing the lessons learned about the group's digital transformation. This journey had spanned a period of four years, but its main feature is its three distinct stages: an initial transformation strategy developed in 2019, its reformulation during the pandemic, and a third strategy developed in 2021.

As we can conclude, these three plans were responsive to changes in the context and the evolving understanding of Gentera and its management team regarding the very nature of digital transformation. Enrique, therefore, focused his presentation on the lessons learned. These can be seen as how the organization has internalized the implications and opportunities of a digital economy, reprioritized its objectives, and allocated resources and talent to undertake them.

The way the journey was presented is highly representative of the atmosphere of trust and openness at the annual MFN meeting. Instead of extolling the virtues of their plans, Enrique preferred to describe the errors in judgment or focus. Later, Michael emphasized this approach, thanking for such candor and generosity, and highlighting the significant potential for learning for everyone else. In other words, by avoiding these mistakes, other MFIs could advance more efficiently and rapidly, which would truly represent a shared value exercise.

Initial Lessons

Lesson 1: Don't start with technology.

Lesson 2: It is not only about new products and services, but also mostly about how the channels and transactions to deliver them.

> In the first stage of digital transformation, Gentera proposed launching new technological products and services. While the underlying assumption was powerful--product diversification would accelerate growth, increase market penetration, and serve more digitally advanced customers--the team underestimated the importance of ease of transaction and of the means of delivering their financial offerings.
>
> The disruption caused by the pandemic, especially the inability to maintain physical and frequent contact with customers, ironically corrected the focus, redirecting the transformation towards remote business continuity, simplifying initiatives, and aligning the entire organization toward a new goal: safeguarding the physical and economic health of employees

and customers. By achieving this, Gentera reached a scale of digital operation that would have seemed impossible just a few months earlier.

The post-quarantine stage was characterized by clear recovery goals, where the original dichotomy between digital solutions versus traditional offerings disappeared. The need to operate in a low-credit supply context, the weakness of other competitors, and the widespread uncertainty, highlighted the urgency of establishing a more effective and faster execution discipline based on methods, accountability, and daily follow-up. This allowed for optimizing operations and customer service, establishing a new organizational paradigm.

Lesson 3: Transformation is both digital and non-digital, seeking efficiencies and customer experience, and demanding significant cultural changes and innovation mindset.

Lesson 4. Execution discipline is key: methodology, accountability, and daily follow-up.

Lesson 5. New models in microfinance must be hybrid: digital + human contact (not indefinitely).

A New Transformation Mandate

Looking ahead to the coming years, Gentera has reformulated its digital transformation plan, which, while more focused and streamlined, also pursues more ambitious objectives by including not only the market offering but also a significant change in internal organization and capabilities. This challenge has highlighted non-negotiable requirements:

Lesson 6: Ensure you have strong IT capabilities (We were advised but didn't pay enough attention).

Lesson 7: Ensure you designate a specific accountable leader from the business (ownership).

Enrique's presentation concluded with one last emphasis. In all transformation processes, it would be naive to assume that the initial strategic formulations were correct. The real objective is to reach the destination, embarking on a journey that is largely uncertain. Consequently, the journey will be fraught with mistakes. When faced with these mistakes, there are two diametrically opposed approaches: rigidly adhering to the initial definitions or creatively adapting and learning.

FACT: Out of every 10 companies embarking on a transformation journey, only 2 get it right the first time (not without challenges)

Bancosol: *An integral transformation after the perfect storm*

Marcelo and Esteban's presentation described the transformative journey undertaken by the bank, marking a new era in the history of one of the most iconic MFIs in the microfinance world. This comprehensive transformation goes beyond digitalization; it constitutes a strategic program that begins with the review and reaffirmation of institutional definitions and extends to all areas of the bank's operations.

The presentation unfolded in three parts: a brief overview of the institution, a description of the perfect storm faced in 2020, and the new phase of Bancosol.

The so-called perfect storm was characterized by a combination of high political uncertainty, one of the world's worst pandemic statistics, the longest moratorium ever, and the tragic passing of Kurt Koeningsfest in February 2021.

Despite such challenging circumstances, Bolivia's relative digital transformation lag compared to other countries presented a positive factor: the opportunity to learn from the experiences, mistakes, and successes of other institutions.

In this context, the Board of Directors made the decisive choice to undertake a comprehensive institutional transformation, starting with the renewal and formation of a new management team entrusted with the task. Esteban described the role of this new management team as directing three banks in one. The first entails maintaining and gradually enhancing the existing extensive operations; the second involves undertaking the necessary digital transformation, and the third is building the bank of the future, as digital transformation alone won't suffice to achieve the goals for 2030.

As explained by Marcelo, the initial action involved refining and simplifying the Vision, Mission, and Values, as well as defining the strategic objectives: maintain competitive position through digital transformation, maintain leadership in the micro sector, and focus on the new generation of micro-business entrepreneurs and collaborators. For the first time, this process engaged more than 70 individuals at all organizational levels.

Based on the bank's four pillars of action (customers, talent, innovation, and sustainability), Bancosol's integral transformation process will traverse two main roads: the digital transformation (including the creation of new models for commercial action and risk) and the sustainability strategy (which also encompasses diversity and inclusion strategies).

