



« Good practices » in preventing over-indebtedness of low-income borrowers

Experience from Tunisia: Enda inter-arabe



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Enda's positioning in the micro-credit sector in Tunisia

- 1995: Enda introduced best practice micro-credit in Tunisia → spread a new culture among low-income households on debt management, on-time repayment
- Up to now: 1 200 000 loans, 400 000 borrowers all over the country, 850 million DT disbursed
- 1999: government run bank, BTS + 280 MC associations, highly-subsidised → bad practices introduced → multiple lending (BTS/AMC/enda)
- To respond to unfair competition: Enda listened to clients to improve products and design new ones
- Low average loan: adapted to repayment capacity of poorest segments of clients (70% of active loans \leq 1 000 DT)
- 2003: we stopped parallel loans despite popularity among clients to avoid over-indebtedness within the household



Adoption of the Smart Campaign principles



Intégrité



Ecoute



Honnêteté



Transparence



Respect
des clients



Respect
de l'environnement

The Smart Campaign Principles

- 1. Appropriate product design and delivery channels**
- 2. Prevention of over-indebtedness**
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for Complaints resolution



Keeping clients first in microfinance

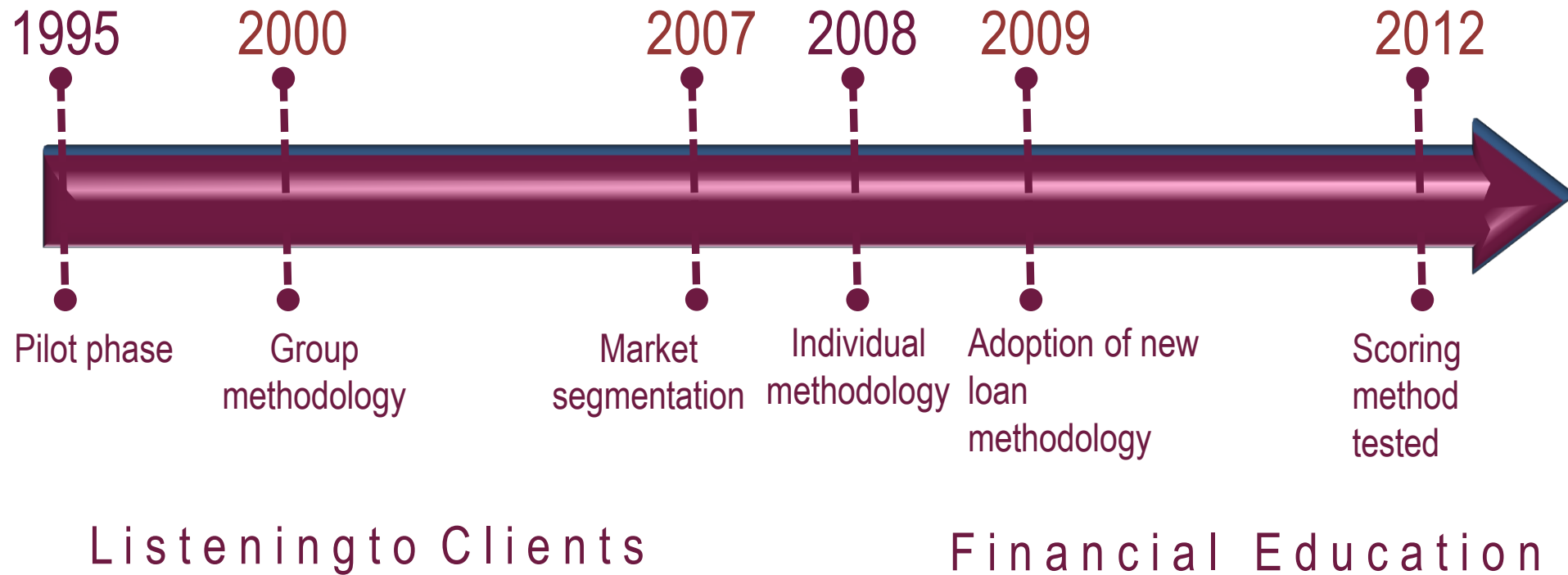


Principle 1 : Appropriate product design and delivery channels

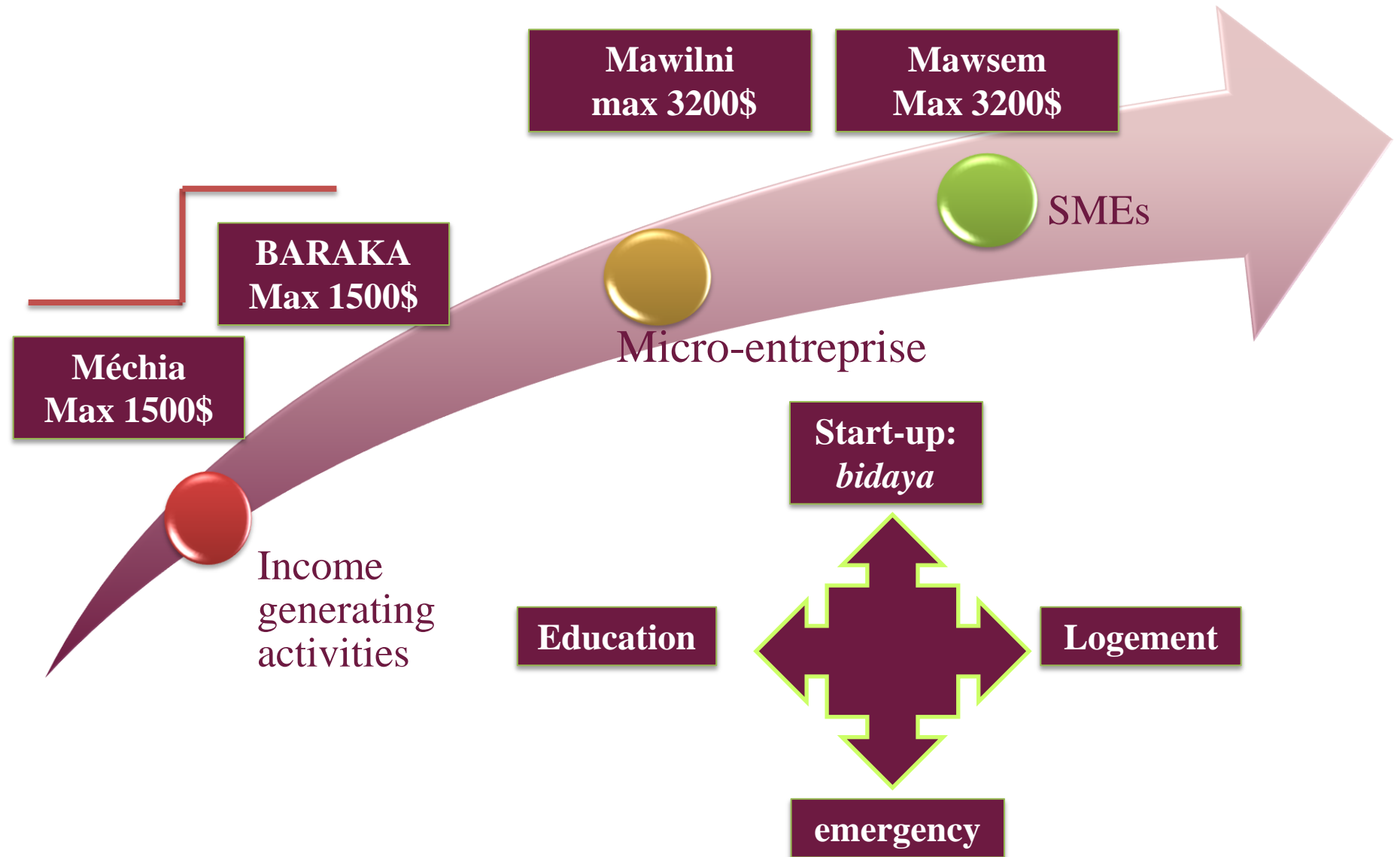


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Enda: systems aimed at client protection



A variety of products



Products adapted to clients' needs

- Enda took several measures to offer adapt product offerinf to economic & social needs of clients:
 - Listening to the clients since the beginning
 - Client segmentation since 2007
 - Targeting and Adaptation of products to each segment (geo mapping)
 - Products for economic activities + improving living conditions
 - Development of a *mobile banking* service (2013)
- Following the **Révolution** in 2011:
 - Rescheduling, refinancing
 - « emergency loan » for most severely affected clients
 - Product for « refugees » and « returnees » from Libya
 - « *Bidaya* » for jobless youth to start up a business

