

Financial Services for Paraguay's Informal Workers



CLIENT

Banco Familiar, S.A.E.C.A. is the third largest bank in Paraguay and focuses on the base of the pyramid (BOP), a segment with whom traditional banks generally do not do business. With 15 years of experience developing ways to analyze creditworthiness, Banco Familiar has designed the first credit scoring system for low-income self-employed workers. Banco Familiar has 58 branches throughout the country, and as of end-2012 had more than 300,000 clients.



IDB SUPPORT

With a loan up to US\$10 million from the Inter-American Development Bank's Opportunities for the Majority (OMJ) initiative, Banco Familiar will triple the number of micro loans it offers, most of them for emergency health care, education and working capital to informal workers who have a stable income but no way of proving it.



THE CHALLENGE

Most of Paraguay's population still remains outside the financial system. That is because more than 80% of Paraguay's workforce has no paper trail proving they have a steady flow of income that would allow them to obtain credit. Most of the country's workers are self-employed, run informal micro-businesses or are hired informally. In Paraguay, 68% of the employed population is informal, while the region's average is around 53%.

Local banks and microfinance institutions use business ledgers, tax returns or other formal financial information to analyze the creditworthiness of even BOP clients. Without such paperwork, institutions can't afford to spend the time needed to go in the field and verify whether informal workers can repay a loan. As a result, informal workers borrow from loan sharks and informal lenders who charge exorbitant interest rates. Since the loans are often for emergencies, borrowers pay whatever is asked, and suffer a "poverty penalty."



THE SOLUTION

Banco Familiar has developed a new scoring system, *Credicedula*, that targets low-income informal workers who have never had access to credit. Thanks to this innovative methodology, Banco Familiar can now offer loans with few requirements and in just 20 minutes. The methodology will allow Banco Familiar to extend loans to more than 80,000 borrowers, housekeepers, cooks, gardeners, handymen and other independent workers—more than half of them women.

Loans are for one year and capped at \$450, with interest rates governed by the central bank. This is significantly less than informal loans whose interest can be as much as 100% a month, and reduces the penalty the poor pay to borrow money. The loans are used to meet urgent needs in the areas of health, education, and working capital.

Banco Familiar's success in reaching the unbanked is creating interest in developing new health and education products for this market. Since banks across Latin America have difficulty reaching BOP markets, this model has great potential for replication.

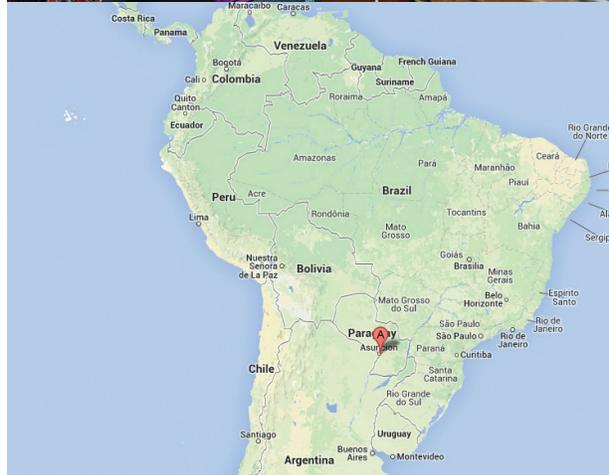


Most of the employed population in Paraguay is informal. Banco Familiar's Credicedula, will provide access to finance to more than 80,000 people, including housekeepers, cooks, gardeners, handymen and other independent workers—more than half of them women.



INNOVATION MAKES THE DIFFERENCE

A breakthrough in the low-income financial market, Banco Familiar's cost-effective credit scoring method *Credicedula* weighs a client's likelihood of paying back a loan using demographics, earnings estimates and behavior. In order to lower the bank's collection risk without jeopardizing a borrower's credit history, the client must attend Banco Familiar's financial education classes and is offered debt insurance at no extra cost in the event of hospitalization, disability or death.



OMJ 2013 Portfolio



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