Described in aspirational terms, Bancosol's digital transformation aims "To be the regional leader in digital financial inclusion, meeting the needs of our clients at each stage of their life, through simple and agile experiences, offering an incomparable journey." This aspiration materializes in four objectives:

1. Develop a digital strategy that transforms the customer experience.
2. Strengthen strategic and digital capabilities.
3. Develop a clear and actionable roadmap for the next 5 years.
4. Maximize commercial potential by improving the Commercial Action Model.

During Marcelo's intervention, aspects of consultant hiring were discussed. Among the main conclusions were the importance of precisely defining the required assistance, the consultant selection process based on specific capabilities, and the establishment of collaboration roles and baton passing as conditions to accelerate the evolution of MFIs through relevant contribution allies.

As previously described, Bancosol's transformation involves incorporating ESG criteria both in the institution's management and as a benchmark for generated value and competitiveness. Regarding the inclusion, diversity, and equity strategy, Marcelo emphasized the significance of institutional commitment, resulting in a swift organizational transformation and initiatives for product and external impact.

Bancosol established an internal innovation center, whose initial results show great synergy with the digital transformation strategy, manifested in new products and services for the targeted segment, as well as government initiatives, analytics, and data architecture.

The final element of the transformation was a rebranding effort, aiming to communicate the bank's new and ambitious project to the general public and evoke greater commitment and dedication from the institution's collaborators.

Thus, BancoSol embarked on a new stage characterized by a profound transformation, but also an institutionalization process as it transitioned from a solar type of leadership to another state where purpose and aspiration become more participative, profound, and dynamic within the organizational fabric.

This institutional transition is not unfamiliar to MFN members: as Hassan mentioned, the network holds successful examples where purpose has allowed new generations to strengthen and grow MFIs founded by previous generations.

Accion Internacional: *The Relevance of MFIs in the Future of Financial Inclusion*

Michael began with a reflection on the level of trust and openness within the MFN, noting that few groups allow presentations about the mistakes and learnings of other CEOs. He also pointed out that errors in digital transformation are common, as evidenced by the billion-dollar failures of some corporations, but MFIs face additional challenges due to their crucial role and often limited resources.

He then described his current perspective:

> "We are in an incredible moment: digital transformation is changing the lives of everyone. In our sector, this is reshaping fundamental concepts, such as the distance to reach customers, the relative cost of transactions, or the possibility of having close contact with clients remotely.
>
> The vision of creating a world with greater financial inclusion is more realistic than ever, and the work of all those gathered here is more important and urgent than ever before.
>
> We are experiencing a historic shift in trends. Throughout our lives, we have seen hundreds of millions of people escape poverty. But for the first time, that trend is reversing. Over 200 million people have fallen into poverty in the last 3 years. This has never happened before, and the situation is exacerbated by climate change, financial impacts of value chains, and wars. We are moving in the wrong direction.
>
> But for the first time as well, we have witnessed a billion people gaining financial access in the last decade through miraculous digital innovation. And this access is fulfilling the long-awaited, and never before proven, financial evolution. We expected digital payments to gradually enable access to other services, and now it's happening. Digital innovation is accelerating. If we do it right, we can emerge from the pandemic and truly accelerate the creation of a much more inclusive world. This is an exciting moment.
>
> And at Accion, from our strategy, we're trying to seize this moment."

After this introduction, Michael provided a brief summary of the main events that have shaped the world of microfinance today, undertaken by MFN member institutions. Not only has an industry been built, but it has become visible and attractive to the world. Two of the main milestones were the creation of the BancoSol model and eventually the IPO of Compartamos. The latter allowed Accion to expand its impact and reach beyond Latin America, reaching Africa, India, China, the Philippines, and Myanmar. Accion is now the global leader in seed stage investing and fintech for inclusion.

Michael continued to exemplify the existing level of innovation, from offering microinsurance for farmers using satellite technology to providing AI-based advice to small businesses to optimize their inventories and offer logistics solutions in Africa. The quality of Accion's investment portfolio reflects a significant capability: they excel at identifying, supporting, and coexisting within the fintech ecosystem.

Accion continues to invest in banks and MFIs, seeking to elevate and optimize their digital investment in ways that are relevant to them. To this end, there is a team called Global Advisory Solution specialized in consulting for digitally transforming MFIs, in partnership with other actors such as Mastercard. The goal is precise: digitally include 10 million currently excluded individuals.

The pandemic underscored the importance of digital transformation because only those institutions that were able to navigate the transformation maintained their relevance.

Michael went on to describe some of the changes that Accion considers relevant. First, Embedded Finance. If analytics has the power to trigger everything, it is necessary to include all kinds of data-rich companies, such as logistics companies, platforms, and other non-financial actors that can actively and agilely engage with customers. Embedded Finance means that you can get exactly what you need, exactly when you need it. Second, another significant trend is Agtech, reaching 10 million more will be much more challenging: these are more isolated customers, typically engaged in agricultural activities. Third, the trend in the changes in the nature of work, with people receiving income from various sources intermittently and having different needs. Finally, the increasing use of algorithms and alternative sources of information in decision-making, such as using cell phones as a proxy for creditworthiness.

Appendix: Presentations