بداية

Example of a new product for jobless youth to start up a business « *Bidaya* »

- Post revolution Tunisia: 800 000 jobless youth
- Enda gets support from the Swiss Confederation
- 1 850 loans granted in 14 months, 4 MDT
- 3 000 DT average loan size (less than banks and BTS)
- 3000 jobs created
- Pilot in 25 branches; currently rolled out in all branches
- 30% co-financed from other sources
- Evaluation Study of repayment capacity under way
- Partnerships/exchanges with other actors to provide pre and post loan training and coaching





Principle 2 : Prevention of over-indebtedness



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Strengthening staff capacities (1/5)

- No access for enda to only credit bureau run by central bank
- No credit bureau for microfinance → no possibility to cross check information on client's credit history
- No way to learn about multiple lending except by chance
- Enda improved loan decision tools:
 - analysis tool of client repayment capacity (relevant financial ratios)
 - Several levels of loan approval and loan approval committees.
 - Risk analysts placed at the branch level and at HQ
- Education and training for loan officers → include client protection practices as a new culture.

Strict Procedures (2/5)

- Loan procedures transmit values and instructions to staff to protect clients against risk of over-indebtedness:
 - Limit on number of loans per household
 - Loans renewed and increased according to incremented income and profits
 - Specific conditions and quotas per loan officer for non-productive loans: education and home improvement
 - Monthly repayment amounts adapted to business's cash flow
 - Internal controls strengthened : credit analyst, area supervisor, regional coordinator, internal auditor
 - Late loan repayments monitored by internal audit, risk and marketing departments (focus groups and surveys)

Regular surveys (3/5)

Of clients with late payments

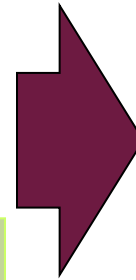
PRACTICE

Regular interviews with a selection of clients with late payments



Two areas targeted:

- Did loan officer follow the procedures properly to avoid over-indebtedness ?
- Search for causes of repayment difficulties



RESULT

Information used to improve loan disbursement methodology

Adapted systems (4/5)

- Loan officer incentives based on productivity **and** quality
- MIS adapted to strengthen monitoring and controls:
 - Targeting: both social and financial indicators: debt ratios
 - Controls: various levels of approval
 - Client relationship management: complaints mechanism, regular follow up of drop-outs
- Risk department: « credit scoring » model to manage loans; tools to assist loan granting decision

Client Support Services (5/5)

- Financial education for clients → create awareness about budget management, household expenditures, debt management, micro-insurance, savings...
- Financial education for loan officers (transmission to clients)
- Support to clients to change from a precarious business to a more lucrative one: training, sharing experience with others clients, market study...



New measures to protect the micro-finance sector in Tunisia

Credit bureau (to be created)

