

Exemplars

Interest Rate Sensitivity Among Village Banking Clients in Mexico

"Compartamos Banco is the largest microfinance institution in Mexico with branches in every state and over two million borrowers." (J-PAL, 2019). "Borrowers from this institution tend to lack the income and/or collateral required to qualify for loans from banks and other "upmarket" lenders." (Karlan et al., 2013).

Compartamos and a research team from IPA implemented a new pricing model "to measure Compartamos borrowers' reactions to varying interest rates in order to determine the impact of the cost of borrowing on loan take-up, the amount people borrowed, and their repayment rates. The study focused on the bank's most popular product – a group liability loan for women to invest in business or economic activities called Credito Mujer. In order to borrow, clients must form a group of 10 to 50 women who are 18 years of age or older." (J-PAL, 2019). Compartamos depends on the group members to screen out women who are uncreditworthy.

"As part of the implementation of a new pricing model, Compartamos lowered the interest rates on Credito Mujer loans in eighty regions. Researchers then randomly assigned forty regions to the "high rate" group which received loans about 10% below previous interest rates (which were about 100% annually, on average), and 40 regions to the "low rate" group which received loans about 20% below prior interest rates. The study uses administrative data from Compartamos and data from credit bureaus for up to 29 months after treatment began to measure the impact of the low-rate scenario relative to the high-rate scenario." (J-PAL, 2019).

Quick facts

Barriers addressed



Entry & Capability

Low data footprint among women
High cost of using DFS (incl. transaction cost)
Real or perceived lack of money



Digital & Physical Infrastructure

Distance from financial service points

Segment focus

1 2 3 4

Geography

Mexico

Sources

[J-PAL, 2019](#); [Karlan et al., 2013](#).

Customer Journey Relevance



Key stakeholders involved

Compartamos Banco
IPA (research team)
Compartamos Banco clients
Mexican Credit Bureau

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Key activities

“Loan officers targeted self-reported female entrepreneurs and promoted the Credito Mujer product through diverse channels, including door-to-door promotion, distribution of fliers in public places, radio, promotional events. As loan officers gained more clients in new areas, they promoted less frequently and relied more on clients to recruit other members.” Loan officers then visited the groups twice to explain loan terms and processes. The women were responsible for selecting “creditworthy” group members. “Each group then elected a treasurer to collect payments from each group member, at each weekly meeting... If a group member did not make her weekly payment, the President (and loan officer) typically solicited and encouraged “solidarity” pooling to cover the payment and keep the group in good standing. All payments were placed in a plastic bag that Compartamos provided, and the Treasurer then deposited the group’s payment at either a nearby bank branch or convenience store.” (Karlan et al., 2013).

Outcomes/results

Cited from J-PAL, 2019:

- “By the third year, areas that offered lower interest rates were bringing in significantly more first-time borrowers and more borrowers with both high and low education relative to regions under the high-rate scenario. Decreasing the interest rate did not generate detectable effects on delinquency (any lateness in repaying loans) or on severe delinquency (more than ninety days late in repaying loans).”
- “Microfinance clients were extremely responsive to changes in the price of loans: outstanding loan balances increased by more than 10% due to the 10% reduction in the interest rate.”
- “Overall, there was no change in Compartamos’ profits due to the lowered interest rate... These findings suggest that MFIs may be able to lower rates to both attract and retain more clients, who in turn borrow greater amounts.”

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Key enabling environment factors for the intervention

- “Compartamos has partnerships with six banks (and their convenience stores) and two separate convenience stores. The banks include Banamex (Banamex Aqui), Bancomer (Pitico), Banorte (Telecom and Seven Eleven), HSBC, Scotiabank, and Santander. The two separate convenience stores are Oxxo and Chedraui.” (Karlan et al., 2013). These established relationships gave the women access to many places to drop off their loan payments, helping to prevent distance from becoming a barrier to participation.
- Compartamos creates incentives for repayment. “Members of groups with arrears are not eligible for another loan until the arrears are cured; members of groups that remain in good standing qualify for larger subsequent loan amounts and lower interest rates. Compartamos also reports individual repayment history for each borrower to the Mexican Official Credit Bureau.” (Karlan et al., 2013).

Key design elements and principles that led to successful outcomes

- Credito Mujer was promoted through diverse channels to reach a diversity of women.
- The program incorporated financial literacy elements through in-person visits by loan officers.
- The program featured a women-centered design model; women clients recruit other candidates, screen them, and oversee loan repayments.

Potential for scale/replicability

This program has the potential to be scaled/replicated due to the women-centered design model. After the two trainings conducted by loan officers, the women themselves are responsible for managing their finances. The women also conduct most of the marketing and outreach activities. Overall, the women participants do most of the heavy lifting of the program. The program also did not result in changes in Compartamos’ profits, suggesting that fear of loss of profits may not be a factor inhibiting supply-side actors from replicating or scaling up the program.

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Recommendations from the research

The research team recommends several avenues of future research. First, given the positive results of the program for both Compartamos and the women participants, the team is interested in understanding why Compartamos did not lower interest rates earlier. The report also recommends examining “innovations with respect to lending technology, such as mobile devices with customized software for credit officers (that are being implemented by many lenders, including Compartamos).” (Karlan et al., 2013).

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