Avoid multiple lending among competing MFIs
Prevent Household Over-indebtedness

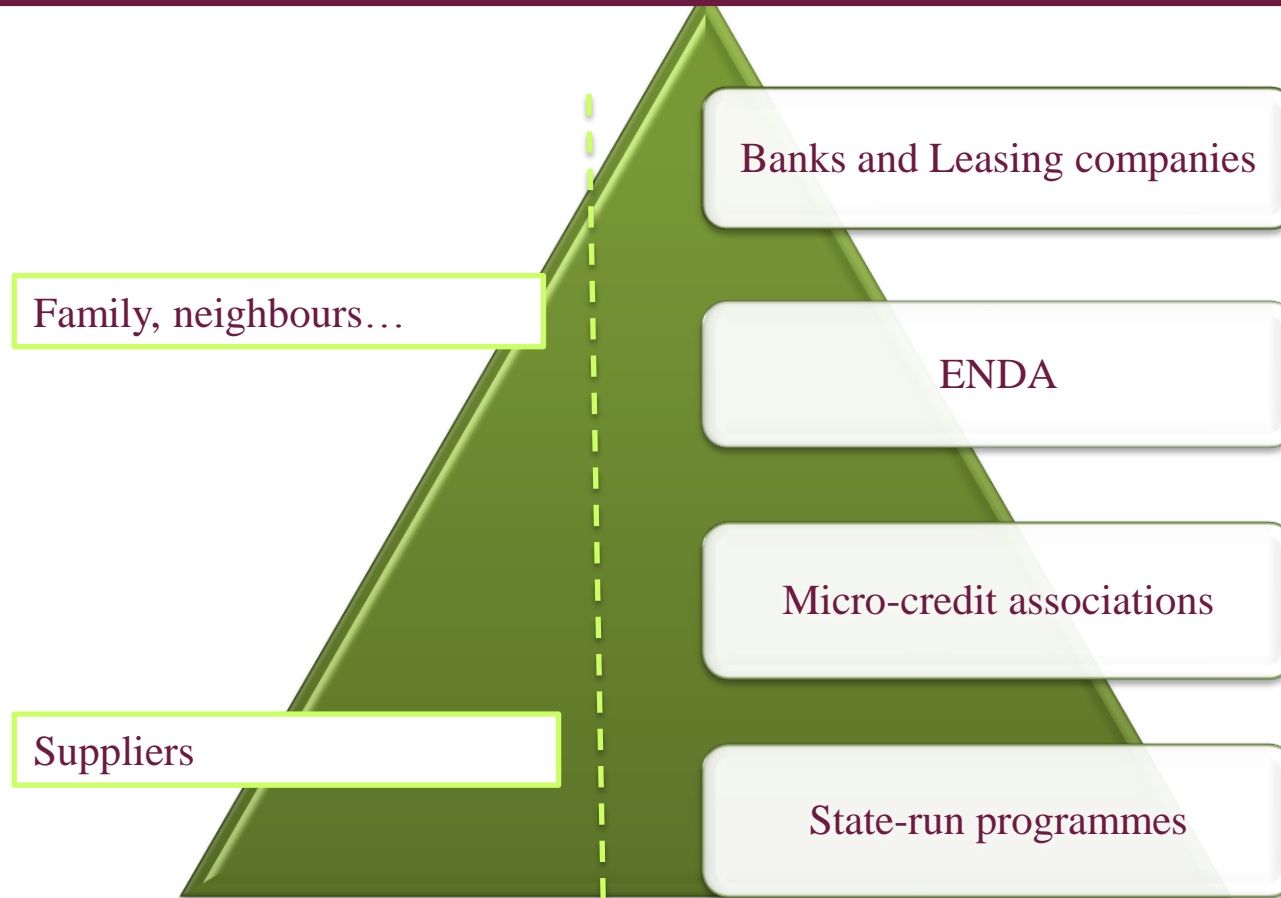
Observatory of financial inclusion

Ensure transparent information on the industry
Analyse market coherence of supply and demand to foster collaboration inspired by best practices

Association of MFIs

Organise the micro-finance sector
Preserve an economic, social and regulatory environment conducive to healthy development of the industry in Tunisia

Sources of finance and indebtedness in Tunisia



- 20% of active population are indebted to banks or other sources, half of those → consumer loans and housing loans (INS)
- main financial sources for the segments excluded from classical financial institutions: Suppliers: 24%; family, neighbours and friends: 8%; AMC: 8% ; enda: 5% (EU study based on a sample of 400 households in 2010).



Enda before the competition

- Consolidation of about 300 000 micro-enterprises financed
- Job creation: 1 salaried job for 4 micro-enterprises on average
- Financial inclusion for the most excluded groups, new segments reached (small farmers, rural women, jobless youth)
- Rising of female micro-entrepreneurship (70% of clients)
→ empowerment of women through client education: financial, citizenship, legal; technical and quality training, networking and inter-client exchanges, support for marketing
- Smart campaign increased our awareness about client protection
- Continuous process



The Challenges with new regulation

- Several new foreign competitors attracted to a small market
- Risk of disturbing a fragile sector (credit bureau in 2 years)
- Only credit can be offered; no micro-insurance, no remittances, no savings (essential for poor)
- Worsening of economic situation in the country (job market, contraction in redistribution policies, over-consumption)
→ households more indebted just to cover current expenditures.
- Clients businesses very fragile, highly prone to political upheavals, insecurity, natural disasters....
- Mounting aggressivity and violence among people: stress for staff
- Increased insecurity and risk (safety of staff, clients, branches)



Thank you



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